

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: April 6, 2018

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (P. Buys, Graves, King) *ml*
Division of Accounting and Finance (D. Buys, Smith II) *PDB 29*
Division of Economics (Friedrich, Hudson) *AS*
Office of the General Counsel (Janjic, Crawford) *MC*
CRB
ALM

RE: Docket No. 20170166-WS-Application for limited proceeding rate increase in Orange County by Pluris Wedgefield, Inc.

AGENDA: 04/20/18 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Polmann

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

Pluris Wedgefield, Inc. (Pluris or Utility) is a Class B utility providing service to approximately 1,615 water and wastewater customers in Orange County. Pluris also provides service to approximately 33 irrigation customers. Water and wastewater rates were last established for this Utility in 2013.¹

On July 28, 2017, Pluris filed a request for a limited proceeding increase in water and wastewater rates. In its application, Pluris requested recovery of costs associated with four projects. The

¹Order No. PSC-13-0187-PAA-WS, issued May 2, 2013, in Docket No. 20120152-WS, *In re: Application for increase in water and wastewater rates in Orange County by Pluris Wedgefield, Inc.*

Utility requested final revenue increases of \$194,159 (13.8 percent) for water and \$57,545 (6.0 percent) for wastewater.²

Pursuant to Rule 25-30.445, Florida Administrative Code (F.A.C.), the Utility provided a copy of all customer complaints that it received regarding Florida Department of Environmental Protection (DEP) secondary water quality standards during the past five years and a copy of the Utility's most recent secondary water quality standards test results.³ Pluris additionally provided its most recent chemical analysis in which it tested primary water standards.⁴ The documentation provided by Pluris indicates that the Utility is currently passing primary and secondary standards. From 2013 to 2017, the Florida Public Service Commission (Commission) received eighteen customer inquires concerning the Utility's water quality, which were sent to the DEP and the Utility.

A customer meeting was held November 2, 2017, in Orlando, Florida. Approximately 55 customers attended, including Orange County Commissioner Emily Bonilla and a legislative aide to State Senator Linda Stewart. Twenty-one customers spoke at the meeting. Approximately 12 customer comments received at the customer meeting concerned elevated Total Trihalomethanes (TTHM, a disinfection byproduct) levels.⁵ The most recent DEP compliance test results, dated March 20, 2018, demonstrated that TTHM levels were in compliance with DEP standards.⁶

On March 6, 2018, the Office of Public Counsel (OPC) filed a letter in this docket expressing its concerns with the Utility's filing.⁷ OPC's concerns are addressed in Issue 1.

As of April 2, 2018, 56 customers filed written comments in this docket. Fourty-six of the comments were concerning the quality of water and 46 comments opposed the rate increase. Two comments were concerning the Utility's customer service.⁸

This recommendation addresses Pluris' requested final rates. The Commission has jurisdiction pursuant to Sections 367.081 and 367.0822, Florida Statutes (F.S.).

²Document No. 06333-2017.

³Document No. 06333-2017.

⁴Document No. 00091-2018.

⁵The Utility has recently completed a pilot study and received a new DEP permit to address TTHM levels.

⁶Document Nos. 10796-2017, 00091-2018, and 02727-2018.

⁷Document No. 02135-2018.

⁸Several customer comments had more than one concern listed.

Discussion of Issues

Issue 1: Should Pluris Wedgefield, Inc.'s requested increases be approved as filed?

Recommendation: No. Staff recommends incremental revenue requirement increases of \$170,861 for water and \$53,377 for wastewater as opposed to the Utility's requested incremental revenue requirement increases of \$194,159 for water and \$57,545 for wastewater. (L.Smith, P.Buys, D.Buys)

Staff Analysis: In its filing, Pluris requested recovery of costs associated with four projects: the installation of Advanced Metering Infrastructure (AMI) meters, the installation of water softening equipment, the construction of a maintenance building, and the replacement of a wastewater main. The Utility's initial filing provided a description of each project. Staff reviewed the Utility's filing and issued multiple data requests. Staff's analysis of each project is discussed in greater detail in the following section. All four of the projects have been completed.⁹

Incremental Rate Base

The Utility requested rate base increases of \$1,042,165 for water and \$355,783 for wastewater. The rate base components are Utility Plant in Service (UPIS), Accumulated Depreciation, and Working Capital Allowance.

Utility Plant in Service

AMI Meters

Pluris requested \$594,648 to recover costs associated with installing approximately 1,641 AMI water meters. The old meters were installed between 1996 and 2015.¹⁰ With the installation of the AMI meters, Pluris also implemented an internet portal that allows each customer the ability to observe their water usage. The AMI meter replacement program began in October 2015 and was completed in October 2016. Prior to the installation of the AMI meters, meters were read manually.¹¹

In its petition, Pluris explained that meter reading related customer concerns have been an ongoing issue. From January 1, 2013, to September 30, 2016, the Utility received 481 requests for meters to be re-read or tested. Many of the requests were generated due to customer usage concerns. Since the installation of the AMI meters, Pluris has received 68 requests for the meters to be re-read. Customers have indicated to the Utility that the new customer portal has assisted in identifying leaks and has alerted them to excessive usage.¹² Based on the reduction in requests for meters to be re-read, and the positive response about the customer portal, staff believes the proposed AMI project is reasonable.

The Utility obtained three bids for the major components of the AMI project (\$367,969, \$395,393, and \$509,913). The major components include meters, transmitters, a base station,

⁹Document No. 06333-2017.

¹⁰Document No. 00907-2018.

¹¹Document No. 06333-2017.

¹²Document Nos 06333-2017 and 00907-2018.

tower, and software.¹³ Pluris chose the bid of \$395,393 provided by HD Supply Waterworks. The Utility indicated that the lowest bid (\$367,969) was not selected because it additionally required the acquisition of land and relied on cell and/or mobile phone signal technology. The Utility expressed concerns with the cell coverage in the community and potential issues with readings being missed.¹⁴ The meters provided by HD Supply Waterworks use a single tower with one base station, which produces reliable and consistent data reads. In addition, the HD Supply Waterworks bid included the previously discussed customer portal and a discount on the installation of the new meters and removal of the old meters.¹⁵

Pluris provided 49 invoices associated with this project. The majority of the invoices were related to the HD Supply Waterworks bid. Additionally, the Utility provided invoices for the installation of the meters, capitalized labor for its employees that helped with the installation of the meters, installation of an AMI tower, and extra meters and parts for installation and repairs.¹⁶ Two of the invoices were for geotechnical studies to determine a viable site for the tower. In response to a staff data request, the Utility explained that the studies were not duplicative as the first site studied was not suitable for reliable signaling to all meters; therefore, a second study was necessary. In addition, Pluris explained that state licensed professional engineers do not generally bid for work, due to ethical codes maintained as members in the American Society of Civil Engineers.¹⁷ Based on review of the invoices provided by the Utility, staff recommends that \$594,648 be allowed for cost recovery. The recommended amount includes costs associated with the HD Supply Waterworks bid as well as costs for the AMI tower and labor.

The Utility suggested retiring \$224,489 for the meter project. When asked about the retirements, Pluris indicated \$224,489 was the balance of account 334 Meters/Meter Installations at the end of 2015. The Utility further explained that the AMI project began in October 2015 and all invoices related to this project were coded to Account 105, Construction in Process. Pluris suggested that since the AMI meters were replacing all current in-service meters, the total account balance of \$224,489 should be retired.¹⁸ Staff's review of Pluris' 2015 Annual Report showed a balance of \$217,093 in Account 334. However, since the new meters were placed in service in September of 2016, staff agrees with the Utility that the balance of Account 334 would have been sufficient at that time to retire \$224,489 from that account. Therefore, staff recommends \$224,489 be the associated retirement for this project.

Water Softener

The Utility requested recovery of \$364,128 for the installation of water softener equipment. Pluris explained that the previous water softeners, which were installed by the previous owner of the system, were not meeting treatment levels and were experiencing ongoing mechanical and Supervisory Control and Data Acquisition (SCADA) related problems.¹⁹ Pluris also explained that the raw water pumped from the Floridan Aquifer is rated as very hard (13-15 grains) based

¹³Document No. 02188-2018 and 0249-2018.

¹⁴Document No. 00907-2018.

¹⁵Document No. 10796-2017, 01203-2018, and 01974-2018.

¹⁶Document No. 00907-2018.

¹⁷Document No. 02498-2018.

¹⁸Document No. 00907-2018.

¹⁹Document No. 01839-2018.

on standards established by the American Society of Agricultural Engineers (ASAE).²⁰ Hard water can cause scaling and noticeable deposits in containers, which was an issue that Pluris' customers have complained about.²¹ The Utility specified that the water currently delivered to customers is now between 3 to 4 grains of hardness.²² Additionally, Pluris indicated that it has received recent calls from customers stating that the water was soft and there was no longer calcium on glassware and utensils.²³ Considering the operational issues of the previous water softener system, and the improvements discussed above, staff believes it was prudent for the Utility to install the new water softening equipment.

The Utility obtained three bids on water softener products: \$112,805, \$142,900, and \$315,000. Pluris explained that the two companies with the lowest bids could not provide products that addressed the flow requirements, level of hardness reduction, nor the ability to integrate piping and SCADA required for the plant. The highest bidder demonstrated a more thorough understanding of the scope and requirements of the project.²⁴

Pluris provided eight invoices that included the water softener equipment and a shade structure to protect the equipment.²⁵ The Utility explained there was no previous structure in place for the old equipment.²⁶ Pluris provided bids for the shade structure.²⁷ The actual invoices for the shade structure were approximately \$2,600 cheaper than the bids. Staff reviewed the invoices and believes that all costs were prudently incurred. Therefore, staff recommends \$364,128 be allowed for recovery for the water softener project.

The Utility suggests the amount to be retired for this project should be \$248,850.²⁸ This amount is 75 percent of \$331,800, which is only the amount for the replacement of the water softener equipment. Because there was no previous structure for the old equipment, there is no retirement amount associated with the shade structure.²⁹ Staff recommends that the associated retirement for the water softener equipment is \$248,850.

Maintenance Building

Pluris requested recovery of \$105,090 for a new maintenance building. The Utility explained that the water treatment plant did not have a dedicated office for its staff to conduct daily work. Pluris further explained that an existing electrical building was being used and was inadequate.³⁰ According to the Utility, the daily activities required to efficiently operate the water treatment facility include operation of SCADA, clerical duties, and laboratory work. The equipment required to complete this daily work includes computers, a printer, desks, chairs, tables, metering

²⁰Document Nos. 06333-2017 and 01839-2018. Less than 1.0 grains per gallon is considered soft and greater than 10.5 grains per gallon is considered very hard .

²¹Document No. 06333-2017 and 01839-2018.

²²Document No. 06333-2017.

²³Document No. 00907-2018.

²⁴Document No. 00907-2018.

²⁵Document No. 10796-2017.

²⁶Document No. 00907-2018.

²⁷Document No. 02498-2018.

²⁸Document No. 06333-2017.

²⁹Document No. 00907-2018.

³⁰Document No. 06333-2017.

equipment for operation and process control, and lab equipment. The computers are used to monitor SCADA performance, which is additional equipment not previously used.³¹ Pluris stated that the average number of employees using the building at one time would be two to three. In addition, there could be times when more employees would be using the building. The Utility further explained that in addition to the equipment listed above, this building would have bathroom facilities, as the electrical building did not.³² Considering the old space in the electrical building used for the employees to conduct daily work and the new equipment needed, staff believes a dedicated office for Pluris' staff is appropriate.

The bids that Pluris acquired for only the maintenance building were \$34,540, \$25,000, and \$22,209. The Utility selected the lowest bid.³³ Pluris provided ten invoices for this project. In addition to invoices associated with the building, Pluris provided invoices for permitting, electrical work, a driveway and parking for the building.³⁴ The Utility also provided a bid for those services.³⁵ One invoice for \$3,282 included a line item labeled "Maxim Break and Site Permitting for Office." The Utility explained the "Maxim Break" was for an emergency repair. The company billing Pluris grouped these two separate projects together. That company estimated the "Maxim Break" was \$2,300 and the Site Permitting was \$982.³⁶ Staff believes that the "Maxim Break" should not be included in the maintenance building project. Therefore, staff recommends that \$102,790 (\$105,090 - \$2,300) should be recovered for this project. Since this is a new structure there are no retirements associated with this project.

Wastewater Main Replacement

The Utility requested \$359,023 to replace a wastewater main. Pluris explained the sewer main collapsed during an attempt to clear debris from the pipeline. Approximately 300 feet of sewer line was excavated and replaced.³⁷ The Utility further explained that the pipeline material was asbestos concrete and was nearly 40 years old. Pluris indicated that the pipeline exceeded its design life and deteriorated causing the collapse.³⁸ Included in this project were repairing, resurfacing, line painting, and landscaping of the affected roadway.³⁹

Pluris did not request bids for this project as it was an emergency repair.⁴⁰ The Utility provided one invoice from Tri-Sure Corporation for this project. Staff reviewed the invoice and all the line items appear to be related to this project.⁴¹ Therefore, staff recommends \$359,023 be recovered for this project. The suggested amount for the retirement of this project is \$269,267.⁴² This amount is 75 percent of the project amount of \$359,023. Staff believes this is appropriate and recommends the associated retirement for the wastewater main replacement should be \$269,267.

³¹Document No. 00907-2018.

³²Document No. 01667-2018.

³³Document No. 00907-2018.

³⁴Document No. 10796-2017.

³⁵Document No. 02498-2018.

³⁶Document No. 00907-2018.

³⁷Document No. 06333-2017.

³⁸Document No. 10796-2017.

³⁹Document No. 06333-2017.

⁴⁰Document No. 00907-2018.

⁴¹Document No. 10796-2017.

⁴²Document No. 06333-2017.

Accumulated Depreciation

In its filing, the Utility calculated accumulated depreciation using a half-year convention. Because rates will be going into effect in 2018, staff believes it is more appropriate to include a full year's depreciation. This is consistent with Commission practice for the treatment of pro forma projects. As a result, accumulated depreciation should be increased for the AMI meters by \$29,732, which represents one year's depreciation on the new meters. As discussed earlier, staff recommends that accumulated depreciation for the AMI meters be reduced by \$224,489 to account for the retired meters. Therefore, staff recommends a net reduction to accumulated depreciation for Meters & Meter Installations of \$194,757 ($\$224,489 - \$29,732$).

Also, as discussed earlier, staff recommends reducing accumulated depreciation by \$248,850 for the retirement of the water softener. Accumulated depreciation should be increased by \$15,082, which represents one year's depreciation on the new water softener. Therefore, staff recommends a net reduction to accumulated depreciation for the Water Treatment Equipment of \$232,880 ($\$248,850 - \$15,082$).

Further, staff recommends increasing accumulated depreciation by \$2,705 to reflect one year's depreciation on the new maintenance building. Therefore, staff recommends a total decrease to water accumulated depreciation of \$424,932 ($\$194,757 + \$232,880 - \$2,705$).

As stated earlier, staff recommends decreasing accumulated depreciation by \$269,267 to reflect the appropriate retirement associated with the wastewater main replacement. Accumulated depreciation should also be increased by \$7,978, which represents one year's depreciation on the new wastewater main. Staff therefore recommends a net reduction to wastewater accumulated depreciation of \$261,289 ($\$269,267 - \$7,978$). The Utility's requested amounts and staff's recommended amounts are shown below in Table 1-1 for water and Table 1-2 for wastewater.

**Table 1-1
 Summary of Water Plant Projects**

	Utility's Request	Staff Recommended	Difference
AMI Meters	\$594,648	\$594,648	\$0
Retirement	(\$224,489)	(\$224,489)	\$0
Accumulated Depreciation	(\$209,623)	(\$194,757)	\$14,866
Water Softener	\$364,128	\$364,128	\$0
Retirement	(\$248,850)	(\$248,850)	\$0
Accumulated Depreciation	(\$240,865)	(\$232,880)	\$7,985
Maintenance Building	\$105,090	\$102,790	(\$2,300)
Retirement	\$0	\$0	0
Accumulated Depreciation	(\$1,555)	\$2,705	(\$1,150)

Source: Utility's Filing

**Table 1-2
 Summary of Wastewater Plant Projects**

	Utility's Request	Staff Recommended	Difference
Wastewater Main Break	\$359,023	\$359,023	\$0
Retirement	(\$269,267)	(\$269,267)	\$0
Accumulated Depreciation	(\$265,278)	(\$261,289)	\$3,989

Source: Utility's Filing

Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends an increase to the working capital allowance of \$576 for water and \$372 for wastewater.

Rate Base Summary

Based on the foregoing, staff recommends a rate base increase of \$1,013,734 for water and \$351,416 for wastewater. Staff's rate base calculations are shown on Schedule Nos. 1 and 2.

Rate of Return

The Utility calculated the weighted average cost of capital correctly in accordance with Rule 25-30.455(4)(e), F.A.C., which states:

(e) A calculation of the weighted average cost of capital shall be provided for the most recent 12-month period, using the mid-point of the range of the last authorized rate of return on equity, the current embedded cost of fixed-rate capital, the actual cost of short-term debt, the actual cost of variable-cost debt, and the actual cost of other sources of capital which were used in the last individual rate proceeding of the utility. If the utility does not have an authorized rate of return on equity, the utility shall use the current leverage formula pursuant to Section 367.081(4)(f), F.S.

In its filing, Pluris provided a weighted average cost of capital (rate of return) of 9.21 percent, based on a capital structure consisting of 67.79 percent equity and 31.75 percent debt using the most recent 12-month period ended December 31, 2016. Pluris used a return on equity (ROE) of 10.88 percent, which is the mid-point of the range of the last authorized rate of return on equity established in its last rate case by Order No. PSC-13-0187-PAA-WS, issued May 2, 2013, (2012 Rate Case).⁴³ Staff made one adjustment to the cost of capital as filed by the Utility. Consistent with Rule 25-30.311(4)(a), F.A.C., staff reduced the cost rate for customer deposits from the Utility's proposed 6.00 percent to 2.00 percent. Staff's adjustment reduced the Utility's requested rate of return from 9.21 percent to 9.20 percent.

In a letter dated March 6, 2018, OPC asserted that the Utility's requested ROE and resulting rate of return is overstated and unreasonable. OPC requested that the Commission, on its own motion, make a finding regarding the appropriate ROE and the appropriate overall rate of return in this Limited Proceeding. OPC pointed out that Pluris' overall rate of return was last established in the 2012 Rate Case, and in that docket, the Commission approved an equity ratio of 42.97 percent and used the leverage formula in effect at that time. The same leverage formula is still in effect currently. OPC stated that because of an increase in the Utility's equity ratio (42.97 percent to 67.19 percent), the ROE should be recalculated using the current equity ratio, resulting in a ROE of 9.49 percent.

Staff believes recalculating the ROE does not comply with the calculation of the weighted average cost of capital as prescribed in Rule 25-30.455(4)(e), F.A.C. Additionally, the recalculated ROE would apply only to the limited proceeding, resulting in Pluris operating under two different rates of return. Further, a reduction of the Utility's ROE from 10.88 to 9.49 percent would result in Pluris earning below its authorized range of ROE on the new plant investment. The authorized range of ROE established in the 2012 Rate Case was 9.88 percent to 11.88 percent.

OPC also pointed out that Rule 25-30.445(5)(e), F.A.C., requires the Utility to provide a description of any known items that will create a cost savings or revenue impacts from the implementation of the requested cost recovery items. OPC argues the increase in equity ratio

⁴³Order No. PSC-13-0187-PAA-WS, issued May 2, 2013, in Docket No. 20120152-WS, *In re: Application for increase in water and wastewater rates in Orange County by Pluris Wedgeseled, Inc.*

results in a known cost savings for which Pluris was required to include in its original petition or revised schedules, but did not do so.

Staff reviewed Paragraph (5) of Rule 25-30.445, F.A.C., and notes that Paragraph (5) applies only to class C water or wastewater utilities. Since Pluris is a class B water and wastewater utility, Paragraph (5) does not apply to Pluris.

OPC opined that there is past precedent where the Commission reduced the rate of return on equity in a limited proceeding to a rate different than the rate approved in the last rate proceeding for a given utility. OPC cited to Order No. PSC-99-1917-PAA-WS, issued September 28, 1999, (Aloha Order), wherein the Commission found that based on the leverage formula in effect at the time of the limited proceeding, Aloha Utilities, Inc.'s last authorized ROE was excessive.⁴⁴

Staff believes that deviating from the rule requirement is not appropriate. Other than the one exception noted by OPC, ROEs have not been addressed in water and wastewater limited proceedings. The limited proceeding rule specifically addresses increases in rate base, operating expenses, and changes in rate structure. The rule does not reference requested changes to ROE. ROE is appropriately addressed in a full rate case whereby all aspects of the capital structure are analyzed. In general, staff would not recommend reducing or increasing ROE in a limited proceeding. In addition, staff notes that the fact pattern in the Aloha Order is not analogous to the fact pattern in the instant case.

Staff believes there are three reasons why the instant case and the Aloha case are not analogous. First, in the Aloha case, the ROE that was changed by the Commission was set in 1977, which was twenty-two years before the Aloha Order was issued. During those 22 years, the leverage formula had changed many times. In the instant case, the Commission established Pluris' ROE of 10.88 percent six years ago in 2012 and the leverage formula that was used at that time is still in effect today. Second, Aloha Utilities, Inc. consisted of two systems in different service territories and with separate rates: Aloha Gardens and Seven Springs. In 1992, the Commission established an ROE of 12.69 percent for the Aloha Gardens wastewater system.⁴⁵ At the time of the 1999 Aloha limited proceeding, the ROE for the Aloha Gardens water system and both Seven Springs water and wastewater systems was 14.00 percent. The Commission determined that 14.00 percent was excessive for the three Aloha systems and reduced the ROE to 10.12 percent using the leverage formula in effect at the time. Third, Rule 25-30.445, F.A.C., became effective on March 1, 2004, and was not available when the Commission made its decision in the Aloha Order in 1999. Therefore, in the Aloha limited proceeding decision, the Commission did not deviate from an existing Commission Rule when it recalculated and changed the authorized ROE.

⁴⁴Order No. PSC-99-1917-PAA-WS, issued September 28, 1999, in Docket No. 19970536-WS, *In re: Application for limited proceeding in water and wastewater rates in Pasco County by Aloha Utilities, Inc.* and Docket No. 19980245-WS, *In re: Application for limited proceeding in water and wastewater rates in Pasco County by Aloha Utilities, Inc.*

⁴⁵Order No. PSC-92-0578-FOF-SU, issued June 29, 1992, in Docket No. 19910540-SU, *In re: Application for Sewer service rate adjustment in Aloha Gardens service area by Aloha Utilities, Inc., in Pasco County.*

Based on the reasons explained above, staff does not recommend the Commission set a new ROE for the Utility in this limited proceeding. Therefore, staff recommends an overall rate of return of 9.20 percent. This results in a return on rate base of \$93,245 (\$1,013,737 x 9.20 percent) for water and \$32,324 (\$351,416 x 9.20 percent) for wastewater. The cost of capital calculation is shown below in Table 1-3.

**Table 1-3
 Capital Structure**

Description	Total Capital		Weighted	
	12/31/2016	Ratio	Cost	Cost
Long-Term Debt	\$3,650,745	31.75%	5.73%	1.82%
Common Equity	7,795,507	67.79%	10.88%	7.38%
Customer Deposits	23,826	0.21%	2.00%	0.00%
Deferred Taxes	<u>29,076</u>	<u>0.25%</u>	0.00%	<u>0.00%</u>
Total Capitalization	\$11,499,154	100.00%		9.20%

Source: Utility's Filing

Operating Expenses

In its petition, Pluris requested an increase to operating expenses of \$98,185 for water and \$24,780 for wastewater. The components for the operating expenses were Depreciation Expense, Regulatory Commission Expense, Rent Expense, Maintenance Expense, Meter Reading Expense, Taxes Other Than Income, Income Taxes, and Regulatory Assessment Fees (RAF).

Depreciation Expense

In its filing, the Utility requested an increase in Depreciation Expense of \$26,273 for water and \$1,994 for wastewater. Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Based on staff's recommended increases in rate base, staff recommends a net increase in depreciation expense of \$25,871 for water and \$1,994 for wastewater. This equates to a reduction of \$402 for water.

Regulatory Commission Expense

In its filing, the Utility requested \$47,960 in Rate Case Expense. This included \$39,960 for Legal Fees and \$1,500 for Costs Associated with Legal Services (Legal Costs). On February 2, 2017, staff received invoices from Friedman & Friedman for \$12,315 for billed and unbilled legal services with an additional \$4,625 as an estimate to complete the limited proceeding. Those invoices also included \$2,907 for legal costs with an additional \$20 to complete the limited proceeding. This amount included the \$2,000 filing fee.

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses for the current rate case. Staff compared these costs with those approved in Docket No. 20090349-

WS.⁴⁶ The Utility in that docket was similarly-sized as was the requested revenue increase. Staff believes the documented legal fees and costs are reasonable and prudent, as are the estimated costs to complete. Therefore, staff recommends \$2,000 for the filing fee, \$16,940 (\$12,315 + \$4,625) for legal fees, and \$907 (\$2,887 - \$2,000 + \$20) for legal costs.

The Utility requested \$1,500 for postage and \$1,000 for customer notices. By Rule 25-30.446, F.A.C., Pluris is required to mail a notice of the customer meeting and notices of final rates in this case to its customers. Staff has estimated these costs to be \$1,632 for postage and \$1,154 for envelopes and printing the customer meeting and final rate notices. Therefore, staff recommends increasing the postage expense by \$132 (\$1,632 - \$1,500) and the customer notices by \$154 (\$1,154 - \$1,000).

The Utility also requested expenses related to Maurice Gallarda, the Utility's President, and Principal Engineer, to attend the Agenda Conference. These estimates were \$1,000 for airfare, \$400 for two nights in a hotel, \$300 for a rental car, and \$300 for meals.

In an email dated March 15, 2018, staff contacted Mr. Friedman requesting receipts for the above expenses. Mr. Friedman provided a receipt for \$927 for the airfare and \$164 for the hotel. Mr. Friedman also stated in the email that he would provide transportation for Mr. Gallarda, and he also changed the Meal Allowance request to \$60 total.⁴⁷ Staff compared the requested Meal Allowance to the amount approved in Docket No. 20070695-WS,⁴⁸ which was \$80. Staff believes these amounts are reasonable. Therefore, staff reduced the airfare by \$73 (\$1,000 - \$927), reduced the rental care expense by \$300 (\$0 - \$300), decreased the hotel expense by \$236 (\$400 - \$164), and decreased the meal allowance by \$240 (\$300 - \$60) to reflect the documented and requested costs of these expenses.

Based on the above, staff recommends that the total rate case expense is \$23,784, which amortized over four years results in a regulatory commission expense of \$5,946 ($\$23,784 \div 4$), or \$2,973 for water and wastewater. These costs and staff's adjustments are summarized below in Table 1-4.

⁴⁶Order No. PSC-10-0682-PAA-WS, issued November 15, 2010, in Docket No. 20090349-WS, *In re: Application for limited proceeding rate increase in Polk County by Cypress Lakes Utilities, Inc.*

⁴⁷ Document Nos. 02404-2018 and 02410-2018.

⁴⁸Order No. PSC-08-0812-PAA-WS, issued December 16, 2008, in Docket No. 20070695-WS, *In re: Application for increase in water and wastewater rates in Martin County by Miles Grant Water and Sewer Company.*

**Table 1-4
 Regulatory Commission Expense**

	Per Utility	Adjs	Staff Recommended
Filing Fee	\$2,000	\$0	\$2,000
Legal Fees	39,960	(23,020)	16,940
Legal Fees	1,500	(593)	907
Postage	1,500	132	1,632
Customer Notices	1,000	154	1,154
Airfare	1,000	(73)	927
Hotel	400	(236)	164
Rental Car	300	(300)	0
Meals	<u>300</u>	<u>(240)</u>	<u>60</u>
	<u>\$47,960</u>	<u>(\$24,176)</u>	<u>\$23,784</u>

Source: Utility's Filing

Rent Expense

In its filing, the Utility requested \$9,000 for rental expense related to a tower that was to be used for the AMI meters. In response to Staff's Third Data Request, the Utility agreed this expense is no longer needed. Therefore, staff has removed \$9,000 for the tower rental expense.

Maintenance Expense

In its filing, the Utility requested an increase of \$17,739 for maintenance expense. This amount consists of the AMI software setup and yearly AMI software maintenance costs. Consistent with Commission practice, because the AMI software setup costs are a non-recurring expense, this amount was amortized over a five year period. This results in an amount of \$2,612 ($\$13,063 \div 5$). Staff reviewed the invoices related to the AMI software maintenance costs. Those invoices reflect a yearly maintenance expense of \$10,124. Staff has reduced this expense by \$5,003 ($\$15,127 - \$10,124$) to reflect the actual cost. Therefore, staff is recommending a total maintenance expense of \$12,736 ($\$2,612 + \$10,124$).

Meter Reading Expense

In its filing, the Utility reflected a reduction in Salary Expense of \$11,100. This is a result of the elimination of the meter reader position previously used by the Utility. The calculation of this amount is shown below in Table 1-5.

**Table 1-5
 Reduction to Meter Reading Expense**

Annual Salary	\$27,726
Estimate of Benefits	5,545
Salary & Benefits	\$33,271
Truck & Fuel	3,852
Total Meter Reader Costs	\$37,123
Pluris Wedgefield Allocation Factor	29.90%
Meter Reader Allocation	\$11,100

Source: Utility's Filing

Taxes Other Than Income

Staff calculated the increase in property taxes based on the recommended increase in UPIS. Because the 2018 millage rates for Orange County are not known at this time, staff used the rate from the Utility's 2017 tax assessment. Consistent with Commission practice, staff used the four percent discount that is available to the Utility for early payment of its property taxes. Staff recommends an increase in property taxes of \$16,146 for water and \$5,594 for wastewater.

Based on staff's recommendations above, staff is recommending an increase to expenses before income taxes and RAFs of \$46,625 for water and \$10,561 for wastewater. These calculations are shown below in Table 1-6 and Table 1-7.

**Table 1-6
 Expenses Before Income Taxes and RAFs**

	Per Utility	Adjs	Staff Recommended
Depreciation Expense	\$26,273	(\$402)	\$25,871
Rate Case Expense	5,995	(3,022)	2,973
Rent Expense	9,000	(9,000)	0
Maintenance Expense	17,739	(5,003)	12,736
Meter Reading Expense	(11,100)	0	(11,100)
TOTI	17,626	(1,480)	16,146
Total Increase in Operating Exp	\$65,533	(\$18,908)	\$46,625

Source: Utility's Filing

Table 1-7
Expenses Before Income Taxes and RAFs

	Per Utility	Adjs	Staff Recommended
Depreciation Expense	\$1,994	(\$0)	\$1,994
Rate Case Expense	5,995	(3,022)	2,973
TOTI	<u>6,020</u>	<u>(426)</u>	<u>5,594</u>
Total Increase in Operating Exp	<u>\$14,009</u>	<u>(\$3,448)</u>	<u>\$10,561</u>

Source: Utility's Filing

Income Taxes

Staff calculated state and federal income taxes based on the current rates of 5.5 percent for state and 21 percent for federal. Staff notes that the federal taxes in this case are adjusted to reflect the new rate set forth in the 2017 Tax Cut and Jobs Act and only affects the incremental increases in this case. Any potential refund related to the change in the federal tax rate currently embedded in the Utility's rates is outside of this proceeding and will be addressed in the generic Docket No. 20180013-PU.⁴⁹ Based on staff's recommended return on rate base, staff recommends an increase in state taxes of \$5,128 ($\$93,245 \times .055$) for water and \$1,778 ($\$32,324 \times .055$) for wastewater. Staff further recommends increases to federal income taxes of \$18,505 ($(\$93,245 - \$5,129) \times .21$) for water and \$6,415 ($(\$32,324 - \$1,778) \times .21$) for wastewater.

Regulatory Assessment Fees (RAF)

Based on the above, staff is recommending a revenue increase before RAFs of \$163,503 for water and \$51,078 for wastewater. Therefore, staff recommends RAFs should be increased by \$7,358 ($\$163,503 \times 4.5$ percent) for water and \$2,299 ($\$51,078 \times 4.5$ percent) for wastewater.

Operating Expenses Summary

Based on the above, staff is recommending an incremental increase to Operating Expenses of \$77,616 for water and \$21,053 for wastewater. Staff's calculations are shown on Schedule Nos. 1 and 2.

Conclusion

Based on the above, staff recommends an incremental revenue requirement increase of \$170,861 for water and \$53,377 for wastewater. This represents increases of 12.16 percent and 5.53 percent for water and wastewater, respectively. The Utility requested an incremental revenue requirement increase of \$194,159 for water and \$57,545 for wastewater. Staff's revenue requirement calculations are shown on Schedule Nos. 1 and 2.

⁴⁹Docket No. 20180013-PU, *In re: Petition to establish a generic docket to investigate and adjust rates for 2018 tax savings, by Office of Public Counsel.*

Issue 2: What are the appropriate water and wastewater rates for Pluris Wedgefield, Inc.?

Recommendation: The recommended monthly water rates are shown on Schedule No. 3 and the recommended monthly wastewater rates are shown on Schedule No. 4. The recommended rates should be designed to produce additional revenues of \$170,861 (12.16 percent increase) for water and \$53,377 (5.53 percent increase) for wastewater. The percent increases should be applied as an across-the-board increase to the existing rates. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Friedrich)

Staff Analysis: Staff recommends that service rates for Pluris Wedgefield be designed to allow the Utility the opportunity to generate annual service revenues of \$1,575,497 for water and \$1,018,335 for wastewater. The annualized service revenues before the rate increase are \$1,404,636 for water and \$964,958 for wastewater. This results in a 12.16 percent increase for water and a 5.53 percent increase for wastewater service revenues. The corresponding percentage increases should be applied as an across-the-board increase to the existing water and wastewater rates.

Based on the above, the recommended monthly water rates are shown on Schedule No. 3 and the recommended monthly wastewater rates are shown on Schedule No. 4. The recommended rates should be designed to produce additional revenues of \$170,861 (12.16 percent increase) for water and \$53,377 (5.53 percent increase) for wastewater. The percent increases should be applied as an across-the-board increase to the existing rates. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 3: Should the meter installation charge requested by Pluris Wedgefield, Inc. be approved?

Recommendation: Yes. The meter installation charge of \$268 for a 5/8" x 3/4" meter and actual cost for all other meter sizes should be approved. The Utility should file revised tariff sheets and a proposed customer notice. Pluris should provide notice to property owners who have requested service within the 12 calendar months prior to the month the application was filed to the present. The approved charges should be effective for connections made on or after the stamped approval date on the tariff sheets. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Friedrich)

Staff Analysis: The Utility currently has a meter installation charge of \$110 for a 5/8" x 3/4" meter and \$170 for a 1" meter which were approved in an application for original certificates in 1983.⁵⁰ A meter installation charge is designed to recover the cost of the meter and the installation. Pluris is requesting an increase in its meter installation charge to reflect the current costs of installing an AMI meter. The requested meter installation charge includes, \$115 for the meter, \$130 for the transmitter, and \$23 for the meter box. To additionally justify these cost components, the Utility provided a quote for the meter, transmitter, and the meter box. The Utility's requested meter installation charges are consistent with meter installation charges previously approved by the Commission for other utilities.

Staff believes the Utility's request is reasonable and should be approved. Based on the above, the meter installation charge of \$268 for a 5/8" x 3/4" meter and actual cost for all other meter sizes should be approved. The Utility should file revised tariff sheets and a proposed customer notice. Pluris should provide notice to provide property owners who have requested service within the 12 calendar months prior to the month the application was filed to the present. The approved charges should be effective for connections made on or after the stamped approval date on the tariff sheets. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

⁵⁰Order No. 12315, issued August 4, 1983, in Docket No. 820323-WS, *In re: Application of Econ Utilities Corporation for original water and sewer certificates in Orange Florida.*

Issue 4: What is the appropriate amount by which rates should be reduced in four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.081(8), F.S?

Recommendation: The water and wastewater rates should be reduced, as shown on Schedule Nos. 3 and 4, to remove rate case expense grossed-up for RAFs and amortized over a 4-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.081(8), F.S. Pluris should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (L. Smith, M. Friedrich)

Staff Analysis: Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the 4-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. This results in a reduction of \$3,152 for water and wastewater.

The water and wastewater rates should be reduced, as shown on Schedule Nos. 3 and 4, to remove rate case expense grossed-up for RAFs and amortized over a 4-year period. The decrease in rates should become effective immediately following the expiration of the 4-year rate case expense recovery period, pursuant to Section 367.081(8), F.S. Pluris should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 5: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively. (D. Janjic)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively.

Water Revenue Requirement			
	<u>Per Utility</u>	<u>Adjustment</u>	<u>Staff Recommended</u>
UPIS	\$1,063,865	(\$2,300)	\$1,061,565
Retirements	(473,339)	0	(473,339)
Less: Accumulated Depreciation	(448,935)	24,003	(424,932)
Working Capital	<u>2,704</u>	<u>(2,128)</u>	<u>576</u>
Total Increase in Rate Base	<u>\$1,042,165</u>	<u>(\$28,431)</u>	<u>\$1,013,734</u>
Weighted Cost of Capital	9.21%		9.20%
Return on Rate Base	\$95,860		\$93,245
Depreciation Expense	\$26,273	(\$402)	\$25,871
Rate Case Expense	5,995	(3,022)	2,973
Rent Expense	9,000	(9,000)	0
Maintenance Expense	17,739	(5,003)	12,736
Meter Reading Expense	(11,100)	0	(11,100)
TOTI	17,626	(1,480)	16,146
State Income Tax (5.5%)	5,277	(149)	5,128
Federal Income Tax (21%)	19,041	(536)	18,505
Regulatory Assessment Fees	<u>8,356</u>	<u>(998)</u>	<u>7,358</u>
Total Operating Expenses	\$98,207	(\$20,592)	\$77,616
Total Revenue Increase Requested/Recommended	<u>\$194,159</u>		<u>\$170,861</u>
Annualized Revenue	\$1,404,636		\$1,404,636
Percentage Increase	13.81%		12.16%

Wastewater Revenue Requirement			
	<u>Per Utility</u>	<u>Adjustment</u>	<u>Staff Recommended</u>
UPIS	\$359,023	\$0	\$359,023
Retirements	(269,267)	0	(269,267)
Less: Accumulated Depreciation	(265,278)	3,989	(261,289)
Working Capital	749	(377)	372
Total Increase in Rate Base	<u>\$355,783</u>	<u>(\$4,367)</u>	<u>\$351,416</u>
Weighted Cost of Capital	9.21%		9.20%
Return on Rate Base	\$32,755		\$32,324
Depreciation Expense	\$1,994	\$0	\$1,994
Rate Case Expense	5,995	(3,022)	2,973
TOTI	6,020	(426)	5,594
State Income Tax (5.5%)	1,802	(24)	1,778
Federal Income Tax (21%)	6,500	(85)	6,415
Regulatory Assessment Fees	<u>2,478</u>	<u>(179)</u>	<u>2,299</u>
Total Operating Expense	\$24,789	(\$3,736)	\$21,053
Total Revenue Increase Requested/Recommended	<u>\$57,545</u>		<u>\$53,377</u>
Annualized Revenue	\$964,958		\$964,958
Percentage Increase	5.96%		5.53%

PLURIS WEDGEFIELD, INC.		SCHEDULE NO. 3	
MONTHLY WATER RATES		DOCKET NO. 20170166-WS	
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential, General, and Irrigation Service</u>			
Base Facility Charge by Meter Size			
5/8" X 3/4"	\$24.71	\$27.71	\$0.06
3/4"	\$37.08	\$41.57	\$0.08
1"	\$61.79	\$69.28	\$0.14
1-1/2"	\$123.58	\$138.55	\$0.28
2"	\$197.74	\$221.68	\$0.44
3"	\$395.48	\$443.36	\$0.89
4"	\$617.92	\$692.75	\$1.39
6"	\$1,235.86	\$1,385.50	\$2.77
Charge per 1,000 gallons- Residential and Residential Irrigation Service			
0-5,000 gallons	\$7.79	\$8.74	\$0.02
5,001-10,000 gallons	\$9.68	\$10.86	\$0.02
Over 10,000 gallons	\$14.52	\$16.29	\$0.03
Charge per 1,000 gallons- General and General Irrigation Service			
	\$8.79	\$9.86	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$48.08	\$53.93	
5,000 Gallons	\$63.66	\$71.41	
8,000 Gallons	\$92.70	\$103.99	

PLURIS WEDGEFIELD, INC.		SCHEDULE NO. 4	
MONTHLY WASTEWATER RATES		DOCKET NO. 20170166-WS	
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential Service</u>			
Base Facility Charge- All Meter Sizes	\$29.01	\$30.61	\$0.09
Charge per 1,000 gallons- Residential 8,000 gallon cap	\$4.24	\$4.47	\$0.01
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" X 3/4"	\$29.01	\$30.61	\$0.09
3/4"	\$43.52	\$45.92	\$0.14
1"	\$72.55	\$76.53	\$0.24
1-1/2"	\$145.07	\$153.05	\$0.47
2"	\$232.11	\$244.88	\$0.76
3"	\$464.22	\$489.76	\$1.52
4"	\$725.35	\$765.25	\$2.37
6"	\$1,450.71	\$1,530.50	\$4.74
Charge per 1,000 gallons - General Service	\$5.08	\$5.36	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$41.73	\$44.02	
5,000 Gallons	\$50.21	\$52.96	
8,000 Gallons	\$62.93	\$66.37	