

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: September 20, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Engineering (Doehling, Graves) *JD RH TJS*
Division of Accounting and Finance (Norris, Sowards, Thurmond) *SA*
Division of Economics (Bruce, Hudson) *EST*
Office of the General Counsel (DuVal) *MS TW*

RE: Docket No. 20190124-WU – Petition for limited alternative rate increase in Lake County by Raintree Waterworks, Inc. *ALM*

AGENDA: 10/03/19 – Regular Agenda – Proposed Agency Action – Except Issue No. 3 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brown

CRITICAL DATES: 10/29/19 – 90-day deadline pursuant to Rule 25-30.457(11), F.A.C.

SPECIAL INSTRUCTIONS: None

Case Background

Raintree Waterworks, Inc. (Raintree or Utility) is a Class C water utility serving approximately 113 residential customers and 1 general service customer in Lake County. Raintree's last approved rate increase was in 2016.¹

On June 6, 2019, Raintree filed a petition for a limited alternative rate increase (LARI) pursuant to Rule 25-30.457, Florida Administrative Code (F.A.C.). On July 1, 2019, staff notified the Utility that it met the initial requirements of Rule 25-30.457, F.A.C. Therefore, pursuant to Rule

¹Order No. PSC-16-0256-PAA-WU, issued June 30, 2016, in Docket No. 20150199-WU, *In re: Application for staff-assisted rate case in Lake County by Raintree Waterworks, Inc.*

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25-30.457(4), F.A.C., the official date of filing was established as July 31, 2019, and the 90-day time frame for the Florida Public Service Commission (Commission) to render a decision began on that date.

As stated above, the Commission last set rates for Raintree in 2016. In that rate case, the Commission found the Utility's overall quality of service to be satisfactory. Staff has not identified any water quality complaints filed with the Commission or the Florida Department of Environmental Protection (DEP) since the last rate case. The Utility has identified five complaints pertaining to DEP secondary standards. Staff notes that based on the most recent DEP Sanitary Survey, conducted on January 30, 2019, the Utility was determined to be in compliance with DEP's rules and regulations. A customer meeting was held on August 7, 2019, in Tavares, Florida. One customer attended and had no concerns with Raintree's quality of service.

The Commission has jurisdiction pursuant to Sections 367.0814(9) and 367.121(1), Florida Statutes.

Discussion of Issues

Issue 1: Should the Commission approve Raintree Waterworks, Inc.'s application for a LARI?

Recommendation: Yes. The Commission should approve Raintree's application for a LARI in the amount of 20 percent. This equates to an increase of \$9,651. Pursuant to Rule 25-30.457(12), F.A.C., the Utility is required to hold any revenue increase granted subject to refund with interest for a period of 15 months after the filing of its 2019 Annual Report as it is the year the adjustment in rates will be implemented. To ensure overearnings will not occur due to the implementation of this rate increase, the Commission will conduct an earnings review of Raintree's 2019 Annual Report. If overearnings occur, such overearnings, up to the amount held subject to refund, with interest, must be disposed of for the benefit of the customers. After the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility must file reports with the Office of Commission Clerk no later than the 20th of every month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed must also indicate the status of the security being used to guarantee repayment of any potential refund. (Thurmond)

Staff Analysis: Pursuant to Rule 25-30.457, F.A.C., any utility eligible to file for a staff-assisted rate case (SARC) may petition the Commission for a rate increase of up to 20 percent applied to metered or flat recurring rates as an alternative to a rate case. This Rule was designed to streamline the rate increase process for qualifying small water or wastewater companies, by establishing an abbreviated procedure for a limited rate increase that is less time consuming and thus less costly for utilities, their customers, and the Commission. This Rule is similar to the rules governing price index and pass-through increases in that neither an engineering review nor a financial audit of the utility's books and records is required.

On June 6, 2019, Raintree notified the Commission of its intent to implement a LARI of 20 percent pursuant to Rule 25-30.457, F.A.C. The application met the initial requirements of the rule, and July 31, 2019, was established as the official filing date.

Staff reviewed the Utility pursuant to the criteria listed in Rule 25-30.457(5), F.A.C., and recommends that Raintree qualifies for staff assistance pursuant to subsection (1) of this rule and the Utility's books and records appear to be organized consistent with Rule 25-30.110, F.A.C. Staff also verified that the Utility is current on the filing of regulatory assessment fees and annual reports. The Utility has been in operation over a year and filed additional relevant information in support of eligibility. The Utility's last rate case was granted more than two years ago, but less than seven years ago, prior to the receipt of the petition currently under review. Raintree is under earning based on information provided in the Utility's 2018 Annual Report. Based on the information described above, staff recommends approval of the Utility's petition.

The data presented in the application was based upon annualized revenues by customer class and meter size for the period ended December 31, 2018, the most recent 12-month period. However, the Utility also included miscellaneous service revenues which should not be included in the calculation. Based on annualized service revenues of \$48,254, a 20 percent increase would result in an annual increase in revenues of \$9,651. This produces total annual service revenues of \$57,905.

Pursuant to Rule 25-30.457(12), F.A.C., the Utility is required to hold any revenue increase granted subject to refund with interest in accordance with Rule 25-30.360, F.A.C., for a period of 15 months after the filing of its 2019 Annual Report as it is the year the adjustment in rates will be implemented.

After the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility must file reports with the Office of Commission Clerk no later than the 20th of every month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed must also indicate the status of the security being used to guarantee repayment of any potential refund.

Staff reviewed the personal financial statements of the primary shareholder, who is the Utility's president.² The president has provided a personal guarantee of any rate increase approved in this docket.³ Based on the above, staff believes that in this circumstance the Utility's president has demonstrated the financial ability to guarantee the refund, if necessary.

To ensure overearnings will not occur due to the implementation of this rate increase, the Commission will conduct an earnings review of Raintree's 2019 Annual Report as it is the year the adjustment in rates will be implemented. If overearnings occur, such overearnings, up to the amount held subject to refund, with interest, will be disposed of for the benefit of the customers.

²Document No. 05301-2019 (Confidential), filed July 2, 2019.

³Document No. 05228-2019, filed June 28, 2019.

Issue 2: What are the appropriate monthly service rates for Raintree Waterworks, Inc.?

Recommendation: The existing service rates for Raintree should be increased by 20 percent in accordance with Rule 25-30.457, F.A.C. The recommended service rates are shown on Schedule No. 1. The Utility should file 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 rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no more than 10 days after the date of the notice. (Bruce)

Staff Analysis: Based on staff's recommended approval of the Utility's LARI in Issue 1, the existing service rates for Raintree should be increased by 20 percent in accordance with Rule 25-30.457, F.A.C. Therefore, staff calculated rates by applying the 20 percent increase across-the-board to the existing base facility and gallonage charges. The Utility's existing water rates and the staff recommended rates are shown on Schedule No. 1. The Utility should file 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 rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no more than 10 days after the date of the notice.

Issue 3: Should the recommended rates be approved for Raintree Waterworks, Inc., on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility?

Recommendation: Yes. Pursuant to Rule 25-30.457(15), F.A.C., in the event of a protest of the Proposed Agency Action (PAA) Order by a substantially affected person other than the Utility, Raintree should be authorized to implement the rates established in the LARI PAA Order on a temporary basis subject to refund, upon the Utility filing a SARC application within 21 days of the date the protest is filed.

The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. If the recommended rates are approved on a temporary basis, the incremental increase collected by the Utility will be subject to the refund provisions outlined in Rule 25-30.360, F.A.C. Pursuant to Rule 25-30.457(17), F.A.C., if the Utility fails to file a SARC application within 21 days in the event there is a protest, the application for a LARI will be deemed withdrawn. (Thurmond) (Final Agency Action)

Staff Analysis: This recommendation proposes an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Rule 25-30.457(15), F.A.C., in the event of a protest of the PAA Order by a substantially affected person other than the Utility, Raintree should be authorized to implement the rates established in the LARI PAA Order on a temporary basis subject to refund upon the Utility filing a SARC application within 21 days of the date the protest is filed.

The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. If the recommended rates are approved on a temporary basis, the incremental increase collected by the Utility will be subject to the refund provisions outlined in Rule 25-30.360, F.A.C. Pursuant to Rule 25-30.457(17), F.A.C., if the Utility fails to file a SARC application within 21 days in the event there is a protest, the application for a LARI will be deemed withdrawn.

Issue 4: Should this docket be closed?

Recommendation: No. In the event of a protest, Raintree may implement the rates established in the PAA Order on a temporary basis, subject to refund with interest, upon the Utility's filing of a SARC application within 21 days of the date of the protest. If Raintree fails to file a SARC within 21 days, the Utility's petition for a LARI will be deemed withdrawn pursuant to Rule 25-30.457(17), F.A.C. 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, which reflect the Commission-approved rates, and customer notice have been filed by Raintree and approved by staff, and so that staff may conduct an earnings review of the Utility pursuant to Rule 25-30.457(12), F.A.C. Upon staff's approval of the tariff and completion of the earnings review process as set forth in Rule 25-30.457(12)-(14), F.A.C., this docket should be closed administratively. (DuVal)

Staff Analysis: In the event of a protest, Raintree may implement the rates established in the PAA Order on a temporary basis, subject to refund with interest, upon the Utility's filing of a SARC application within 21 days of the date of the protest. If Raintree fails to file a SARC within 21 days, the Utility's petition for a LARI will be deemed withdrawn pursuant to Rule 25-30.457(17), F.A.C. 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, which reflect the Commission-approved rates, and customer notice have been filed by Raintree and approved by staff, and so that staff may conduct an earnings review of the Utility pursuant to Rule 25-30.457(12), F.A.C. Upon staff's approval of the tariff and completion of the earnings review process as set forth in Rule 25-30.457(12)-(14), F.A.C., this docket should be closed administratively.

**Raintree Waterworks, Inc.
Monthly Water Rates**

	Existing Rates	Staff Recommended Rates
Residential and General Service		
Base Facility Charge by Meter Size		
5/8" x 3/4"	\$14.23	\$17.07
3/4"	\$21.35	\$25.61
1"	\$35.58	\$42.68
1 1/2"	\$71.15	\$85.35
2"	\$113.84	\$136.56
3"	\$227.68	\$273.12
4"	\$355.75	\$426.75
6"	\$711.50	\$853.50
Gallonge Charge - Residential Service		
Charge Per 1,000 gallons		
0-3,000 gallons	\$1.71	\$2.05
3,001-8,000 gallons	\$1.81	\$2.17
Over 8,000 gallons	\$2.72	\$3.26
Gallonge Charge - General Service		
Charge Per 1,000 gallons		
	\$2.24	\$2.68