

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water rates in
Charlotte County by Bocilla Utilities, Inc.

DOCKET NO. 160065-WU
ORDER NO. PSC-16-0364-PCO-WU
ISSUED: August 29, 2016

The following Commissioners participated in the disposition of this matter:

JULIE I. BROWN, Chairman
LISA POLAK EDGAR
ART GRAHAM
RONALD A. BRISÉ
JIMMY PATRONIS

ORDER SUSPENDING PROPOSED FINAL RATES AND APPROVING INTERIM RATES

BY THE COMMISSION:

Background

Bocilla Utilities, Inc. (Bocilla or Utility) is a Class B utility providing water service to approximately 399 water customers in Charlotte County. Effective February 12, 2013, Bocilla was granted water Certificate No. 662-W.¹ Bocilla's rates have never been established for ratemaking purposes by this Commission.

By letter dated May 20, 2016, Bocilla provided its Minimum Filing Requirements (MFRs) for a file and suspend rate increase. In its application, the Utility requested a test year ended December 31, 2015, for purposes of interim and final rates. On May 23, 2016, Bocilla provided its waiver of this Commission's 60-day deadline, as set forth in Sections 367.081(6) and 367.082(2)(a), Florida Statutes (F.S.), through August 9, 2016.

This order addresses the suspension of Bocilla's requested final rates and the Utility's requested interim rates. We have jurisdiction pursuant to Sections 367.081 and 367.082, F.S.

Decision

Suspension of Rates

Section 367.081(6), F.S., provides that this Commission may, for good cause, withhold consent to the implementation of requested rates within 60 days after the date the rate request is filed. Further, Section 367.081(10), F.S., permits the proposed rates to go into effect (secured and subject to refund) at the expiration of five months from the official date of filing (1) if this

¹Order No. PSC-13-0228-PAA-WU, issued May 29, 2013, in Docket No. 130067-WU, In re: Application for grandfather certificate to operate water utility in Charlotte County by Bocilla Utilities, Inc.

Commission has not acted upon the requested rate increase or (2) if this Commission's Proposed Agency Action is protested by a party other than the Utility.

We reviewed the filing and considered the information filed in support of the rate application and the proposed final rates. We find that further investigation of this information, including on-site investigation by Commission staff, is necessary. To date, Commission staff has initiated an audit of Bocilla's books and records. The audit report was due on August 23, 2016. In addition, our staff sent a data request to Bocilla on July 28, 2016, and the response is due on August 29, 2016. Further, we find that additional requests will be necessary to process this case. Based on the foregoing, this Commission finds that the Utility's proposed final water rates shall be suspended.

Interim Rates

Bocilla shall be authorized to collect annual revenues as indicated below:

	Annual Revenues			
	<u>Adjusted Test Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue Requirement</u>	<u>% Increase</u>
Water	\$398,963	\$65,159	\$464,122	16.33%

On May 24, 2016, Bocilla filed its rate base, cost of capital, and operating statements to support its requested interim increase in rates. Pursuant to Section 367.082(1), F.S., in order to establish a prima facie entitlement for interim relief, the Utility shall demonstrate that it is earning outside the range of reasonableness on its rate of return. Pursuant to Section 367.082(2)(a), F.S., in a proceeding for an interim increase in rates, this Commission shall authorize, within 60 days of the filing for such relief, the collection of rates sufficient to earn the minimum of the range of rate of return. Based on the Utility's filing and the approved adjustments below, this Commission finds that the Utility has demonstrated a prima facie entitlement in accordance with Section 367.082(1), F.S.

Pursuant to Section 367.082(5)(b)1., F.S., the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with adjustments made in the Utility's most recent rate proceeding and annualizing any rate changes. This is the Utility's first rate proceeding since receiving a grandfather certificate in Order No. PSC-13-0228-PAA-WU.² Therefore, adjustments from a prior case are not necessary. However, we reviewed Bocilla's interim request, and find that our approved adjustments are necessary as discussed below. Accounting schedules to illustrate our approved rate base, capital structure, and test year operating income amounts are attached to this order. The rate base schedule is labeled as Schedule No. 1-A, with our adjustments shown on Schedule No. 1-B. Capital structure is labeled

²Order No. PSC-13-0228-PAA-WU, issued May 29, 2013, in Docket No. 130067-WU, In re: Application for grandfather certificate to operate water utility in Charlotte County by Bocilla Utilities, Inc.

as Schedule No. 2. Operating income is labeled as Schedule No. 3-A, with our adjustments shown on Schedule No. 3-B.

Rate Base

As mentioned above, this is the Utility's first rate proceeding since receiving its grandfather certificate, therefore, there are no adjustments necessary to comply with prior orders. However, we find that the following adjustments are necessary for interim purposes.

Pursuant to Rule 25-30.433(4), Florida Administrative Code (F.A.C.), the averaging method used by this Commission to calculate rate base and cost of capital in a rate case proceeding shall be the beginning and end-of-year average for Class B utilities. In its filing, the Utility used a 13-month average to calculate rate base and cost of capital. As a result, we find that the following adjustments to reflect the beginning and end-of-year averages are appropriate. We find that decreasing plant in service by \$23,143, decreasing contributions-in-aid-of-construction (CIAC) by \$346, and increasing amortization of CIAC by \$96 is appropriate. Additionally, we find that removing \$44,000 attributed to land that was accounted for twice in the calculation of rate base is appropriate.

Pursuant to Rule 25-30.110(2), F.A.C., the Utility's filings shall be consistent and reconcilable with the Utility's Annual Report. As such, we find that decreasing construction-work-in-progress by \$42 in order to be consistent with the Utility's 2015 Annual Report is appropriate.

Pursuant to Rule 25-30.433(2), F.A.C., working capital for Class B utilities shall be calculated using the formula method (one-eighth of operation and maintenance expenses). In its filing, the Utility used the balance sheet approach to calculate interim working capital. Using the correct methodology yields a working capital allowance of \$45,466 (\$363,729/8). As a result, this Commission finds that decreasing working capital by \$72,197 (\$45,466 - \$117,663) to reflect one-eighth of operation and maintenance expenses is appropriate. Based on the above, this Commission finds that Bocilla's interim rate base shall be \$646,070.

Cost of Capital

Based on an analysis of the MFRs, we find that adjustments are necessary to the Utility's capital structure. In its interim request, the Utility used a return on equity (ROE) of 10.50 percent. Pursuant to Section 367.082(5)(b)3., F.S., if a rate of return on equity has not yet been established by this Commission, the Utility shall use the approved leverage formula ROE³ which results in an ROE of 11.16 percent. However, pursuant to Section 367.082(2)(b), F.S., interim rate relief is calculated using the minimum of the range of its ROE which is 10.16 percent. As mentioned above, the Utility used a 13-month average to calculate cost of capital. As a result, we find that decreasing long-term debt by \$95 and increased common equity by \$13,074 to reflect

³Order No. PSC-16-0254-PAA-WS, issued June 29, 2016, in Docket No. 160006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

the appropriate beginning and end-of-year averages is appropriate. Based on the above, this Commission finds that an interim weighted average cost of capital for Bocilla shall be 5.85 percent.

Net Operating Income

In order to attain the appropriate amount of interim test year operating revenues, we removed the Utility's requested interim revenue increase of \$82,200. We also reduced regulatory assessment fees (RAFs) by \$3,341 to reflect the removal of the Utility's requested revenue increase. Based on our annualized revenue calculations, revenues shall be increased by \$7,946. Based on the above, this Commission finds that the appropriate test year operating income, before any revenue increase, is a \$24,405 loss.

Revenue Requirement

Based on the above adjustments, we find that a revenue requirement of \$464,122 shall be approved. This represents an interim increase in annual revenues of \$65,159 (or 16.33 percent). This increase allows the Utility the opportunity to recover its operating expenses and earn a 5.85 percent return on its rate base.

Appropriate Interim Water Rates

This Commission finds that interim service rates for Bocilla shall be designed to allow the Utility the opportunity to generate annual operating revenues of \$464,122. Before removal of miscellaneous revenues, this would result in an increase of \$65,159 (16.33 percent). To determine the appropriate increase to apply to the service rates, miscellaneous revenues shall be removed from the test year revenues. The calculation is as follows:

Table 1
Percentage Service Rate Increase

	<u>Water</u>
1 Total Test Year Revenues	\$398,963
2 Less: Miscellaneous Revenues	<u>\$2,168</u>
3 Test Year Revenues from Service Rates	\$396,795
4 Revenue Increase	<u>\$65,159</u>
5 Percentage Service Rate Increase (Line 4/Line 3)	16.42%

Source: Approved Revenue Requirement and MFRs

This Commission finds that the interim rate increase of 16.42 percent for Bocilla shall be applied as an across-the-board increase to the existing service rates. The rates, as shown on Schedule No. 4, shall 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. The Utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. In addition, the approved rates shall not be implemented until the required security has been filed, Commission staff has approved the proposed customer notice, and the notice has been received by the customers. The Utility shall provide proof of the date notice was given within 10 days of the date of the notice.

Appropriate Security to Guarantee Interim Increase

Pursuant to Section 367.082(2)(a), F.S., revenues collected under interim rates shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by this Commission. As stated above, the total interim increase is \$65,159. In accordance with Rule 25-30.360, F.A.C., we calculated the potential refund of revenues and interest collected under interim conditions to be \$43,638. This amount is based on an estimated eight months of revenue being collected from the approved interim rates over the Utility's current authorized rates shown on Schedule No. 4.

The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. The Utility indicated to this Commission that it intended to utilize an escrow account as security for potential refund of interim rates granted. As such, we did not perform an analysis regarding the Utility's financial capability to support a corporate undertaking. This Commission finds that Bocilla shall be required to secure a letter of credit, or alternately an escrow account or surety bond, to guarantee any potential refund of water revenues. The requirements associated with each are discussed below.

If the security provided is a surety bond or a letter of credit, said instrument shall be in the amount of \$43,638. If the Utility chooses a surety bond as security, the surety bond shall state that it will be released or terminated only upon subsequent order of this Commission. If the Utility chooses to provide a letter of credit as security, the letter of credit shall state that it is irrevocable for the period it is in effect and that it will be in effect until a final Commission order is rendered releasing the funds to the Utility or requiring a refund.

If the security provided is an escrow account, said account shall be established between the Utility and an independent financial institution or the Division of Treasury for the Florida Department of Financial Services pursuant to a written escrow agreement. This Commission shall be a party to the written escrow agreement and a signatory to the escrow account. The written escrow agreement shall state the following: the account is established at the direction of the Commission for the purpose set forth above; no withdrawals of funds shall occur without the prior approval of the Commission through the Commission Clerk, Office of Commission Clerk; the account shall be interest bearing; information concerning that escrow account shall be available from the institution to the Commission or its representative at all times; the amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt; and, pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.

If the security provided is an escrow account, the Utility shall deposit \$5,430 into the escrow account each month. The escrow agreement shall also state that “if a refund to the customers is required, all interest earned on the escrow account shall be distributed to the customers, and if a refund to the customers is not required, the interest earned on the escrow account shall revert to the Utility.”

Regardless of the type of security provided, the Utility shall keep an accurate and detailed account of all monies it receives. Pursuant to Rule 25-30.360(6), F.A.C., the Utility shall provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund shall be with interest and undertaken in accordance with Rule 25-30.360, F.A.C.

In no instance shall maintenance and administrative costs associated with any refund be borne by the customers. Such costs are the responsibility of, and shall be borne by, the Utility.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Bocilla Utilities, Inc.’s proposed final water rates are hereby suspended. It is further

ORDERED that Bocilla Utilities, Inc.’s requested interim revenue requirement and interim rate increase for water are hereby approved and set forth in the body of this order. It is further

ORDERED that Bocilla Utilities, Inc. shall secure a letter of credit, or alternately an escrow account or surety bond, to guarantee any potential refund of revenues collected under interim conditions as set forth herein. It is further

ORDERED that the rates, as shown on Schedule No. 4, shall 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. It is further

ORDERED that Bocilla Utilities, Inc. shall file revised tariff sheets and a proposed customer notice to reflect this Commission’s approved rates. It is further

ORDERED that the approved rates shall not be implemented until the required security has been filed, Commission staff has approved the proposed customer notice, and the notice has been received by the customers. The Utility shall provide proof of the date notice was given within 10 days of the date of the notice. It is further

ORDERED that pursuant to Rule 25-30.360(6), F.A.C., Bocilla Utilities, Inc. shall provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. It is further

ORDERED that this docket shall remain open pending this Commission's final action on Bocilla Utilities, Inc.'s requested final water rates.

By ORDER of the Florida Public Service Commission this 29th day of August, 2016.



CARLOTTA S. STAUFFER
Commission Clerk
Florida Public Service Commission
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Tallahassee, Florida 32399
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Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the portion of this order suspending proposed final rates, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Office of Commission Clerk, in the form prescribed by Rule 25-22.0376, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

Any party adversely affected by the portion of this order approving interim rates, which is non-final in nature, may request (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code, or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Office of Commission Clerk, in the form prescribed by Rule 25-22.0376, Florida Administrative Code. Citizens of the State of Florida v. Mayo, 316 So.2d 262 (Fla. 1975), states that an order on interim rates is not final or reviewable until a final order is issued. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

Bocilla Utilities, Inc.				Schedule No. 1-A	
Schedule of Water Rate Base				Docket No. 160065-WU	
Test Year Ended 12/31/15					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$1,205,896	\$0	\$1,205,896	(\$67,143)	\$1,138,754
2 Land and Land Rights	44,000	0	44,000	0	44,000
3 Construction Work in Progress	42	0	42	(42)	0
4 Accumulated Depreciation	(349,147)	0	(349,147)	0	(349,147)
5 CIAC	(459,194)	0	(459,194)	346	(458,848)
6 Amortization of CIAC	225,750	0	225,750	96	225,846
7 Working Capital Allowance	<u>0</u>	<u>117,663</u>	<u>117,663</u>	<u>(72,197)</u>	<u>45,466</u>
8 Rate Base	<u>\$667,347</u>	<u>\$117,663</u>	<u>\$785,010</u>	<u>(\$138,940)</u>	<u>\$646,070</u>

Bocilla Utilities, Inc.		Schedule No. 1-B
Adjustments to Rate Base		Docket No. 160065-WU
Test Year Ended 12/31/15		
Explanation	Water	
<u>Plant In Service</u>		
1 Remove duplicate land. (Issue 2)	(\$44,000)	
2 Reflect simple average. (Issue 2)	<u>(23,143)</u>	
Total	<u>(\$67,143)</u>	
<u>Construction Work-in-Progress</u>		
Reconcile to annual report. (Issue 2)	<u>(\$42)</u>	
<u>CIAC</u>		
Reflect simple average. (Issue 2)	<u>\$346</u>	
<u>Accumulated Amortization of CIAC</u>		
Reflect simple average. (Issue 2)	<u>\$96</u>	
<u>Working Capital</u>		
Reflect 1/8 th O&M expense. (Issue 2)	<u>(\$72,197)</u>	

Bocilla Utilities, Inc. Capital Structure-Simple Average Test Year Ended 12/31/15							Schedule No. 2 Docket No. 160065-WU		
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
Per Utility									
1 Long-term Debt	\$1,005,321	\$0	\$1,005,321	\$0	\$1,005,321	83.19%	5.00%	4.16%	
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4 Common Equity	203,077	0	203,077	0	203,077	16.81%	10.50%	1.77%	
5 Customer Deposits	0	0	0	0	0	0.00%	0.00%	0.00%	
6 Deferred Income Taxes	<u>12,122</u>	<u>0</u>	<u>12,122</u>	<u>0</u>	<u>12,122</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>	
7 Total Capital	<u>\$1,220,520</u>	<u>\$0</u>	<u>\$1,220,520</u>	<u>\$0</u>	<u>\$1,220,520</u>	<u>100.00%</u>		<u>5.92%</u>	
Per Commission									
8 Long-term Debt	\$1,005,321	(\$95)	\$1,005,226	(\$478,718)	\$526,508	81.49%	5.00%	4.07%	
9 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
11 Common Equity	203,077	13,074	216,151	(102,938)	113,213	17.52%	10.16%	1.78%	
12 Customer Deposits	0	0	0	0	0	0.00%	0.00%	0.00%	
13 Deferred Income Taxes	<u>12,122</u>	<u>0</u>	<u>12,122</u>	<u>(5,773)</u>	<u>6,349</u>	<u>0.98%</u>	0.00%	<u>0.00%</u>	
14 Total Capital	<u>\$1,220,520</u>	<u>\$12,979</u>	<u>\$1,233,499</u>	<u>(\$587,429)</u>	<u>\$646,070</u>	<u>100.00%</u>		<u>5.85%</u>	
						LOW	HIGH		
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>		
OVERALL RATE OF RETURN						<u>5.85%</u>	<u>6.20%</u>		

Bocilla Utilities, Inc. Statement of Water Operations Test Year Ended 12/31/15						Schedule No. 3-A Docket No. 160065-WU	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$391,017</u>	<u>\$82,200</u>	<u>\$473,217</u>	<u>(\$74,254)</u>	<u>\$398,963</u>	<u>\$65,159</u> 16.33%	<u>\$464,122</u>
Operating Expenses							
2 Operation & Maintenance	\$363,729	\$0	\$363,729	\$0	\$363,729	\$0	\$363,729
3 Depreciation	14,743	0	14,743	0	14,743	0	14,743
4 Amortization	0	0	0	0	0	0	0
5 Taxes Other Than Income	44,538	3,699	48,237	(3,341)	44,791	3,036	47,828
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7 Total Operating Expense	<u>\$423,010</u>	<u>\$3,699</u>	<u>\$426,709</u>	<u>(\$3,341)</u>	<u>\$423,263</u>	<u>\$3,036</u>	<u>\$426,300</u>
8 Operating Income	<u>(\$31,993)</u>	<u>\$78,501</u>	<u>\$46,508</u>	<u>(\$70,913)</u>	<u>(\$24,405)</u>	<u>\$62,227</u>	<u>\$37,822</u>
9 Rate Base	<u>\$785,010</u>		<u>\$785,010</u>		<u>\$646,070</u>		<u>\$646,070</u>
10 Rate of Return	<u>(4.08%)</u>		<u>5.92%</u>		<u>(4.12%)</u>		<u>5.85%</u>

Bocilla Utilities, Inc.		Schedule 3-B
Adjustment to Operating Income		Docket No. 160065-WU
Test Year Ended 12/31/15		
Explanation		Water
<u>Operating Revenues</u>		
1	Remove requested interim revenue increase. (Issue 2)	(\$82,000)
2	Reflect the appropriate amount of test year revenues. (Issue 2)	7,946
	Total	<u>(\$74,254)</u>
<u>Taxes Other Than Income</u>		
	RAFs on revenue adjustments above. (Issue 2)	<u>(\$3,341)</u>

Bocilla Utilities, Inc.		SCHEDULE NO. 4		
Monthly Water Rates		DOCKET NO. 160065-WU		
Test Year Ended 12/31/15				
	UTILITY CURRENT RATES	UTILITY REQUESTED INTERIM	UTILITY REQUESTED FINAL	COMMISSION APPROVED INTERIM
<u>Residential and General Service</u>				
Base Facility Charge by Meter Size				
5/8" X 3/4"	\$46.24	\$55.22	\$64.46	\$53.83
1"	\$115.60	\$138.05	\$161.16	\$134.58
1-1/2"	\$231.18	\$276.10	\$322.31	\$269.15
2"	\$369.85	\$441.77	\$515.70	\$430.64
3"	\$693.55	\$828.31	\$966.94	\$861.28
4"	\$1,155.93	\$1,380.52	\$1,611.57	\$1,345.75
6"	\$2,324.85	\$2,761.05	\$3,223.15	\$2,691.50
8"	\$3,699.02	\$4,417.68	\$5,157.04	\$4,306.40
Charge per 1,000 gallons				
0-6,000 gallons	\$4.62	\$5.52	\$6.44	\$5.38
6,001-12,000 gallons	\$7.76	\$9.27	\$10.83	\$9.03
Over 12,000 gallons	\$12.32	\$14.56	\$16.99	\$14.34
Charge per 1000 gallons - Bulk Water Service				
	\$16.48	\$19.47	\$22.72	\$19.19
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
5,000 Gallons	\$69.34	\$82.82	\$96.66	\$80.73
10,000 Gallons	\$105.00	\$125.42	\$146.42	\$122.23
15,000 Gallons	\$157.48	\$187.64	\$219.05	\$183.31