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| State of Florida  pscSEAL | | 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: | February 20, 2020 | | |
| TO: | Office of Commission Clerk (Teitzman) | | |
| FROM: | Division of Accounting and Finance (Hightower, D. Buys, Cicchetti, Richards)  Division of Economics (Bethea, Hudson)  Division of Engineering (Ellis, D. Phillips, Thompson)  Office of the General Counsel (Weisenfeld) | | |
| RE: | Docket No. 20190125-WS – Application for staff-assisted rate case in Sumter County by The Woods Utility Company. | | |
| AGENDA: | 03/03/20 – Regular Agenda – Proposed Agency Action Except for Issue Nos. 11, 12 and 13 – Interested Persons May Participate | | |
| COMMISSIONERS ASSIGNED: | | | All Commissioners |
| PREHEARING OFFICER: | | | Brown |
| CRITICAL DATES: | | | 11/05/2020 (15-Month Effective Date (SARC)) |
| SPECIAL INSTRUCTIONS: | | |  |

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Case Background

The Woods Utility Company (The Woods or Utility) is a Class C utility serving approximately 58 residential water customers, 1 general service water customer, and 52 residential wastewater customers in Sumter County. The service area is located in the Southwest Florida Water Management District (SWFWMD), which has implemented year-round conservation measures. According to the Utility’s 2018 Annual Report, total gross revenues were $37,354 and total operating expenses were $50,491, resulting in a net operating loss of $13,137. On June 6, 2019, The Woods filed an application for a rate increase in water and wastewater rates.

Gary Deremer, majority owner, purchased The Woods from Aqua Utilities Florida, Inc. (AUF) in March 2013. The transfer was approved by the Florida Public Service Commission (Commission) in Order No. PSC-2014-0300-PAA-WS.[[1]](#footnote-1) The rate base was last established in that Order.

The Utility filed an application for a Staff-Assisted Rate Case (SARC) on September 21, 2015, in Docket No. 20150209-WS. The SARC application was withdrawn on February 24, 2016.[[2]](#footnote-2) An audit was completed for the 12 months ended July 31, 2015, but rate base was not established.[[3]](#footnote-3) The Woods was previously grouped in a “Rate Band” under the prior owner, AUF, in a Commission-approved rate structure. The Woods no longer receives grouping subsidies or benefits resulting from the “Rate Band” rate structure.

At the time of filing its application, The Woods was under a Consent Order (DEP OGC File No.: 17-1067) with the Florida Department of Environmental Protection (DEP). The Utility has since completed work on a water treatment plant rehabilitation and filter retrofit. The Utility is requesting a rate increase primarily to recover the costs incurred to install the DEP required filter retrofit and water treatment plant improvements.

Staff conducted a customer meeting on December 18, 2019. One general service customer spoke at the meeting.

On January 27, 2020, The Woods withdrew its request for the wastewater portion of its SARC.[[4]](#footnote-4)

The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, 367.091, and 367.121, Florida Statutes (F.S.).

Discussion of Issues

Issue :

 Is the quality of service provided by The Woods Utility Company satisfactory?

Recommendation:

 No. The DEP has mandated that the Utility take action to address lead and copper exceedances. Therefore, staff recommends that the quality of product is unsatisfactory. However, the Utility has been responsive to customer complaints and is working with the DEP to address product concerns; therefore, no penalty is recommended. The Utility should file status reports on the actions it has taken to meet the DEP’s requirements. Staff recommends the first status report be filed six months after the Final Order is issued in this Docket and every six months thereafter until the additional monitoring is rescinded by the DEP. (D. Phillips)

Staff Analysis:

 Pursuant to Section 367.081(2)(a)1, F.S., and Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water rate cases, the Commission shall determine the overall quality of service provided by the utility. This determination is made from an evaluation of the quality of the utility’s product and the utility’s attempt to address customer satisfaction. The Rule further states that the most recent chemical analyses, outstanding citations, violations, and consent orders on file with the DEP and the county health department, and any DEP and county health department officials’ testimony concerning quality of service, shall be considered. In addition, any customer testimony, comments, or complaints received by the Commission are also reviewed.

**Quality of the Utility’s Product**

In evaluation of The Woods’ product quality, staff reviewed the Utility’s compliance with the DEP primary and secondary drinking water standards. Primary standards protect public health while secondary standards regulate contaminates that may impact the taste, odor, and color of drinking water. In November 2017, The Woods Utility entered into a Consent Order with the DEP regarding high levels of disinfection byproducts (DBPs). The DBPs were a result of the Utility using free chlorine to oxidize high levels of iron in the raw water source. The DBP issue originally surfaced in 2007, while the Utility was operated by its previous owners. In order to comply with the DEP Consent Order, the Utility replaced and updated the filtration system to remove the iron from the raw water before distribution. The Utility has also added auto-flushers throughout the distribution system and periodically flushes the system to remove residual iron. The Utility received final clearance from DEP regarding the Consent Order on February 7, 2019. The most recent water samples for secondary standards were taken on February 8, 2018, at which point all secondary standards were met by the Utility.

On January 6, 2020, the Utility was notified by DEP that tap water samples, taken from customers’ premises, exceeded the allowable lead action level twice in 2019. In the first half of 2019, three samples exceeded lead levels, and in the second half of 2019, six samples exceeded lead levels and three exceeded copper levels. As a result, the DEP has mandated that additional actions are required to address lead and copper levels. First, the Utility must notify its customers of the 2019 test results by March 31, 2020. Second, the Utility must conduct Water Quality Parameter tests for four consecutive quarters at the point of entry to the distribution system to be completed before December 31, 2020. Third, the Utility is required to complete an optimal corrosion control study to evaluate effectiveness of treatments by June 30, 2021. Finally, the Utility must conduct bi-annual lead and copper sampling tests until the system meets required levels during two consecutive six-month periods. The first sample must be tested between January and June of 2020.

**The Utility’s Attempt to Address Customer Satisfaction**

Staff reviewed the complaints filed in the Commission’s Consumer Activity Tracking System (CATS), filed with the DEP, and received by the Utility from April 1, 2014, through March 31, 2019. Staff also performed a review of complaints filed in CATS following the December 18, 2019, customer meeting. Through mid-February 2020, Table 1-1 shows the number of complaints categorized by complaint type and source. A customer complaint may fit into multiple categories and counted multiple times.

**Table 1-1**

**Number of Complaints by Type and Source**



\*A single customer complaint may be counted multiple times if it fits into

multiple categories, was reported to multiple agencies, or was reported multiple times.

The CATS recorded a total of ten complaints during the years reviewed, the most recent from January 2020. Six complaints were related to improper billing and five were related to quality of service, with all complaints resolved in a timely manner. CATS also recorded one complaint filed in September 2017 regarding a water outage after Hurricane Irma. The Utility confirmed that due to leaks the water pressure would not rise above 15 pounds per square inch (psi). The leaks were located and repaired in late September 2017 and water pressure returned to normal. The DEP received two complaints, one in 2018 the other in 2019, both regarding water quality. The Utility addressed the two complaints to the DEP’s satisfaction and the complaints were closed. The Utility received thirteen complaints during the past five years. Eleven were related to water quality, two related to water outages, and four related to billing credit inquiries which were resolved by the Utility.

A customer meeting was held on December 18, 2019. One customer was in attendance that had a surrogate provide oral comments. All of the attendees present were from the Utility’s sole general service customer, Snooze N Scoot, an RV park. At the meeting, the general service customer cited discolored water, low and fluctuating water pressure, and water outages as the main issues. Each of these issues is discussed further below.

Discolored water is present in the Utility’s distribution system, and the general service customer provided examples including water samples and personal water filters. The Utility notes that the water issues have existed since the previous owner and mainly results from the natural iron present in the raw water source. As discussed above, the Utility modified its water filtration system in March 2018, to comply with the DEP Consent Order. After the filtration system was replaced, the water leaving the treatment plant was clear, odorless, and free of iron; excluding periods of mechanical issues that were resolved by the Utility promptly. However, the Utility further stated that iron residuals have accumulated throughout the distribution system as well as in customer’s homes and water heaters. To help resolve the issue, the Utility has installed several auto flushers to improve water quality and has been adjusting flushing settings. The Woods received clearance from DEP to begin using an orthophosphate blend to help isolate the iron residuals and coat the pipes, and began the treatment on August 16, 2019. The combination of flushing the system and the orthophosphate treatment should improve the water quality; however, the improvements will take time and be an ongoing process. While a complete replacement of the distribution system would eliminate this concern, a replacement is not economical without government assistance. The Woods intends to work with DEP and the Florida Rural Water Association to explore possible government assisted funding.

The fluctuating and low water pressure is a result of the periodic flushes mentioned above as well as the location of the general service customer near the end of the distribution system. According to the Utility, when the system is being flushed, a large amount of water is exiting the system causing a drop in pressure throughout the system. Additionally, the water must travel the distance from the treatment plant to the general service customer at the end of the line, which causes a large amount of head loss through the pipe. The Utility has added an additional pump to help maintain water pressure, but indicated the system is only supported by one well which limits the amount of water available at any given time. The Utility stated that the general service customer has a backflow prevention device and a filtration system installed that may cause a further reduction in water pressure. The Utility is aware of the pressure differential and takes this into consideration in planning and operation. For example, during one low pressure event, the water pressure leaving the plant was approximately 28 psi, which is above the 20 psi required by the DEP, but the Utility issued a boil water notice to its customers since it was a drastic reduction from the normal pressure of approximately 56 psi. The Utility will continue to evaluate how flushing is scheduled to help reduce the pressure loss.

Outages were also a concern identified at the customer meeting. A significant outage was reported due to Hurricane Irma. The hurricane caused damage to the distribution system creating a leak which took time for the Utility to locate and repair. Other outages have been due to mechanical problems with the facility that were resolved in a timely manner. The Utility issued two boil water notices during the test year and issued two additional notices after the end of the test year.

**Conclusion**

The DEP has mandated that the Utility take action to address lead and copper exceedances. Therefore, the quality of product is unsatisfactory. However, the Utility has been responsive to customer complaints and is working with the DEP to address product concerns; therefore, no penalty is recommended. The Utility should file status reports on the actions it has taken to meet the DEP’s requirements. Staff recommends the first status report be filed six months after the Final Order is issued in this Docket and every six months thereafter until the additional monitoring is rescinded by the DEP.

Issue :

 Are the infrastructure and operating conditions of The Woods Utility Company’s water system in compliance with DEP regulations?

Recommendation:

 Yes. The Woods’ water treatment facility is currently in compliance with DEP regulations. (Thompson)

Staff Analysis:

 Rule 25-30.225(2), F.A.C., requires each water utility to maintain and operate its plant and facilities by employing qualified operators in accordance with the rules of the DEP. Rule 25-30.433(2), F.A.C., requires consideration of whether the infrastructure and operating conditions of the plant and facilities are in compliance with Rule 25-30.225, F.A.C. In making this determination, the Commission must consider testimony of the DEP and county health department officials, sanitary surveys, citations, violations, and consent orders issued to the utility, customer testimony, comments, and complaints, and utility testimony and responses to the aforementioned items.

**Water System Operating Conditions**

The Woods’ water system has a permitted design capacity of 63,500 gallons per day (gpd). The Utility’s water system has one well with a pumping capacity of 100 gallons per minute, a hydro-pneumatic storage tank with a 2,500 gallon capacity, and a ground storage tank with a 5,000 gallon capacity. As discussed in Issue 1, The Woods recently upgraded its filtration system to address the exceedances noted in the DEP Consent Order.[[5]](#footnote-5) Based on the case closure letter from the DEP dated June, 14, 2019, the Utility has addressed the requirements of the Consent Order to the DEP’s satisfaction, and the case has been closed. Staff reviewed The Woods’ sanitary surveys conducted by the DEP to determine the Utility’s overall water facility compliance. A review of the inspection conducted on July 25, 2019, indicated that The Woods’ water treatment facility was in compliance with the DEP’s rules and regulations.

Conclusion

The Woods’ water treatment facility is currently in compliance with DEP regulations.

***Issue 3:***

What are the used and useful (U&U) percentages of The Woods Utility Company’s water treatment plant (WTP), storage, and water distribution system?

Recommendation:

 The Woods’ WTP and water storage should be considered 100 percent U&U. The Utility’s water distribution system should be considered 76 percent U&U. Additionally, staff recommends no adjustment to purchased power and chemical expenses be made for excessive unaccounted for water (EUW). (Thompson)

Staff Analysis:

 The Woods’ water system began operations in 1988. As stated in Issue 2, the Utility’s water system has one well with a pumping capacity of 100 gallons per minute, a hydro-pneumatic storage tank with a 2,500 gallon capacity, and a ground storage tank with a 5,000 gallon capacity. The Woods’ water distribution system is composed of over 8,000 feet of polyvinyl chloride pipe of various diameters.

**Used and Useful Percentages**

Rule 25-30.4325, F.A.C., addresses the method by which the U&U of a water system is determined. The Woods’ U&U percentages were last determined in Docket No. 20100330-WS.[[6]](#footnote-6) In that docket, the Commission determined the Utility’s WTP and water storage to be 100 percent U&U. The Utility’s water distribution system was determined to be 76 percent U&U. The Utility has not increased the capacity of its WTP, nor has the Utility increased its water storage capacity since rates were last established. The Woods’ water service area has had a decrease in average growth for the past five years, and the Utility has not expanded its territory. Therefore, consistent with the Commission’s previous decision, staff recommends the Utility’s WTP and water storage be considered 100 percent U&U, and the Utility’s water distribution system be considered 76 percent U&U.

**Excessive Unaccounted for Water**

Rule 25-30.4325, F.A.C., additionally provides factors to be considered in determining whether adjustments to operating expenses are necessary for EUW. EUW is defined as “unaccounted for water in excess of 10 percent of the amount produced.” Unaccounted for water is all water produced that is not sold, metered, or accounted for in the records of the Utility.

EUW is calculated by subtracting both the gallons sold to customers and the gallons used for other services, such as flushing, from the total gallons pumped for the test year. Based on monthly operating reports, the audit completed by staff, and Utility documentation, staff recommends no adjustments should be made to purchased power and chemicals.

**Conclusion**

The Woods’ WTP and water storage should be considered 100 percent U&U. The Utility’s water distribution system should be considered 76 percent U&U. Additionally; staff recommends no adjustment to purchased power and chemical expenses be made for EUW.

Issue :

 What is the appropriate average test year rate base for The Woods Utility Company?

Recommendation:

 The appropriate average test year rate base is $165,678. (Hightower, Thompson)

Staff Analysis:

 The appropriate components of the Utility’s rate base include utility plant in service (UPIS), land & land rights, accumulated depreciation, contribution-in-aid-of-construction (CIAC), accumulated amortization of CIAC, a negative acquisition adjustment, and working capital. The last full rate preceding that established balances for rate base for The Woods was Docket No. 20100330-WS.[[7]](#footnote-7) Commission audit staff determined that the Utility’s books and records are in compliance with the National Association of Regulatory Utility Commissioners’ Uniform System of Accounts (NARUC USOA). The Utility recorded a rate base of $135,627. Staff recommends an increase of $30,051 to rate base. A summary of each component and the recommended adjustments follows.

Utility Plant In Service (UPIS)

The Utility recorded $531,469 in UPIS. Staff identified several adjustments resulting in a net increase to UPIS of $45,760. First, staff decreased UPIS by $9,238 to reflect an averaging adjustment. Staff reduced UPIS by $13,778 to reflect non-used and useful adjustments. Staff made an adjustment increasing UPIS by $68,776 ($68,187 + $2,357 - $1,768) to reflect the addition of the new water filtration system required by DEP consent order and one pro forma plant addition net of retirements. Therefore, staff recommends an average UPIS balance of $577,229 ($531,469 - $9,238 - $13,778 + $68,776).

Pro Forma Plant Additions

Table 4-1 shows The Woods’ requested pro forma plant addition. As is Commission practice, staff requested that three bids be provided for the pro forma addition. According to the Utility, the pro forma addition was related to the project completed to comply with the DEP Consent Order. Therefore, the same vendor that completed those upgrades completed this project as well. The Utility stated that it did not request bid proposals for upgrades completed related to the DEP Consent Order as it was highly specialized work completed under its operation and maintenance contract with U.S. Water Services Corporation. As this project was completed in relation to the DEP Consent Order, staff recommends that the project cost is appropriate.

Table -1

Pro-Forma Plant Items

|  |  |  |  |
| --- | --- | --- | --- |
| **Project** | **Acct. No.** | **Description** | **Amount** |
| Power Pole Replacement | 304 | New power pole and control panel install at the water treatment plant | $2,357 |
| Power Pole Replacement | 304 | Retirement | ($1,768) |

Source: Responses to staff data requests.

Land & Land Rights

The Utility recorded a test year land value of $3,500. Staff made no adjustments to this account.

Used and Useful

As discussed in Issue 3, during the prior rate case, the Utility’s water distribution system was determined to be 76 percent U&U. The water service territory has not had any increase in average growth for the past five years. As discussed previously, staff reduced UPIS by $13,778 to reflect non-used and useful adjustments.

Accumulated Depreciation

The Utility recorded an accumulated depreciation balance of $280,548. Staff calculated accumulated depreciation to be $268,994, resulting in a decrease of $11,554. Staff decreased accumulated depreciation by $1,096 per the audit report recalculation. Staff made an adjustment of $2,726 to decrease accumulated depreciation to reflect the non-used and useful portions of UPIS. Staff also made an averaging adjustment to accumulated depreciation that resulted in a decrease of $9,997. Further, staff made corresponding adjustments to accumulated depreciation based on the pro forma plant additions and retirements resulting in an increase of $2,265. Accordingly, staff recommends adjustments that result in an accumulated depreciation balance of $268,994 ($280,548 - $1,096 - $2,726+ - $9,997 + $2,265).

Contributions in Aid of Construction (CIAC)

The Utility recorded a CIAC balance of $92,939. Staff made an adjustment of $2,167 to reflect a reduction of the non-used & useful portions of CIAC. Therefore, staff recommends a CIAC balance of $90,772 ($92,939 - $2,167).

Accumulated Amortization of CIAC

The Utility recorded accumulated amortization of CIAC of $90,784. Staff recalculated accumulated amortization to include a decrease of $16 per the audit. Staff made corresponding adjustments to reflect the non-used & useful portion which resulted in a decrease of $2,116. Staff also made an adjustment to reflect an averaging adjustment creating a decrease of $48. Therefore, staff recommends an accumulated amortization of CIAC balance of $88,604 ($90,784 - $16 - $2,116 - $48).

Acquisition Adjustment

The Utility recorded a negative acquisition adjustment of $259,183 based on Order No. PSC-2014-0300-PAA-WS.[[8]](#footnote-8) Staff made an adjustment of $6,042 to reflect a non-used and useful portion of the acquisition adjustment resulting in an adjusted balance of negative $253,141 (-$259,183 + $6,042)

**Accumulated Amortization of Acquisition Adjustment**

The Utility recorded an accumulated amortization of the acquisition adjustment of $142,544. Staff calculated the accumulated amortization of the acquisition adjustment in accordance with Rule 25-30.0371(4)(b)2, F.A.C., and recommends that the related test year amortization should be reduced by $21,746. Staff calculated a simple average adjustment of negative $12,497. Staff reduced the balance by $2,816 to reflect the non-used and useful portion of the acquisition adjustment. Therefore, staff recommends an accumulated amortization of the acquisition adjustment of $105,485 ($142,544 – $21,746 – $12,497 – And, 44 --alted a simple average adjustment of negative $10,873).Certificate Nos. 507-W and 411-S of Aqua Utilities Florida, In$2,816).

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(3), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Section 367.081(9), F.S., prohibits a utility from earning a return on the unamortized balance of rate case expense. As such, staff removed the rate case expense balance of $216 for this calculation resulting in an adjusted O&M expense balance of $30,134 ($30,350 - $216). Applying this formula approach to the adjusted O&M expense balance, staff recommends a working capital allowance of $3,767 ($30,134 ÷ 8).

Rate Base Summary

Based on the foregoing, staff recommends an average test year rate base is $165,678. Rate base is shown on Schedule No. 1-A, and the related adjustments are shown on Schedule No. 1-B.

Issue :

 What is the appropriate return on equity and overall rate of return for The Woods Utility Company?

Recommendation:

 The appropriate return on equity (ROE) is 7.85 percent with a range of 6.85 percent to 8.85 percent. The appropriate overall rate of return is 7.57 percent. (Hightower)

Staff Analysis:

 According to staff’s audit, The Woods’ test year capital structure consisted of 100 percent common equity. The Utility’s capital structure for the test year ended March 31, 2019, has an equity balance of $275,788 with $7,817 in customer deposits.

The Utility’s proposed capital structure has been reconciled with staff’s recommended rate base. The appropriate ROE for the Utility is 7.85 percent based upon the Commission-approved leverage formula currently in effect.[[9]](#footnote-9) Staff recommends an ROE of 7.85 percent, with a range of 6.85 percent to 8.85 percent, and an overall rate of return of 7.57 percent. The ROE and overall rate of return are shown on Schedule No. 2.

Issue :

 What are the appropriate amounts of test year revenues for The Woods utility Company’s water system?

Recommendation:

 The appropriate test year revenues for The Woods’ water system is $41,373. (Bethea)

Staff Analysis:

 The Woods recorded total test year revenues of $39,229. The revenues included $32,868 of service revenues and $6,361 of miscellaneous revenues. The Utility had a rate increase during the test year as well as subsequent to the test year as a result of price index and pass through adjustments.[[10]](#footnote-10) In addition, a general service customer was incorrectly billed for usage during the test year.[[11]](#footnote-11) Staff annualized service revenues to reflect those changes in rates, resulting in an increase of $1,464. In addition, a general service customer was incorrectly billed for usage during the test year. Staff imputed the additional gallons for the Utility’s billing determinants, resulting in an increase of $3,531. This results in an increase of $4,995 ($1,464 + $3,531) to reflect annualized test year service revenues. Based on the appropriate billing determinants and the rates that were in effect subsequent to the test year, staff determined service revenues to be $37,863 ($32,868 + $4,995) for water.

Staff also made adjustments to miscellaneous revenues for water. Based on the number of occurrences and the Commission-approved miscellaneous service charges, miscellaneous revenues should be increased by $20 to $6,381 ($6,361 + $20). The Utility recorded all miscellaneous revenues to its water system. When a Utility has both water and wastewater services, only a single miscellaneous service charge is appropriate for a customer with both services. Therefore, consistent with Commission practice, staff allocated a portion of the miscellaneous revenues based on the number of equivalent residential connections. This results in $3,510 ($6,381 x 55%) of miscellaneous revenues for the water system. As such, $2,871 ($6,381 - $3,510) should be removed from water and allocated to wastewater. Based on the adjustments above, the appropriate test year revenues for The Woods’ water system is $41,373 ($39,229 + $4,995 + $20 - $2,871).

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Issue :

 What is the appropriate amount of operating expenses for The Woods Utility Company?

Recommendation:

 The appropriate amount of operating expenses is $36,631. (Hightower)

Staff Analysis:

 The Woods recorded operating expenses of $32,886 for the test year ended March 31, 2019. The test year operation and maintenance expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made several adjustments to the Utility’s operating expenses as summarized below.

Operation & Maintenance Expense

Salaries and Wages - Officers and Directors (603)

The Utility recorded salaries and wages – officers and directors expense of $3,150 in the test year to reflect the president's monthly salary of $263. According to the Utility's 2018 Annual Report, The Woods’ officers also include an accounting manager who does not receive a salary included in this amount. In addition, the Utility indicated in audit work papers that the president only receives compensation through distribution of retained earnings if there are any net operating profits from operations that are not used for continuing operations or capital improvements. As such, staff’s recommends a salaries and wages - officer’s expense for the test year of $3,150.

Purchased Power (615)

The Utility recorded purchased power expense of $1,581 in the test year. Supporting documentation confirming the purchased power expense was provided. Staff made no adjustments to this account. As such, staff recommends a purchased power expense for the test year of $1,581.

Chemicals (618)

The Utility recorded chemicals expense of $1,864 for the test year. Staff determines that no adjustments were necessary. Therefore, staff recommends a chemicals expense of $1,864.

Contractual Services – Accounting (632)

The Utility recorded accounting expenses of $400 for the test year ended March 31, 2019. Staff reallocated 50 percent of the accounting fees from water to the wastewater system. Staff reallocated 50 percent of the professional fee from miscellaneous expense to these accounts. The total invoice for the preparation of the annual report to the State of Florida is $150 to be allocated equally to water and wastewater. Therefore, staff recommends contractual services – accounting expenses of $275 ($400 - $200 + $75).

Contractual Services – Legal (633)

The Utility recorded contractual services - legal expense of $150 in the test year. Supporting documentation confirming the legal expense was provided. Staff made no adjustments to this account. As such, staff recommends a contractual services - legal expense for the test year of $150.

Contractual Services – Testing (635)

The Utility recorded a $94 contractual services – testing expense. The Utility stated the expenses were attributed to a boil water clearance for a pre-planned outage to install filters on January 16, 2019, for regulatory sampling not covered by the U.S. Water contract. The Utility provided an invoice and staff made no adjustments. Staff recommends a contractual service – testing expense of $94.

***Contractual Services* - *Other Expense (636)***

During the test year, the Utility recorded contractual services - other expense of $18,560. The Woods receives all of its operational and administrative services under a contract with an affiliated company, U.S. Water Services Corporation (USWSC or U.S. Water). Pursuant to the contract, The Woods employed the services of USWSC to perform various functions: administrative management, operations, maintenance, and billing/collection for the Utility.

The current USWSC contract dated March 29, 2013, and has not been revised since The Woods acquisition (transfer) from AUF. The contract expense has increased from $17,339 to $18,560, which equates to a 7.04 percent increase over seven years. This is below the compounded annual Commission approved index increases of 12.11 percent over the same period. However, due to the extremely small number of customers (59 ERCs) served by this Utility, the cost of the USWSC contract for The Woods equates to $489.52 per ERC.

Because the contract has not been revised since 2013, the costs associated with the Administrative portion of the contract (which covers accounting and utility oversight, including office space and equipment) are lower than the actual costs. This is the case because the contract includes allocations for 1,000 additional ERCs for potential future USWSC acquisitions which have been eliminated in USWSC contracts on a prospective basis. Additionally, only two employees (a Utilities manager and an Accountant) have been included in Administrative Services in the existing USWSC contract with The Woods. The Utility’s supplemental filing indicated, “if the actual costs were recovered through the actual number of ERCs, the amount per ERC would be higher.”[[12]](#footnote-12)

Despite the higher ERC cost, staff believes The Woods’ contractual services agreement with USWSC in reasonable and beneficial to the Utility. Through its contract with USWSC, the Utility asserted that it made significant plant improvements which have resulted in improved quality of service.[[13]](#footnote-13) Staff believes that USWSC and its employees bring considerable management and operational experience at a comparably reasonable cost. As a result, staff believes that the utility’s customers are experiencing operational benefits that might not be realized if The Woods operated on a stand-alone basis. As the Utility noted in its supplemental filing, O&M expenses would be incurred regardless of the size of the customer base. When comparing O&M costs on a per ERC basis, the results seemingly reflect poorly on The Woods, which is due to the extremely small customer base (58 residential and 1 general service customer) in which the costs to provide service must be spread across. In its filing, The Woods asserted that if it was required to establish a stand-alone utility with personnel for maintenance, customer service, accounting, regulatory compliance, etc., the cost would exceed that of the current USWSC contract. For example, it would be highly impractical to assume that all of these operational, administrative, and managerial services could be preformed by a single individual for only $18,560 a year. By virtue of the USWSC contract, the customers of The Woods benefit from the services of multiple qualified employees on a fractional basis. On a stand alone basis, it is not possible to employ fractional positions.

On August 9, 2019, The Woods submitted documentation containing additional information related to its outside contractual services agreement with USWSC.[[14]](#footnote-14) According to the Utility, USWSC currently operates in 60 of Florida’s 67 counties, provides service to over 1,000 utility systems, and services to over 1,000,000 customers daily. USWSC’s president and majority shareholder has been in the water utility management and operations industry for over 30 years. The Woods contracts with USWSC for the following services:

1. Water and Wastewater Operations
2. Meter Reading
3. System Maintenance and Repairs
4. Billing and Collections
5. Customer Service
6. Regulatory Affairs
7. Testing
8. Accounting
9. Office Space and Equipment

According to the Utility, each of the service contracts that USWSC enters into with a utility “are different and are priced differently depending on numerous factors.”[[15]](#footnote-15) These factors include the number of employees needed and the number of hours required per system for successful operation. Additional considerations include whether USWSC provides chemicals, power, offices, vehicles, etc., or if these items are provided by the utility.

Staff notes that similar relationships currently exist for three other regulated utilities in Marion County; Tradewinds Utilities, Inc. (Tradewinds),[[16]](#footnote-16) C.F.A.T. H2O, Inc. (CFAT), and BFF Corp. (BFF). All of the utilities have contractual service agreements with MIRA International, Inc. (MIRA). Their respective agreements cover similar services to those included in the agreement between The Woods and USWSC. In addition to a relationship established by their contractual service agreements, the same individuals own the three utilities listed above and MIRA. As such, the relationship is similar to that of The Woods and USWSC.

As detailed in Table 7-1 below, based on the three most recent Annual Reports, CFAT has an average water operation and maintenance (O&M) expense of $267.92 per Equivalent Residential Connection (ERC), and Tradewinds has an average water O&M expense of $215.60 per ERC. BFF is a wastewater only utility, and is not included in staff’s comparison below.

**Table 7-1**

**Comparable Water O&M Expense Per ERC**

|  |  |  |  |
| --- | --- | --- | --- |
| **Annual Report**  **Year** | **CFAT**  **(227 ERCs)** | **Tradewinds**  **(616 ERCs)** | **The Woods**  **(59 ERCs)** |
| 2016 | $222.31 | $197.94 | $422.61 |
| 2017 | $278.85 | $239.02 | $468.75 |
| 2018 | $302.61 | $209.84 | $476.11 |
| 3-Year Average | $267.92 | $215.60 | $455.82 |

Source: CFAT, Tradewinds, and The Woods 2016-2018 Annual Reports, and staff calculations.

Additional support offered by the Utility included the “2016 American Water Works Association Benchmarking Performance Indicators for Water and Wastewater” (AWWA Benchmark) and an independent third-party contract and benchmarking review commissioned by the Florida Governmental Utility Authority (FGUA), which was issued in 2013. According to the AWWA Benchmark, the median O&M expense per account of the 44 water companies surveyed is $430.71, including customer service costs, with a range from $331.25 to $639.82. Compared to the results of this analysis, while the recommended O&M per ERC of $490 is above the average, it is well within the range of $331 to $640.

The contract and benchmarking review commissioned by FGUA was undertaken to review charges by USWSC in comparison to similar water utilities throughout the United States. The FGUA study concluded that the USWSC costs on a per account basis fell within the top quartile (lower cost) of other utilities.[[17]](#footnote-17) While the Utility represented that there was a flaw in the data presented in the 2013 study, staff’s greater concern is the age of some of the underlying data, which can be tied to AWWA’s 2011 Benchmarking Performance Indicators. As such, staff believes that the 2016 Benchmarking Performance Indicators are a more appropriate reference point.

Staff also compared The Woods to five “sister” water utilities that had a rate case approved in the last five years by calculating a three-year average O&M per ERC expense using information contained in each utility’s 2016, 2017, and 2018 Annual Reports.[[18]](#footnote-18) Staff then compared The Woods to five non-U.S. Water affiliated water utilities using the same criteria.[[19]](#footnote-19) Table 7-2 reflects the comparative average O&M expense per ERC for The Woods, its U.S. Water sister utilities, and non-U.S. Water utilities. As shown in Table 7.2 below, while the average O&M expense per ERC incorporated in staff’s recommended water revenue requirements is greater than the average for U.S. Water system utilities, it is comparable to the average level at other utilities that are not served by a USWSC contract.

**Table 7-2**

**Water O&M Expense Per ERC**

|  |  |
| --- | --- |
| **Utility** | **O&M Exp./ERC** |
| U.S. Water Sister Utilities (3-Yr. Avg.) | $306.60 |
| Non-U.S. Water Utilities (3-Yr. Avg.) | $486.71 |
| The Woods (Staff Recommended) | $489.52 |

Source: 2016-2018 Annual Reports and staff calculations.

In the Gator Waterworks, Inc. and Merritt Island Utility Company staff recommendations which are scheduled for the same Commission Conference as this recommendation, staff recommended approval of the contractual services agreement with USWSC, based, in part, on comparisons to other utilities with similar agreements. The contractual services agreements in the Gator and Merritt Island dockets also appeared reasonable when compared to the O&M expenses per ERC of industry peers as reflected in the AWWA Benchmark.

While staff provided similar comparisons for consistency, the water O&M expense per ERC for The Woods is higher than other utilities with similar agreements due to its significantly smaller customer base. As referenced in Table 7-1, CFAT has 227 ERCs and Tradewinds has 616 ERCs, while The Woods has 59 ERCs. In Table 7-2, the sister utilities ranged from 72 to 481 ERCs and non-U.S. Water companies ranged from 73 to 517 ERCs. For the same reason, The Woods is also higher than its industry peers as reflected in the AWWA Benchmark. Given the size of the Utility, staff believes it is necessary to go beyond the comparisons to determine the reasonableness of the USWSC contract in this docket.

Staff notes that the Commission previously approved similar USWSC agreements and related costs in prior cases involving nine of The Woods’ sister utilities during eleven rate case proceedings.[[20]](#footnote-20) Two sister utilities, LP Waterworks, Inc. and Lakeside Waterworks, Inc., each had two SARCs in which the Commission reviewed and approved expenses related to USWSC management services contracts. In addition to The Woods, two additional sister utilities with similar contracts have SARCs pending at this time,[[21]](#footnote-21) and a third has a file and suspend rate case pending.[[22]](#footnote-22)

In regard to the appropriateness of utility contracts with affiliated companies, the Utility cited *GTE v. Deason*, 642 So. 2d 545 (Fla. 1994), in which the Florida Supreme Court stated:

The mere fact that a utility is doing business with an affiliate does not mean that unfair or excess profits are being generated, without more. Charles F. Phillips, Jr., *The Regulation of Public Utilities* 254-255 (1988). We believe the standard must be whether the transactions exceed the going market rate or otherwise inherently unfair . . . [i]f the answer is “no,” then the PSC may not reject the utility’s position.

In the instant case, staff believes that the contract reflects the market conditions of the Utility’s service area. Absent the USWSC contract, staff believes the costs to provide service would most likely be even higher. For the reasons discussed above, staff believes that the Utility’s contract with USWSC is reasonable and the cost should be included for recovery in the Utility’s proposed rates. Therefore, staff recommends test year contractual services - other expense of $18,560.

Insurance Expense (655)

The Utility recorded a test year insurance expense of $1,442 for water. Staff allocated this amount equally between water and wastewater. This policy relates to both the water and wastewater systems. Therefore, staff recommends an insurance expense of $721 ($1,442 ÷ 2).

Rate Case Expense (665)

The Utility did not record a rate case expense in this account. Staff recommends an annual rate case expense of $216.

Filing Fees and Customer Notices

The Utility paid a $1,000 rate case filing fee to be allocated 50 percent to water and 50 percent to wastewater. The Utility is required by Rule 25-22.0407, F.A.C., to provide notices of the customer meeting and notices of final rates in this case to its customers. For noticing, staff estimated $97 for postage expense, $59 for printing expense, and $9 for envelopes. This results in $165 in expense for the noticing requirements and a $500 filing fee for the Utility.

Travel Expenses

The Utility did not record travel expense in the test year filing. Therefore, staff has allocated mileage reimbursement of $68 for travel to attend the customer meeting. Staff believes that the travel for the Commission Conference should be shared with Gator Waterworks, Inc., and The Merritt Island Utility Company. These utilities are sister utilities of The Woods which have SARCs scheduled for the same Commission Conference. As such, staff believes it is appropriate to split travel costs to the Commission Conference equally between the three utilities, or $130 ($389 / 3) per utility, for a total of $198 ($68 + $130) for rate case travel expenses.

Rate Case Expense Amortization

Based on the above, staff recommends total rate case expense of $864 ($364 + $500), to be amortized over four years. Staff’s adjustments to these accounts, described above, results in an increase of $216 ($864 ÷ 4). Staff recommends regulatory commission expense of $216 ($0 + $216). Rate case expense is delineated in Table 7-3.

**Table 7-3**

**Rate Case Expense**

|  |  |
| --- | --- |
| Item | Staff Recommended |
| Filing Fee | $ 500 |
| Travel – Customer Meeting | 68 |
| Travel – Agenda Conference | 130 |
| Notices – Customer Meeting | 72 |
| Notices – Final Rates | 47 |
| Notices – Four-Year Rate Reduction | 47 |
| Total Rate Case Expense | $864 |
| Annual Rate Case Expense | $216 |

Source: Responses to staff data requests.

Bad Debt Expense (670)

The Utility recorded a bad debt expense of $4,038 for the test year. It is Commission practice to calculate bad debt expense using a three-year average. Staff used the actual bad debt expense numbers for 2017 and 2018, and then annualized the first 10 months of 2019 to create a full three-year average. Using this methodology, staff calculated bad debt expense of $3,019. Staff believes the appropriate bad debt expense for the test year is the most recent three-year average. Therefore, staff recommends reducing bad debt expense by $1,019 resulting in test year bad debt expense of $3,019 ($4,038 - $1,019).

Miscellaneous Expenses (675)

The Utility recorded a test year miscellaneous expense of $871. Staff reduced this account by $150, for fees for preparation of the annual report to the State of Florida and reclassified this amount to contractual services - accounting. Therefore, staff recommends a miscellaneous expense of $721 ($871 - $150).

Operation and Maintenance Expense Summary

Based on the above adjustments, O&M expense should be decreased by $1,800, resulting in total O&M expense of $30,350, as shown in Schedule Nos. 3-A through 3-E.

Depreciation Expense

The Utility’s records reflect test year water depreciation expenses of $22,025. Staff increased the depreciation expense by $4,033 to reflect the Utility’s WTP additions. Staff auditors recalculated deprecation expenses using the prescribed rates set forth in Rule 25-30.140, F.A.C., and decreased depreciation expense by $575. Staff recommends a further reduction of $410 to reflect non-used and useful portions of the depreciation expense. Therefore, staff recommends a depreciation expense of $25,073 ($22,025 + $4,033 - $410 - $575).

Amortization Expense (Net)

The Utility recorded Amortization Expense of $23,681 for the test year ended March 31, 2019. Staff reduced this amount by $389 to reflect an auditing adjustment and $583 to reflect the non-used and useful portion and recommends total amortization expense of $22,709 ($23,681 - $389 - $583).

*Amortization CIAC*

The Utility recorded CIAC Amortization expense of negative $88. Staff agrees with the Utility’s amount and recommends no adjustment.

Negative Acquisition Amortization Expense

The Utility recorded a negative acquisition amortization expense of $24,790 for the test year ended March 31, 2019. Staff calculated the amortization expense for the acquisition adjustment per Order No. PSC-2014-0300-PAA-WS, which is in accordance with Rule 25-30.0371(4)(b)2, F.A.C. and determined that the related test year amortization expense should be a negative $24,996. Staff recommends an adjustment to decrease the amortization expense by $206 to reflect the audit adjustment. Staff also recommends a corresponding adjustment to reflect the non-used & useful adjustment, decreasing the negative acquisition amortization expense by $583 -$24,413 (-$24,790 – $206 + 583).

Hydro Tank Coating

The amortization included in Account 407-3 – Hydro Tank Amortization by the Utility of $1,197 reflects 8 months of amortization. Staff recalculated the amortization for the 12 months to be $1,792, in accordance with Rule 25-30.433(9), F.A.C. Staff recommends that Amortization Expense should be increased by $595 to reflect 12 months of amortization in the test year of $1,792 ($1,197 + $595).

Taxes Other Than Income

The Utility recorded taxes other than income (TOTI) of $2,392 for the test year ended March 31, 2019. Staff increased the amount by $288 to reflect increased property and tangible property taxes. Property taxes are calculated at the current 2019 millage rate. Staff increased the amount by $86 to reflect an audit adjustment and $30 to reflect increased RAFs due to the recommended rate increase. Staff decreased the amount by $22 to reflect the non-used and useful portions of property and tangible property tax. Staff increased the total by $792 to reflect the property tax increase for the plant additions. The result is a net increase of $1,173 ($288 + $86 + $30 - $22 + $792).

In addition, as discussed in Issue 8, revenues have been increased by $7,806 to reflect the change in revenue required to cover expenses and allow an opportunity to earn the recommended rate of return. As a result, TOTI should be increased by $351 to reflect RAFs of 4.5 percent on the change in revenues. Therefore, staff recommends TOTI expense of $3,917 ($3,566 + $351).

**Income Tax**

The Utility is a Subchapter S Corporation and therefore did not record any income tax expense for the test year. Therefore, staff recommends no adjustment to income tax expense.

Operating Expenses Summary

Staff recommends operating expenses of $36,631. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

Issue :

 What is the appropriate revenue requirement for The Woods Utility Company?

Recommendation:

 The appropriate revenue requirement is $49,179, resulting in an annual increase of $7,806 (18.87 percent). (Hightower)

Staff Analysis:

 The Woods should be allowed an annual increase of $7,806 (18.87 percent). The calculations are shown in Table 8-1.

**Table 8-1**

**Revenue Requirement - Water**

|  |  |
| --- | --- |
| Adjusted Rate Base | $165,678 |
| Rate of Return | 7.57% |
| Return on Rate Base | 12,548 |
| Adjusted O&M Expense | 30,350 |
| Depreciation Expense | 25,073 |
| Amortization | (22,709) |
| Taxes Other Than Income | 3,917 |
| Income Taxes | 0 |
| Revenue Requirement | $49,179 |
| Less Test Year Revenues | $41,373 |
| Annual Increase / (Decrease) | $7,806 |
| Percent Increase / (Decrease) | 18.87% |

Source: Responses to staff data requests.

Issue :

 What are the appropriate rate structures and rates for the water system of The Woods Utility Company?

Recommendation:

 The recommended rate structures and monthly water rates are shown on Schedule No. 4. 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 sheet 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. (Bethea)

***Staff Analysis:***

 The Utility is located in Sumter County within the SWFWMD. The Woods provides water service to approximately 58 residential customers and 1 general service customer. Typically, staff evaluates the seasonality of Utility customers based on the percentage of bills at zero gallons, which is 16 percent. Staff then evaluated the seasonality based on the percentage of bills at the 1,000 gallon level, which is 37 percent. As a result, it appears that the customer base is somewhat seasonal. The average residential water demand is 3,406 gallons per month. The average water demand excluding zero gallon bills is 4,030 gallons per month. The Utility’s current water system rate structure for residential service consists of a monthly base facility charge (BFC) based on meter size with a three tier gallonage charge: (1) 0-6,000 gallons; (2) 6,001-12,000 gallons; and (3) all usage in excess of 12,001 gallons per month. General service customers are billed a monthly BFC based on meter size and a uniform gallonage charge.

Staff performed an analysis of the Utility’s billing data in order to evaluate the appropriate rate structure for the residential water customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the Utility’s customers; (3) establish the appropriate non-discretionary usage threshold for restricting repression; and (4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

In this case, staff recommends that 40 percent of the water revenues should be generated from the BFC, which will provide sufficient revenues to design gallonage charges that send pricing signals to customers using above the non-discretionary level. According to census data, the average people per household served by the water system is two and a half; therefore, based on the number of people per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 4,000 gallons per month.[[23]](#footnote-23) Staff recommends a BFC and a three tier inclining block rate structure, which includes separate gallonage charges for discretionary and non-discretionary usage for residential water customers. The staff recommended blocks are: (1) 0-4,000 gallons; (2) 4,001-10,000 gallons; and (3) all usage in excess of 10,000 gallons per month. This rate structure sends the appropriate pricing signals because it targets high consumption levels and minimizes price increases for customers at non-discretionary levels. In addition, the third tier provides an additional pricing signal to customers using in excess of 10,000 gallons of water per month, which represents approximately 10 percent of the usage. General service customers should be billed a BFC and uniform gallonage charge.

Based on the customer billing data, approximately 33 percent of total residential consumption is discretionary and subject to the effects of repression. Customers will typically adjust their discretionary consumption in response to price changes, while non-discretionary consumption remains relatively unresponsive. Based on a recommended revenue increase of 20.6 percent, which excludes miscellaneous revenues, the residential consumption can be expected to decline by 118,000 gallons resulting in anticipated average residential demand of 3,239 gallons per month. Staff recommends a 4.9 percent reduction in test year residential gallons for rate setting purposes and corresponding reductions of $66 for purchased power, $78 for chemicals, and $7 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of $45,519.

Table 9-1 contains staff’s recommended water rate structure and rates, as well as an alternative rate structure. The alternative rate structure BFC allocation of 42 percent and rate blocks are consistent with the current rate structure. Staff notes that the calculation of the gallonage charges under the alternative rate structures yields the same charges as under the staff-recommended rates. However, as a result of the higher BFC allocation and different rate structure, the bill impacts between the staff-recommended and alternative rates are different. The alternative rate structure, in comparison to the staff-recommended rates, sends less of a pricing signal to target discretionary usage. The staff-recommended rate structure provides both rate stability and a significant pricing signal that targets discretionary usage.

**Table 9-1**

**Staff’s Recommended and Alternative Water Rate Structures and Rates**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Rates at the Time of Filing | Staff Recommended Rates  40% BFC | Alternative  Rates  42% BFC |
| **Residential** |  |  |  |
| 5/8” x 3/4” Meter Size | $19.11 | $23.83 | $25.07 |
|  |  |  |  |
| Charge per 1,000 gallons |  |  |  |
| 0-6,000 gallons | $6.58 | N/A | $8.41 |
| 6,001-12,000 gallons | $9.90 | N/A | $12.62 |
| Over 12,000 gallons | $13.17 | N/A | $16.82 |
|  |  |  |  |
|  |  |  |  |
| 0-4,000 gallons | N/A | $8.41 | N/A |
| 4,001-10,000 gallons | N/A | $12.62 | N/A |
| Over 10,000 gallons | N/A | $16.82 | N/A |
|  |  |  |  |
|  |  |  |  |
| 4,000 Gallons | $45.43 | $57.47 | $58.71 |
| 6,000 Gallons | $58.59 | $82.71 | $75.53 |
| 9,000 Gallons | $88.29 | $120.57 | $113.39 |

Source: Utility’s tariff and staff’s calculations

The rates, as shown on Schedule No. 4, 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. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. 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 that notice was given within 10 days of the date of the notice.

Issue :

 What are the appropriate initial customer deposits for The Woods Utility Company?

Recommendation:

 The appropriate initial customer deposit is $102 for all residential meter sizes. The initial customer deposits for all general service meter sizes should be two times the average estimated monthly bill. The approved initial customer deposits should be effective for service rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved initial customer deposits until authorized to change them by the Commission in a subsequent proceeding. (Bethea)

Staff Analysis:

 Rule 25-30.311, F.A.C., provides the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. An initial customer deposit ensures that the cost of providing service is recovered from the cost causer. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.[[24]](#footnote-24) Currently, the Utility has an initial customer deposit of $89.06. However, this amount does not cover two months’ average bills based on staff’s recommended rates. The Utility’s average monthly residential water usage after repression is 3,239 gallons per customer. Therefore, the average residential monthly bill based on staff’s recommended rates is approximately $51.

Staff recommends the appropriate initial customer deposit is $102 for all residential meter sizes. The initial customer deposits for all general service meter sizes should be two times the average estimated monthly bill. The approved initial customer deposits should be effective for service rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved initial customer deposits until authorized to change them by the Commission in a subsequent proceeding.

Issue :

 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?

Recommendation:

 In four years, the water rates should be reduced, as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-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. The Woods 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. (Procedural Agency Action) (Bethea, Hightower)

Staff Analysis:

 Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the four-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 and the gross-up for RAFs. This results in a reduction of $226.

The water rates should be reduced, as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-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. The Woods 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 :

 Should the recommended rates be approved for The Woods Utility Company on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

Recommendation:

 Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the utility. The Woods 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 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. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Procedural Agency Action) (Hightower)

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 Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, staff recommends that the recommended rates be approved as temporary rates. The Woods 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 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. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

The Woods should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of$6,757 for water. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If the Utility chooses a bond as security, the bond should contain wording to the effect that it will be terminated only under the following conditions:

1) The Commission approves the rate increase; or,

2) If the Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

If the Utility chooses a letter of credit as a security, it should contain the following conditions:

1) The letter of credit is irrevocable for the period it is in effect, and,

2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions should be part of the agreement:

1) The Commission Clerk, or his or her designee, must be a signatory to the escrow agreement; and,

2) No monies in the escrow account may be withdrawn by the Utility without the prior written authorization of the Commission Clerk, or his or her designee;

3) The escrow account shall be an interest bearing account;

4) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;

5) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility;

6) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;

7) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;

8) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to *Cosentino v. Elson*, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;

9) The account must specify by whom and on whose behalf such monies were paid.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the Utility. Irrespective of the form of security chosen by the Utility, an account of all monies received as a result of the rate increase should be maintained by the Utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

Should the recommended rates be approved by the Commission on a temporary basis, The Woods should maintain a record of the amount of the security, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue :

 Should The Woods be required to notify the Commission within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) associated with the Commission approved adjustments?

Recommendation:

 Yes. The Utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission’s decision. The Woods should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) primary accounts have been made to the Utility’s books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided not less than seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Procedural Agency Action) (Hightower)

Staff Analysis:

 The Utility should be required to notify the Commission, in writing that it has adjusted its books in accordance with the Commission’s decision. The Woods should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts have been made to the Utility’s books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided not less than seven days prior to deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Issue :

 Should this docket be closed?

Recommendation:

 No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the Proposed Agency Action 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, and receipt of required biannual status reports on the Utility’s until additional monitoring is rescinded by the DEP. Once these actions are complete, this docket should be closed administratively. (Weisenfeld)

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 Proposed Agency Action 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, and receipt of required biannual status reports on the Utility’s until additional monitoring is rescinded by the DEP. Once these actions are complete, this docket should be closed administratively.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **THE WOODS UTILITY COMPANY, INC.** | **SCHEDULE NO. 1-A** | | |
|  | **TEST YEAR ENDED 03/31/2019** | **DOCKET NO. 20190125-WS** | | |
|  | **SCHEDULE OF WATER RATE BASE** |  |  |  |
|  |  | **BALANCE** |  | **BALANCE** |
|  |  | **PER** | **STAFF** | **PER** |
|  | **DESCRIPTION** | **UTILTY** | **ADJUST.** | **STAFF** |
|  |  |  |  |  |
| 1. | UTILITY PLANT IN SERVICE | $531,469 | $45,760 | $577,229 |
|  |  |  |  |  |
| 2. | LAND & LAND RIGHTS | 3,500 | 0 | 3,500 |
|  |  |  |  |  |
| 3. | ACCUMULATED DEPRECIATION | (280,548) | 11,554 | (268,994) |
|  |  |  |  |  |
| 4. | CIAC | (92,939) | 2,167 | (90,772) |
|  |  |  |  |  |
| 5. | ACCUMULATED AMORTIZATION OF CIAC | 90,784 | (2,180) | 88,604 |
|  |  |  |  |  |
| 6. | ACQUISITION ADJUSTMENT | (259,183) | 6,042 | (253,141) |
|  |  |  |  |  |
| 7. | ACCUM AMORT ACQ ADJ | 142,544 | (37,059) | 105,485 |
|  |  |  |  |  |
| 8. | WORKING CAPITAL ALLOWNACE | 0 | 3,767 | 3,767 |
|  |  |  |  |  |
| 9. | WATER RATE BASE | $135,627 | $30,051 | $165,678 |
|  |  |  |  |  |



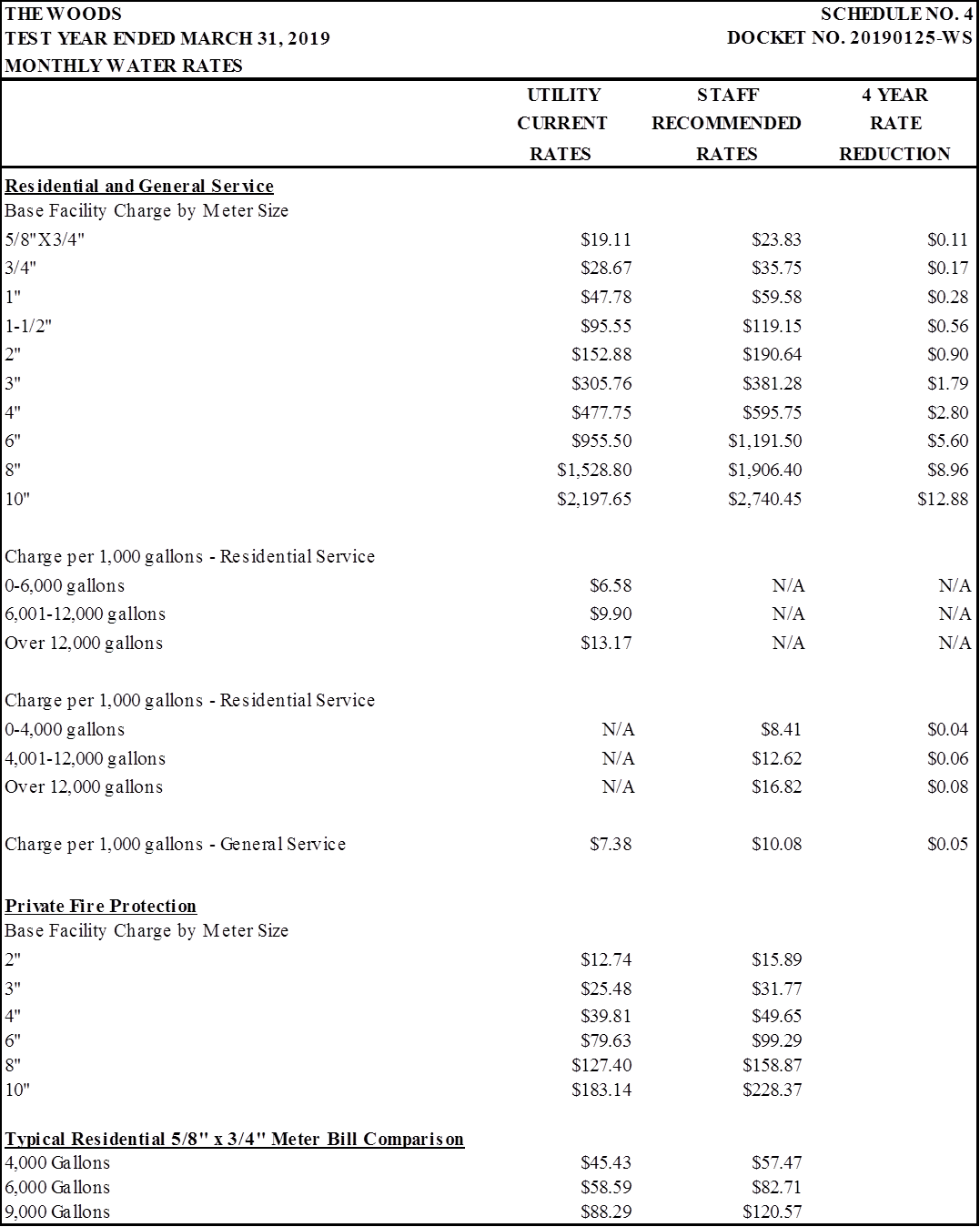












1. Order No. PSC-2014-0300-PAA-WS, issued June 11, 2014, in Docket No. 20130171-WS, *In re: Application for approval of transfer of certain water and wastewater facilities and Certificate Nos. 507-W and 441-S of Aqua Utilities Florida, Inc. to The Woods Utility Company in Sumter County.* [↑](#footnote-ref-1)
2. Document No. 01005-2016, filed February 24, 2016, in Docket No. 20150209-WS,  *In re: Application for staff-assisted rate case in Sumter County by The Woods Utility Company*. [↑](#footnote-ref-2)
3. Document No. 00709-2016, filed February 4, 2016, in Docket No. 20150209-WS,  *In re: Application for staff-assisted rate case in Sumter County by The Woods Utility Company*. [↑](#footnote-ref-3)
4. Document No. 00561-2020, filed January 27, 2020, in Docket No. 20190125-WS, *In re: Application for staff-assisted rate case in Sumter County by The Woods Utility Company.* [↑](#footnote-ref-4)
5. Document No. 04753-2019, filed June 6, 2019, in Docket No. 20190125-WS, *In re: Application for staff-assisted rate case in Sumter County by The Woods Utility Company.* [↑](#footnote-ref-5)
6. Order No. PSC-2012-0102-FOF-WS, issued March 5, 2012, in Docket No. 20100330-WS, *In re: Application for increase in water/wastewater rates in Alachua, Brevard, DeSoto, Hardee, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc*. [↑](#footnote-ref-6)
7. Docket No. 20100330-WS,  *In re: Application for increase in water/wastewater rates in Alachua, Brevard, DeSoto, Hardee, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc*. [↑](#footnote-ref-7)
8. Order No. PSC-2014-0300-PAA-WS, issued June 11, 2014, in Docket No. 20130171-WS, *In re: Application for approval of transfer of certain water and wastewater facilities and Certificate Nos. 507-W and 441-S of Aqua Utilities Florida, Inc. to The Woods Utility Company in Sumter County.* [↑](#footnote-ref-8)
9. Order No. PSC-2019-0267-PAA-WS, issued July 1, 2019, in Docket No. 20190006-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.* [↑](#footnote-ref-9)
10. The utility filed a 2019 Index that became effective on June 17, 2019. [↑](#footnote-ref-10)
11. The general service customer was not being billed for all the water usage due to an error in the billing system. [↑](#footnote-ref-11)
12. Document No. 07319-2019, filed on August 9, 2019, in Docket No. 20190125-WS, at pg. 7. [↑](#footnote-ref-12)
13. Document No. 07319-2019, filed on August 9, 2019, in Docket No. 20190125-WS, at pg. 1. [↑](#footnote-ref-13)
14. Document No. 07319-2019, filed August 9, 2019, in Docket No. 20190125-WS. [↑](#footnote-ref-14)
15. Document No. 07319-2019, filed August 9, 2019, in Docket No. 20190125-WS, at pg. 7. [↑](#footnote-ref-15)
16. Tradewinds is a Class B utility. [↑](#footnote-ref-16)
17. Document No. 07319-2019 filed on August 9, 2019, in Docket No. 20190125-WS, at pg. 36. [↑](#footnote-ref-17)
18. Gator Waterworks, Inc. andPine Harbour Waterworks, Inc. were not included in staff’s calculations due to three years of annual reports not being available for either of the utilities. [↑](#footnote-ref-18)
19. Staff did not include West Lakeland Wastewater, LLC due to three years of annual reports not being available. [↑](#footnote-ref-19)
20. Order No. PSC-14-0413-PAA-WS, issued August 14, 2014, in Docket No. 20130153-WS, *In re: Application for staff-assisted rate case in Highlands County, by L.P. Utilities Corporation c/o LP Waterworks, Inc.*; Order No. PSC-15-0013-PAA-WS, issued January 2, 2015, in Docket No. 20130194-WS, *In re: Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.*; Order No. PSC-15-0282-PAA-WS, issued July 8, 2015, in Docket No. 20140158-WS, *In re: Application for increase in water/wastewater rates in Highlands County by HC Waterworks, Inc.*; Order No. PSC-15-0329-PAA-WU, issued August 14, 2015, in Docket No. 20140186-WU, *In re: Application for staff-assisted rate case in Brevard County by Brevard Waterworks, Inc.*; Order No. PSC-15-0335- PAA-WS, issued August 20, 2015, in Docket No. 20140147-WS, *In re: Application for staff-assisted rate case in Sumter County by Jumper Creek Utility Company.;* Order 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.*; Order No. PSC-16-0305-PAA-WU, issued July 28, 2016, in Docket No. 20150236-WU, *In re: Application for staff-assisted rate case in Lake County, by Lake Idlewild Utility Company.*; Order No. PSC-2017-0334-PAA-WS, issued August 23, 2017, in Docket No. 20160222-WS, *In re: Application for staff-assisted rate case in Highlands County by LP Waterworks, Inc.;* Order No. PSC-2017-0428-PAA-WS, issued November 7, 2017, in Docket No. 20160195-WS, *In re: Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.;* Order No. PSC-2018-0552-PAA-WU, issued November 19, 2018, in Docket No. 20180022-WU, *In re: Application for staff-assisted rate case in Lake County by Pine Harbour Waterworks, Inc.;* andOrder No. PSC-2018-0553-PAA-WU, issued November 19, 2018, in Docket No. 20180021-WU, *In re:* *Application for staff-assisted rate case in Highlands County by Country Walk Utilities, Inc.* [↑](#footnote-ref-20)
21. Docket No. 20190114-WU, *In re: Application for staff-assisted rate case in Alachua County, and request for interim rate increase by Gator Waterworks, Inc.*; and Docket No. 20190116-SU, *In re: Application for staff-assisted rate case in Brevard County, and request for interim rate increase by Merritt Island Utility Company.* [↑](#footnote-ref-21)
22. Docket No. 20190166-WS, *In re: Application for increase in water rates in Highlands County by HC Waterworks, Inc.* [↑](#footnote-ref-22)
23. Average person per household was obtained from www.census.gov/quickfacts/sumtercountyflorida [↑](#footnote-ref-23)
24. Order No. PSC-15-0142-PAA-SU, issued March 26, 2015, in Docket No. 130178-SU, *In re: Application for staff assisted rate case in Polk County by Crooked Lake Park Sewerage Company.* [↑](#footnote-ref-24)