

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in Brevard County, and request for interim rate increase by Merritt Island Utility Company. | DOCKET NO. 20190116-SU
ORDER NO. PSC-2019-0309-PCO-SU
ISSUED: July 29, 2019

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
JULIE I. BROWN
DONALD J. POLMANN
GARY F. CLARK
ANDREW GILES FAY

ORDER GRANTING INTERIM REVENUE INCREASE
TO MERRITT ISLAND UTILITY COMPANY

BY THE COMMISSION:

Case Background

Merritt Island Utility Company, Inc. (Merritt Island or Utility) is a Class C wastewater system serving approximately 141 residential and 1 general service bulk customer. Water service is provided by the City of Cocoa. According to the Utility's 2018 Annual Report, total gross revenues were \$65,442 and total operating expenses were \$73,250, resulting in a net operating loss of \$7,808.

The original owner, Mobile Home Investors, Inc., was initially granted a certificate to operate a wastewater system in existence in 1974.¹ The wastewater system was subsequently transferred several times.² The most recent transfer to Merritt Island was approved in 2017.³

¹Order No. 6365, issued December 2, 1974, in Docket No. 730391-S, *In re: Application of Mobile Home Investors, Inc., for a certificate to operate an existing sewer utility in Brevard County, Florida.*

²Order No. 7296, issued June 28, 1976, in Docket No. 750664-S, *In re: Application of Mobile Home Investors, Inc., and Colony Park Utilities, Inc. for approval of the transfer of assets and Certificate No.137-S from the former to the latter. (Section 367.071, Florida Statutes);* Order No. PSC-03-0320-FOF-SU, issued March 6, 2003, in Docket No. 020930-SU, *In re: Application for transfer of majority organizational control of Colony Park Utilities, Inc. holder of Certificate No. 137-S in Brevard County, from Robert Warren, Lenore Warren, William Warren, and Carol Kendall to Eileen Rogow, Arthur Rogow, and Philip Young;* Order No. PSC-07-0420-FOF-SU, issued May 14, 2007, in Docket No. 060636-SU, *In re: Application for transfer of majority organizational control of Colony Park Utilities, Inc., holder of Certificate No. 137-S in Brevard County from Eileen Rogow to Michael Abramowitz;* Order No. PSC-14-0673-PAA-SU, issued December 5, 2014, in Docket No. 120285-SU, *In re: Application to transfer wastewater facilities and Certificate No. 137-S in Brevard County from Colony Park Utilities, Inc. to Colony Park Development Utilities, LLC.*

Rate base was last established for the Utility in a 2008 staff-assisted rate case (SARC).⁴ In addition, net book value for transfer purposes was updated to reflect balances as of December 22, 2016, when the system was transferred to Merritt Island. The Utility's test year rates became effective on June 13, 2018, following approval of a 2018 price index rate adjustment.

On May 16, 2019, Merritt Island filed its application for a SARC. In its application, the Utility requested a test year ended March 31, 2019, for interim and final rate purposes.

This Order addresses the Utility's interim rates. The Commission has jurisdiction pursuant to Sections 367.082 and 367.0814(4), Florida Statutes (F.S.).

Discussion of Issues

I. Approval of Interim Revenue Increase

On May 16, 2019, Merritt Island filed an application requesting an interim increase in its wastewater rates. Section 367.0814(4), F.S., details interim rate increases for staff-assisted rate cases.

Section 367.0814(4), F.S., states:

The commission may, upon its own motion, or upon petition from the regulated utility, authorize the collection of interim rates until the effective date of the final order. Such interim rates may be based upon a test period different from the test period used in the request for permanent rate relief. To establish interim relief, there must be a demonstration that the operation and maintenance expenses exceed the revenues of the regulated utility, and interim rates shall not exceed the level necessary to cover operation and maintenance expenses as defined by the Uniform System of Accounts for Class C Water and Wastewater Utilities (1996) of the National Association of Regulatory Utility Commissioners.

We have reviewed the Utility's filed operation and maintenance (O&M) expenses in relation to its revenues. Based on the Utility's filing, we find that Merritt Island has demonstrated a *prima facie* entitlement to an interim rate increase in accordance with Section 367.0814(4), F.S.

In order to establish interim rate relief as prescribed by Section 367.0814(4), F.S., we used the Utility's revenues reflected in its filing for the test year ended March 31, 2019. The test year revenues equal \$66,595 from wastewater service rates. There were no miscellaneous service

³Order No. PSC-2017-0366-PAA-SU, issued September 27, 2017, in Docket No. 20170018-SU, *In re: Application to transfer wastewater system and Certificate No. 137-S in Brevard County from Colony Park Development Utilities, LLC to Merritt Island Utility Company, Inc.*

⁴Order No. PSC-08-0760-PAA-SU, issued November 17, 2008, in Docket No. 080104-SU, *In re: Application for staff-assisted rate case in Brevard County by Colony Park Utilities, Inc.*

revenues reported for the test year. The test year O&M expenses equal \$70,018. The difference between the Utility's test year revenues and O&M expenses is \$3,423.

In addition, the interim wastewater increase shall be grossed up to include regulatory assessment fees (RAFs). We have previously determined that it would be inappropriate to approve an increase in a utility's rates to cover its operating expenses and deny that same utility the funds to pay RAFs.⁵ Furthermore, by approving an interim rate increase that allows for the payment of RAFs, the utility shall be able to fully cover its O&M expenses. The RAFs associated with the interim increase equal \$161.

In total, Merritt Island shall be allowed an interim revenue increase of \$3,584 (\$3,423 + \$161) to produce revenues sufficient to cover O&M expenses and additional RAFs. Thus, we find that the appropriate interim revenue requirement shall be \$70,179. This is a 5.38 percent increase above the Utility's test year revenues. Table 1 illustrates our interim increase calculation.

**Table 1
 Determination of Interim Increase**

	Water
1. Utility Adjusted Test Year O&M Expenses	\$70,018
2. Less: Utility Test Year Revenues	<u>\$66,595</u>
3. Revenues to Cover O&M Expenses	\$3,423
4. Interim Revenue Increase	\$3,423
5. RAFs on Interim Rate Increase	\$161
6. Total Interim Revenue Increase (\$)	<u>\$3,584</u>
7. Total Interim Revenue Increase (%)	<u>5.38%</u>

II. Appropriate Interim Water Rates

We find that interim service rates for Merritt Island shall be designed to allow the Utility the opportunity to generate annual operating revenues of \$70,179. Since there were no miscellaneous service revenues reported by the Utility for the test year, this would result in an increase of \$3,584 (5.38 percent) to service rates.

We find that the interim rate increase of 5.38 percent shall be applied as an across-the-board increase to the service rates in effect as of March 31, 2019.⁶ The rates, as shown on Schedule No. 1, 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

⁵Order No. PSC-01-1654-FOF-WS, issued August 13, 2001, in Docket No. 010396-WS, *In re: Application for staff-assisted rate case in Brevard County by Burkim Enterprises, Inc.*

⁶The Utility had a 2019 price index effective June 9, 2019. Interim rate increases are applied to the rates in effect at the end of the test year.

approved rates shall not be implemented until the required security has been filed, our 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.

III. Appropriate Security to Guarantee the Interim Increase

Pursuant to Section 367.082, 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 the Commission. As stated above, the total annual interim increase is \$3,584. 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 \$2,428. This amount is based on an estimated eight months of revenue being collected from our approved interim rates over the Utility's current authorized rates shown on Schedule No. 1.

The owner/president of the Utility provided the most recent three years of his personal financial net worth. We reviewed the confidential personal financial information provided by the owner/president.⁷ We find that in this circumstance the owner/president has demonstrated the financial ability and wherewithal to guarantee the interim refund in this rate increase, if necessary. Further, the owner/president has provided a personal guarantee in the amount of \$2,428, in this docket.⁸

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.

Accordingly, the appropriate security to guarantee the funds collected subject to refund is a corporate undertaking.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Merritt Island Utility Company is authorized to collect interim revenues, with Test Year Revenues at \$66,595, and a Revenue Requirement of \$70,179. The dollar amount increase is \$3,584, and the percentage increase is 5.38%. It is further

ORDERED that the interim rate increase of 5.38 percent shall be applied as an across-the-board increase to the service rates in effect as of March 31, 2019. It is further

⁷Document No. 04598-2019 (Confidential), in Docket No. 20190116-SU.

⁸Document No. 05085-2019.

ORDERED that the rates, as shown on Schedule No. 1, shall be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code (F.A.C.). It is further

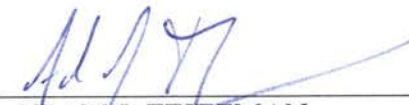
ORDERED that the Utility shall file revised tariff sheets and a proposed customer notice to reflect our Commission-approved rates. In addition, the approved rates shall not be implemented until the required security has been filed, our staff has approved the proposed customer notice, and the notice has been received by the customers. It is further

ORDERED that 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 the appropriate security to guarantee the funds collected subject to refund is a corporate undertaking. It is further

ORDERED that the docket shall remain open pending the Commission's final action on the Utility's requested rate increase.

By ORDER of the Florida Public Service Commission this 29th day of July, 2019.


ADAM J. TEITZMAN
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
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 this order, 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.

MERRITT ISLAND UTILITY COMPANY, INC		SCHEDULE NO. 1	
TEST YEAR ENDED MARCH 31, 2019		DOCKET NO. 20190116-SU	
MONTHLY WASTEWATER RATES			
	RATES		COMMISSION
	EFFECTIVE	CURRENT	APPROVED
	03/31/2019 (1)	RATES (2)	INTERIM
<u>Residential Service</u>			
All Meter Sizes			
5/8" x 3/4"	\$10.91	\$11.15	\$11.50
Charge per 1,000 gallons	\$2.91	\$2.97	\$3.07
6,000 gallon cap			
<u>General Service</u>			
5/8" x 3/4"	\$10.91	\$11.15	\$11.50
3/4"	\$16.37	\$16.73	\$17.25
1"	\$27.28	\$27.88	\$28.75
1-1/2"	\$54.55	\$55.75	\$57.50
2"	\$87.28	\$89.20	\$92.00
3"	\$174.56	\$178.40	\$184.00
4"	\$272.75	\$278.75	\$287.50
6"	\$545.50	\$557.50	\$575.00
Charge per 1,000 gallons	\$3.49	\$3.57	\$3.68
<u>Bulk Service</u>			
All Meter Sizes			
(120 ERCs)	\$1,309.20	\$1,338.00	\$1,380.00
Charge per 1,000 gallons	\$3.49	\$3.57	\$3.68
720,000 gallon cap			
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$19.64	\$20.06	\$20.71
6,000 Gallons	\$28.73	\$28.97	\$29.92
10,000 Gallons	\$28.73	\$28.97	\$29.92
(1) The interim rate increase was applied to the rates effective on 03/31/2019.			
(2) The current rates became effective June 9, 2019 as a result of a price index.			