

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-2020-0088-PAA-SU ISSUED: March 25, 2020
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The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING RATE INCREASE FOR MERRITT ISLAND UTILITY COMPANY,
INC. AND ORDER ON RECOVERY OF RATE CASE EXPENSES, TEMPORARY RATES,
AND ACCOUNTING ADJUSTMENTS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission (Commission) that the actions discussed herein, except for (1) the reduction of rates after four years based upon the recovery of rate case expense, (2) the granting of temporary rates in the event of protest, and (3) the requirement for proof of adjustment of books and records, are preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.). The reduction of rates after four years, the granting of temporary rates in the event of protest, and the requirement for proof of adjustment of books and records are procedural agency actions and subject to reconsideration and appeal as described below under the heading, "NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW."

Case Background

Merritt Island Utility Company, Inc. (Merritt Island or Utility) is a Class C wastewater system serving approximately 141 residential customers and 1 general service bulk customer in Brevard County. 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.

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 During the pendency of the transfer docket, it was discovered that the Utility was serving customers outside of its certificated territory. Consequently, Merritt Island filed an application with us to amend its certificate to add territory in Brevard County, which was approved in Order No. PSC-2018-0243-FOF-SU.⁴

Rate base was last established for the Utility in a 2008 staff-assisted rate case (SARC).⁵ 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 an application for a SARC. The Utility requested the 12-month period ended March 31, 2019, as the test year for purposes of both interim and final rates. We approved a 5.38 percent interim increase in Order No. PSC-2019-0309-PCO-SU.⁶ A customer meeting was held in Merritt Island, Florida on November 4, 2019.

We have jurisdiction in this case pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, and 367.121, Florida Statutes (F.S.)

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.*

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-2018-0243-FOF-SU, issued May 10, 2018, in Docket No. 20170142-SU, *In re: Application for amendment of Certificate No. 137-S for extension of wastewater service territory in Brevard County, by Merritt Island Utility Company, Inc.*

⁵Order 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.*

⁶Order No. PSC-2019-0309-PCO-SU, issued July 29, 2019, in 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.*

Review and Decision

1. Quality of Service

Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in every rate case, we shall make a determination of the quality of service provided by the utility by evaluating the quality of the utility's product (water) and the utility's attempt to address customer satisfaction (water and wastewater). As a wastewater only utility, this evaluation was limited to 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 Florida Department of Environmental Protection (DEP) and the county health department, along with any DEP and county health department officials' testimony concerning quality of service shall be considered. In addition, any customer testimony, comments, or complaints shall also be considered.

A. The Utility's Attempt to Address Customer Satisfaction

On November 4, 2019, a customer meeting was held at the Merritt Island Public Library to receive customer comments concerning quality of service. No customers attended the meeting. A review of our complaint tracking system revealed two customer complaints against the Utility during the previous five-year period. Both complaints were filed by the same customer, and both concerned the condition of a road and issues with the collection system. The Utility has not received any customer complaints aside from the two previously discussed. No complaints were received by the DEP.

In response to the first complaint dated June 6, 2017, the Utility had an employee evaluate the situation, apply a patch to the road, and explain to the customer what further repairs may be needed. The customer raised the same concern approximately 11 months after the initial complaint. The Utility responded to the customer, and explained that it is continuing to evaluate a long-term solution to the issue. Merritt Island did note that it examined the patch and determined it to be stable. Merritt Island is aware that under this road, along with a few other streets, the wastewater collection mains will eventually need to be replaced. However, the Utility does not plan to begin construction at this time.

B. Conclusion

Merritt Island has been responsive to its customer complaints; therefore, we find that the quality of service be considered satisfactory.

2. Infrastructure and Operational Conditions

Rule 25-30.225(2), F.A.C., requires each wastewater 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, we must consider testimony of the DEP and county health department officials, compliance evaluation inspections, citations, violations, and consent orders issued to the utility, customer testimony, comments, and complaints, and utility testimony and responses to the aforementioned items.

Merritt Island's wastewater treatment plant (WWTP) is a 0.070 million gallon per day (MGD) annual average daily flow (AADF) extended aeration domestic WWTP consisting of aeration, secondary clarification, chlorination, and aerobic digestion of biosolids. Since acquiring the wastewater treatment system, the Utility has made several improvements to bring the system into compliance with the DEP requirements. In response to a November 14, 2019 warning letter issued by the DEP, Merritt Island is working to address vegetation growth in the three rapid infiltration basins (RIB). Merritt Island met with DEP personnel on January 9, 2020, to address the matter. The Utility discussed the improvements to the WWTP that it made, the improvements currently underway, and the planned improvements to the plant. To date, the Utility has:

1. Removed four truckloads of grit, sand, old piping, and debris from aeration bays.
2. Installed all new fine bubble diffusers.
3. Installed a new bar screen and headworks piping.
4. Installed two new blowers and air header.
5. Installed a new panel box, controls, conduit and outlet plugs.
6. Cleaned out two of the three RIBs.

The third RIB is still drying out from the area's rainy season. When dry, the vegetation and sludge will be removed. During its meeting with the DEP, the Utility discussed entering into a Consent Order in which the Utility would propose additional improvements to the plant in lieu of a direct fine. The Utility is otherwise in compliance with the DEP requirements.

Merritt Island's wastewater system is not currently in compliance with the DEP, but the Utility is working to address the issues noted by the DEP.

3. Used and Useful (U&U)

Pursuant to Rule 25-30.432, F.A.C., the U&U percentage of a WWTP is based on the plant flows, growth allowance, I&I and the plant permitted capacity. Other factors, such as whether the service area is built out and whether the plant flows have decreased due to conservation may also be considered. The DEP permitted capacity is currently at 70,000 gallons per day (gpd) based on the annual average daily flow. The collection system is composed of clay and polyvinyl chloride pipes, and two lift stations.

A. WWTP and Collection System U&U

The Utility indicated in its application that it has 141 mobile home connections in its service area, with no vacant lots. The Utility has one bulk customer that serves 120 equivalent residential connections. During the previous SARC, our staff conducted a field inspection and

confirmed that the service area is built out.⁷ In that same rate case, we found the WWTP and collection system to be 100 percent U&U. Since that time there have been no changes to the collection system and there are no plans for expansion. Because the service area is built out and there are no plans for expansion, we find that the WWTP and collection system shall be considered 100 percent U&U.

B. Infiltration and Inflow

Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, we will consider I&I. We calculate the allowable infiltration based on system parameters, and calculate the allowable inflow based on water sold to customers. The sum of these amounts is the allowable I&I. We next calculate the estimated amount of wastewater returned from customers. The estimated return is determined by summing 80 percent of the water sold to residential customers with 90 percent of the water sold to non-residential customers. Adding the estimated return to the allowable I&I yields the maximum amount of wastewater that should be treated by the wastewater system without incurring adjustments to operating expenses. If this amount exceeds the actual amount treated, no adjustment is made. If it is less than the gallons treated, then the difference is the excessive amount of I&I.

For the first seven months of the test year, the amount of wastewater was not accurately measured because of an inoperable flow meter. The situation was rectified by November 1, 2018, leaving us with five months, November 2018 through March 2019, of valid wastewater treatment data. Therefore, we chose the period November 2018 through October 2019 to perform our I&I evaluation. To do this, we obtained water sold data from the audit work papers for the period November 2018 through March 2019, and from the City of Cocoa for the period April 2019 through October 2019. We obtained the amount of wastewater treated for the same period from the Discharge Monitoring Reports submitted to the DEP by the Utility.

Using the pipe lengths of the Utility's collection system, the infiltration allowance is calculated to be 2,314,847 gallons per year. Ten percent of the total gallons sold to customers is allowed for inflow, which totals 1,245,600 gallons. The sum of these amounts is the total allowable I&I which is 3,560,447 gallons per year. The amount calculated for estimated return is 10,446,400 gallons per year. The estimated I&I is calculated by subtracting the total allowable I&I from the amount of wastewater actually treated during the 12-month period being evaluated, which is 4,321,500 gallons. The actual amount exceeds the allowable amount with an excess I&I of 761,053 gallons and, therefore, there is 5 percent excessive I&I. As such, we find that a 5 percent adjustment to purchased power and chemical expenses be made for excessive I&I.

⁷Order 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.*

C. Conclusion

We find that Merritt Island's WWTP and collection system shall be considered 100 percent U&U. Also, we find that a 5 percent adjustment to purchased power and chemical expenses shall be made for excessive I&I.

4. Rate Base

The appropriate components of a Utility's rate base include utility plant in service, contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. The Utility's rates and charges were approved in a 2008 SARC.⁸ The rates were subsequently amended through two price index increases. This Utility has historically operated at a loss. The Utility requested the test year ended March 31, 2019, for the instant case. We 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). A summary of each component of rate base and our adjustments are discussed below.

A. Year-End Rate Base

In its application, the Utility requested a year-end rate base for its wastewater system in order to have an opportunity to recover its allowed rate of return on the significant capital improvements that were made after the acquisition. These improvements represent a significant portion of the wastewater plant in service. In the transfer order, we approved a net book value for wastewater plant in service of \$166,766.⁹ During the requested test year, Merritt Island made more than \$95,000 of plant investments. If an average rate base is used, the Utility will not be afforded the opportunity to recover its allowed rate of return on the new investment and will be put in the position of needing to request a subsequent SARC at a later date.

We have the authority to apply a year-end rate base, but should only apply a year-end rate base in extraordinary circumstances.¹⁰ We find that extraordinary circumstances exist in the instant case. Subsequent to the acquisition, the Utility made significant improvements to the wastewater system, which were required by the DEP. The year-end rate base will provide the Utility with an opportunity to recover the investment made to improve service quality and to provide for compensatory rates for this Utility in this rate case. We have previously authorized the use of a year-end rate base in other cases involving significant test year improvements.¹¹ Therefore, we hereby approve a year-end rate base for Merritt Island.

⁸Order 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 Utility, Inc.*

⁹Order 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.*

¹⁰*See, Citizens of Florida v. Hawkins*, (Fla.1978). 356 So. 2d 254.

¹¹Order No. PSC-98-0763-FOF-SU, issued June 3, 1998, in Docket No. 971182-SU, *In re: Application for staff-assisted rate case in Marion County by BFF Corp.*; Order No. PSC-00-1774-PAA-WU, issued September 27, 2000, in Docket No. 991627-WU, *In re: Application for rate increase in Polk County by Park Water Company Inc.*; Order No. PSC-01-0323-PAA-WU, issued February 5, 2001, in Docket No. 000580-WU, *In re: Application for staff-*

B. Utility Plant in Service (UPIS)

The Utility recorded a test year UPIS balance of \$266,370. In addition to numerous plant additions that have been made by the Utility since the transfer, Merritt Island also requested pro forma consideration of an emergency pump replacement and the installation of piping to divert effluent between its RIBs. Based on support documentation, the pump replacement was included as part of test year plant. As such, we did not include the pump replacement in our pro forma plant calculations to avoid inclusion of duplicative costs.

As discussed in Section 2, the Utility is currently working with the DEP to address vegetation growth in its three rapid RIBs. Two of the three RIBs have been cleared of vegetation. The third RIB has dense growth that needs to be cleared.¹² Prior to bringing in the heavy equipment required to clear the vegetation, the soil in the RIB must first be dried out. Therefore, new piping was installed to divert flows from this RIB to the other two, and is included in the Utility's pro forma request. As this work is being done pursuant to a warning letter issued by the DEP, we find that this pro forma request is prudent. As such, we increased UPIS by \$5,813 to reflect the pro forma piping. There were no retirements associated with the piping since it did not previously exist at the ponds. We also made corresponding adjustments to accumulated depreciation (discussed below), while depreciation expense and taxes other than income adjustments for taxes related to pro forma plant are discussed in Section 7. Consistent with our prior practice, no averaging adjustments are applied to pro forma additions. Therefore, we find that the appropriate UPIS balance is \$272,183 (\$266,370 + \$5,813).

C. Land & Land Rights

The Utility recorded a test year land balance of \$30,479. We approved a land balance of \$30,479 in the Utility's 2017 transfer docket.¹³ There have been no additions to land since the transfer; therefore, no adjustments are necessary. We hereby approve a land and land rights balance of \$30,479.

D. Used & Useful

As discussed in Section 3, Merritt Island's WWTP and collection system are considered 100 percent U&U. Therefore, no U&U adjustments are necessary.

assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Alturas Water Works); and Order No. PSC-02-1449-PAA-WS, issued October 21, 2002, in Docket No. 011451-WS, In re: Investigation of water and wastewater rates for possible overearnings by Plantation Bay Utility Co. in Volusia County; 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., and Order No. PSC-2018-0553-PAA-WS, 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.

¹²The vegetation clearing costs are discussed in Issue 7. Two of the ponds have been completed, and one is being considered as part of pro forma O&M. All three projects will be amortized over a five-year period.

¹³Order 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.*, p.6.

E. Accumulated Depreciation

Merritt Island recorded a test year accumulated depreciation balance of \$161,473. We decreased accumulated depreciation by \$460 to reflect appropriate test year depreciation balances pursuant to Rule 25-30.140, F.A.C. In addition, we made an adjustment associated with the pro forma plant project discussed above. Our adjustment to accumulated depreciation for pro forma plant results in an increase of \$182. Our adjustments to this account result in a decrease of \$278 (\$460 - \$182). Therefore, we hereby approve an accumulated depreciation balance of \$161,195 (\$161,473 - \$278).

F. Contributions in Aid of Construction (CIAC)

The Utility recorded a test year CIAC balance of \$23,500. Based on our review, no adjustment is necessary. Based on Order No. PSC-2017-0366-PAA-SU, CIAC is fully amortized. Therefore, we find that the appropriate balance is \$23,500.¹⁴

G. Accumulated Amortization of CIAC

The Utility recorded a test year accumulated amortization of CIAC balance of \$23,500. Based on our review, no adjustment is necessary since CIAC is fully amortized. Therefore, we find that the appropriate balance is \$23,500.

H. Acquisition Adjustment and Accumulated Amortization of Acquisition Adjustment

The Utility recorded test year balances of \$175 and \$40 for an acquisition adjustment and the associated accumulated amortization, respectively. An acquisition adjustment results when the purchase price differs from the original cost of the assets (net book value) adjusted to the time of the acquisition. Pursuant to Rule 25-30.0371(3), F.A.C., we determined in Docket No. 20170018-SU that a negative acquisition adjustment of \$175 shall be recognized for ratemaking purposes.¹⁵ Based on our decision in that docket, the negative acquisition adjustment shall be amortized over a seven-year period from the date of issuance of an order approving the transfer of assets. Therefore, we hereby approve as appropriate the balances of \$175 and \$40 for an acquisition adjustment and the associated accumulated amortization, respectively.

I. 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., we 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, we removed the rate case expense balance of

¹⁴Order 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.*

¹⁵*Id.*

\$512 for this calculation, resulting in an adjusted O&M expense balance of \$72,729 (\$73,241 - \$512). Applying this formula approach to the adjusted O&M expense balance, we hereby approve a working capital allowance of \$9,091 ($\$72,729 \div 8$).

J. Rate Base Summary

Based on the forgoing, we find that the appropriate year-end test year rate base is \$150,423. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

5. Return on Equity (ROE)

Merritt Island's capital structure consists of \$150,000 in common equity. The Utility has no customer deposits. We determined that no test year adjustments were necessary. The Utility's capital structure has been reconciled with the Commission-approved rate base. The appropriate ROE is 7.85 percent based upon the Commission-approved leverage formula currently in effect.¹⁶ We hereby approve an ROE of 7.85 percent, with a range of 6.85 percent to 8.85 percent, and an overall rate of return of 7.85 percent. The ROE and overall rate of return are shown on Schedule No. 2

6. Test Year Revenues

Merritt Island recorded in its general ledger \$66,595 in test year revenues, which consists of \$66,595 in service revenues and no miscellaneous revenues. The City of Cocoa provides the billing and collection of the monthly wastewater charges for Merritt Island. The City of Cocoa submits the monthly collections to Merritt Island no later than the 15th of the following month.

The Utility had a rate increase subsequent to the test year as a result of a price index adjustment. In order to determine the appropriate test year service revenues, we applied the number of billing determinants by the rates in effect as of June 9, 2019. As a result, we determined that service revenues should be \$65,658, which is a \$937 (\$66,595-\$65,658) decrease to test year service revenues. This adjustment to service revenues is due to a timing difference between the billing register provided by the City of Cocoa and the general ledger maintained by Merritt Island. We made no adjustment to miscellaneous revenues. We find that the appropriate test year revenues are \$65,658.

7. Operating Expenses

Merritt Island recorded operating expense of \$80,736 for the test year ended March 31, 2019. The test year operation & maintenance (O&M) expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. We made a few adjustments to the Utility's operating expenses as summarized below.

¹⁶Order 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.*

A. Operation & Maintenance Expense

Salaries and Wages – Officers (703)

The Utility recorded salaries and wages – officers expense of \$5,000 in the test year to reflect the president's monthly salary of \$417. According to the Utility's 2018 Annual Report, Merritt Island's 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, we hereby approve salaries and wages - officers expense of \$5,000 for the test year.

Sludge Removal Expense (711)

The Utility recorded sludge removal expense of \$4,000 in the test year. Supporting documentation confirming the sludge removal expense was provided. We made no adjustments to sludge removal expense. Therefore, we hereby approve sludge removal expense of \$4,000 for the test year.

Purchased Power (715)

The Utility recorded purchased power expense of \$5,764 in the test year. Supporting documentation confirming the purchased power expense was provided. As discussed in Section 3, we made an I&I adjustment of 5 percent. Accordingly, we decreased this account by \$288 ($\$5,764 \times .05 = \288) to reflect a 5 percent excessive I&I adjustment. Therefore, we hereby approve a purchased power expense of \$5,476 ($\$5,764 - \288) for the test year.

Chemicals Expense (718)

The Utility recorded chemicals expense of \$2,425 in the test year. Supporting documentation confirming the chemicals expense was provided. As discussed in Section 3, we made an I&I adjustment of 5 percent. Accordingly, we decreased this account by \$121 ($\$2,425 \times .05 = \121) to reflect a 5 percent excessive I&I adjustment. Therefore, we hereby approve a chemicals expense of \$2,304 ($\$2,425 - \121) for the test year.

Contractual Services – Engineering (731)

The Utility recorded contractual services – engineering expense of \$1,200. Supporting documentation confirming the expense was related to engineering work associated with the permit transfer was provided. As such, we find that the one-time expense should be amortized over five years, or \$240 ($\$1,200 \div 5$ years) per year. We removed \$960 ($\240×4) from this account to reflect the expense being amortized over a five-year period, and included only one year's amortization in the test year.

The Utility incurred two non-recurring expense items during the test year that were not included in O&M expenses. The first expense was a non-recurring expense of \$6,221 for engineering work on service territory maps and legal description for the Utility's new service area, which were required as part of the Utility's certificate amendment in Docket No. 20170142-SU.¹⁷ The expense was incurred in July 2018. We find that the expense shall be included in O&M and amortized over five years, or \$1,244 ($\$6,221 \div 5$) per year. The second expense, for DEP required pond clearing, is discussed in "Miscellaneous Expense" below. Therefore, we hereby approve a contractual services - engineering expense of \$1,484 ($\$1,200 - \$960 + \$1,244$) for the test year.

Contractual Services – Accounting (732)

The Utility recorded contractual services – accounting expense of \$400. Supporting documentation confirming the accounting expense was used for preparing and filing the corporate tax preparation was provided. We made no adjustments to accounting expense. Therefore, we hereby approve a contractual services - accounting expense of \$400 for the test year.

Contractual Services – Legal (733)

The Utility recorded contractual services – legal expense of \$366 in the test year. Supporting documentation confirming the legal expense was provided. We made no adjustments to this account. As such, we hereby approve a contractual services – legal expense of \$366 for the test year.

Contractual Services - Other Expense (736)

During the test year, the Utility recorded contractual services - other expense of \$46,123. Merritt Island 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, Merritt Island employed the services of USWSC to perform various functions: administrative management, operations, maintenance, and billing/collection for the Utility. These include management and financial oversight, wastewater system operations, and maintenance. The USWSC contract dated October 1, 2017, was originally in the amount of \$45,277. According to the Utility, this contract amount has increased to \$47,211 as a result of annual index increases over time.¹⁸ This represents a known and measurable increase of \$1,088 ($\$47,211 - \$46,123$) over the amount included in the test year.

On August 9, 2019, Merritt Island submitted documentation containing additional information related to its outside contractual services agreement with USWSC.¹⁹ According to Merritt Island, USWSC currently operates in 60 of Florida's 67 counties, providing service to

¹⁷Docket No. 20170142-SU, *In re: Application for amendment of Certificate No. 137-S for extension of wastewater service territory in Brevard County, by Merritt Island Utility Company, Inc.*

¹⁸Document No. 07318-2019, filed August 9, 2019, p. 5.

¹⁹Document No. 07318-2019.

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 and wastewater utility management and operations industry for over 30 years. Merritt Island contracts with USWSC for the following services:

1. Wastewater Operations
2. System Maintenance and Repairs
3. Regulatory Affairs
4. Testing
5. Accounting
6. Personnel
7. Office Space and Equipment

According to Merritt Island, each of the service contracts that USWSC enters into with a utility “are different and are priced differently depending on numerous factors.”²⁰ 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 sludge hauling, chemicals, power, offices, vehicles, etc., or if these items are provided by the utility.

We note that similar relationships currently exist for three other regulated utilities in Marion County; Tradewinds Utilities, Inc. (Tradewinds), C.F.A.T. H2O, Inc. (CFAT), and BFF Corp. (BFF). All have contractual service agreements with MIRA International, Inc. (MIRA). Their respective agreements cover similar services to those included in the agreement between Merritt Island 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 Merritt Island and USWSC.

As detailed in Table 1 below, based on the three most recent Annual Reports, BFF had average operation and maintenance (O&M) expense of \$617.86 per Equivalent Residential Connection (ERC), CFAT had average O&M expense of \$426.77 per ERC, and Tradewinds had average O&M expense of \$501.24 per ERC.

Table 1
Comparable Wastewater O&M Expense Per ERC

Annual Report Year	BFF (112 ERCs)	CFAT (227 ERCs)	Tradewinds²¹ (368 ERCs)
2016	\$533.13	\$404.88	\$479.71
2017	\$694.34	\$401.54	\$512.87
2018	\$626.09	\$473.89	\$511.14
3-Year Average	\$617.86	\$426.77	\$501.24

Source: BFF, CFAT, and Tradewinds 2016-2018 Annual Reports; and staff calculations.

²⁰Document No. 07318-2019, p. 6.

²¹Tradewinds is a Class B utility.

Under the approved revenue requirement, Merritt Island's O&M expense is \$280.62 per ERC. This proposed expense is 54.58 percent less than BFF, 34.25 percent less than CFAT, and 44.01 percent less than Tradewinds.

Additional support offered by Merritt Island 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 8 wastewater companies surveyed is \$367.91, including customer service costs. This figure is 31.11 percent higher than the O&M expense per ERC (\$280.62) staff is recommending for Merritt Island.

The contract and benchmarking review commissioned by FGUA was undertaken to review charges by USWSC in comparison to similar water and wastewater 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.²² While the Utility has represented that there was a flaw in the data presented in the 2013 study, our greater concern is the age of some of the underlying data, which can be tied to AWWA's 2011 Benchmarking Performance Indicators. As such, we find that the 2016 Benchmarking Performance Indicators are a more appropriate reference point.

In its filing, Merritt Island asserted that if it was required to establish a stand-alone utility with personnel for maintenance, customer service, accounting, regulatory compliance, etc., then the cost would exceed that of the current USWSC contract. As the Utility noted in its supplemental filing, O&M expenses would be incurred regardless of the size of the customer base. 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.

We compared Merritt Island to three "sister" wastewater utilities that had rate cases approved in the last five years by calculating a three-year average O&M expense per ERC using information contained in each utility's 2016, 2017, and 2018 Annual Reports. We then compared Merritt Island to five non-U.S. Water affiliated wastewater utilities using the same criteria.²³ Based on that criteria, the average O&M expense per ERC of the sister utilities was \$359.45. The average O&M expense per ERC for the non-U.S. Water wastewater utilities was \$314.15. Merritt Island's O&M expense is \$280.62 per ERC under the approved revenue requirement.

²²Document No. 07318-2019, p. 35.

²³We did not include West Lakeland Wastewater, LLC since three years of annual reports were not available.

Table 2 reflects the average O&M expense per ERC for Merritt Island, and the average O&M expense per ERC for the U.S. Water sister utilities and non-U.S. Water utilities.

Table 2
Wastewater O&M Expense Per ERC

Utility	O&M Exp./ERC
U.S. Water Sister Utilities (3-Yr. Avg.)	\$359.45
Non-U.S. Water Utilities (3-Yr. Avg.)	\$314.15
Merritt Island (Staff Recommended)	\$280.62

Source: 2016-2018 Annual Reports and staff calculations.

Based on our review, Merritt Island's proposed expense is 21.93 percent less than that of the sister utilities, and 10.67 percent less than that of the non-U.S. Water utilities.

We further note that we have previously approved similar USWSC agreements and related costs in prior cases involving nine of Merritt Island's sister utilities during eleven rate case proceedings.²⁴ Two sister utilities, LP Waterworks, Inc. and Lakeside Waterworks, Inc., each had two SARCs in which we reviewed and approved expenses related to USWSC management services contracts. In addition to this SARC, two additional sister utilities with similar contracts have SARCs pending at this time,²⁵ and a third has a file and suspend rate case pending.²⁶

We also find that USWSC and its employees bring considerable management and operational experience and expertise at a comparably reasonable cost. As a result, we find that

²⁴Order No. PSC-14-0413-PAA-WS, issued August 14, 2014, in Docket No. 130153-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. 130194-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. 140158-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. 140186-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. 140147-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. 150199-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. 150236-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.*; and Order 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.*

²⁵Docket 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. 20190125-WS, *In re: Application for staff-assisted rate case in Sumter County by The Woods Utility Company.*

²⁶Docket No. 20190166-WS, *In re: Application for increase in water rates in Highlands County by HC Waterworks, Inc.*

Merritt Island's customers are realizing operational and cost benefits that might not be realized if the Utility operated on a stand-alone basis. We note that the Utility, through its contract with USWSC, has made significant plant improvements that should result in improved quality of service.

Based on the discussion above, we find that Merritt Island's contractual services agreement with USWSC are reasonable when compared to other utilities with similar agreements. The agreement also appears reasonable when compared to O&M expenses of industry peers as reflected in the AWWA Benchmark. We find that Merritt Island's USWSC contract is appropriate, the adjusted cost is reasonable, and shall be included in the Utility's proposed rates because it is known, measurable, and already in effect. Therefore, we hereby approve a contractual services - other expense of \$47,211 for the test year.

Insurance Expense (755)

The Utility recorded insurance expense of \$1,528 in the test year. We decreased this amount by \$204 based on supporting documentation provided by Merritt Island. Therefore, we hereby approve an insurance expense of \$1,324 ($\$1,528 - \204) for the test year.

Regulatory Commission Expense (765)

The Utility did not record any regulatory commission expense in this account. Rule 25-30.433(9), F.A.C., requires that non-recurring expenses be amortized over a five-year period unless a shorter or longer period of time can be justified. Accordingly, we increased this account by \$150 ($\$750 \div 5$) to reflect the five-year amortization of the 2017 certificate transfer application filing fee.²⁷

Regarding the instant case, 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, we estimated \$312 for postage expense, \$142 for printing expense, and \$28 for envelopes. This results in \$482 ($\$312 + \$142 + \28) for the noticing requirement. The Utility paid a \$1,000 rate case filing fee. The Utility requested travel and lodging expense of \$250 to attend the customer meeting and \$250 to attend our Commission Conference. We increased the Utility's customer meeting travel expense by \$183 to reflect mileage and actual lodging cost for two Utility employees to attend. This results in travel expense of \$433 ($\$250 + \183) for the customer meeting. We also reduced the cost of travel to attend the Commission Conference in order to reflect the actual cost of lodging for one employee and appropriate mileage.²⁸ We find that the travel for the Commission Conference shall be shared with Gator Waterworks, Inc. and The Woods Utility Company. The utilities are sister utilities of Merritt Island which have SARCs scheduled for the same Commission Conference. As such, we find that it is appropriate to split travel costs to the Commission Conference equally between the three utilities, or \$130 ($\$389 \div 3$) per utility. This results in a reduction of \$120 ($\$130 - \250) for Merritt Island's travel expense to

²⁷Docket 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.*

²⁸Document No. 00605-2020, filed January 28, 2020.

the Commission Conference. As such, we hereby approve a travel expense of \$563 (\$433 + \$130). We note that we previously approved rate case related travel expenses ranging from \$413 to \$1,570 in the nine most recent dockets for Merritt Island's sister utilities. Based on our review, the requested travel expense appears reasonable.

Based on the discussion above, we hereby approve a total rate case expense of \$2,046 (\$482 + \$1,000 + \$563), which amortized over four years is \$512. Our total adjustment to this account is an increase of \$662 (\$150 + \$512). As such, we hereby approve a regulatory commission expense of \$662.

Miscellaneous Expense (775)

The Utility recorded miscellaneous expense of \$3,595. This account consists of billing fees, services performed on road repairs, transfer and permit fees, and Annual Report fees. We increased this account by \$46, to correct City of Cocoa billing charges which were originally recorded incorrectly. The Utility also requested that we consider an increase in the monthly charges that Merritt Island incurs for the billing and collection of account receivables by City of Cocoa. According to support documentation, the 1.79 percent increase went into effect on October 1, 2019.²⁹ We find that it is appropriate to include the increase, which equates to \$88 on a yearly basis, in the current proceeding because it is known, measurable, and already in effect.

The road repairs were related to pothole repairs resulting from a cracked sewer line on LaFitte Court. The repair totaled \$943, and was a one-time occurrence. The appropriate annual amortization amount and adjustment is shown in Table 3.

In addition, we find that several adjustments need to be made to several other transfer related expenses. The \$562 expense related to the legal ad for the certificate transfer, as well as a \$100 expense for a DEP fee related to the wastewater permit transfer, shall be amortized over a five-year period because they are one-time occurrences. The appropriate annual amortization amounts and adjustments are shown in Table 3.

A second non-recurring expense item was incurred during the test year that was not included in O&M expenses. This \$7,800 expense was incurred in February 2019 for DEP-required pond cleaning for two of the Utility's three RIBs. The Utility classified the expense as Amortization Expense – Other, but we find that the amount shall be included in O&M expense and amortized over five years. The Utility also indicated that an additional \$5,050 will be needed to remove vegetation from the remaining RIB.³⁰ The RIB clearing is a DEP requirement as well. The amount shall be amortized over five years. The appropriate annual amortization amounts for pond cleaning are shown in Table 3.

²⁹Document No. 04960-2019, filed on June 17, 2019.

³⁰Document No. 05392-2019, filed on July 9, 2019.

Table 3
Amortization of Misc. Expenses

Description	Invoiced Amount	Annual Amortization*	Commission Adjustment
<u>Included in TY Misc. Expense:</u>			
Pothole Repair	\$943	\$189	(\$754)
Cert. Transfer Legal Ad	562	112	(450)
DEP Permit Transfer Fee	<u>100</u>	<u>20</u>	<u>(80)</u>
Total	<u>\$1,605</u>	<u>\$321</u>	<u>(\$1,284)</u>
<u>New Misc. Expense:</u>			
Completed RIB Clearing	\$7,800	\$1,560	\$1,560
Pro Forma RIB Clearing	<u>5,050</u>	<u>1,010</u>	<u>1,010</u>
Total	<u>\$12,850</u>	<u>\$2,570</u>	<u>\$2,570</u>
*Per Rule 25-30.433(9), F.A.C.			

Source: Audit Report, Utility filings, and staff calculations.

Based on the information above, we hereby approve an increase of \$1,420 ($\$46 + \$88 - \$1,284 + \$2,570$) to miscellaneous expense. As such, we hereby approve a miscellaneous expense of \$5,015 ($\$3,595 + \$1,420$).

B. Operation & Maintenance Expense Summary

Based on the above adjustments, we find that O&M expense shall be increased by \$2,840, resulting in total O&M expense of \$73,241. Our adjustments to O&M expense are shown on Schedule No. 3-C.

C. Depreciation Expense (Net of Amortization of CIAC)

Merritt Island recorded depreciation expense of \$6,274 during the test year. We calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined test year depreciation expense to be \$7,000, resulting in an increase to this account of \$722. We also increased this account by \$182 to reflect the incremental increase in depreciation expense for the pro forma plant item previously discussed in Section 4. Our total adjustment to depreciation expense is an increase of \$904 ($\$722 + \182). In addition, we note that CIAC is fully amortized, and there is no amortization of CIAC. Therefore, we hereby approve a depreciation expense of \$7,178 ($\$6,274 + \904).

D. Amortization Expense – Other

The Utility recorded test year amortization expense – other of \$1,064 which included expenses for engineering services related to service territory maps and DEP-required pond cleaning during the test year. We find that both items shall be included in the Utility's O&M expense based on prior practice. The engineering expense shall be reclassified to contractual

services – engineering (Account No. 731) and the pond clearing reclassified to miscellaneous expense (Account No. 775). Both expenses shall be amortized over a five-year period. These adjustments were discussed in O&M expenses elsewhere in this Section. As such, we decreased this account by \$1,089.

The Utility recorded amortization of an acquisition adjustment of negative \$25. In Docket No. 20170018-SU, we determined that a negative acquisition adjustment of \$175 shall be recognized for ratemaking purposes.³¹ Based on our decision in that docket, the negative acquisition adjustment shall be amortized over a seven-year period from the date of issuance of an order approving the transfer of assets. As such, the annual amortization of the negative acquisition adjustment is correctly reflected as negative \$25 (\$1,064 - \$1,089).

E. Taxes Other Than Income (TOTI)

Merritt Island recorded a TOTI balance of \$2,997 during the test year. We decreased the Regulatory Assessment Fees (RAFs) by \$106 to reflect the adjusted test year revenues. We increased this account by \$75 to reflect the incremental increase in property taxes associated with the pro forma project discussed in Issue 4. The Utility also requested consideration of pro forma taxes of \$2,652.³² Prior to this year, Merritt Island had no property taxes due. We increased tax expense by \$2,546 to reflect the appropriate amount of property tax going forward, based on the on the Utility's current Brevard County tax notice less a four percent discount for early payment.³³ This results in a net increase of \$2,515 (-\$106 + \$75 + \$2,546).

In addition, as discussed in Section 8, revenues have been increased by \$33,567 to reflect the change in revenue required to cover expenses and allow the recommended operating margin. As a result, TOTI shall be increased by \$1,511 to reflect RAFs of 4.5 percent on the change in revenues. Therefore, we find that TOTI shall be \$7,023.

F. Income Tax

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

G. Operating Expenses Summary

The application of our adjustments to Merritt Island's test year operating expenses results in operating expenses of \$87,417. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

³¹Order 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.*

³²Document No. 08301-2019, filed on August 21, 2019.

³³Document No. 00817-2020, filed on February 6, 2020.

8. Revenue Requirement

Merritt Island shall be allowed an annual increase of \$33,567 (51.12 percent). This should allow the Utility the opportunity to recover its expenses and earn an 7.85 percent return on its investment. The calculations are shown in Table 4:

Table 4
Revenue Requirement

Adjusted Rate Base	\$150,423
Rate of Return (%)	<u>x 7.85%</u>
Return on Rate Base	\$11,808
Adjusted O&M Expense	73,241
Depreciation Expense (Net)	7,153
Taxes Other Than Income	<u>7,023</u>
Revenue Requirement	\$99,225
Less Adjusted Test Year Revenues	<u>65,658</u>
Annual Increase	<u>\$33,567</u>
Percent Increase	<u>51.12%</u>

9. Rates and Rate Structure

Merritt Island is located in Brevard County. The Utility provides wastewater service to approximately 141 residential customers and one general service bulk customer. The general service customer is a mobile home park classified as a bulk customer. Currently, the residential wastewater rate structure consists of a uniform base facility charge (BFC) for all meter sizes and a gallonage charge with a 6,000 gallon cap per month. General service customers are billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge. The bulk service customer is billed a BFC based on the number of ERCs behind the meter and a gallonage charge with a 6,000 gallon cap per connection.

We performed an analysis of the Utility's billing data to evaluate various BFC cost recovery percentages and gallonage caps for the residential 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; and (3) implement a gallonage cap that considers approximately the amount of water that may return to the wastewater system.

Consistent with our prior practice, we allocated 50 percent of the wastewater revenue to the BFC due to the capital intensive nature of wastewater plants. In addition, it is also our

practice to set the wastewater cap at approximately 80 percent of residential water gallons sold. The wastewater gallonage cap recognizes that not all water is returned to the wastewater system. Based on our review of the billing analysis, 87 percent of the gallons are captured at the 6,000 gallon consumption level. For this reason, we find that the gallonage cap for residential customers shall remain at 6,000 gallons. We also find that the general service gallonage charge be 1.2 times greater than the residential gallonage charge, which is consistent with our practice. The bulk service customer's rate structure should remain a BFC based on the number of ERCs behind the meter and a gallonage charge with a 6,000 gallon cap per ERC.

Based on the above, the monthly wastewater rates, as shown on Schedule No. 4, are reasonable and shall be approved. The Utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates 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 approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by customers. The Utility shall provide proof of the date notice was given within 10 days of the date of the notice.

10. Rate Case Expense (*Procedural Agency Action*)

Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the recovery 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. The total reduction is \$536.

We find that the rates shall 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 shall become effective immediately following the expiration of the rate case expense recovery period, pursuant to Section 367.081(8), F.S. Merritt Island shall 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.

11. Temporary Rates (*Procedural Agency Action*)

This Order approves an increase in 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, we find that the Commission-approved rates shall be approved as temporary rates. The Utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall 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 shall not be implemented until our staff has approved the proposed notice, and

the notice has been received by the customers. The rates collected by the Utility shall be subject to the refund provisions discussed below.

The Utility shall be authorized to collect the temporary rates upon our staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security shall be in the form of a bond or letter of credit in the amount of \$22,619. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If the Utility chooses a bond as security, the bond shall 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 shall contain the following conditions:

1. The letter of credit is irrevocable for the period it is in effect.
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 shall be part of the agreement:

1. The Commission Clerk, or his or her designee, must be a signatory to the escrow agreement.
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 shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall 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 shall be maintained by the Utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

The Utility shall maintain a record of the amount of the bond, 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 shall file reports with the Commission Clerk's office no later than the 20th of every month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed shall also indicate the status of the security being used to guarantee repayment of any potential refund.

12. Adjustment to NARUC USOA Primary Accounts (*Procedural Agency Action*)

Merritt Island shall be required to notify this Commission, in writing, that it has adjusted its books in accordance with our decision. Merritt Island 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 providing good cause shall be filed not less than seven days prior to the deadline. Staff shall be given administrative authority to grant such an extension for up to 60 days.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the overall quality of service provided by Merritt Island Utility Company, Inc. is satisfactory. It is further

ORDERED that Merritt Island Utility Company, Inc.'s wastewater treatment plant and collection system shall be considered 100 percent used and useful. It is further

ORDERED that an adjustment of five percent to purchased power and chemical expenses shall be made for Merritt Island Utility Company, Inc.'s excessive infiltration and inflow. It is further

ORDERED that a year-end rate base shall be applied for Merritt Island Utility Company, Inc. It is further

ORDERED that the appropriate year-end test year rate base for Merritt Island Utility Company, Inc. is \$150,423. It is further

ORDERED that the approved return on equity for Merritt Island Utility Company, Inc. is 7.85 percent, with a range of 6.85 to 8.85 percent. It is further

ORDERED that the appropriate test year revenues for Merritt Island Utility Company, Inc. are 65,658. It is further

ORDERED that the appropriate amount of operating expense for Merritt Island Utility Company, Inc. is \$87,417. It is further

ORDERED that the appropriate revenue requirement for Merritt Island Utility Company, Inc. is \$99,225, resulting in an annual increase of \$33,567 (51.12 percent). It is further

ORDERED that Merritt Island Utility Company, Inc.'s approved monthly wastewater rates are shown on Schedule No. 4. It is further

ORDERED that Merritt Island Utility Company, Inc. shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates 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. In addition, the approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. Merritt Island Utility Company, Inc. shall provide proof of the date notice was given within 10 days of the date of this notice. (*Procedural Agency Action*) It is further

ORDERED that Merritt Island Utility Company, Inc.'s rates shall be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for Regulatory Assessment Fees and amortized over a four-year period. The decrease in rates shall become effective immediately following the expiration of the rate case expense recovery period, pursuant to Section 367.081(8), F.S. Merritt Island Utility Company, Inc. shall 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 Merritt Island Utility Company, Inc. 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*) It is further

ORDERED that the rates for Merritt Island Utility Company, Inc. are approved on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than Merritt Island Utility Company, Inc. Merritt Island Utility Company, Inc. shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall 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 shall not be implemented until our staff has approved the proposed notice, and the notice has been received by the customers. (*Procedural Agency Action*) It is further

ORDERED that Merritt Island Utility Company, Inc. shall provide appropriate security for the potential refund. Temporary rates collected by Merritt Island Utility Company, Inc. shall be subject to refund as provided in the body of this Order. (*Procedural Agency Action*) It is further

ORDERED that after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., Merritt Island Utility Company, Inc. shall file reports with the 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 shall also indicate the status of the security being used to guarantee repayment of any potential refund. (*Procedural Agency Action*) It is further

ORDERED that Merritt Island Utility Company, Inc. shall be required to notify this Commission, in writing, that it has adjusted its books in accordance with our decision. Merritt Island Utility Company, Inc. shall submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all applicable National Association of Regulatory Commissioners (NARUC) Uniform System of Accounts (USOA) primary accounts have been made to Merritt Island Utility Company, Inc.'s books and records. In the event that Merritt Island Utility Company, Inc. needs additional time to complete the adjustments, notice providing good cause shall be filed not less than seven days prior to the deadline. Our staff shall be given administrative authority to grant such an extension for up to 60 days. (*Procedural Agency Action*) It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that 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 shall be issued. The docket shall remain open for our staff's verification that the revised tariff sheets and customer notice have been filed by Merritt Island Utility Company, Inc. and approved by our staff. Once these actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 25th day of March, 2020.



ADAM J. TEITZMAN
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

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.

As identified in the body of this order, our actions are preliminary in nature, except for (1) the reduction of rates after four years based upon the recovery of rate case expense, (2) the granting of temporary rates in the event of protest, and (3) the requirement for proof of adjustment of books and records. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on April 15, 2020. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Any party adversely affected by the Commission's procedural action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, 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 by filing a notice of appeal with the Office of Commission Clerk and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

MERRITT ISLAND UTILITY COMPANY, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 3/31/2019		DOCKET NO. 20190116-SU	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUSTMENTS TO UTIL. BAL.	BALANCE PER COMMISSION
UTILITY PLANT IN SERVICE	\$266,370	\$5,813	\$272,183
LAND & LAND RIGHTS	30,479	0	30,479
NON-USED AND USEFUL COMPONENTS	0	0	0
ACCUMULATED DEPRECIATION	(161,473)	278	(161,195)
CIAC	(23,500)	0	(23,500)
AMORTIZATION OF CIAC	23,500	0	23,500
ACQUISITION ADJUSTMENT (AA)	(175)	0	(175)
AMORTIZATION OF AA	40	0	40
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>9,091</u>	<u>9,091</u>
WASTEWATER RATE BASE	<u>\$135,241</u>	<u>\$15,182</u>	<u>\$150,423</u>

MERRITT ISLAND UTILITY COMPANY, INC.	SCHEDULE NO. 1-B
TEST YEAR ENDED 3/31/2019	DOCKET NO. 20190116-SU
ADJUSTMENTS TO RATE BASE	PAGE 1 OF 1
	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
To reflect pro forma plant addition (No retirement).	<u>\$5,813</u>
<u>ACCUMULATED DEPRECIATION</u>	
1. To reflect accumulated depreciation per Rule 25-30.140, F.A.C.	\$460
2. To reflect pro forma plant depreciation.	<u>(182)</u>
Total	<u>\$278</u>
<u>WORKING CAPITAL ALLOWANCE</u>	
To reflect 1/8 of test year O&M expenses.	<u>\$9,091</u>

MERRITT ISLAND UTILITY COMPANY, INC.							SCHEDULE NO. 2		
TEST YEAR ENDED 3/31/2019							DOCKET NO. 20190116-SU		
SCHEDULE OF CAPITAL STRUCTURE (YEAR END)									
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	TEST YEAR BALANCE PER COMMISSION	ADJUSTMENTS TO RECONCILE TO RATE BASE	RECONCILED CAPITAL STRUCTURE PER COMM.	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON STOCK	\$0	\$0	\$0						
2. RETAINED EARNINGS	0	0	0						
3. OTHER PAID IN CAPITAL	150,000	0	150,000						
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>						
TOTAL COMMON EQUITY	\$150,000	\$0	\$150,000	\$30,847	\$180,847	100.00%	7.85%	7.85%	
5. LONG-TERM DEBT	\$0	\$0	\$0	\$0	0	0.00%	0.00%	0.00%	
6. SHORT-TERM DEBT	0	0	0	<u>0</u>	0	0.00%	0.00%	0.00%	
7. PREFERRED STOCK	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
TOTAL DEBT	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
8. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	2.00%	<u>0.00%</u>	
9. TOTAL	<u>\$150,000</u>	<u>\$0</u>	<u>\$150,000</u>	<u>\$30,847</u>	<u>\$180,847</u>	<u>100.00%</u>			<u>7.85%</u>
RANGE OF REASONABLENESS						LOW	HIGH		
RETURN ON EQUITY						<u>6.85%</u>	<u>8.85%</u>		
OVERALL RATE OF RETURN						<u>6.85%</u>	<u>8.85%</u>		

MERRITT ISLAND UTILITY COMPANY, INC.				SCHEDULE NO. 3-A	
TEST YEAR ENDED 3/31/2019				DOCKET NO. 20190116-SU	
SCHEDULE OF WASTEWATER OPERATING INCOME					
	TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$66,595</u>	<u>(\$937)</u>	<u>\$65,658</u>	<u>\$33,567</u> 51.12%	<u>\$99,225</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$70,401	\$2,840	\$73,241	\$0	\$73,241
3. DEPRECIATION	6,274	904	7,178	0	7,178
4. AMORTIZATION - OTHER	1,064	(1,089)	(25)	0	(25)
5. TAXES OTHER THAN INCOME	2,997	2,515	5,512	1,511	7,023
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$80,736</u>	<u>\$4,233</u>	<u>\$84,969</u>	<u>\$2,448</u>	<u>\$87,417</u>
8. OPERATING INCOME/(LOSS)	<u>(\$14,141)</u>		<u>(\$19,311)</u>		<u>\$11,808</u>
9. WASTEWATER RATE BASE	<u>\$135,241</u>		<u>\$150,423</u>		<u>\$150,423</u>
10. RATE OF RETURN	<u>(10.46%)</u>		<u>(12.84%)</u>		<u>7.85%</u>

MERRITT ISLAND UTILTY COMPANY, INC.		SCHEDULE NO. 3-B
TEST YEAR ENDED 3/31/2019		DOCKET NO. 20190116-SU
ADJUSTMENTS TO OPERATING INCOME		Page 1 of 2
		<u>WASTEWATER</u>
OPERATING REVENUES		
	To reflect the appropriate test year services revenues.	(<u>\$937</u>)
OPERATION AND MAINTENANCE EXPENSES		
1.	Purchased Power (715)	
	To reflect 5 percent excessive I&I adjustment.	(<u>\$288</u>)
2.	Chemicals (718)	
	To reflect 5 percent excessive I&I adjustment.	(<u>\$121</u>)
3.	Contractual Services – Engineering (731)	
	a. To reflect appropriate 5-year amortization of permit transfer work.	(\$960)
	b. To reflect appropriate 5-year amortization of service territory maps.	<u>1,244</u>
	Subtotal	<u>\$284</u>
4.	Contractual Services – Other (736)	
	To reflect the new US Water contract amount.	<u>\$1,088</u>
5.	Insurance Expenses (755)	
	To reflect actual insurance expense.	(<u>\$204</u>)
6.	Regulator Commission Expense (765)	
	a. To reflect 5-year amortization of filing fee from transfer docket ($\$750 \div 5$).	\$150
	b. Allowance for rate case expense amortized over 4 years ($\$2,046 \div 4$).	<u>512</u>
	Subtotal	<u>\$662</u>
7.	Miscellaneous Expense (775)	
	a. To reflect appropriate test year billing fees.	\$46
	b. To reflect pro forma adjustment to billing fees.	88
	c. To reflect expense that should be amortized over 5 years.	(1,284)
	d. To reflect appropriate amortization of FDEP-required pond clearing.	<u>2,570</u>
	Subtotal	<u>\$1,420</u>
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$2,840</u>
DEPRECIATION EXPENSE		
1.	To reflect appropriate test year depreciation expense.	\$722
2.	To reflect pro forma plant addition.	<u>182</u>
	Total	<u>\$904</u>

MERRITT ISLAND UTILTY COMPANY, INC.		SCHEDULE NO. 3-B
TEST YEAR ENDED 3/31/2019		DOCKET NO. 20190116-SU
ADJUSTMENTS TO OPERATING INCOME		Page 2 of 2
		<u>WASTEWATER</u>
AMORTIZATION - OTHER		
	To reflect reclassification to O&M expense.	(<u>\$1,089</u>)
TAXES OTHER THAN INCOME		
1.	To reflect appropriate test year RAFs.	(\$106)
2.	To reflect property taxes associated with pro forma plant addition.	75
3.	To reflect pro forma Brevard County tax increase.	<u>2,546</u>
	Total	<u>\$2,515</u>
INCOME TAX		<u>\$0</u>

MERRITT ISLAND UTILITY COMPANY, INC.	SCHEDULE NO. 3-C		
TEST YEAR ENDED 3/31/2019	DOCKET NO. 20190116-SU		
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	COMMISSION ADJUST- MENT	TOTAL PER COMMISSION
(703) SALARIES AND WAGES - OFFICERS	\$5,000	\$0	\$5,000
(711) SLUDGE REMOVAL	4,000	0	4,000
(715) PURCHASED POWER	5,764	(288)	5,476
(718) CHEMICALS	2,425	(121)	2,304
(731) CONTRACTUAL SERVICES - ENGINEERING	1,200	284	1,484
(732) CONTRACTUAL SERVICES - ACCOUNTING	400	0	400
(733) CONTRACTUAL SERVICES - LEGAL	366	0	366
(736) CONTRACTUAL SERVICES - OTHER	46,123	1,088	47,211
(755) INSURANCE EXPENSE	1,528	(204)	1,324
(765) REGULATORY COMMISSION EXPENSE	0	662	662
(775) MISCELLANEOUS EXPENSE	<u>3,595</u>	<u>1,420</u>	<u>5,015</u>
	<u>\$70,401</u>	<u>\$2,840</u>	<u>\$73,241</u>

MERRITT ISLAND UTILITY COMPANY, INC.				SCHEDULE NO. 4
TEST YEAR ENDED MARCH 31, 2019				DOCKET NO. 20190116-SU
MONTHLY WASTEWATER RATES				
	PRIOR RATES	COMMISSION APPROVED INTERIM RATES	COMMISSION APPROVED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>				
Base Facility Charge by Meter Size				
5/8"X3/4"	\$11.15	\$11.50	\$16.17	\$0.09
3/4"	\$16.73	\$17.25	\$24.26	\$0.13
1"	\$27.88	\$28.75	\$40.43	\$0.22
1-1/2"	\$55.75	\$57.50	\$80.85	\$0.44
2"	\$89.20	\$92.00	\$129.36	\$0.70
3"	\$178.40	\$184.00	\$258.72	\$1.40
4"	\$278.75	\$287.50	\$404.25	\$2.18
6"	\$557.50	\$575.00	\$808.50	\$4.37
Charge per 1,000 gallons - Residential				
All Meter Sizes	\$2.97	\$3.07	\$4.69	\$0.03
6,000 gallon cap				
Charge per 1,000 gallons - General Service				
	\$3.57	\$3.68	\$5.63	\$0.03
<u>Bulk Service</u>				
Base Facility Charge - All Meter Sizes (120 ERCs)				
	\$1,338.00	\$1,380.00	\$1,940.40	\$10.48
Charge per 1,000 gallons - Bulk Service				
720,000 gallon cap	\$3.57	\$3.68	\$5.63	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
3,000 Gallons	\$20.06	\$20.71	\$30.24	
6,000 Gallons	\$28.97	\$29.92	\$44.31	
10,000 Gallons	\$28.97	\$29.92	\$44.31	