

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: November 1, 2013

TO: Office of Commission Clerk (Cole) *BS*

FROM: Division of Accounting and Finance (Fletcher, Maurey) *ALM*
Division of Economics (Hudson) *CRSB*
Division of Engineering (Simpson) *J.W.D.*
Office of the General Counsel (Teitzman) *AT* *DS*

RE: Docket No. 110165-SU – Application for staff-assisted rate case in Highlands County by Utility Corporation of Florida, Inc.

AGENDA: 11/14/13 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brown

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

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Case Background

Utility Corporation of Florida, Inc. (Utility Corporation or Utility) is a Class C utility providing wastewater service to 317 customers in Highlands County. Water service is provided by the Spring Lake Improvement District. According to its 2012 annual report, Utility Corporation reported operating revenues of \$126,153 and operating expenses of \$144,924.

Pursuant to Order No. PSC-12-0410-PAA-SU, issued August 12, 2012, in the instant docket, the Commission approved a two phase rate increase for Utility Corporation. The Phase I rates were effective November 30, 2012. Prior to implementation of the Phase II rates, the Utility was required to complete two pro forma improvements within 12 months of the issuance of the Consummating Order and submit documentation showing that the improvements had been completed. The Phase II rates represent a 2.36 percent (\$3,577) increase over Phase I rates. The Consummating Order No. PSC-12-0470-CO-SU was issued September 10, 2012; therefore, the pro forma improvements were to be completed by September 9, 2013. The Utility was also required to provide staff with written notification immediately if it encountered any unforeseen events that would impede the completion of the pro forma items.

On September 6, 2013, the Utility filed a letter indicating that the improvements have not been completed and a copy of a required compliance order from the Florida Department of Environmental Protection (DEP). This recommendation addresses the disposition of Phase II rates. The Commission has authority to consider this matter pursuant to Section 367.0814, Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Should Utility Corporation be granted an extension of time to complete pro forma items in order to implement the Phase II rates approved by Order No. PSC-12-0410-PAA-SU?

Recommendation: No. The Utility should not be granted an extension of time to complete pro forma items in order to implement the Phase II rates. (Hudson, Simpson)

Staff Analysis: As discussed in the case background, the Commission approved Phase II rates for the Utility pending completion of two pro forma improvements, replacement of a pump at the transfer pond and refurbishment of a surge tank, by September 9, 2013. On September 6, 2013, the Utility filed a letter indicating that the pro forma items have not been completed. According to the Utility, it has purchased the pump and expects to have it installed at the transfer pond by November 15, 2013. In addition, the Utility provided a copy of a DEP Compliance Order issued April 25, 2013, requiring that, among other things, the surge tank be replaced, not refurbished, by May 1, 2014. The Utility's letter indicated that it has taken the surge tank offline and shifted processing to a second surge tank. The Utility is considering purchasing equipment from the DeSoto County wastewater treatment plant that is scheduled for decommissioning; however, failing that, engineering plans would have to be drawn up for the construction of a new surge tank.

The Commission has previously granted extensions of time to complete pro forma items. In one of the instances where the Commission granted an extension of time, the Phase II rates were adjusted to include only the pro forma improvements that had been completed and Phase III rates were approved pending completion of the remaining pro forma items.¹

Utility Corporation's rate increase, including the Phase II rate increase, was approved using the operating ratio method whereby the operating income included in the revenue requirement was a percentage of the Utility's operation and maintenance expense and not a return on the Utility's rate base. Using this method, the Phase II revenue requirement included depreciation expense of \$203 associated with replacement of the pump and \$3,213 in additional contractual services expense based on the three-year amortization of the cost of repairing the surge tank.

Pursuant to Section 367.081(2), F.S., the Commission shall consider utility property to be constructed within a reasonable time in the future, not to exceed 24 months after the historic test year, unless a longer period is approved by the Commission. The Utility's test year was the 12 month period ended December 31, 2010. Staff does not recommend granting the Utility an extension of time to complete the pro forma improvements in order to implement Phase II rates. Neither of the improvements have been completed, although the Utility hopes to complete the replacement of the pump at the transfer pond by November 15, 2013. In addition, as previously discussed, DEP is now requiring that the surge tank be replaced, instead of repaired. The Utility

¹ See Order Nos. PSC-13-0448-PCO-WS, issued October 2, 2013, in Docket No. 110260-WS, In re: Application for staff-assisted rate case in Lee County by Useppa Island Utilities Co., Inc. and PSC-13-0137-PAA-SU, issued March 22, 2013, in Docket No. 100471-SU, In re: Application for staff-assisted rate case in Marion County by S & L Utilities, Inc.

did not provide an estimate of the cost of replacing the surge tank. The DEP Compliance Order includes a timeline allowing the utility to make additional required improvements over the next five years.

Staff considered the appropriateness of an extension of time to complete the improvements, adjusting the Phase II rates to include only the cost of the pump replacement that is expected to be completed in November, and designing a Phase III rate for the surge tank upon its completion. However, the increase associated with the cost of the pump would be only a .14 percent increase over the existing Phase I rates and staff does not believe it would be appropriate to adjust the rates for a less than 1 percent increase. In addition, the cost associated with replacing the surge tank is unknown at this time and the time frame for completion has been extended to 2014, approximately 4 years beyond the historic test year of December 31, 2010. Further, DEP has indicated that all of the facility's tankage should be replaced by May 1, 2018. Once Utility Corporation completes the replacement of the surge tank, it can either file for a limited proceeding or staff assisted rate case to have the reasonable and prudent costs considered.

Based on the above, staff recommends that the Utility not be granted an extension of time to complete *pro forma* items in order to implement the Phase II rates approved by Order No. PSC-12-0410-PAA-SU. Phase I rates should remain in effect until they are adjusted by the Commission in a subsequent proceeding.

Docket No. 110165-SU
Date: November 1, 2013

Issue 2: Should this docket be closed?

Recommendation: Yes. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, the docket should be closed upon the issuance of a consummating order. (Teitzman)

Staff Analysis: At the conclusion of the protest period, if no protest is filed the docket should be closed upon the issuance of a consummating order.