

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: May 22, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Prestwood, Springer)
Division of Economics (Daniel, Hudson, Roberts)
Division of Engineering (King, Lee)
Office of the General Counsel (Murphy, Teitzman)

Handwritten initials and signatures: MB, DP, A-3, J, CM

COMMISSION
CLERK

14 MAY 22 AM 8:40

RECEIVED-FPSC

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

AGENDA: 06/05/14 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brown

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

Utility Corporation of Florida, Inc. (Utility Corporation or Utility) is a Class C utility providing wastewater service to approximately 317 customers in Highlands County. The water service is provided by the Spring Lake Improvement District. According to its 2013 annual report, Utility Corporation reported operating revenues of \$151,742 and operating expenses of \$152,797.

On May 17, 2011, Utility Corporation filed an application for a staff-assisted rate case (SARC). By Order No. PSC-12-0410-PAA-SU, the Commission approved Phase I and Phase II

rates.¹ The Phase I rate increase of 21.33 percent was implemented effective November 30, 2012. The Phase II rates were to be implemented once the Utility had completed pro forma plant additions of \$3,577 for replacing the pump at the transfer pond and the exterior repair to the surge tank. The Utility was given 12 months from the effective date of the Consummating Order to complete the plant additions. The 12-month period ended on September 9, 2013.

On September 6, 2013, the Utility filed a letter indicating that the pro forma plant additions had not been completed and enclosed a copy of the Florida Department of Environmental Protection (DEP) Compliance Order issued April 25, 2013, requiring the surge tank be replaced, not refurbished. Based on the above information, staff drafted a recommendation that the Utility not be granted an extension of time to complete the pro forma items in order to implement the Phase II rates and the Phase I rates should remain in effect until they are adjusted by the Commission in a subsequent proceeding.

Staff's recommendation was addressed by the Commission at the November 14, 2013 Commission Conference. The recommendation was deferred to allow staff to gather additional information in regard to the course of action the Utility planned to take in order to comply with DEP's April 2013 Compliance Order. Staff contacted the Utility numerous times, both in writing and by telephone. As a result, by letter dated April 21, 2014, the Utility indicated it will forgo the Phase II rate increase at this time. Utility Corporation is working with DEP and its engineer on a long-term goal of shifting its processing to another surge tank. This recommendation addresses the Utility's request to not implement Phase II rates. The Commission has the authority to consider this matter pursuant to Section 367.0814, Florida Statutes (F.S.).

¹ See Order No. PSC-12-0410-PAA-SU, issued August 13, 2012, in Docket No. 110165-SU, Application for staff-assisted rate case in Highlands County by Utility Corporation of Florida, Inc.

Discussion of Issues

Issue 1: Should the Utility's request to not implement Phase II rates be approved and the docket be closed?

Recommendation: Yes. The Utility's request to not implement Phase II rates should be approved and the docket should be closed. If no timely protest is filed by a substantially affected person, this docket should be closed upon the issuance of a Consummating Order. (Lee, Roberts)

Staff Analysis: As discussed in the case background, by Order No. PSC-12-0410-PAA-SU, the Commission approved Phase I rates, which became effective on November 30, 2012. The Phase II rates for the Utility were 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 had not been completed. In addition, the Utility provided a copy of a DEP Compliance Order issued April 25, 2013, which required the replacement rather than the refurbishment of the surge tank, by May 1, 2018. The Utility's letter indicated that it has taken the surge tank offline and shifted processing to a second surge tank. Subsequent to the letter, the Utility installed the pump at the transfer pond on November 15, 2013.

The Utility'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. The Utility completed the replacement of the pump at the transfer pond on November 15, 2013. However, the increase associated with the cost of the pump, grossed-up for regulatory assessment fees, would only be a .14 percent increase and staff does not believe it would be cost effective to adjust the rates for an increase of less than 1 percent.

As previously discussed, Utility Corporation is working with DEP on a long-term goal of redesigning its plant to shift processing to another surge tank. As a temporary measure, the Utility is currently using an existing surge tank on the west end of its facilities for processing. Utility Corporation plans to redesign its plant to allow for processing at an existing surge tank on the east side of its facilities. The cost of refurbishing the original surge tank is different from the cost needed to redesign the Utility's plant. Therefore, the Utility has requested to forgo the Phase II rate increase with the understanding it will file a rate case proceeding seeking to recover the full cost of the plant redesign at a future date. Staff believes the Utility's request is appropriate since the cost associated with redesigning the plant is unknown at this time. Once Utility Corporation completes the redesign of the plant, it can either file for a limited proceeding or staff-assisted rate case to have reasonable and prudent costs considered.

Based on the above, staff recommends that the Utility's request to not implement Phase II rates be approved and the docket be closed. If no timely protest is filed by a substantially affected person, this docket should be closed upon the issuance of a Consummating Order.