

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in
Brevard County by Brevard Waterworks, Inc.

DOCKET NO. 140186-WU
ORDER NO. PSC-14-0683-PCO-WU
ISSUED: December 10, 2014

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
LISA POLAK EDGAR
RONALD A. BRISÉ
EDUARDO E. BALBIS
JULIE I. BROWN

ORDER ESTABLISHING INTERIM RATES

BY THE COMMISSION:

Case Background

Brevard Waterworks, Inc. (Brevard Waterworks or Utility) is a Class C utility providing water service to approximately 235 customers in Brevard County. Effective June 5, 2014, Brevard Waterworks was granted Certificate No. 002-W. According to Brevard Waterworks' 2013 annual report, total gross revenues were \$91,613 and total operating expenses were \$99,350, resulting in a net loss of \$7,737. On September 29, 2014, the Utility filed its application for a staff-assisted rate increase and, for interim and final rates purposes, requested a test year ended August 31, 2014. This Order establishes the Utility's interim rates. The Florida Public Service Commission (Commission) has jurisdiction pursuant to Sections 367.082 and 367.0814(4), Florida Statutes (F.S.).

Decision

I. Interim Revenue

On September 29, 2014, Brevard Waterworks filed rate base, cost of capital, and operating statements to support an interim increase in water rates. While Brevard provided this financial data, such a filing is not required for a Class C utility seeking interim relief. Although the Utility's filing is consistent with an interim request for a file and suspend rate case, it is inconsistent with Section 367.0814(4), F.S., (Statute) which is specific to staff-assisted rate cases and limits an increase to the amount necessary to cover operation and maintenance (O&M) expenses as follows:

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

Based on the financial data provided by Brevard Waterworks, its O&M expenses exceeded its operating revenues in the test year. Thus, based on the Utility's filing, we find that Brevard Waterworks has demonstrated a prima facie entitlement to interim rates pursuant to the Statute. However, one adjustment to the Utility's filed O&M expenses is necessary. The Utility included annual amortization of rate case expense of \$260 for the instant docket. The inclusion of this expense is pro forma in nature because it is a deferred expense, and the final determination of the total expense is outside of the interim test year. As such, O&M expense shall be decreased by \$260 for purposes of calculating interim rates. To determine the level of revenues necessary to cover O&M expenses pursuant to the Statute, we utilized the Utility's annualized revenues from its filing. The difference between the Utility's annualized revenues and our adjusted O&M expenses is \$13,623. This results in an interim increase of \$13,623 (or 9.96 percent). Our interim increase calculation is set forth in Table 1.

Table 1

Determination of Interim Increase		
1	Utility Adjusted Test Year O&M Expenses	\$150,671
2	Less: Staff's Adjustments	<u>\$260</u>
3	Staff Adjusted Test Year O&M Expenses	\$150,411
4	Less: Utility Test Year Annualized Revenues	<u>\$136,788</u>
5	Interim Revenue Increase Amount	<u>\$13,623</u>
6	Interim Revenue Increase % (Line 5/Line 4)	9.96%

II. Interim Water Rates

Interim service rates for Brevard Waterworks shall be designed to allow the Utility the opportunity to generate annual operating revenues of \$150,411 for water. Before removal of miscellaneous revenues, this will result in an increase of \$13,623 (9.96 percent) for water. To determine the appropriate increase to apply to the service rates, miscellaneous revenues shall be removed from the test year revenues. The calculation is as follows:

Table 2

	<u>Water</u>
1 Staff Adjusted Test Year Revenues	\$136,788
2 Less: Miscellaneous Revenues	<u>\$7,119</u>
3 Test Year Revenues from Service Rates	\$129,669
4 Revenue Increase	<u>\$13,623</u>
5 % Service Rate Increase (Line 4/Line 3)	10.51%

The interim rate increase of 10.51 percent for water shall be applied as an across-the-board increase to the existing rates. The rates, as shown on Schedule No. 1 of this Order, shall be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The Utility shall file revised tariff sheets and a proposed customer notice to reflect our approved rates. The approved rates shall not be implemented until the required security has been filed, our staff has approved the proposed customer notice and the notice has been received by the customers. The Utility shall provide proof of the date notice was given within 10 days of the date of the notice.

III. Security to Guarantee Interim Increase

Pursuant to Section 367.082, F.S., revenues collected under interim rates must be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by this Commission. The interim increase for water is \$13,623. Pursuant to Rule 25-30.360, F.A.C., we calculated the potential refund of revenues and interest collected under interim conditions to be \$9,084, based on an estimated eight months of revenue being collected under the interim rates shown on Schedule No. 1.

The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Brevard Waterworks was purchased in 2013, and the Utility has only one year of financial statements. Our practice is to evaluate three years of financial statements for determining if a utility has the financial capability

to support a corporate undertaking. Thus, we shall require the Utility to secure a surety bond, letter of credit, or escrow agreement to guarantee any potential refund of water revenues.

If the security provided is an escrow account, said account must be established by a written agreement between the Utility and an independent financial institution or the Division of Treasury for the Florida Department of Financial Services. This Commission shall be a party to the written escrow agreement and a signatory to the escrow account. The written escrow agreement shall state the following:

The account is established at the direction of the Commission to guarantee an interim rate increase; no withdrawals of funds shall occur without the prior approval of the Commission through the Commission Clerk, Office of Commission Clerk; the account shall be interest bearing; information concerning that escrow account shall be available from the institution to the Commission or its representative at all times; the amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt; and, pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla 3d DCA 1972), escrow accounts are not subject to garnishments.

If the security provided is an escrow account, the Utility shall deposit \$1,135 into the escrow account each month. The escrow agreement shall also state that if a refund to the customers is required, all interest earned on the escrow account shall be distributed to the customers, and if a refund to the customers is not required, the interest earned on the escrow account shall revert to the Utility.

If the security provided is a surety bond or a letter of credit, the instrument shall be in the amount of \$9,084. If the Utility chooses a surety bond as security, the surety bond shall state that it will be released or terminated only upon subsequent order of this Commission. If the Utility chooses to provide a letter of credit as security, the letter of credit shall state that it is irrevocable for the period it is in effect and that it will be in effect until a final Commission order is rendered releasing the funds to the Utility or requiring a refund.

Regardless of the type of security provided, the Utility shall keep an accurate and detailed account of all monies it receives. Pursuant to Rule 25-30.360(6), F.A.C., the Utility shall provide a report to this Commission by the 20th day of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund shall be with interest and undertaken in accordance with Rule 25-30.360, F.A.C.

In no instance shall maintenance and administrative costs associated with any refund be borne by the Utility's customers. Such costs are the responsibility of, and shall be borne by, the Utility.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Brevard Waterworks, Inc. is hereby authorized to collect annual revenues as indicated below:

	Adjusted Test Year O&M Expenses	Annualized Operating Revenues	\$ Increase	% Increase
Water	\$150,411	\$136,788	\$13,623	9.96%

It is further,

ORDERED that an interim rate increase of 10.51 percent for water is hereby applied as an across-the-board increase to existing rates. The rates, as shown on Schedule No. 1 of this Order, shall be effective for service rendered on or after the stamped approval date on the tariff sheets. It is further,

ORDERED that Brevard Waterworks, Inc. shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall not be implemented until the required security has been filed, our staff has approved the proposed customer notice, and the notice has been received by the customers. Brevard Waterworks, Inc. shall provide proof of the date notice was given within 10 days of the date of the notice. It is further,

ORDERED that Brevard Waterworks, Inc. is hereby required to open an escrow account or secure a surety bond or letter of credit to guarantee any potential refund of revenues collected under interim conditions. If the security provided is an escrow account, Brevard Waterworks, Inc. shall deposit \$1,135 into the escrow account each month. Otherwise, the surety bond or letter of credit shall be in the amount of \$9,084. Brevard Waterworks, Inc. shall provide this Commission with a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund shall be with interest. It is further,

ORDERED that this docket shall remain open pending this Commission's final action on Brevard Waterworks, Inc.'s requested rate increase.

By ORDER of the Florida Public Service Commission this 10th day of December, 2014.



HONG WANG
Chief Deputy Commission Clerk
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Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

CWM

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by this order, which is non-final in nature, may request (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code, or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Office of Commission Clerk, in the form prescribed by Rule 25-22.0376, Florida Administrative Code. Citizens of the State of Florida v. Mayo, 316 So.2d 262 (Fla. 1975), states that an order on interim rates is not final or reviewable until a final order is issued. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

Brevard Waterworks, Inc.		Schedule No. 1	
Test Year Ended 8/31/14		Docket No. 140186-WS	
Monthly Water Rates			
	UTILITY EXISTING RATES	COMMISSION APPROVED INTERIM	
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$20.69	\$22.86	
3/4"	\$31.04	\$34.30	
1"	\$51.74	\$57.18	
1 1/2"	\$103.47	\$114.34	
2"	\$165.56	\$182.96	
3"	\$331.14	\$365.94	
4"	\$517.40	\$571.78	
6"	\$1,034.80	\$1,143.56	
8"	\$1,655.68	\$1,829.69	
10"	\$2,380.03	\$2,630.17	
Charge per 1,000 gallons - Residential			
0-6,000 Gallons	\$7.07	\$7.81	
6,001 - 12,000 gallons	\$10.62	\$11.74	
Over 12,000 Gallons	\$14.14	\$15.63	
Charge per 1,000 gallons - General Service			
	\$7.93	\$8.76	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$41.90	\$46.29	
5,000 Gallons	\$56.04	\$61.91	
10,000 Gallons	\$105.59	\$116.68	