

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: April 2, 2015

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Norris, Fletcher)
Division of Economics (Ortega, Hudson) *ASHP*
Office of the General Counsel (Barrera) *MBB*

RE: Docket No. 150069-WS – Settlement proposal for possible overearnings by Southlake Utilities, Inc. in Lake County. *BOJ* *CSB* *ANN* *ALM* *J.W.D.*

AGENDA: 04/16/15 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

Southlake Utilities, Inc. (Southlake or Utility) is a Class B utility providing water and wastewater service to approximately 2,800 water and 2,664 wastewater customers in Lake County. Water and wastewater rates were last established for this utility in 2008.¹

Staff's review of the 2012 Annual Report for Southlake, filed April 25, 2013, revealed possible overearnings. On November 1, 2013, the Commission approved a pass-through and 4-year rate reduction adjustment, which represented a \$34,497-revenue decrease for each system. Subsequently, staff engaged in discussions with the Utility regarding these possible overearnings. Since those initial discussions, staff completed its earnings analysis based on the

¹ See Order No. PSC-09-0623-PAA-WS, issued September 15, 2009, in Docket No. 080597-WS, In re: Application for increase in water and wastewater rates in Lake County by Southlake Utilities, Inc.

Utility's numerous responses to data requests, as well as Southlake's 2013 Annual Report, filed April 25, 2014. During staff's earnings' analysis, the Office of Public Counsel participated in informal meetings regarding the Utility's possible overearnings. In a letter dated February 25, 2015, Southlake proposed a settlement offer to address the possible overearnings. Southlake proposed to refund total possible overearnings in the amount of \$233,076 for water and \$8,387 for wastewater. Further, the Utility also proposed to reduce rates by 21.47 percent for water and 0.73 percent for wastewater. The Utility's proposed settlement is attached to this recommendation as Attachment A.

The purpose of this recommendation is to present the settlement proposal to the Commission for approval. The Commission has jurisdiction pursuant to Sections 367.081, 367.082, and 367.121, Florida Statutes.

Discussion of Issues

Issue 1: Should the Commission accept the settlement offer proposed by Southlake Utilities, Inc.?

Recommendation: Yes. Pursuant to the settlement proposal, Southlake will make an across-the-board rate reduction of \$233,076 or 21.47 percent of total revenues for water and \$8,387 or 0.73 percent for wastewater, as well as a refund of \$233,076 for water and \$8,387 for wastewater over a 6-month period in 2015. The Utility should file a proposed customer notice reflecting the Commission's decision within 15 days of the Commission vote. The approved rates should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), Florida Administrative Code (F.A.C.), after staff has verified that the proposed customer notice is adequate and this notice has been provided to the customer. The Utility should provide proof that the customers have received notice within 10 days after the date of the notice. (Norris, Ortega)

Staff Analysis: Staff's review of Southlake's 2012 Annual Report, filed April 25, 2013, revealed possible overearnings. As a result, staff sent data requests to the Utility to obtain the data necessary to make a better evaluation of the Utility's financial position, to evaluate the likelihood of continued overearnings, and to examine the level of revenues necessary to support ongoing utility operations. Staff's analysis also incorporated the Utility's needs for continuing capital improvements and operating expenses.

Based on staff's final analysis,² Southlake proposed a settlement to address possible overearnings by letter dated February 25, 2015. Specifically, the Utility agreed to make an across-the-board rate reduction of \$233,076 or 21.47 percent of total revenues for water and \$8,387 or 0.73 percent for wastewater. Further, the Utility stated it will make a refund of \$233,076 for water and \$8,387 for wastewater over a 6-month period in 2015.

Table 1

Determination of Rate Reduction and Refund		
	<u>Water</u>	<u>Wastewater</u>
Possible Overearnings	<u>\$233,076</u>	<u>\$8,387</u>
Proposed Rate Reduction	<u>(\$233,076)</u>	<u>(\$8,387)</u>
Proposed Rate Reduction %	<u>(21.47%)</u>	<u>(0.73%)</u>
Proposed Refund	<u>\$233,076</u>	<u>\$8,387</u>

Since the Utility's last rate case, the Utility has experienced significant customer growth which staff believes has contributed to the overearnings. Staff believes that Southlake's proposed settlement is a reasonable resolution because it will address the possible overearnings on a prospective basis. Further, staff believes that it is in the public interest for the Commission

² Document No. 01253-15, in Docket No. 150069-WS.

to approve the settlement proposal because this settlement offer promotes administrative efficiency, avoiding the time and expense of a formal earnings investigation.

In keeping with the Commission's long-standing practice of encouraging parties to settle contested proceedings,³ staff recommends that the Commission approve the settlement proposal. Staff notes that this recommendation is consistent with other Commission decisions regarding possible overearnings.⁴

Schedule Nos. 1-A and 1-B reflect the Utility's existing rates and staff's recommended rates per the Utility's settlement proposal. Staff will continue to monitor the earnings of the Utility, and if any subsequent overearnings are identified, staff may open a formal earnings investigation.

Staff also recommends that within 15 days of the Commission vote, the Utility should file a proposed customer notice and revised tariff sheets which are consistent with the Commission's decision. The approved rates should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., after staff has verified that the proposed customer notice is adequate and the notice has been provided to the customers. Southlake should provide proof that the customers have received notice within 10 days after the date of the notice.

³ See Order Nos. PSC-09-0711-AS-WS, issued October 26, 2009, in Docket No. 080249-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.; PSC-08-0640-AS-WU, issued October 3, 2008, in Docket No. 070601-WU, In re: Application for staff-assisted rate case in Pasco County by Orangeland Water Supply; and PSC-07-0534-AS-WS, issued June 26, 2007, in Docket No. 060261-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.

⁴ See Order Nos. PSC-11-0012-PAA-SU, issued January 4, 2011, in Docket No. 100446-SU, In re: Settlement proposal for possible overearnings by Tierra Verde Utilities, Inc. in Pinellas County; PSC-10-0680-PAA-SU, issued November 15, 2010 in Docket No. 100379-SU, In re: Settlement proposal for possible overearnings by Mid-County Services, Inc. in Pinellas County; and PSC-05-0956-PAA-SU, issued October 7, 2005, in Docket No. 050540-SU, In re: Settlement offer for possible overearnings in Marion County by BFF Corp.

Date: April 2, 2015

Issue 2: Should this docket be closed?

Recommendation: No. If no timely protest is received from a substantially affected person upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. However, this docket should remain open to allow staff to verify completion of the refund discussed in Issue 1 and to verify that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once staff has verified that the refunds have been made in accordance with Rule 25-30.360, F.A.C., the docket should be closed administratively. (Barrera, Norris)

Staff Analysis: If no timely protest is received from a substantially affected person upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. However, this docket should remain open to allow staff to verify completion of the refund discussed in Issue 1 and to verify that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once staff has verified that the refunds have been made in accordance with Rule 25-30.360, F.A.C., the docket should be closed administratively.

Southlake Utilities, Inc.
16554 Cagan Crossings Boulevard, STE #2
Clermont, FL
34714

February 25, 2015

Ms. Carlotta Stauffer, Commission Clerk
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

RE: Docket No. 150000-OT; Investigation into possible overearnings of Southlake Utilities, Inc.

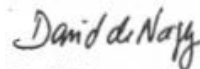
Dear Ms. Stauffer,

On July 31, 2013, Southlake Utilities, Inc (the "Utility") provided in its correspondence to the Florida Public Service Commission (the "Commission") that the Commission has the authority to determine and dispose of prospective overearnings. Again on February 2, 2014 the Utility confirmed to the Commission the same information and continued working with Commission Staff to settle the above referenced matter.

To that end, the Utility would agree to a customer refund as is more fully outlined in an EXCEL spreadsheet e-mailed January 22, 2015 by Commission Staff member Ms. Amber Norris to my attention. In addition, the Utility would agree to revised rates as provided in an e-mail dated January 29, 2015 again by Commission Staff member Ms. Amber Norris to my attention and included as part of this correspondence. The Utility requests to provide the refund over a six-month period of time during 2015 at the direction of the Commission.

Should you or the Commission Staff have any questions regarding this filing, please do not hesitate to give me a call.

Respectfully,



David deNagy
Southlake Utilities, Inc.

Cc: Mr. Jeff Cagan, President Southlake Utilities, Inc.
Mr. Andrew Maurey, Division of Economic Regulation (via e-mail)
Mr. Bart Fletcher, Division of Economic Regulation (via e-mail)
Ms. Denise Vandiver, Office of Public Counsel, (via e-mail)

SOUTHLAKE UTILITIES, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDED DECEMBER 31, 2013		DOCKET NO. 150069-WS	
MONTHLY WATER RATES			
	UTILITY EXISTING RATES	STAFF RECOMMENDED RATES	
<u>Residential, General, and Bulk Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$8.72	\$6.83	
1"	\$21.81	\$17.08	
1 1/2"	\$43.63	\$34.15	
2"	\$69.81	\$54.64	
3"	\$139.63	\$109.28	
4"	\$218.16	\$170.75	
6"	\$436.31	\$341.50	
Charge per 1,000 gallons - Residential			
0-10,000 Gallons	\$0.98	\$0.77	
10,001 - 20,000 gallons	\$1.47	\$1.15	
Over 20,000 Gallons	\$1.97	\$1.54	
Charge per 1,000 gallons - General and Bulk			
	\$1.29	\$1.01	
<u>Fire Protection Service</u>			
Base Facility Charge by Meter Size			
1 1/2"	\$3.63	\$2.85	
2"	\$5.82	\$4.55	
3"	\$11.63	\$9.11	
4"	\$18.18	\$14.23	
6"	\$36.37	\$28.46	
8"	\$58.18	\$45.53	
10"	\$80.00	\$65.45	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$11.66	\$9.14	
5,000 Gallons	\$13.62	\$10.68	
10,000 Gallons	\$18.52	\$14.53	

SOUTHLAKE UTILITIES, INC.		SCHEDULE NO. 1-B	
TEST YEAR ENDED DECEMBER 31, 2013		DOCKET NO. 150069-WS	
MONTHLY WASTEWATER RATES			
	UTILITY EXISTING RATES	STAFF RECOMMENDED RATES	
<u>Residential Service</u>			
Base Facility Charge - All Meter Sizes	\$14.45	\$14.34	
Charge per 1,000 gallons - Residential *10,000 gallon cap	\$1.35	\$1.34	
<u>General and Bulk Service</u>			
Base Facility Charge by Meter Size			
5/8 x 3/4"	\$14.45	\$14.34	
1"	\$36.12	\$35.85	
1 1/2"	\$72.23	\$71.70	
2"	\$115.56	\$114.72	
3"	\$231.12	\$229.44	
4"	\$361.12	\$358.50	
6"	\$722.25	\$717.00	
Charge per 1,000 Gallons - General and Bulk Service	\$1.62	\$1.61	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$18.50	\$18.36	
5,000 Gallons	\$21.20	\$21.04	
10,000 Gallons	\$27.95	\$27.74	