

Angela Charles

From: Selena Chambers
Sent: Friday, June 12, 2015 11:09 AM
To: Apryl Lynn; Braulio Baez; Carlotta Stauffer; Charlie Beck; Cindy Muir; CLK - Agenda Staff; Commissioners & Staffs; Lisa Harvey; Mary Anne Helton; Jim Dean; Patti Daniel; Shannon Hudson; Sonica Bruce; Jennifer Crawford
Cc: Kate Hamrick; Jacqueline Moore; Terri Fleming; Veronica Washington
Subject: FW: Request for Oral Modification to Item 11 on the June 18, 2015 Commission Conference, Docket No. 140158-WS, Application for an increase in rates by HC Waterworks, Inc.

Importance: High

Please see the approved request below.

From: Braulio Baez
Sent: Friday, June 12, 2015 9:55 AM
To: Jim Dean
Cc: Lisa Harvey
Subject: RE: Request for Oral Modification to Item 11 on the June 18, 2015 Commission Conference, Docket No. 140158-WS, Application for an increase in rates by HC Waterworks, Inc.

Approved

Sent from my T-Mobile 4G LTE Device

----- Original message -----

From: Jim Dean <jidean@PSC.STATE.FL.US>
Date: 06/12/2015 9:17 AM (GMT-05:00)
To: Braulio Baez <BBaez@PSC.STATE.FL.US>
Cc: Lisa Harvey <LSHarvey@PSC.STATE.FL.US>
Subject: FW: Request for Oral Modification to Item 11 on the June 18, 2015 Commission Conference, Docket No. 140158-WS, Application for an increase in rates by HC Waterworks, Inc.

Braulio: Would you please approve this. Jim

From: Andrew Maurey
Sent: Thursday, June 11, 2015 5:59 PM
To: Jim Dean
Cc: Cheryl Bulecza-Banks; Mark Cicchetti; Jennifer Crawford; Kyesha Mapp
Subject: FW: Request for Oral Modification to Item 11 on the June 18, 2015 Commission Conference, Docket No. 140158-WS, Application for an increase in rates by HC Waterworks, Inc.

Staff requests approval to make an oral modification to Item 11, scheduled for the June 18, 2015 Commission Conference. As a result of a misunderstanding regarding pro forma plant, plant retirements, depreciation, and chemical expense included in the Utility’s revised MFR filing, adjustments are required to staff’s filed recommendation on HC Waterworks, Inc.’s request for an increase in rates. In addition, staff proposes to reduce property taxes to reflect the taxes that are expected to be paid in 2015. Staff’s proposed modification relates to pro forma plant and the associated retirements and depreciation (Issue 2 – Accumulated Depreciation, page 12 and Issue 4 – Pro Forma Plant, page 15, and Issue 13, Depreciation Expense), operations and maintenance expense (Issue 11, page 28), and taxes other than income associated with property taxes due to Highlands County (Issue 15, page 35). The effect of these modifications is captured in fall out Issues 6 (Working Capital), 7 (Rate Base), 18 (Revenue Requirement), and 19 (Rates). Staff requests administrative authority to adjust rates after the Commission vote on all issues in this case.

As a result of a misunderstanding, staff made adjustments to include monies for pro forma plant additions and the associated retirements and depreciation that the Utility had already included in its revised MFR filing. To correct the duplication of plant additions, staff recommends the following modification to Issues 2 and 4:

Issue 2: Should any adjustments be made to accumulated depreciation?

Recommendation: Yes. Accumulated depreciation for water and wastewater should be increased by **\$31,165** **\$38,445** and \$6,024, respectively. (Cicchetti)

Staff Analysis: Accumulated depreciation should be adjusted to reflect staff’s audit findings the Utility did not dispute, retirements, and negative accumulated depreciation related to the purchase of the Utility in 2013. **In addition, staff’s adjustment to recognize the depreciation and retirement of pro forma plant in the amount \$7,279, should be removed as the Utility included this amount in its revised MFR filing.**

No changes are necessary to the verbiage in the remainder of this issue except for the conclusion paragraph as shown below.

Staff recommends accumulated depreciation for water and wastewater be increased by **\$31,165** **\$38,445** and \$6,024, respectively. In summary, accumulated depreciation should be adjusted to reflect audit findings the Utility did not dispute, retirements, and negative accumulated depreciation associated with the purchase of the Utility in 2013. The recommended adjustments to accumulated depreciation are listed below in Table 2.

**Table 2
Adjustments to Accumulated Depreciation**

| Description | Water Amount | Wastewater Amount |
|---|--|-------------------|
| Per Audit Finding 1 | \$969 | \$0 |
| Per Audit Finding 2 | \$0 | \$24 |
| Retirement on Meter Replacements | \$986 | |
| Depreciation Associated with Pro Forma Items Addressed in Audit | \$7,279 | \$0 |
| Negative Accumulated Depreciation | <u>(\$40,399)</u> | <u>(\$6,048)</u> |
| Total | <u>(\$31,165)</u> <u>(\$38,455)</u> | <u>(\$6,024)</u> |

*Negative amounts indicate an increase to accumulated depreciation.

Issue 4: Should any adjustments be made to the Utility’s pro forma plant additions?

Recommendation: Yes. The appropriate amount for pro forma plant additions is **\$41,246** **\$37,465**, net of retirements. (Cicchetti)

Staff Analysis: In its original filing, the Utility requested \$23,425 of pro forma plant offset by associated retirements of \$17,002 ($\$23,425 \times .75$). An additional \$11,643 of pro forma plant was identified during the audit. These pro forma items were offset by associated retirements at 75 percent of \$10,482, or \$7,862. During the engineering inspection, \$20,108 of pro forma plant related to the conversion of disinfection from free chlorines to chloramines at the Lake Josephine and Sebring Lakes water treatment facilities were identified. There are no offsetting retirements for the chloramine conversion costs because they are new, additional facilities that are not replacing existing facilities. Engineering staff has indicated these plant costs and the associated chemical costs are in addition to current costs. The Utility’s revised filing, filed May 4, 2015, identified total pro forma plant additions of \$38,451 net of retirements. The revised amount included additional completed projects and adjusted certain estimates to recognize final invoices. Staff adjusted the Utility’s revised amount to recognize a retirement amount of \$986 associated with meter replacements. The difference between ~~the \$41,246 shown in the table below and~~ the \$38,451 shown in HC’s revised MFRs and the **\$37,465 recommended by staff**, is ~~the \$11,643 identified in the audit minus the \$7,862 for retirements minus the \$986 for meter retirements~~ ($\$38,451 + \$11,643 - \$7,862 - \$986 = \$41,246$). The Utility has provided invoices for all of the pro forma plant additions. The following table lists the pro forma plant additions.

Table 4
Pro Forma Plant Additions

| Description | Amount |
|---|-----------------------|
| Covered Bridge float switch | \$755 |
| Well pump at well #2, LL WTP* | \$8,703 |
| 20 HP soft starter, LJ water plant* | \$1,140 |
| Generator automatic switch, LL* | \$4,161 |
| Generator automatic switch, LJ* | \$5,125 |
| Well #2, Lake Josephine* | \$4,921 |
| Generator automatic transfer switch* | \$4,573 |
| Generator automatic transfer switch* | \$5,909 |
| Viburnum and eucalyptus mulch | \$1,161 |
| Sebring Lakes chloramine treatment | \$8,059 |
| Service/Main leak repair, Ven. Pkwy | \$4,040 |
| Service line repair, Jasmine Street | \$792 |
| Service line repair, Park View Circle | \$5429 |
| Meter Replacements | \$1314 |
| Lake Josephine chloramine treatment | \$12,049 |
| Retirements at 75 percent | (\$26,885) |
| | (\$19,023) |
| Net Plant Additions | \$41,246 |
| | \$37,465 |

*Retirement at 75 percent

All of the Utility's pro forma plant additions have been placed in service and invoices have been provided to verify the costs. Staff recommends the appropriate amount for pro forma plant additions is \$41,246 \$37,465, net of retirements.

As a result of a misunderstanding regarding the annual amount of chemical expense resulting from conversion to a chloramine system, staff's adjustment to increase chemical expense by \$8,452, shown on Schedule No. 3-C (line number 7, under the heading Operation and Maintenance Expense) should be removed, thus reducing operation and maintenance expense. To reflect the removal of staff's adjustment to chemical expense, staff recommends the following modifications to Issue 11:

Issue 11: Should any adjustments be made to the Utility's test year operations and maintenance expenses?

Recommendation: Yes. Operation and maintenance expenses should be decreased \$226 \$8,678 for water and increased \$364 for wastewater. (Cicchetti, Archer)

No changes are necessary to the verbiage of this issue except for the conclusion paragraph as shown below:

Conclusion

Based on the analysis of the Utility's filing and responses to data requests, staff recommends total O&M expense of \$308,847 \$300,395 for water and \$75,454 for wastewater. These amounts represent a decrease of \$226 \$8,678 for water O&M expense and an increase \$364 for wastewater O&M expense.

To reflect the appropriate amount of depreciation expense resulting from staff's changes to pro forma plant discussed above, the following changes should be made to Issue 13:

Issue 13: Should any adjustments be made to the Utility's depreciation expense?

Recommendation: Yes. Depreciation expense should be decreased \$8,158 \$8,216 for water and increased \$4,757 for wastewater. (Cicchetti, Archer)

Staff Analysis: Per staff Audit Findings 1 and 2, which the Utility did not dispute, increases of \$36 for water and \$357 for wastewater should be added to the Utility's test year depreciation expense to address certain items associated with plant balances. Per staff Audit Finding 9, which the Utility did not dispute, wastewater CIAC amortization expense should be decreased by \$4,568 to recognize the correct composite rate. This results in an increase in wastewater depreciation expense of \$4,568. Water depreciation expense also should be increased \$58 to recognize the additional pro forma items identified in the audit and decreased \$8,252 for water and \$168 for wastewater to recognize staff's adjustments to the used and useful percentages. The net result of these adjustments is a decrease of \$8,158 \$8,216 for water depreciation expense and an increase of \$4,757 for wastewater depreciation expense.

Staff is also modifying its recommendation on property taxes. The amount of property taxes calculated in the staff audit incorporated an adjustment for the annualization of a property tax increase that occurred in 2013. The Utility's property taxes included in the test year already included the effect of the property tax increase and therefore, the additional annualization adjustment should not have been made. In addition, the Utility's proposed wastewater tax bill for 2015 has decreased from \$2,357 to \$713 due to a

change in the appraised value of the property. Staff is recommending a reduction to wastewater TOTI to reflect this proposed decrease. To reflect the appropriate amount of property taxes to include in the revenue requirement, the following modification should be made:

Issue 15: Should any adjustments be made to taxes other than income taxes (TOTI)?

Recommendation: Yes. Taxes other than income taxes should be decreased ~~\$6,740~~ ~~\$12,124~~ for water and increased ~~\$1,703~~ ~~\$59~~ for wastewater. (Cicchetti, Archer)

Staff Analysis: Taxes other than income taxes have been reduced by staff in the amount of \$4,736 for water and increased by \$1,995 for wastewater to reflect the revenue adjustments cited above. The balances of TOTI were also decreased by \$2,042 for water and by \$292 for wastewater to reflect changes to non-used and useful plant. Finally, the balance was increased by \$38 for water to reflect property tax on the additional pro-forma plant. Property tax for water should be reduced by \$5,384 to remove the property tax pass-through added by the Utility. Property tax for wastewater should be reduced by \$1,644 to reflect the appropriate wastewater property tax expense per Highlands County.

The net impact of the recommended adjustments results in a decrease to the balance of TOTI of ~~\$6,740~~ ~~\$12,124~~ for water and an increase of ~~\$1,703~~ ~~\$59~~ for wastewater.

FALL OUT ISSUES

Issue 6: What is the appropriate working capital allowance?

Recommendation: The appropriate amount of working capital is ~~\$38,606~~ ~~\$37,549~~ for water and \$9,432 for wastewater. (Cicchetti, Archer)

Staff Analysis: Working capital is defined as the short-term investor supplied funds necessary to meet the operating expenses of the utility. Consistent with Rule 25-30.433(2) F.A.C., as applicable to Class B water and wastewater utilities, the one-eighth of operation and maintenance expense (O&M) approach was used to determine the working capital allowance. Applying this approach, staff recommends a working capital allowance of \$38,606 (~~\$308,850~~ ~~\$309,395~~/8) for water and \$9,432 (\$75,454/8) for wastewater. Staff ~~increased~~ ~~decreased~~ the Utility's requested working capital allowance by ~~\$338~~ ~~\$719~~ for water and decreased the working capital allowance by \$63 for wastewater to achieve one-eighth of staff's recommended O&M expense.

Staff recommends the appropriate amount of working capital is ~~\$38,606~~ ~~\$37,549~~ for water and \$9,432 for wastewater.

Issue 7: What are the appropriate water and wastewater rate bases for the test year ended June 30, 2014?

Recommendation: The appropriate water rate base for the test year ended June 30, 2014 is ~~\$1,835,835~~ ~~\$1,823,717~~ for water and the appropriate wastewater rate base is ~~\$48,180~~ ~~\$42,156~~. (Cicchetti, Archer)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service, land, contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. In its revised MFR's, the Utility recorded rate base of \$1,919,146 for water and \$45,460 for wastewater. Staff has calculated water and wastewater rate bases using the Utility's revised MFRs with adjustments as recommended in the preceding issues. Accordingly, staff recommends that the appropriate rate base for the test year ended June 30, 2014 is ~~\$1,835,835~~ ~~\$1,823,717~~ for water and ~~\$48,180~~ ~~\$42,156~~ for wastewater. Staff's

recommended water and wastewater rate bases are shown on Schedule Nos. 1-A and 1-B, respectively. Staff's adjustments are shown on Schedule 1-C.

Issue 18: What is the appropriate revenue requirement for water and wastewater?

Recommendation: The following revenue requirement should be approved:

**Table 18
Revenue Requirement**

| | Test Year Revenue | \$ Increase/(Decrease) | Revenue Requirement | Percentage Increase/(Decrease) |
|------------|----------------------|---------------------------|------------------------|-----------------------------------|
| Water | \$439,875 | \$97,731 | \$537,606 | 22.22% |
| | | \$82,195 | \$522,070 | 18.69% |
| Wastewater | \$121,100 | (\$35,921) | \$85,178 | (29.66%) |
| | | (\$37,642) | \$83,457 | (31.08%) |

(Cicchetti, Archer)

Staff Analysis:

In its revised filing, the Utility requested revenue requirements to generate annual revenue of \$545,113 for water and \$76,774 for wastewater. These requested revenue requirements represent an increase of 37.78 percent for water and a decrease of 36.63 percent for wastewater. Consistent with staff's recommendations concerning rate base, the cost of capital, and net operating income, staff recommends approval of rates designed to generate revenue requirements of \$537,606 \$522,070 for water and \$85,178 \$83,457 for wastewater. The recommended revenue requirements represent an increase of \$97,731 \$82,195, or 22.22 18.69 percent, for water and a decrease of \$35,921 \$37,642, or 29.66 31.08, percent for wastewater. The recommended revenue requirements will allow the Utility the opportunity to recover its expenses and earn an overall rate of return of 7.79 percent on its investment in rate base. The computations of the revenue requirements are shown on Schedule Nos. 3-A and 3-B and staff adjustments to net operating income are shown on Schedule No. 3-C.

RATES

Staff requests administrative authority to adjust rates after the Commission vote on all issues in this case.