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| State of FloridapscSEAL | Public Service CommissionCapital Circle Office Center ● 2540 Shumard Oak BoulevardTallahassee, Florida 32399-0850-M-E-M-O-R-A-N-D-U-M- |
| DATE: | January 26, 2017 |
| TO: | Office of Commission Clerk (Stauffer) |
| FROM: | Division of Engineering (Hill, Graves, King)Division of Accounting and Finance (Frank, Norris)Division of Economics (Bruce, Hudson, Johnson)Office of the General Counsel (Leathers, Crawford) |
| RE: | Docket No. 160065-WU – Application for increase in water rates in Charlotte County by Bocilla Utilities, Inc. |
| AGENDA: | 02/07/17 – Regular Agenda – Proposed Agency Action – Except for Issue Nos. 21 and 23 – Interested Persons May Participate |
| COMMISSIONERS ASSIGNED: | All Commissioners |
| PREHEARING OFFICER: | Polmann |
| CRITICAL DATES: | 02/07/17 (5-Month Effective Date Waived Through February 07, 2017) |
| SPECIAL INSTRUCTIONS: | None |

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 Case Background

Bocilla Utilities, Inc. (Bocilla or Utility) is a Class B utility providing water service to approximately 400 water customers in Charlotte County. Effective February 12, 2013, Bocilla was granted water Certificate No. 662-W.[[1]](#footnote-1) Bocilla’s rates have never been established for ratemaking purposes by the Florida Public Service Commission (Commission or PSC).

On May 24, 2016, Bocilla filed its application for the rate increase at issue. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure. The test year established for interim and final rates is the 12-month period ended December 31, 2015.

The Utility’s application did not initially meet the minimum filing requirements (MFRs). On June 23, 2016, staff sent Bocilla a letter indicating deficiencies in the filing of its MFRs. The Utility filed a response to staff's deficiency letter which satisfied the MFRs on July 19, 2016, and thus the official filing date was established as July 19, 2016, pursuant to Section 367.083, Florida Statutes (F.S.).

The Utility asserts that it is requesting an increase to recover reasonable and prudent costs for providing service and a reasonable rate of return on investment, including pro forma plant improvements. Bocilla is requesting final rates designed to generate annual revenues of $552,015. This represents a revenue increase of $161,000 (41.17 percent). The Utility requested interim rates, which were granted on August 29, 2016.[[2]](#footnote-2) This recommendation addresses Bocilla’s requested final rates. The 5-month effective date has been waived by the Utility through February 7, 2017. The Commission has jurisdiction pursuant to Section 367.081 and 367.091, F.S.

Discussion of Issues

Issue 1:

 Is the quality of service provided by Bocilla satisfactory?

Recommendation:

 Yes. Staff recommends that the quality of Bocilla’s product and the condition of the water treatment facilities is satisfactory. It appears that the Utility has attempted to address customers’ concerns. Therefore, staff recommends that the overall quality of service for the Bocilla water system in Charlotte County is satisfactory. (Hill)

Staff Analysis:

 Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water rate cases, the Commission shall determine the overall quality of service provided by a Utility. This is derived from an evaluation of three separate components of the Utility’s operations. These components are the quality of the Utility’s product, the operational conditions of the Utility’s plant and facilities, and the Utility’s attempt to address customer satisfaction. Bocilla’s compliance with the Department of Environmental Protection (DEP) regulations, and customer comments or complaints received by the Commission, are also reviewed. The rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with DEP and the county health department over the preceding three-year period shall be considered. Additionally, Section 367.0812(1), F.S., requires the Commission to consider the extent to which the Utility provides water service that meets secondary water quality standards as established by DEP.

Quality of Utility’s Product

Bocilla’s service area is located in Charlotte County. Bocilla purchases all of its water from the Englewood Water District (EWD). Staff’s evaluation of Bocilla’s water quality consisted of a review of the Utility’s compliance with DEP standards. On October 23, 2014, the Utility provided affirmation to DEP that it removed its water treatment facility from service and became a consecutive user.

As a consecutive water user, Bocilla only maintains its distribution system and no longer operates supply wells. As a consecutive system, the secondary standards of the Utility’s water are not regulated by DEP. On December 12, 2016, DEP communicated to the Utility that its bacteriological test results were satisfactory. During the test year it was determined that nitrification issues were causing odor and color issues. The Utility exercised extensive flushing to address the issue. The Utility also worked with DEP and the Florida Rural Water Association to determine a cost effective resolution to the nitrification issue. In order to address nitrification as well as bio-film buildup in its system, Bocilla is installing a chloramine feed system, which will be in-service by March 1, 2017.

Operating Conditions of the Utility’s Plant and Facilities

On December 1, 2016, DEP conducted a compliance evaluation inspection of Bocilla’s facilities. Based on the information provided during the inspection, DEP determined that Bocilla’s facilities were in compliance with DEP rules and regulations. Giving consideration to DEP’s inspection results, staff recommends that the operating conditions of Bocilla’s facilities are satisfactory. Staff performed a site visit on October 4, 2016. During the visit, plant components appeared to be well maintained, with the exception of some salt water corrosion on some components identified by the Utility to be repaired or replaced, as described in Issues 5 and 12.

The Utility’s Attempt to Address Customer Satisfaction

In order to determine the Utility’s attempt to address customer satisfaction, staff reviewed customer complaints and comments from five sources: the Commission’s Consumer Activity Tracking System (CATS), complaints filed with DEP, complaints filed with the Utility, complaints raised during the customer meeting, and all correspondence submitted to the Commission Clerk regarding this rate case. A summary of all complaints and comments received is shown in Table 1-1 below.

Table 1-1

Number of Complaints by Source

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Subject of Complaint** | **PSC’s Records (CATS) (test year and 4 prior years)** | **Utility’s Records (test year and 4 prior years)** | **DEP (test year and 4 prior years)** | **Docket Correspondence** | **Customer Meeting** |
| Billing Related | 2 |  |  |  | 1 |
| Opposing Rate Increase |  |  |  | 6 | 7 |
| Water Quality |  | 1 |  | 2 | 5 |
| Quality of Service |  |  |  | 1 | 4 |
| Boil Water Notice |  |  |  | 3 | 4 |
| Water Pressure |  |  |  | 4 | 1 |
| Total\* | 2 | 1 | 0 | 7 | 9 |

\* A complaint may appear twice in this table if it meets multiple categories

Staff reviewed the Commission’s complaint records from January 1, 2011, through December 31, 2015, and found two complaints. Based on staff’s review, both complaints were related to billing and both complaints have been closed. Staff also requested complaints against the Utility filed with DEP for the 2015 test year and four years prior. DEP indicated that it has not received any complaints against the Utility during the requested time frame. The Utility recorded one complaint for this time period regarding its quality of service. The one complaint addressed the color of the water. As previously addressed, the Utility is installing a chloramine feed system to address color and odor issues. Based on the records of the Utility and the Commission, it appears that the Utility has responded in a timely manner to each of these complaints.

A customer meeting was held in Englewood, Florida, on October 5, 2016. Approximately thirty of the Utility’s customers attended the meeting and nine spoke. The subjects of the complaints included (1) billing issues, (2) affordability of the rate increase, (3) water quality/odor/color, (4) responsiveness of the Utility, (5) the boil water notice procedure, and (6) insufficient water pressure. As previously addressed, the Utility is installing a chloramine feed system to address color and odor issues. Regarding the customer complaints about the Utility’s boil water notice, staff has reviewed the Utility’s boil water notice procedure and believes that it is in compliance with Section 381.0062(2)(j), F.S. The Utility provided records of previously distributed boil water notices which fit these requirements. Regarding water pressure concerns, the Utility stated that, outside of low pressure events related to damage to the system, its pressure is maintained using its pressure boost station. The Utility also provided a certified fire flow report which indicates adequate pressure for fire protection.

Staff believes that the Utility’s attempts to address customer satisfaction should be considered satisfactory. Staff’s conclusion is based on the low number of complaints received by the Commission, DEP, and the Utility as well as the Utility’s responsiveness to customer concerns.

Conclusion

Based on review of DEP records, staff recommends that the quality of Bocilla’s product and the condition of its facilities is satisfactory. Additionally, it appears that the Utility has attempted to address customers’ concerns. Therefore, staff recommends that the overall quality of service for the Bocilla water system in Charlotte County is satisfactory.

Issue 2:

 Should the audit adjustments to rate base to which the Utility and staff agree be made?

Recommendation:

 Yes. Accumulated amortization of Contributions-in-aid-of-Construction (CIAC) should be decreased by $44,625, and CIAC amortization expense should be decreased by $3,538. Further, Operations and Maintenance (O&M) expense should be decreased by $2,271. (Frank, Hill)

Staff Analysis:

* In its response to the staff audit report of the Utility, Bocilla agreed to the audit adjustments as set forth in Tables 2-1 and 2-2 below.

**Table 2-1**

**Description of Audit Adjustments**

|  |  |
| --- | --- |
| Audit Adjustments | Description of Adjustments |
| Finding 6 | Reflect appropriate accumulated amortization of CIAC. |
| Finding 8 | Reclassify certain amounts and remove unsupported & out-of-period costs. |

Source: Staff Audit

Based on the audit adjustments agreed to by the Utility, staff recommends that the adjustments set forth in Table 2-2 be made to rate base and net operating income.

**Table 2-2**

**Adjustments to Rate Base and Net Operating Income (NOI)**

|  |  |  |  |
| --- | --- | --- | --- |
| Audit Adjustments | Accum. Amort. of CIAC | O&M Expense | CIAC Amort.Expense |
| Finding 6 | ($44,625) |  | $3,538 |
| Finding 8 |  | ($2,271) |  |

Source: Staff Audit and Utility’s Response to Audit

Issue 3:

 Should the full amount of the original cost study provided by the Utility be accepted as a factor in determining Utility Plant in Service?

Recommendation:

 No. Staff recommends that the original cost study is sufficient to support the amount of Utility Plant in Service (UPIS) presented in the MFRs; however, errors and discrepancies discovered by staff suggest that the original cost study is not sufficiently reliable to support the higher plant values. Staff recommends that UPIS balances should be based on the MFRs for all accounts except 311.2 – Pumping Equipment, with adjustments described below. Accordingly, UPIS should be $1,197,605. Corresponding adjustments should also be made to increase accumulated depreciation by $2,856 and decrease depreciation expense by $3,861. Additionally, property taxes should be decreased by $5,006. (Hill, Frank)

Staff Analysis:

 The staff auditor examined all records kept by Bocilla to determine which plant costs could be supported. The auditor found $577,798 from account 331.4 - Transmission and Distribution Mains was not supported by invoices and recommended it be removed from plant. Additionally, there were physical assets such as pumping equipment, which was neither supported by records nor reflected in the Utility’s current books. On its own initiative, Bocilla decided to contract for an original cost study to determine a value for UPIS that better reflects the original cost of the Utility’s investment in assets to serve customers for all plant additions prior to and including 2014. The procedure for determining original cost consists of identifying the existence of the assets, estimating their specifications, and calculating the likely historical cost of these assets at the time they were placed into utility service.

The referenced source for cost information for the study was the Engineer’s Estimate of Reproduction Cost prepared by Giffels-Webster Engineers, Inc. Costs of each component were calculated based on recent water utility construction, such as a Sarasota County Utilities project. In preparing the subsequent original cost study, Management & Regulatory Consultants, Inc. adjusted these costs using the Handy-Whitman Water Utility Index. The index uses historical trends to indicate how each type of utility component has changed in price, and was used to convert the recent cost references to the year each component was placed into service for Bocilla. Staff believes that the described methodology is reasonable for establishing original cost of service. Although staff believes that the methodology for establishing original cost of service is reasonable, staff has several concerns regarding the overall reliability of the original cost study for estimating costs. Staff’s concerns are discussed in detail below.

Staff produced four rounds of information requests regarding the original cost study. Staff has identified in Bocilla’s responses several errors in component costs, installation dates, and depreciation methodology. The errors in component costs are summarized in Table 3-1. The original cost study did not include known plant additions (meter installations) for the year 2015. The Utility explained that it did not reflect the addition of the new meters because the meters were replacements and not for new customers. Treating plant additions in this manner misrepresents UPIS as well as accumulated depreciation.

Table 3-1

Description of Original Cost Study Errors

|  |  |
| --- | --- |
| **Error** | **Description of Error** |
| U-17 understated by $500, U-18 understated by $500, U-19 overstated by $500 | Staff requested additional information about the meter installation, U-19. In its response, Bocilla discovered that water service (short side) U-17 should be $800 instead of $300, water service (long side) U-18 should be $1,000 instead of $500, and meter installed U-19 should be $500 instead of $1,000. These discrepancies are based on a response from Giffels-Webster Engineers, Inc. to Bocilla. This error does not impact total UPIS but does affect accumulated depreciation because these components have different depreciation rates. |
| U-19 overstated by $135 | U-19 represents the installation price of a meter, as estimated by Giffels-Webster Engineers, Inc. In response to staff’s third data request, the Utility stated that the actual cost to install a meter is $365. This value, modified using the Handy-Whitman Index, more accurately estimates the historical cost of installing a meter. This error overstates UPIS by $35,350. |
| Remove U-16$19,267.44 from 2004 | U-16 represents the assets related to an interconnect to supply Knight Island Utilities (KIU) with water it purchases from EWD. As such, it should be considered a non-utility asset. |
| Remove U-15$878.36 from 1991 | Staff requested additional information about directional drill U-15, at which point the Utility discovered that this item was already accounted for in another line item and should be removed. |
| Allocate 36 percent of Zone 9 assets to KIU | Zone 9 items represent the interconnect with EWD, including the booster station and the sub-aqueous crossing to the mainland. These assets all directly benefit KIU. The Utility agrees that 36 percent of the value of these assets should be allocated to KIU based on the relative Equivalent Residential Connection (ERC) capacities of Bocilla and KIU, 715 and 400, respectively. |

Information provided by the Utility, in response to requests from staff, suggests that plant was installed during time periods that reflect no additions in the original cost study. Additionally, staff found that the original cost study did not use the correct group depreciation methodology when calculating accumulated depreciation.

Although staff has concerns regarding the original cost study, staff believes that the information provided can reasonably be used to conclude that the plant in service for transmission and distribution is at or above the amount contained in the Utility’s MFRs. Based on the original cost study, plant in service for transmission and distribution totaled $1,465,171. This total is nearly 35 percent greater than what the Utility included in its MFRs. Furthermore, due to a lack of records, the audit only traced additions back to 2007. The original cost study shows additions totaling more than $1 million prior to 2007.

Staff believes that the Commission should approve UPIS balances based on the MFRs for all accounts except 311.2 – Pumping Equipment. Pumping equipment is installed above-ground and staff’s October 4, 2016 site visit included this boost station. Additionally, staff has found no errors or discrepancies in this portion of the original cost study. For these reasons, staff believes that this recent investment by the Utility should be included in UPIS based on the original cost study. The total amount of this investment should therefore be $114,928.

Staff has identified two additional adjustments which should be made. KIU is a Utility which serves customers on the same island as Bocilla. KIU also purchases its water from EWD, by way of Bocilla’s system through an interconnect metered by EWD. KIU is not a customer of Bocilla yet it receives the benefit of Bocilla’s boost station, the interconnect with EWD, and the sub-aqueous crossing of Lemon Bay. Bocilla agrees that 36 percent of the value of these assets should be allocated to KIU based on the relative ERC capacities of Bocilla and KIU, 715 and 400, respectively. Thus, account 331.4 – Transmission & Distribution Mains should be decreased by $197,867 (36% of $390,770 for the lines from EWD to the boost station, and 36 percent of $160,784 for the sub-aqueous crossing) and 311.2 – Pumping Equipment should be reduced by $41,229 (36% of $114,928).

As a result of the above, corresponding adjustments should also be made to increase accumulated depreciation by $2,856 and decrease depreciation expense by $3,861. Additionally, property taxes should be decreased by $5,006.

Conclusion

Staff recommends that the original cost study is sufficient to support the amount of UPIS presented in the MFRs, but that errors and discrepancies discovered by staff suggest that the original cost study is not sufficiently reliable to support the higher plant values. Staff recommends that UPIS balances should based on the MFRs for all accounts except 311.2 – Pumping Equipment, with adjustments described above. Accordingly, UPIS should be $1,197,605. Corresponding adjustments should also be made to increase accumulated depreciation by $2,856 and decrease depreciation expense by $3,861. Additionally, property taxes should be decreased by $5,006.

Issue 4:

 Should further adjustments be made to the Utility’s rate base?

Recommendation:

 Yes. Land should be decreased by $44,000 to reflect the removal of land from rate base. CIAC should be increased by $83 associated with the meter installation charges collected by the Utility. Corresponding adjustments should be made to increase both accumulated amortization of CIAC and CIAC amortization expense by $8. (Frank, Hill)

Staff Analysis:

 Staff has reviewed the test year rate base components along with other support documentation. As such, staff believes further adjustments are necessary to the Utility’s rate base, as discussed below.

Land

Bocilla no longer operates the plant for which this land was used, and agrees with staff that the land should be removed from rate base. Accordingly, land should be decreased by $44,000 to reflect the removal of land from rate base.

CIAC

In its MFRs, the Utility recorded $458,848 of CIAC. Staff learned during a conference call with the Utility and OPC that the Utility had been incorrectly recording meter installation charges as revenues. Accordingly, CIAC should be increased by $83 associated with a meter installation charge that was previously recorded in test year revenues by the Utility. Corresponding adjustments should be made to increase both accumulated amortization of CIAC and CIAC amortization expense by $8.

Issue 5:

 Should any adjustments be made to the Utility’s pro forma plant?

Recommendation:

 Yes. The appropriate amount of pro forma plant additions is $79,050. This results in a decrease of $5,300 from the Utility’s requested amount. Therefore, UPIS should be increased by $79,050. Corresponding adjustments should also be made to increase accumulated depreciation by $2,866 and increase depreciation expense by $2,866. Additionally, property taxes should be increased by $1,271. (Hill, Frank)

Staff Analysis:

 The Utility requested 6 pro forma plant additions which were not part of the Utility’s original filing but were provided in response to a staff data request. The total amount of the pro forma plant additions totaled $84,349. The Utility provided invoices and justification for each of the plant additions. Based on invoices the total amount of the plant additions should be $79,470.

The pro forma plant additions include $7,970 for a boost station rebuild, $13,809 for a boost station control package, $11,340 for the 6” valve replacement, $10,060 for looping dead end lines, $14,721 for a chloramine feed system, and $26,449 for a meter replacement program. The Utility has stated that all projects will be completed in 2017 with the exception of the meter replacement program which is a four-year program. Based on staff’s review, the proposed additions will improve the reliability of Bocilla’s system or improve the quality of the Utility’s product. Staff’s recommended adjustments, to the Utility’s requested pro forma plant additions, are discussed below.

Chloramine Feed System

At the point of connection to EWD, the water purchased by Bocilla passes DEP requirements for chlorine or chloramine residuals. However, once the water reaches the point of use at some customer residences, periodic tests reveal that disinfection residuals are at times insufficient, and formation of nitrites and bio-films have impacted the quality of those customers’ water. Bocilla has worked with the Florida Rural Water Association to design a chloramine feed system to address this problem while controlling engineering costs. The designs of this and related systems have changed since the MFRs were filed. The amount the Utility is requesting is now $14,721 based on an updated bid by DMK Associates Inc. As discussed in Issue 3, KIU directly benefits from certain Bocilla assets and it is appropriate to allocate 36% of the value of those assets to KIU. The chloramine feed system benefits KIU in this way, and so $5,300 (36% x $14,721) should be removed.

**Meter Replacement**

Bocilla has requested $26,449 to replace 240 meters over a four-year period, as many are near the end of their useful life and it is more economical to purchase the materials needed in bulk. Section 367.081(2)(a)2.a., F.S., states that “the commission shall consider utility property... to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic base year... unless a longer period is approved by the Commission, to be used and useful in the public service, if such property is needed to serve current customers....” Because this pro forma plant item is needed to serve current customers, staff recommends that this property be allowed in rate base as used and useful.

Based on the recommended amount of pro forma plant, staff calculated the corresponding accumulated depreciation, depreciation expense, and property tax expense. Accumulated depreciation should be increased by $2,866 and depreciation expense should be increased by $2,866. Additionally, property taxes should be increased by $1,271.

Issue 6:   What is the used and useful (U&U) percentage of the Utility's water transmission and distribution system?

Recommendation:

 Bocilla’s water transmission and distribution system should be considered 100 percent U&U. There appears to be no excessive unaccounted for water (EUW), therefore, staff recommends that no adjustment be made to operating expenses for purchased water. (Hill)

Staff Analysis: Bocilla’s water transmission and distribution system should be considered 100 percent U&U. There appears to be no EUW, therefore, staff is not recommending an adjustment be made to operating expenses for purchased water, as discussed below.

Excessive Unaccounted for Water

Rule 25-30.4325(1)(e), F.A.C., defines Excessive Unaccounted for Water (EUW) as “unaccounted for water in excess of 10 percent of the amount produced.” Unaccounted for water is all water that is produced that is not sold, metered or accounted for in the records of the Utility. EUW is calculated by subtracting both the gallons used for other services, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year. The Utility produced 30,892,000 gallons of water and sold 24,936,000 gallons of water to customers. The Utility recorded 720,000 gallons of water used for normal flushing and 3,650,000 gallons of water used for flushing to achieve DEP required chlorine residuals. The result ([30,892,000 – 24,936,000 - 720,000 -3,650,000] / 30,892,000) for unaccounted for water is 5.13 percent, not in excess of 10 percent and so there is no EUW.

**Distribution System Used & Useful**

Bocilla purchases water from EWD through an interconnection. This interconnection is equivalent to a single well, and so it should be considered 100 percent U&U pursuant to Rule 25-30.4325(4), F.A.C.[[3]](#footnote-3) There are no large undeveloped parcels in Bocilla’s territory; however, there are undeveloped lots interspersed throughout the distribution system. All lines are required to serve existing customers, and no portions of the distribution system could be isolated as not U&U; therefore, distribution system should be considered 100 percent U&U.

Conclusion

Bocilla’s water transmission and distribution system should be considered 100 percent U&U. There appears to be no EUW, therefore, staff recommends that no adjustment be made to operating expenses for purchased water.

Issue 7:

 What is the appropriate working capital allowance?

Recommendation:

 The appropriate working capital allowance is $47,399. As such, the working capital allowance should be increased by $1,933. (Frank)

Staff Analysis:

 Rule 25-30.433(2), F.A.C., requires Class B utilities to use the formula method, or one-eighth of O&M expense, to calculate the working capital allowance. The Utility has properly filed its allowance for working capital using the formula method. Staff has recommended adjustments to the Utility’s O&M expense. As a result, staff recommends working capital of $47,399. This reflects an increase of $1,933 to the Utility’s requested working capital allowance.

Issue 8:

 What is the appropriate rate base for the test year period ended December 31, 2015?

Recommendation:

 Consistent with staff’s other recommended adjustments, the appropriate rate base for the test year ended December 31, 2015, is $612,514. (Frank)

Staff Analysis:

 In its MFRs, the Utility requested a rate base of $690,154. Based on staff’s previously recommended adjustments, the appropriate rate base is $612,514. The schedule for rate base is attached as Schedule No. 1-A, and the adjustments are shown on Schedule No. 1-B.

Issue 9:

 What is the appropriate return on equity?

Recommendation:

 Based on the Commission’s leverage formula currently in effect, the appropriate return on equity (ROE) is 11.16 percent with an allowed range of plus or minus 100 basis points. (Frank)

Staff Analysis:

 The ROE included in the Utility’s MFRs is 10.50 percent. Based on the current leverage formula in effect and an equity ratio of 17.70 percent, the appropriate ROE is 11.16 percent.[[4]](#footnote-4) Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

Issue 10:

 What is the appropriate weighted average cost of capital based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2015?

Recommendation:

 The appropriate weighted average cost of capital for the test year ended December 31, 2015, is 5.77 percent. (Frank)

Staff Analysis:

* In its filing, Bocilla requested an overall cost of capital of 5.97 percent. The Utility’s capital structure consists of long-term debt, common equity, and deferred income taxes. In addition to the recommended cost rate for common equity, staff believes an adjustment is necessary to the cost rate for long-term debt. In its filing, Bocilla reflected a cost rate of 5.00 percent for long-term debt. However, based on the stated interest rate and issuance costs associated with this long-term debt, staff recommends that the appropriate cost rate for this long-term debt is 4.75 percent.

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2015, including the aforementioned adjustments, staff recommends a weighted average cost of capital of 5.77 percent. Schedule No. 2, attached to this recommendation details staff’s recommended overall cost of capital.

Issue 11:

 What is the appropriate amount of test year revenues?

Recommendation:

 The appropriate test year revenues for Bocilla’s water system are $398,153. (Johnson)

Staff Analysis:

 In its MFRs, Bocilla’s adjusted test year revenues were $395,395. The water revenues include $393,227 of annualized service revenues and $2,168 of miscellaneous revenues. In review of the Utility’s adjusted test year billing data, staff found that the Utility used the incorrect billing analysis for each rate block. Based on the audit, staff made the adjustments to reflect the appropriate number of gallons used in each rate block. Therefore, the test year service revenues for Bocilla should be $398,103, which results in an increase of $4,876 ($398,103 - $393,227).

Staff also made adjustments to miscellaneous revenues for Bocilla. The Utility recorded monies received from service availability charges as miscellaneous revenues instead of CIAC. Therefore, staff decreased miscellaneous revenues by $1,292 for an allowance for funds prudently invested (AFPI) charge and $165 for a meter installation charge. In addition, the Utility included $711 in its miscellaneous revenues for other charges. However, according to staff’s audit, Bocilla only billed two initial connection charges of $25. Therefore, staff reduced miscellaneous revenues by $661 ($711-$50). For the reasons outlined above, the miscellaneous revenues for the Utility should be $50 ($2,168 - $1,292 - $165 - $661). Based on the above, the appropriate test year revenues for Bocilla are $398,153 ($398,103 + $50). Table 11-1 below, represents a summary of staff’s adjustments for test year revenues.

**Table 11-1**

**Test Year Revenues**

|  |  |
| --- | --- |
|  | **Water** |
| Service Revenues |  |
|  Utility Recorded Service Revenues | $393,227 |
|  Staff’s Adjustment | $4,876 |
| **Total Service Revenues** | $398,103  |
|  |  |
| Miscellaneous Revenues |  |
|  Utility Recorded Miscellaneous Revenues | $2,168 |
|  Staff’s Miscellaneous Revenue Adjustments | $2,118 |
| **Total Miscellaneous Revenues** | $50 |
| **Total Test Year Revenues** | $ 398,153 |

Issue 12:

 Should any adjustments be made to the Utility’s pro forma expenses?

Recommendation:

 Yes. The Utility’s requested pro forma expenses should be reduced by $21,121 to a total of $34,598. (Hill, Frank)

Staff Analysis:

The Utility’s requested pro forma expenses should be reduced by $21,121 to a total of $34,598.

**Salaries & Wages – Employees**

In its filing, the Utility requested an additional $10,400 a year for its administrative employee to work one extra day a week. Through a response to a data request, Bocilla subsequently stated that this figure was in error and that only 400 additional hours at an hourly rate of $25 is being requested. Given the amount of responsibilities for this position, staff believes the additional 400 hours for the part-time administrative employee is reasonable. However, as discussed more fully in Issue 13, staff recommends an hourly rate of $20 instead of $25. As such, staff recommends the appropriate pro forma salary amount should be $8,000. Accordingly, staff recommends the requested pro forma salary adjustment be reduced by $2,400 ($10,400 - $8,000).

**Regulatory Commission Expense – Other**

In its MFRs, Bocilla requested $16,024 for the loss on the early abandonment of the water treatment plant. Subsequently, the Utility withdrew its request. Thus, staff recommends the removal of the $16,024 amount.

**Contractual Services – Accounting**

In its filing, the Utility requested $4,200 for Contractual Services – Accounting. In response to a data request, Bocilla stated that it presently does not utilize any monthly accounting services but is requesting $350 per month be authorized as the Utility does not have the accounting expertise to perform the necessary monthly accruals to derive monthly financial statements. Bocilla further asserted that accruals are done at the end of the year and are being performed for free by one of the board of directors. The Utility asserts that it is not a reasonable business practice to have a director provide this free service and as such should be done monthly and be a paid function. Based on the above, staff recommends the requested $4,200 for Contractual Services – Accounting is reasonable.

**Insurance – Vehicle**

In its MFRs, Bocilla requested $2,600 for Insurance – Vehicle. In response to a data request, the Utility provided an estimate for insurance expense of $2,018 and stated that the test year expense for Insurance – Vehicle should only be increased by $274 to reflect the estimate for the insurance on the new vehicle. Accordingly, staff recommends that the requested pro forma amount be reduced by $2,326 ($2,600 - $274).

Contractual Services - Engineering

The test year already includes 26.25 of the 50 hours requested for lead, copper, and chlorine control services, therefore, the requested $6,750 should be reduced by $3,510. The net adjustment to Contractual Services – Engineering should be a decrease of $3,510.

Chloramine Feed System Chemicals, Operation & Maintenance

At the time it filed its MFRs, the Utility was undergoing an iterative design process for its chloramine feed system. It has now provided estimated chemical expenses of $2,649, which should be approved as prudent to address the nitrification and bio-film problem discussed in Issue 5. Additionally, Operation & Maintenance should be increased by $490 for repairs and maintenance associated with the feed system.

**Fire Hydrant Maintenance and Exercise Program**

The Utility requested $2,325 for maintenance and $3,720 to exercise its fire hydrants. Maintenance will consist of sand blasting and painting half of the 62 hydrants each year to extend their lives. Bocilla has stated that the harsh salt water environment has lead to the need to replace fire hydrants before their estimated useful life and that performing this maintenance will extend the life of the existing hydrants and save replacement costs, which are between $2,500 and $3,000. Bocilla has also requested $3,720 to exercise its fire hydrants twice yearly to ensure proper function. This is in response to a recent loss of life due to a fire in Bocilla’s territory and increased concern about fire protection. Staff recommends that these programs are prudent and that the cost calculations submitted by Bocilla for these activities reflect the actual cost of components and labor not already included in salary expense.

***Conclusion***

Based on the above, staff recommends that the Utility’s requested pro forma expenses be reduced by $21,121 to a total of $34,598.

Issue 13:

 Should any adjustments be made to the Utility’s salaries and wages expense?

Recommendation:

 Yes. Salaries and wages expense should be reduced by $18,860. A corresponding adjustment should be made to reduce payroll taxes by $2,269. (Frank)

Staff Analysis:

 Based on its review of test year salaries and wages expense, staff recommends several adjustments to the Utility’s proposed expense as summarized below.

**Salaries & Wages – Employees**

In its MFRs, the Utility reflected a total expense of $104,866 for employee salaries and wages. The Utility has one full-time operator who is on call 24 hours a day, 365 days a year. Although the Utility no longer operates a water treatment plant, the licensed operator is required to maintain the new plant components of the chlorination system and the boost station. These tasks represent a significant level of complexity comparable to running a full water treatment plant. Further, the Utility has stated that since the interconnect has been in service for over a year, the number of hours required to maintain these components is the actual amount and is not an estimation. The operator’s duties related to the distribution system, testing, repairs and regulatory compliance have not changed. Bocilla estimates that the operator spends about 20 percent of his time performing tasks for KIU. As such, the Utility only included 80 percent of the operator’s salary totaling $48,413. However, Bocilla subsequently provided an updated unallocated salary of $60,000 for the operator. Using this updated salary amount, staff calculated 80 percent of the operator’s salary to be $48,000. This results in a reduction of $413 ($48,413 - $48,000). Staff used the American Water Works Association’s (AWWA) 2015 Compensation Survey (CS) to examine the reasonableness of the licensed operator’s salary of $48,000. Staff compared the requested salary to the weighted average salary of an operator II, the lowest level operator, in the AWWA CS. Staff discovered that $48,000 falls below the weighted average salary for an operator II. As such, staff believes the full-time licensed operator’s salary of $48,000 is reasonable.

The Utility has a part-time field employee who makes $20 an hour and was paid a total of $25,470 for the test year. Staff believes the hourly rate is excessive for a part-time meter reader. Staff compared meter reading expense to what was approved for Little Gasparilla Water Utility, Inc., which is also a water reseller utility in the same county, with a comparable number of customers. In that Order, the Commission approved $6,000 for meter reading expense, which comes to $4.04 per meter read.[[5]](#footnote-5) Staff used the same methodology and calculated an annual meter reading expense of $19,407 ($4.04 x 400 customers x 12 months). Therefore, staff reduced the part-time field employee’s annual salary expense by $6,063.

The Utility has a part-time administrative employee currently working one day a week at $25 an hour. The duties of this position include responsibility over the website, all initial complaints, payroll, workman’s comp, online payments, regulatory compliance reporting, correspondence and all basic accounting functions. Staff used the AWWA 2015 CS to examine the reasonableness of the administrative employee’s rate of $25 an hour. Given the description of duties for this position, staff compared the requested hourly rate to the weighted average hourly rate of an accounting clerk in the AWWA CS and believes that $25 an hour is excessive. Staff reduced the administrative employee’s annual expense by $2,015 to reflect a rate of $20 an hour. This results in a total reduction of $2,015.

The Utility further included $2,550 in test year expense for Christmas bonuses. Staff believes the recommended adjustments above allow the Utility’s employees to make fair and reasonable salaries and wages. As such, staff believes the $2,550 for Christmas bonuses is excessive and should be removed.

In total, staff recommends reducing employee’s salaries and wages expense by $11,041 ($413 + $6,063 + $2,015 + $2,550).

**Salaries & Wages – Officers**

In its MFRs, the Utility reflected an expense of $88,061 for officer’s salaries and wages. This amount reflects a 10-percent reduction for non-utility activities. In response to staff data requests, the Utility stated that the officer’s duties have increased since removing the water treatment plant from service. The Utility stated that this was not anticipated, but nitrification and bio-films generated from chloramine treated water has presented many additional problems that require continuous flushing. The Utility also provided an allocation of the officer’s time spent on different job duties.

According to the Utility, 20 to 30 percent of the officer’s time is spent on field related work and 70 to 80 percent of time is associated with administrative office duties. The Utility estimated the officer’s total time per month tending to Utility operations is 160 to 200 hours. Overall, the officer is responsible for overseeing and protecting a publicly regulated water supply 24 hours a day, 365 days a year. Staff performed a comparative analysis to examine the reasonableness of the requested officer salary. Staff used the AWWA 2015 CS to examine the reasonableness of the officer’s starting salary of $88,061. Staff compared 30 percent of the officer’s salary to a weighted average for a manger to account for the managerial field work and 70 percent to general manager superintendent to account for the overall oversight responsibility of the Utility. Accordingly, staff believes an officer’s salary of $84,643 is reasonable. This results in a $3,418 reduction to officer’s salaries. Further, staff believes the additional hours recommended above for the administrative employee, totaling $8,000, will offset some of the duties and responsibilities of the officer. As such, staff believes the officer’s salaries should be further reduced by $8,000. Staff recommends a total reduction of $11,418 ($3,418 + $8,000) to officer’s salaries expense.

Included in officer’s salaries and wages expense is $10,800 reclassified to directors’ fees from miscellaneous expenses. The Utility’s board of directors consists of three directors who meet once a week for an hour. In its response to staff’s third data request, the Utility stated that the major responsibilities of the board of directors include 1) supervise, retain, evaluate and compensate the Utility officers, 2) develop a strategic function in providing the vision, mission, and goals of the organization, 3) develop a governance system for the business, including overall strategies and financing, and 4) fulfill the fiduciary duty to protect the organization’s assets and shareholders’ investment. Staff notes that one of the three directors is also the officer/owner of the Utility. As such, staff believes the role of the directors to supervise, retain, evaluate, and compensate the Utility officer is unreasonable. Further, staff believes it is excessive to have three directors for a Utility with only one full-time employee. As such, staff recommends reducing each director’s fee by two-thirds. This results in a reduction of $7,200 ($3,600 + $3,600). Staff’s adjustments for director’s fees result in a net increase of $3,600 ($10,800 - $7,200).

Based on the adjustments above, staff recommends reducing officer’s salaries expense by $7,818 ($11,418 - $3,600).

***Conclusion***

Based on the above, staff recommends that the Utility’s salaries and wages expense be reduced by $18,660. A corresponding adjustment should be made to reduce payroll taxes by $2,269.

Issue 14:

 Should further adjustments be made to the Utility’s O&M expense?

Recommendation:

 Yes. O&M expense should be further decreased by $18,738. (Frank)

Staff Analysis:

* Based on its review of test year O&M expense, staff recommends several adjustments to the Utility’s O&M expense as summarized below.

**Employee Pensions & Benefits**

In its MFRs, the Utility reflected an expense of $7,548 for employee pensions and benefits expense in the test year. As discussed in Issue 3, staff made an adjustment to account for non-utility activities. In its response to staff’s second data request, the Utility stated it has no objection to this adjustment. This results in a reduction of $1,510 ($7,548 x 20%).

**Purchased Power**

In its filing, Bocilla reflected an expense of $4,549 for purchased power expense in the test year. Staff removed $1,471 from test year expenses related to charges for the abandoned water treatment plant. Staff removed $175 related to an out of test year bill. Finally, staff removed $365 for a deposit which was reimbursed to the Utility. In its response to staff’s second data request, the Utility stated it has no objection to the above adjustments to purchased power. In total, staff recommends a reduction of $2,011 ($1,471 + $175 + $365).

Contractual Services - Engineering

Staff, OPC, and the Utility agree that an expense of $1,012.50 for well plugging is not recurring in nature and should be removed. The net adjustment to Contractual Services – Engineering should be a decrease of $1,012.50.

**Contractual Services – Legal**

In its MFRs, the Utility reflected an expense of $654 for Contractual Services - Legal expense in the test year. A $360 bill for legal services was also included as part of the Utility’s rate case expense. As such, staff removed $360 from Contractual Services – Legal as duplicative costs already reflected in rate case expense.

**Transportation Expenses**

In its filing, the Utility reflected an expense of $5,454 for transportation expense in the test year. Staff reduced transportation expense by $94 related to an out-of-period fuel purchase. Also, staff notes that the Utility is located on a barrier island which requires a barge fee in order to be transported from the mainland to the island. Upon staff’s request, the Utility provided a breakdown of the number of trips to the island per the required barge fees. Staff reviewed the number of trips and believes this expense is reasonable. Staff increased transportation expenses by $13,320 to reclassify barge fees from miscellaneous expense. Further, staff removed $1,080 for an out-of-period barge fee.

The expenses related to the Utility golf cart should be removed as unsupported and not prudent given the new utility truck. This represents a reduction in vehicle maintenance of $619.

Based on the above, staff recommends a total increase of $11,527 (-$94+ $13,320 - $1,080 - $619).

**Insurance – Workman’s Comp**

In its MFRs, the Utility reflected an expense of $4,383 for workman’s comp expense in the test year. As discussed in Issue 3, staff made an adjustment to account for non-utility activities. In its response to staff’s second data request, the Utility stated they agree to a 10 percent allocation to non-utility activities. However, staff believes the allocation for non-utility activities should be consistent at 20 percent. Therefore, staff reduced workman’s comp by $877 ($4,383 x 20%).

**Advertising Expense**

In its MFRs, the Utility recorded $375 for advertising expense in the test year. In its response to staff’s second data request, the Utility agreed with the removal of advertising expenses. As such, staff removed $375 for advertising expense.

**Miscellaneous Expenses**

In its MFRs, the Utility recorded $46,378 for miscellaneous expense in the test year. Staff reduced miscellaneous expense by $13,320 to reclassify barge fees to transportation expense. Staff also reduced miscellaneous expense by $10,800 to reclassify directors’ fees to officer’s salaries and wages expense. This results in a total reduction of $24,120 ($13,320 + $10,800).

***Conclusion***

Based on the above, staff recommends that O&M expense be further decreased by $18,738.

Issue 15:

 What is the appropriate amount of rate case expense?

Recommendation:

 The appropriate amount of rate case expense is $82,929. This expense should be recovered over four years for an annual expense of $20,732. Therefore, annual rate case expense should be decreased by $368. (Frank)

Staff Analysis:

* In its MFRs, Bocilla requested $84,400 for current rate case expense. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On December 16, 2016, the Utility submitted its last revised estimate of rate case expense, through completion of the PAA process, which totaled $98,788. See Table 15-1 below.

**Table 15-1**

**Bocilla’s Initial and Revised Rate Case Expense Request**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **MFR B-10 Estimated**  | **Actual** | **Additional****Estimated** | **Revised****Total** |
| Friedman & Friedman, PA | $38,000 | $22,385 | $4,855 | $27,240 |
| Englewood Management Group, LLC | 30,000 | 47,930 | 8,000 | 55,930 |
| DMK Engineering | 8,100 | 3,375 | 0 | 3,375 |
| M&R Consultants | 0 | 2,100 | 0 | 2,100 |
| Giffels-Webster, Inc. | 0 | 6,905 | 0 | 6,905 |
| Filing Fee  | 4,000 | 2,000 | 0 | 2,000 |
| Bocilla In-house | 1,600 | 1,238 | 0 | 1,238 |
| Customer Notices  | 1,200 | 0 | 0 | 0 |
| Travel  | 1,500 | 0 | 0 | 0 |
| **Total** | $84,400 | $85,933 | $12,855 | $98,788 |

 Source: MFR Schedule B-10 and Utility responses to staff data requests

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on its review, staff believes the following adjustments to Bocilla’s rate case expense estimate are appropriate.

**Friedman & Friedman, P.A. (F&F)**

In its MFRs, the Utility included $38,000 in legal fees to complete the rate case. The Utility provided documentation detailing this expense through December 9, 2016. The actual fees and costs totaled $22,385 with an estimated $4,855 to complete the rate case, totaling $27,240.

F&F’s actual expenses included the $2,000 filing fee. However, the Utility also included $2,000 in its MFR Schedule B-10, under “Public Service Commission – Filing Fee.” Staff has left the filing fee under the filing fee line item and has removed the entry from legal fees to avoid double recovery of this fee.

According to invoices, the law firm of F&F billed the Utility $504 related to the correction of MFR deficiencies. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.[[6]](#footnote-6) Consequently, staff recommends an adjustment to reduce F&F’s actual legal fees by $504.

F&F’s estimate to complete the rate case includes fees for 12 hours at $360/hr. and additional costs for photocopies and attending the Agenda Conference, totaling $535. Staff notes that F&F will be attending Agenda for another docket in addition to this docket. As such, staff reduced the estimate for costs to attend Agenda by $263 ($525/2) which is half of the estimated costs to avoid double recovery of travel expenses. Accordingly, staff recommends that legal fees from F&F should be reduced by $2,767 ($2,000 + $504 + $263).

**Englewood Management Group, LLC (EMG)**

In its MFRs, the Utility included $30,000 in accounting fees to complete the rate case. The Utility provided documentation detailing this expense through December 14, 2016. The actual fees and costs totaled $47,930 with an estimated $8,000 to complete the rate case, totaling $55,930. Staff reviewed the invoices and found that $1,806 related to work to correct deficiencies. As mentioned above, it is Commission practice to disallow rate expense associated with correcting deficiencies. Therefore, staff recommends an adjustment to reduce EMG’s actual accounting fees by $1,806. Also included in the invoices was $447 for an airline ticket. Staff believes this cost is inappropriate since the consultant is on the board of directors and lives near the Utility.

EMG’s estimate to complete the rate case includes fees totaling $7,200 (48 hours at $150/hr.) and additional $800 in costs for photocopies and attending the Agenda Conference. The estimate to complete included 26 hours for reviewing staff’s recommendation, consulting with client, reviewing PAA Order, and miscellaneous items that may arise. Staff compared this estimate to complete for accounting services with a larger Class A Utility and notes that the Commission previously approved 9.5 hours to review staff recommendations, the Commission’s PAA Order, and consult with client.[[7]](#footnote-7) As such, staff believes 9.5 hours is an ample amount of time to review our staff’s recommendation, the Commission’s PAA Order, and consult with their client in the instant docket. Accordingly, staff reduced the estimated time for recommendation review by 16.5 hours resulting in a reduction of $2,475 (16.5hrs. x $150). Second, using F&F’s estimate for traveling to the Agenda, staff reduced EMG’s estimate for travel by $275 ($800 - $525).

In total, staff recommends that accounting fees for EMG should be reduced by $5,003 ($1,806 + $447 + $2,475 + $275).

**DMK Engineering**

The Utility provided one invoice related to preparing MFRs, responding to data requests, and audit facilitation totaling $3,375. The Utility did not provide an additional estimate to complete the rate case for DMK Engineering. As such, staff believes the costs are reasonable, and as such staff recommends no adjustment for the $3,375 amount.

**M&R Consultants**

In its MFRs, the Utility did not include any estimated rate case expense associated with accounting services provided by M&R Consultants. However, the Utility subsequently provided an invoice for fees related to the original cost study totaling $2,100. In its response to staff’s second data request, the Utility stated that the costs of obtaining the original cost study will not be submitted as costs of the rate case. Therefore, staff recommends reducing this expense by $2,100.

**Giffels-Webster, Inc.**

In its MFRs, the Utility did not include any estimated rate case expense associated with accounting services provided by Giffels-Webster, Inc. However, the Utility subsequently provided two invoices for fees related to the original cost study totaling $6,905. As mentioned above, the Utility stated that the costs of obtaining the original cost study will not be submitted as costs of the rate case. Therefore, staff recommends reducing this expense by $6,905.

**Filing Fee**

The Utility included $4,000 in its MFR Schedule B-10 for the filing fee. However, the filing fee for this rate case was $2,000. As such, staff reduced the filing fee expense by $2,000.

**Customer Notices**

In its MFRs, the Utility included estimated costs of $1,200 for printing and shipping. The Utility is responsible for sending out three notices: the initial notice, customer meeting notice, and notice of the final rate increase. The Commission has historically approved recovery of noticing and postage, despite the lack of support documentation, based on a standard methodology to estimate the total expense using the number of customers and the estimated per unit cost of envelopes, copies, and postage.[[8]](#footnote-8) As such, staff estimated the postage cost for the notices to be approximately $564 (400 customers x $0.47 x 3 notices). Staff estimates envelope costs to be $72 (400 customers x $0.06 per envelope x 3 notices) and copying costs to be $280 (400 customers x $0.10 per copy x 7 pages).[[9]](#footnote-9) Based on these components, the total cost for customer notices and postage is $916 ($564 + $72 + $280). Accordingly, staff recommends rate case expense be decreased by $284 ($1,200 - $916).

**Travel**

In its MFRs, the Utility included estimated $1,500 for travel costs. However, the Utility subsequently provided documentation detailing estimated travel costs for F&F and EMG’s rate case expense. Staff addresses travel costs for these consultants above. As such, staff reduced travel costs by $1,500 to avoid double recovery.

***Conclusion***

Based upon the adjustments discussed above, staff recommends that Bocilla’s revised rate case expense of $98,788 be decreased by $17,859 to reflect staff’s adjustments, for a total of $82,929. A breakdown of staff’s recommended rate case expense is reflected in Table 15-2 below.

**Table 15-2**

**Staff Recommended Rate Case Expense**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Description** | **MFR****Estimated** | **Utility Revised****Act.& Est.** | **Staff****Adjustment** | **Recom.****Total** |
| Legal Fees | $38,000 | $27,240 | ($2,767) | $24,474 |
| Accounting Consultant Fees  | 30,000 | 55,930 | (5,003) | 50,702 |
| Engineering Consultant Fees | 8,100 | 12,380 | (9,005) | 3,375 |
| Filing Fee | 4,000 | 2,000 | (2,000) | 2,000 |
| Bocilla In-house | 1,600 | 1,238 | 0 | 1,238 |
| Customer Notices | 1,200 | 0 | 916 | 916 |
| Travel | $1,500 | 0 | 0 | 0 |
| **Total** | $84,400 | $98,788 | ($17,859) | $82,929 |

Source: MFR Schedule B-10 and responses to staff data requests

In its MFRs, the Utility requested total rate case expense of $84,400. When amortized over four years, this represents an annual expense of $21,100. The recommended total rate case expense of $82,929 should be amortized over four years, pursuant to Section 367.0816[[10]](#footnote-10), F.S. This represents an annual expense of $20,732. Based on the above, staff recommends that annual rate case expense be decreased by $368 ($20,732 - $21,100) compared to the original request in the MFRs.

Issue 16: What is the appropriate revenue requirement for the test year ended December 31, 2015?

Recommendation:

* Staff recommends the following revenue requirement be approved.

|  |  |  |  |
| --- | --- | --- | --- |
| **Test Year Revenue** | **$ Increase** | **Revenue Requirement** | **% Increase** |
| $398,153 | $75,708 | $473,861 | 19.01% |

 (Frank)

Staff Analysis:

* In its filing, the Utility requested a revenue requirement to generate annual revenue of $547,770. This requested revenue requirement represents a revenue increase of $152,375, or approximately 38.54 percent. Consistent with recommendations concerning rate base, cost of capital, and operating income issues, staff recommends the appropriate revenue requirement should be $473,861 for water. This represents an increase in revenues of $75,708 (or 19.01 percent) for water. This increase will allow the Utility the opportunity to recover its operating expenses and earn a 5.77 percent return on its investment in water rate base. The schedule for operating income is attached as Schedule No. 3-A, and the adjustments are shown on Schedule No. 3-B.

Issue 17:

 What are the appropriate rate structures and rates for Bocilla’s water system?

Recommendation:

 The recommended rate structure and monthly water rates are attached to this recommendation as Schedule No. 4. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Johnson)

Staff Analysis:

 Bocilla is located on a barrier island in Charlotte County and provides water service to approximately 400 residential customers. Typically, staff evaluates the seasonality of a utility’s customers based on the percentage of bills at zero gallons, which is 11 percent. However, for Bocilla, a portion of the customers are in residence periodically throughout each month rather than a few months out of the year. Therefore, staff believes it is appropriate to evaluate the seasonality based on the percentage of bills at the 1,000 gallon level, which is 30 percent. As a result, it appears that the customer base is somewhat seasonal. The average residential water demand is 5,125 gallons per month. The average water demand excluding zero gallon bills is 5,738 gallons per month. The Utility’s current water system rate structure for residential and general service customers consists of a base facility charge (BFC) and a three-tier inclining block rate structure. The rate blocks are: (1) 0-6,000 gallons; (2) 6,001-12,000 gallons; and (3) all usage in excess of 12,000 gallons per month.

Staff performed an analysis of the Utility’s billing data in order to evaluate the appropriate rate structure for the residential water customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the Utility’s customers; (3) establish the appropriate non-discretionary usage threshold for restricting repression; and (4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

The Utility’s proposed rate structure includes a revenue allocation to the BFC of 56.11 percent. Typically, unless the Utility’s customer base is highly seasonal, the Commission allocates no greater than 40 percent of the water revenue to the BFC. Staff believes a BFC allocation of 48 percent will send the appropriate conservation pricing signals to target discretionary usage and also provide revenue stability to address the moderate amount of seasonal usage in Bocilla’s customer base.

The average person per household served by the Utility is two. Therefore, based on the number of people per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 3,000 gallons per month instead of 6,000 gallons. Staff recommends a BFC and a three-tier gallonage charge rate structure, which includes a gallonage charge for non-discretionary usage for residential water customers. The rate tiers should be: (1) 0-3,000 gallons (non-discretionary); (2) 3,001-12,000 gallons; and (3) all usage in excess of 12,000 gallons per month. Approximately 23 percent of the customer demand exceeds 12,000 gallons per month. Further, based on the recommended revenue increase of approximately 19 percent as well as the demographics of Bocilla’s customer base, the reduction in residential demand is expected to be insignificant. Staff recommends a BFC and uniform gallonage charge rate structure for general service water customers.

Table 17-1 below, contains staff’s recommended rate structure and rates as well as alternative rate structures, which include varying BFC allocations and rate blocks. Alternative I results in a more even distribution of the rate increase to all customers regardless of demand, but does not send the appropriate pricing signals to target discretionary usage. Alternative II maintains the existing tiers (0 – 6,000, 6,001-12,000, 12,000+) but provides a greater increase to non-discretionary demand than the staff recommended rate structure. The staff recommended rate structure mitigates the rate impact for non-discretionary demand while sending a significant pricing signal for demand in excess of 12,000 gallons per month.

**Table 17-1**

**Staff’s Recommended and Alternative Water Rate Structures and Rates**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **RATES AT TIME OF FILING** | **STAFF RECOMMENDED RATES****48% BFC** | **ALTERNATIVE****I****56% BFC** | **ALTERNATIVE****II****49% BFC** |
| **Residential** |  |  |  |  |
| 5/8” x 3/4” Meter Size | $46.24 | $46.82 | $53.90 | $47.16 |
|   |  |  |  |  |
| Charge per 1,000 gallons  |  |  |  |  |
| 0-6,000 gallons | $4.62 |  |  | $7.46  |
| 6,001 – 12,000 gallons | $7.76 |  |  | $9.32  |
| Over 12,000 gallons | $12.32 |  |  | $18.65  |
|  |  |  |  |  |
| 0 – 3,000 gallons |  | $6.83  | $6.12  |  |
| 3,001 – 12,000 gallons |  | $8.53  | $7.66  |  |
| Over 12,000 gallons |  | $17.07  | $15.31  |  |
|  |  |  |  |  |
|  |  |  |  |  |
| 3,000 Gallons | $60.10  | $67.31  | $72.26  | $69.54  |
| 6,000 Gallons | $73.96  | $92.90  | $95.24  | $91.92  |
| 12,000 Gallons | $120.52  | $144.08  | $141.20  | $147.84  |

The recommended rate structure and monthly water rates are shown on Schedule No. 4. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 18:

 Should Bocilla's request to implement a late payment charge be approved?

Recommendation:

 Yes. Bocilla’s request to implement a late payment charge of $7.12 should be approved. Bocilla should be required to file a proposed customer notice and tariff to reflect the Commission-approved charge. The approved charge should be effective for services rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Johnson)

Staff Analysis:

 The Utility is requesting a $7.12 late payment charge to recover the cost of supplies and labor associated with processing late payment notices. The Utility’s request for a late payment charge was accompanied by its reason for requesting the charge, as well as the cost justification required by Section 367.091(6), F.S. The Utility indicated that four late payment notices are processed per hour. The hourly salary for the employee that processes late payment notices is $24.50 per hour. Based on the labor and four late payment notices per hour, the labor cost per notice is $6.15. The cost basis for the Utility’s requested and staff’s recommended late payment charge, including labor, is shown below, in Table 18-1.

 **Table 18-1**

**Late Payment Cost Justification**

|  |  |
| --- | --- |
|  | Staff’sRecommended |
| Labor | $6.15 |
| Printing | 0.50 |
| Postage | 0.47 |
| Total | $7.12 |

 Source: Utility’s cost justification and staff’s calculation

Since the late 1990s, the Commission has approved late payment charges ranging from $2.00 to $7.00.[[11]](#footnote-11) Staff’s recommended late payment charge is consistent with previously approved late payment charges. The purpose of this charge is not only to provide an incentive for customers to make timely payment, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing delinquent accounts solely upon those who are the cost causers.

Based on the above, Bocilla’s request to implement a late payment charge of $7.12 should be approved. Bocilla should be required to file a proposed customer notice and tariff to reflect the Commission-approved charge. The approved charge should be effective for services rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

Issue 19:

 Should the Utility’s approved service availability policy and charges be revised?

Recommendation:

 Yes. Bocilla’s existing wastewater system capacity charge should be discontinued. Staff recommends a main extension charge of $1,279 per ERC and a new meter installation charge of $365. The Utility’s existing AFPI charge should be collected from the remaining 315 ERCs the system was designed to serve. The approved service availability charges may only be collected from new connections to the Utility’s water system. The approved service availability charges should be effective for service rendered on or after the stamped approval date of the tariff pursuant to Rule 25-30.475, F.A.C. (Johnson)

Staff Analysis:

 Bocilla’s existing service availability charges shown on Table 19-1 were originally approved by Charlotte County and were subsequently grandfathered in when Charlotte County transferred jurisdiction to the Commission in 2013. The charges include a meter installation charge of $165 and a system capacity charge of $3000 per ERC.

A system capacity charge is a single service availability charge that includes the cost of both plant and lines. For a utility that receives donated lines from a developer, an individual customer connecting to those lines should only be responsible for a service availability charge that reflects plant costs. Therefore, separate charges are typically developed to reflect the customer’s share of plant costs (plant capacity charges) and the cost of lines in lieu of donated lines (main extension charges). Rule 25-30.580, F.A.C., establishes guidelines for designing service availability charges. Pursuant to the rule, the maximum amount of contributions-in-aid-of construction (CIAC), net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of the Utility’s facilities and plant when the facilities and plant are at their designed capacity. The minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution system and sewage collection systems.

**Main Extension Charge**

Based on the original cost study, the cost of the water distribution system is $914,370 and the lines have a design capacity of 715 ERCs. Therefore, staff recommends that the Utility’s service availability charges be revised to include a main extension charge of $1,279 per ERC ($914,370/715). Staff’s recommended main extension charge is consistent with the guidelines in Rule 25-30.580, F.A.C., which require that, at a minimum, the cost of the Utility’s lines should be contributed.

Staff reviewed the contribution level of Bocilla’s water system and found that the current contribution level is 33 percent, which is less than the 75 percent maximum guideline provided in Rule 25-30.580, F.A.C. The minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the water distribution system. Based on staff’s review, the recommended main extension charge would allow the Utility to be approximately 75 percent contributed at full capacity. As a result, staff recommends that Bocilla’s system capacity charge be discontinued.

**Meter Installation Charge**

A meter installation charge is designed to recover the cost of the meter and the installation. The Utility’s current meter installation charges are $165 for the 5/8” x 3/4” meter and actual cost for all other meter sizes. Based on the cost justification provided for the meter replacement program, staff believes it is appropriate to update the Utility’s existing meter installation charges. Staff believes the requested meter installation charge of $365 is reasonable.

**AFPI Charge**

Bocilla also has an AFPI charge that was originally approved by Charlotte County. An AFPI charge is designed to allow the Utility to recover, from new connections, a portion of the depreciation, property taxes, and return on investment associated with non-used and useful plant. The costs are typically accumulated on a monthly basis for up to five years. A new customer connecting to the system today would pay the maximum charge of $1,292.31 per ERC. Staff recommends that the Utility be authorized to continue collecting an AFPI charge of 1,292.31 per ERC from the remaining 315 ERCs the system was designed to serve.

Based on the above, Bocilla’s existing wastewater system capacity charge should be discontinued. Staff recommends a main extension charge of $1,279 per ERC and a new meter installation charge of $365. The Utility’s existing AFPI charge should be collected from the remaining 315 ERCs the system was designed to serve. The approved service availability charges may only be collected from new connections to the Utility’s water system. The approved service availability charges should be effective for service rendered on or after the stamped approval date of the tariff pursuant to Rule 25-30.475, F.A.C.

**Table 19-1**

**Current and Recommended Service Availability Charges**

|  |  |  |
| --- | --- | --- |
|  | **Current Charge** | **Recommended Charge** |
| Main Extension Charge | $0 | $1,279 |
| Plant Capacity Charge | $0 | $0 |
| System Capacity Charge | $3,000 | $0 |
| Meter Installation Charge | $165 | $365 |
| AFPI Charge | $1,292.31 | $1,292.31 |

Issue 20:

 What are the appropriate initial customer deposits for Bocilla?

Recommendation:

 The appropriate water initial customer deposit should be $169 for the residential 5/8 inch x 3/4 inch meter size. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water service. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C. (Johnson)

Staff Analysis:

 Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for a utility and, ultimately, the general body of ratepayers. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill. Currently, Bocilla does not have initial customer deposits in place. Based on the average water demand, the appropriate initial customer deposit should be $169 to reflect an average residential customer bill for two months.

Based on the above, staff recommends that the appropriate water initial customer deposit should be $169 for the residential 5/8 inch x 3/4 inch meter size. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water service. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C.

Issue 21: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.[[12]](#footnote-12)?

Recommendation:

 The water rates should be reduced as shown on Schedule No. 4 to remove rate case expense grossed-up for Regulatory Assessment Fees (RAFs) and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Bocilla should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Johnson, Frank)

Staff Analysis:

 Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. This results in a reduction of $21,709.

The water rates should be reduced as shown on Schedule No. 4 to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Bocilla should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 22:

 In determining whether any portion of the interim water revenue increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation:

 The appropriate refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. The revised revenue requirements for the interim collection period should be compared to the amount of interim revenues granted. This results in a refund of 7.81 percent for water. The refund should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the letter of credit should be released upon staff’s verification that the required refunds have been made. (Frank)

***Staff Analysis:***

The Commission authorized Bocilla to collect interim water rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement for water of $464,122 represented an increase of $65,159 or 16.33 percent.

According to Section 367.082(4), F.S., any refund should be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period that interim rates are in effect should be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ended December 31, 2015. Bocilla’s approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest expense, and the lower limit of the last authorized range for equity earnings.

To establish the proper refund amount, staff calculated adjusted interim period revenue requirements utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period. Using the principles discussed above, staff calculated an adjusted interim revenue requirement of $425,918 for water. The adjusted water interim revenue requirement of $425,918 is lower than the interim revenue requirement of $464,122, resulting in a refund of 7.81 percent.

The refund should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as Contributions in Aid of Construction (CIAC) pursuant to Rule 25-30.360(8), F.A.C. Further, the letter of credit should be released upon staff’s verification that the required refunds have been made.

Issue 23:

 Should the Utility be required to notify, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) associated with the Commission approved adjustments?

Recommendation:

 Yes. The Utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Bocilla should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility’s books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Frank)

Staff Analysis:

 The Utility should be required to notify the Commission, in writing that it has adjusted its books in accordance with the Commission's decision. Bocilla should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility’s books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.Issue 24:

 Should this docket be closed?

Recommendation:

 No. 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, a consummating order should be issued. The docket should remain open for staff’s verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and the Utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket should be closed administratively. (Leathers)

Staff Analysis:

 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, a consummating order should be issued. The docket should remain open for staff’s verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and the Utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket should be closed administratively.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Bocilla Utilities, Inc.** |   |   |   | **Schedule No. 1-A** |
| **Schedule of Water Rate Base** |   |   |  **Docket No. 160065-WU** |
|   |  | **Test Year** | **Utility** | **Adjusted** | **Staff** | **Staff** |
|   |  | **Per** | **Adjust-** | **Test Year** | **Adjust-** | **Adjusted** |
|   | **Description** | **Utility** | **ments** | **Per Utility** | **ments** | **Test Year** |
|   |   |   |   |   |   |   |
| 1 | Plant in Service | $1,230,651  | ($47,895) | $1,182,756  | $14,849  | $1,197,605  |
|   |  |   |   |  |  |   |
| 2 | Land and Land Rights | 44,000  | 0  | 44,000  | (44,000) | 0  |
|   |  |   |   |  |  |   |
| 3 | Non-used and Useful Components | 0  | 0  | 0  | 0  | 0  |
|   |  |   |   |  |  |   |
| 4 | Construction Work in Progress | 42  | 0  | 42  | 0  | 42  |
|   |  |   |   |  |  |   |
| 5 | Accumulated Depreciation | (358,888) | 9,780  | (349,108) | (5,722)  | (354,830) |
|   |  |   |   |  |  |   |
| 6 | CIAC | (460,348) | 1,500  | (458,848) | (83) | (458,931) |
|   |  |   |   |  |  |   |
| 7 | Amortization of CIAC | 232,960  | (7,114) | 225,846  | (44,617) | 181,229  |
|   |  |   |   |  |  |   |
| 8 | Working Capital Allowance | 0  | 45,466  | 45,466  | 1,933  | 47,399  |
|   |  |   |   |  |  |   |
| 9 | **Rate Base** | $688,417 | $1,737 | $690,154 | ($77,640) | $612,514 |
|  |  |  |  |  |  |  |

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| **Bocilla Utilities, Inc.** | **Schedule No. 1-B** |
| **Adjustments to Rate Base** | **Docket No. 160065-WU** |
|   |   |   |   |
|   | **Explanation** | **Water** |   |
|   |   |   |   |
|   |   |   |   |
|   | Plant In Service |   |   |
| 1 | Reflect appropriate test year plant. (Issue 3) | ($64,201) |   |
| 2 | Reflect appropriate Pro Forma Plant. (Issue 5) | 79,050  |   |
|   |  Total | $14,849  |  |
|   |   |   |  |
|   | Land |   |  |
|   | To remove non-used and useful land. (Issue 4) | ($44,000) |  |
|   |   |   |  |
|   | Accumulated Depreciation |   |  |
| 1 | Reflect appropriate test year accum. depr. (Issue 3) | ($2,856)  |  |
| 2 | Reflect appropriate Pro Forma accumulated depr. (Issue 5) | (2,866) |  |
|   |  Total | ($5,722)  |  |
|   |   |   |  |
|   | CIAC |   |  |
|  | Retirements related to meter hook-up charges. (Issue 5) | ($83) |  |
|   |   |   |  |
|   | Accumulated Amortization of CIAC |   |  |
| 1 | Agreed upon Audit Finding 6. (Issue 2) | ($44,625) |  |
| 2 | Reflect meter installation via hook up charges. (Issue 5) | 8  |  |
|  |  Total | ($44,617) |  |
|   |   |   |  |
|   | Working Capital |   |  |
|   | Reflect the appropriate working capital amount. (Issue 7) | $1,933  |  |
|   |   |   |   |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Bocilla Utilities, Inc.** |  |  |  |  |  |   | **Schedule No. 2** |   |
| **Capital Structure-Simple Average** |  |  |  |  |  **Docket No. 160065-WU** |   |
|  |  |  | **Specific** | **Subtotal** | **Prorata** | **Capital** |  |  |  |  |
|  |  | **Total** | **Adjust-** | **Adjusted** | **Adjust-** | **Reconciled** |  | **Cost** | **Weighted** |  |
|  | **Description** | **Capital** | **ments** | **Capital** | **ments** | **to Rate Base** | **Ratio** | **Rate** | **Cost** |  |
| **Per Utility** |   |   |   |   |   |   |   |   |   |
| 1 | Long-term Debt | $1,005,226  | $0  | $1,005,226  | $0  | $1,005,226  | 82.30% | 5.00% | 4.12% |   |
| 2 | Short-term Debt | 0  | 0  | 0  | 0  | 0  | 0.00% | 0.00% | 0.00% |   |
| 3 | Preferred Stock | 0  | 0  | 0  | 0  | 0  | 0.00% | 0.00% | 0.00% |   |
| 4 | Common Equity | 216,151  | 0  | 216,151  | 0  | 216,151  | 17.70% | 10.50% | 1.86% |   |
| 5 | Customer Deposits | 0  | 0  | 0  | 0  | 0  | 0.00% | 0.00% | 0.00% |   |
| 6 | Deferred Income Taxes | 12,122  | 0  | 12,122  | 0  | 12,122  | 0.00% | 0.00% | 0.00% |   |
| 7 | **Total Capital** | $1,233,499  | $0  | $1,233,499  | $0  | $1,233,499  | 100.00% |  | 5.97% |  |
|   |   |   |   |   |   |   |   |   |   |   |
| **Per Staff** |   |   |   |   |   |   |   |   |   |
| 8 | Long-term Debt | $1,005,226  | $0  | $1,005,226  | ($511,087) | $494,139  | 80.67% | 4.75% | 3.83% |   |
| 9 | Short-term Debt | 0  | 0  | 0  | 0  | 0  | 0.00% | 0.00% | 0.00% |   |
| 10 | Preferred Stock | 0  | 0  | 0  | 0  | 0  | 0.00% | 0.00% | 0.00% |   |
| 11 | Common Equity | 216,151  | 0  | 216,151  | (109,898) | 106,253  | 17.35% | 11.16% | 1.94% |   |
| 12 | Customer Deposits | 0  | 0  | 0  | 0  | 0  | 0.00% | 0.00% | 0.00% |   |
| 13 | Deferred Income Taxes | 12,122  | 0  | 12,122  | 0  | 12,122  | 1.98% | 0.00% | 0.00% |   |
| 14 | **Total Capital** | $1,233,499  | $0  | $1,233,499  | ($620,985) | $612,514  | 100.00% |  | 5.77% |  |
|   |   |   |   |   |   |   |   |   |   |   |
|   |   |   |   |   |  |  | **LOW** | **HIGH** |   |   |
|   |   |   |   |   |  RETURN ON EQUITY | 10.16% | 12.16% |   |   |
|   |   |   |  |   OVERALL RATE OF RETURN | 5.59% | 5.94% |   |   |
|   |   |   |   |   |   |   |   |   |   |   |

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| --- | --- | --- | --- | --- | --- | --- |
| **Bocilla Utilities, Inc.** |  |  |  |  |  | **Schedule No. 3-A** |
| **Statement of Water Operations** |  |  |  |  |  | **Docket No. 160065-WU** |
|  |  | **Test Year** | **Utility** | **Adjusted** | **Staff** | **Staff** |  |  |  |
|  |  | **Per** | **Adjust-** | **Test Year** | **Adjust-** | **Adjusted** | **Revenue** | **Revenue** |  |
|  | **Description** | **Utility** | **ments** | **Per Utility** | **ments** | **Test Year** | **Increase** | **Requirement** |  |
|   |   |   |   |   |   |   |   |   |   |
| 1 | **Operating Revenues:** | $391,017  | $156,753  | $547,770  | ($149,617) | $398,153  | $75,708  | $473,861  |  |
|   |   |   |   |   |   |   | 19.01% |   |  |
|   | **Operating Expenses** |   |   |   |   |   |   |   |  |
| 2 |  Operation & Maintenance | 363,729  | 76,819  | 440,548  | (61,358) | 379,190  |   | 379,190  |  |
|   |   |   |   |   |   |   |   |   |  |
| 3 |  Depreciation (net of CIAC Amort.) | 14,743  | 0  | 14,743  | 2,535  | 17,278  |   | 17,278  |  |
|   |   |   |   |   |   |   |   |   |  |
| 4 |  Taxes Other Than Income | 44,538  | 6,857  | 51,395  | (12,736) | 38,659  | 3,407  | 42,065  |  |
|   |   |   |   |   |   |   |   |   |  |
| 5 |  Income Taxes | 0  | 0  | 0  | 0 | 0 | 0 | 0 |  |
|   |   |   |   |   |   |   |   |   |  |
| 6 | **Total Operating Expense** | 423,010  | 83,676  | 506,686  | (71,559) | 435,127  | 3,407  | 438,534  |  |
|   |   |   |   |   |   |   |   |   |  |
| 7 | **Operating Income** | ($31,993) | $73,077  | $41,084  | ($78,058) | ($36,974) | $72,301  | $35,327  |  |
|   |   |   |   |   |   |   |   |   |  |
| 8 | **Rate Base** | $688,417 |   | $690,154 |   | $612,514 |   | $612,514 |  |
|   |   |   |   |   |   |   |   |   |  |
| 9 | **Rate of Return** | -4.65% |   | 5.95% |   | -6.04% |   | 5.77% |  |
|   |   |   |   |   |   |   |   |   |  |

|  |  |
| --- | --- |
|  **Bocilla Utilities, Inc.** |  **Schedule 3-B** |
|  **Adjustment to Operating Income** |  **Docket No. 160065-WU** |
|   |   |   |   |
|   | **Explanation** | **Water** |   |
|   |   |   |   |
|   |   |   |   |
|   | Operating Revenues |   |   |
| 1 | Remove requested final revenue increase. | ($152,375) |   |
| 2 | Reflect appropriate amount of annualized revenues. (Issue 11) | 2,758  |   |
|   |  Total | ($149,617) |  |
|   |   |   |   |
|   | Operation and Maintenance Expense |   |   |
| 1 | Agreed upon Audit Finding 8. (Issue 2) | ($2,271) |   |
| 2 | Reflect appropriate pro forma expenses. (Issue 12) | (21,121) |   |
| 3 | Reflect appropriate salaries & wages expense. (Issue 13) | (18,860) |   |
| 4 | Reflect appropriate test year expense adjustments. (Issue 14) | (18,738) |   |
| 5 | Reflect appropriate amount of rate case expense. (Issue 15) | (368) |   |
|  |  Total | ($61,358) |   |
|   |   |   |   |
|   | Depreciation Expense - Net |   |   |
| 1 | Agreed upon Audit Finding 6. (Issue 2) | $3,538  |   |
| 2 | Reflect appropriate test year depr. Expense. (Issue 3) | (3,861) |   |
| 3 | Reflect meter installation via hook up charges. (Issue 4) | (8) |   |
| 4 | Reflect appropriate Pro Forma depreciation exp. (Issue 5) | 2,866  |   |
|  |  Total | $2,535  |   |
|   |   |   |  |
|   | Taxes Other Than Income |   |  |
| 1 | RAFs on revenue adjustments above. | ($6,733) |  |
| 2 | Reflect appropriate test year property taxes. (Issue 3) | (5,006) |  |
| 3 | Reflect appropriate Pro Forma property taxes. (Issue 5) | 1,271  |  |
| 4 | Reflect appropriate payroll tax expense. (Issue 13) | (2,269) |  |
|  |  Total | ($12,736) |  |
|   |   |   |   |
|   |   |   |   |



1. Order No. PSC-13-0228-PAA-WU, issued May 29, 2013, in Docket No. 130067-WU, *In re:* *Application for grandfather certificate to operate water utility in Charlotte County by Bocilla Utilities, Inc.* [↑](#footnote-ref-1)
2. Order No. PSC-16-0364-PCO-WU, issued August 29, 2016, in Docket No. 160065-WU, *In re: Application for increase in water rates in Charlotte County by Bocilla Utilities, Inc.* [↑](#footnote-ref-2)
3. Order No. PSC-14-0626-PAA-WU, issued October 29, 2014, in Docket No. 130265-WU, *In re: Application for staff-assisted rate case in Charlotte County by Little Gasparilla Water Utility, Inc.* [↑](#footnote-ref-3)
4. Order No. PSC-16-0254-PAA-WS, issued June 29, 2016, in Docket No. 160006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S*. [↑](#footnote-ref-4)
5. Order No. PSC-14-0626-PAA-WU, p. 13, issued October 29, 2014, in Docket No. 130265-WU, *In re: Application for staff-assisted rate case in Charlotte County by Little Gasparilla Water Utility, Inc*. [↑](#footnote-ref-5)
6. Order Nos. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, *In re: Application for rate increase in Martin County by Indiantown Company, Inc.;* and PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, *In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.* [↑](#footnote-ref-6)
7. Order No. PSC-15-0233-PAA-WS, p. 32, issued June 3, 2015, in Docket No. 140060-WS, *In re: Application for increase in wastewater rates case in Seminole County by Sanlando Utilities Corporation*. [↑](#footnote-ref-7)
8. Order No. PSC-14-0025-PAA-WS issued January 10, 2014, in Docket No. 120209-WS, *In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.* [↑](#footnote-ref-8)
9. The initial notice sent by the Utility was three pages, and the customer notice was one page. Staff anticipates that the final notice will be approximately three pages. [↑](#footnote-ref-9)
10. Section 367.0816, F.S., was repealed pursuant to Ch. 2016-226, Laws of Florida, effective July 1, 2016. However, the Statute was in effect when Bocilla’s application was filed, and therefore shall remain applicable in this case. [↑](#footnote-ref-10)
11. Order Nos. PSC-14-0335-PAA-WS, in Docket No. 130243-WS, issued June 30, 2014, *In re: Application for staff-assisted rate case in Highlands County by Lake Placid Utilities Inc.*; PSC-14-0105-TRF-WS, in Docket No. 130288-WS, issued February 20, 2014, *In re: Request for approval of late payment charge in Brevard County by Aquarina Utilities, Inc.*; PSC-13-0177-PAA-WU, in Docket No. 130052-WU, issued April 29, 2013, *In re: Application for grandfather certificate to operate water utility in Charlotte County by Little Gasparilla Water Utility, Inc.*; PSC-10-0257-TRF-WU, in Docket No. 090429-WU, issued April 26, 2010, *In re: Request for approval of imposition of miscellaneous service charges, delinquent payment charge and meter tampering charge in Lake County, by Pine Harbour Water Utilities, LLC*.; and PSC-11-0204-TRF-SU, in Docket No. 100413-SU, issued April 25, 2011, *In re: Request for approval of tariff amendment to include a late fee of $14.00 in Polk County by West Lakeland Wastewater.* [↑](#footnote-ref-11)
12. Section 367.0816, F.S., was repealed pursuant to Ch. 2016-226, Laws of Florida, effective July 1, 2016. However, the Statute was in effect when Bocilla’s application was filed, and therefore shall remain applicable in this case. [↑](#footnote-ref-12)