

State of Florida



# Public Service Commission


CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

**-M-E-M-O-R-A-N-D-U-M-**

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**DATE:** March 23, 2017

**TO:** Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk

**FROM:** Laura V. King, Division of Engineering, Chief of Reliability and Resource Planning 

**RE:** Docket No. 160065-WU – Application for increase in water rates in Charlotte County by Bocilla Utilities, Inc.

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Attached for filing is the revised recommendation in the above-named docket. This recommendation was deferred from the February 7, 2017 Commission Conference and is to be heard at the April 4, 2017 Commission Conference. There have been changes to Issues 1 through 5, and 12 through 14, with fall-out changes in several additional Issues. Staff sent its fourth data request to the Utility February 13, 2017, with responses due February 20, 2017. The Utility responded in part February 20, 2017, and in full March 10, 2017. Staff sent its fifth data request February 27, 2017, with responses due March 6, 2017. The Utility responded in part March 7, 2017, and in full March 8, 2017. The changes to staff's recommendation were made to reflect information contained in these data request responses.

EXE Approval \_\_\_\_\_

A blue ink signature, likely of the Executive, written over a horizontal line.

ARH:pz

Attachment

State of Florida



## Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

**-M-E-M-O-R-A-N-D-U-M-**

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**DATE:** March 23, 2017

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Engineering (Hill, Graves, King) *GH*  
Division of Accounting and Finance (Frank, Norris) *DF*  
Division of Economics (Hudson, Johnson) *CIS*  
Office of the General Counsel (Leathers, Crawford) *JSC* *ALM*

**RE:** Docket No. 160065-WU – Application for increase in water rates in Charlotte County by Bocilla Utilities, Inc.

**AGENDA:** 04/04/17 – 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:** 04/04/17 (5-Month Effective Date Waived Through April 4, 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.<sup>1</sup> 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.<sup>2</sup> This recommendation addresses Bocilla's requested final rates. The 5-month effective date has been waived by the Utility through April 4, 2017. The Commission has jurisdiction pursuant to Section 367.081 and 367.091, F.S.

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<sup>1</sup>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.*

<sup>2</sup>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.*

## 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. In addition, 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 installed a chloramine feed system on March 20, 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**

<b>Subject of Complaint</b>	<b>PSC’s Records (CATS) (test year and 4 prior years)</b>	<b>Utility’s Records (test year and 4 prior years)</b>	<b>DEP (test year and 4 prior years)</b>	<b>Docket Correspondence</b>	<b>Customer Meeting</b>
Billing Related	2				1
Opposing Rate Increase				6	7
Water Quality		1		3	5
Quality of Service				3	4
Boil Water Notice				3	4
Water Pressure				5	1
<b>Total*</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>20</b>	<b>22</b>

\* A customer comment 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 noted, 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 30 of the Utility’s customers attended the meeting and 9 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 received a petition with signatures from 128 customers dated March 2, 2017, and additional petition pages with 15 customer signatures dated March 6, 2017. The petition stated that the undersigned urged the Commission to decrease, not increase, water rates. In this petition, 72 customers commented on the affordability of the rate increase, eight commented on the quality of the water, one commented on the water pressure, and three commented on insufficient support for the rate increase. The remaining customers signed the petition without comment.

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 \$5,048. (Frank, Hill)

**Staff Analysis:** Staff's audit report was filed on September 1, 2016. Bocilla's response to the audit was received October 10, 2016. In its response to the staff audit report of the Utility, Bocilla and staff agreed to the audit adjustments as set forth in the tables below.

**Table 2-1  
 Description of Audit Adjustments**

Audit Adjustments	Description of Adjustments
Finding 6	Reflect appropriate accumulated amortization of CIAC.
Finding 8	Reflect the removal of unsupported and out-of-period costs, as well as the reclassification of certain amounts.

Source: Staff Audit

In its response to Audit Finding 6, the Utility disagreed with audit staff's calculation of accumulated amortization of CIAC to reflect the retirement of the water treatment plant. Staff agrees with Bocilla and has reflected the removal of the retired plant based on the correct amortization rates. Additionally, the Utility's response to Audit Finding 8 included invoices to support some of the expenses that were removed as unsupported. Staff verified and included the appropriate supported amounts. However, one invoice provided was out-of-period and another should have been capitalized. Based on the audit adjustments agreed to by Bocilla, staff recommends that the adjustments set forth in Table 2-2 below, 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		(\$5,048)	

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, with adjustments described below. Accordingly, UPIS should be increased by \$9,848. A corresponding adjustment should be made to decrease accumulated depreciation by \$49,695 and depreciation expense by \$1,025. (Hill, Norris)

**Staff Analysis:** In its response to the audit, Bocilla contested Audit Finding 2 and the corresponding adjustments to accumulated depreciation reflected in Audit Finding 5. In regards to Audit Finding 2, audit staff reduced the average plant balance of Account 331 – Transmission & Distribution Mains to reflect the removal of unsupported plant additions totaling \$577,798. As detailed in Audit Finding 1, the Utility was unable to locate any records prior to 2007. Thus the majority of the unsupported plant additions are prior to 2007. The Utility acknowledged this factor in its audit response and stated that it was having an original cost study prepared to substantiate the costs that the Utility was unable to support. Additionally, there were physical assets such as pumping equipment, which were 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 sent 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 below. 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. 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.

**Table 3-1  
 Description of Original Cost Study Errors**

<b>Error</b>	<b>Description of Error</b>
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.
Reclassify boost station assets to appropriate NARUC Account	The Utility included all assets from the interconnect project in the Transmission and Distribution account. The assets that belong in the Pumping Equipment account should be reclassified so that appropriate depreciation rates will be applied.

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. However, staff recommends that the use of the original cost study be limited to substantiating the balance of Account 331 – Transmission & Distribution Mains, not supporting a higher UPIS balance.

Furthermore, the staff audit report is still relevant for the three additional plant accounts that comprise the Utility's test year average balance. Additionally, information received during staff's inquiry of the original cost study necessitates further adjustments. Staff's recommended adjustments to test year plant are discussed below.

### **Account 331 – Transmission & Distribution Mains**

Staff's October 4, 2016 site inspection included a boost station which was not identified in the Utility's MFRs. The Utility provided additional documentation for these assets and all costs associated with the Englewood Water District interconnect (Englewood Project). In its MFRs, Bocilla recorded the entire cost of the Englewood Project in Account 441 – Transmission & Distribution Mains as a plant addition of \$363,809 in 2014 and \$97,256 in 2015 for a total amount of \$461,065. This amount reflects a 64 percent allocation of costs, due to the KIU agreement discussed below, totaling \$717,616 and an additional \$1,791 of costs directly attributed to Bocilla. The Englewood Project is comprised of three distinct components: a subaqueous crossing, an interconnect, and a boost station. However, the Utility recorded the boost station as part of the total interconnect project instead of isolating that amount to record in Account 311 – Pumping Equipment.

Staff identified several adjustments which should be made to the total cost of the Englewood Project. Staff believes the total cost of the project should be reduced by \$51,717 to reflect the removal of unsupported costs, including capitalized construction interest and a bank penalty. Staff notes that both of these items should be removed regardless of support due to the nature of each expense. This total also reflects the removal of the costs directly attributed to Bocilla totaling \$1,791. Additionally, the total cost of the project should be reduced by \$11,261 to reflect the removal of legal and engineering expenses associated with work unrelated to the Englewood Project, such as filing index applications with the Commission and the Utility's 2013 certificate docket. In total staff believes the total cost of the Englewood Project should be reduced by \$62,978 (\$51,717 + \$11,261), resulting in a total cost of \$656,429 (\$719,407 - \$62,978).

Staff is recommending that the total cost of the Englewood Project should first be partially allocated to KIU, and should then be classified into the proper National Association of Regulatory Utility Commissioners (NARUC) accounts. KIU is a utility which purchases water from EWD, but all water it purchases in this way flows through Bocilla infrastructure. The Englewood Project assets, as well as certain pro forma projects discussed in Issue 5, all directly benefit KIU. The Utility agrees that 64 percent of the value of these assets, with the exception of the subaqueous crossing as discussed below, should be allocated to Bocilla, and that 36 percent should be allocated to KIU based on the relative Equivalent Residential Connection (ERC) capacities of Bocilla and KIU, 715 and 400, respectively. Review of Bocilla's support documentation verified that the costs associated with the subaqueous crossing were equally and

individually assumed by Bocilla and KIU. Bocilla had previously maintained that KIU's allocation of the Englewood Project was 36 percent of the total cost, as reflected in the Utility's MFRs. However, the KIU Interconnect agreement furnished by the Utility specified equal funding for that component. Staff reflected this detail in its allocation of the Englewood Project's costs and did not apply the 36 percent allocation to the costs associated with the subaqueous crossing. Further, staff identified the costs associated with the boost station in order to reclassify these costs to the correct NARUC account of Account 311 – Pumping Equipment. The costs associated with the boost station totaled \$129,863. Table 3-2 below, illustrates staff's allocation calculation of the Englewood Project.

**Table 3-2**  
**Allocation of Englewood Project Costs**

	Unallocated Costs	Allocation Percentage	Bocilla Allocated Costs
<i>Account 311 – Pumping Equipment</i>			
Boost Station	\$129,863	64 %	\$83,112
<i>Account 331 – Transmission &amp; Distribution Mains</i>			
Interconnect	\$449,979	64 %	\$287,987
Subaqueous Crossing	<u>76,586</u>	<u>N/A</u>	<u>76,586</u>
<i>Total</i>	\$526,565		\$364,573
<b>Total Project</b>	<b><u>\$656,428</u></b>		<b><u>\$447,685</u></b>

Staff's recommended allocation of costs from the Englewood Project result in an increase of \$83,112 to Account 311 – Pumping Equipment and a decrease of \$96,493 to Account 331 – Transmission & Distribution Mains. However a corresponding adjustment is necessary to reflect the average balance of Account 331 – Transmission & Distribution Mains based on staff's recommended adjustments. As such, Account 331 – Transmission & Distribution Mains should be increased by \$29,956 to reflect the appropriate average balance. The net effect is an increase of \$16,575 (\$83,112 - \$96,493 + \$29,956).

**Account 334 – Meters**

Staff believes an adjustment to Account 334 – Meters is necessary based on its review and consideration of the original cost study. Bocilla's MFRs reflect a 2015 plant addition of \$35,880 to Account 334 – Meters for 104 meters. However, staff was never able to obtain documentation supporting the full amount of the addition. In lieu of the total actual costs, it appears that the Utility applied a per unit cost of \$345 to the 104 meters, based on a full scale replacement of each component, including a backflow preventer in order to calculate the total cost of \$35,880 (\$345 x 104). Staff requested the complete documentation to support the total and reviewed all documentation retained by audit staff. Staff was particularly concerned with obtaining the complete documentation due to an invoice indicating that several of the meters were actually for KIU. Including capitalized labor, staff calculated a total cost of \$22,428 for 104 meters, which is a reduction of \$13,452. However, due to the meters being an addition

during the test year, the adjustment to the average plant balance only reflects half. As such, staff recommends that UPIS be decreased by \$6,726 to reflect the actual cost of the documented meter additions.

**Account 302 – Franchise**

This plant account was verified by audit staff with no adjustments noted. However, the Utility had not recorded any accumulated depreciation. Based on Audit Finding 5, accumulated depreciation should be increased by \$3,062.

**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 be based on the MFRs, with adjustments described above. Accordingly, UPIS should be increased by \$9,848. Staff recalculated the corresponding accumulated depreciation for the adjusted plant accounts. Including the adjustment from Audit Finding 5, as previously discussed, accumulated depreciation should be decreased by \$49,695 and depreciation expense should be decreased by \$1,025.

**Issue 4:** Should further adjustments be made to the Utility's rate base?

**Recommendation:** Yes. UPIS should be reduced by \$44,000 to remove double counting of land. Land should be also reduced 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 and to decrease property taxes by \$3,179. (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 Bocilla's rate base, as discussed below.

### **Land**

In its MFRs, the Utility double counted \$44,000 for land in its rate base. As such, staff decreased plant by \$44,000 to remove the duplicate amount for land. Further, 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. A corresponding adjustment should be made to remove the real estate taxes associated with the land. Therefore, property taxes should be decreased by \$3,179.

### **CIAC**

In its MFRs, the Utility recorded \$458,848 of CIAC. Staff learned during a conference call with Bocilla and the Office of Public Counsel (OPC) that the Utility had been incorrectly recording meter installation charges as revenues. Although, the Utility provided staff a breakdown of meter installations dating back to 1993, Bocilla's plant balance only reflects meter replacements for existing customers during the test year. Therefore, all meter installation charges prior to the test year should not be reflected in CIAC except for one during 2015 reflected on the Utility's breakdown of meter installations. Accordingly, CIAC should be increased by \$83 associated with a meter installation charge that was previously recorded in test year revenues by Bocilla. 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 \$139,708. This results in a decrease of \$50,067 from the Utility's requested amount. Therefore, UPIS should be increased by \$139,708. Corresponding adjustments should also be made to increase accumulated depreciation by \$11,709 and increase depreciation expense by \$11,709. Additionally, property taxes should be increased by \$2,136. (Hill, Frank)

**Staff Analysis:** The Utility did not reflect any pro forma plant requests in its original filing. However, in subsequent data requests, Bocilla requested the inclusion of seven pro forma projects. The amount of the pro forma plant additions totaled \$189,775. The Utility provided invoices and justification for each of the plant additions. Based on its review of Bocilla's requested pro forma plant, staff recommends several adjustments to the Utility's proposed pro forma plant as summarized below.

The pro forma plant additions include \$10,964 for a boost station rebuild, \$12,850 for a boost station control package, \$11,400 for the 6" valve replacement, \$10,060 for looping dead end lines, \$14,721 for a chloramine feed system, and \$22,102 per year for four years for a meter replacement program. Bocilla requested \$41,371 for a new utility truck as a pro forma expense. However, staff believes a vehicle asset should be considered a pro forma plant item. Therefore, staff will address the new truck in this issue and remove the requested amount from pro forma O&M expenses.

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.

**Boost Station Rebuild**

In total, the Utility requested \$10,964 to rebuild its boost station. According to a probable cause report funded by Bocilla, this repair was necessary due to improper exercising of fire hydrants. Bocilla further states that Charlotte County firefighters were seen operating a fire hydrant at the time the damage was caused. Charlotte County has declined to accept responsibility for this event, and Bocilla has stated that "any legal action would incur more cost than the repairs."

Bocilla's support for the amount of the repair included a request of \$1,560 for 700 hand-delivered boil water notices and \$3,105 for the engineer's probable cause report that it obtained while attempting to recover repair expenses from Charlotte County. The engineer's probable cause report is an appropriate non-recurring expense to be included in pro forma O&M expenses, as discussed in Issue 12. However, staff believes that both items are not appropriate to capitalize and reduced the recommended pro forma plant by \$4,665 for a total of \$6,299. As discussed in Issue 3, this project is associated with assets that benefit KIU and should reflect a 36 percent allocation to KIU. Therefore staff reduced the recommended pro forma plant by \$2,268 (36 percent x \$6,299) for a total recommended increase of \$4,031 to plant.

### **Boost Station Control Package**

Based on the most recent update of this project, the Utility requested \$12,850 for a control package for its boost station. The current control system is no longer supported by the manufacturer, and supporting the control system internally would cost over 50 percent of the cost of a new system. Additional functionality, greater reliability, and lower maintenance costs justify the additional cost of the new system. As discussed in Issue 3, this project is associated with assets that benefit KIU and should reflect a 36 percent allocation to KIU. Therefore, staff reduced the recommended pro forma plant by \$4,626 (36 percent x \$12,850) for a total recommended increase of \$8,224 to plant.

### **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 has supported with invoices 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 percent 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 and \$9,421 should be approved.

### **Meter Replacement**

Bocilla requested \$26,449 per year to replace 100 meters each year for a period of four years. The Utility noted that many of the meters 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 even though it lies outside of the 24-month window. In its most recent update for the project, Bocilla reduced its request to \$22,102 per year for four years. Based on documentation provided by the Utility, staff recommends that the Commission approve a total of \$55,200 for this program over four years. Staff's recommended amount is based on the replacement of 240 meters at an estimated cost of \$230 per meter over a four-year period. As discussed in Issue 3, the MFRs did not show any balance in Account 334 – Meters. Because staff is recommending that the Original Cost Study is not reliable enough to establish original plant in service, there is no retirement associated with the meter replacements.



**Conclusion**

In total, staff recommends an increase of \$139,708 ( $\$4,031 + \$8,224 + \$9,421 + \$55,200 + \$11,400 + \$10,060 + \$41,371$ ). This results in a decrease of \$50,067 from the Utility's requested amount. There are no associated retirements to the pro forma projects. Therefore, UPIS should be increased by \$139,708. Corresponding adjustments should also be made to increase accumulated depreciation by \$11,709 and increase depreciation expense by \$11,709. Additionally, property taxes should be increased by \$2,136.

**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 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 purchased 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.

### **Transmission & 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.<sup>3</sup> 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, Bocilla's transmission and 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.

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<sup>3</sup>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.*

**Issue 7:** What is the appropriate working capital allowance?

**Recommendation:** The appropriate working capital allowance is \$44,993. As such, the working capital allowance should be decreased by \$473. (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 expenses, 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 Bocilla's O&M expenses. As a result, staff recommends working capital of \$44,993. This reflects a decrease of \$473 to the Utility's requested working capital allowance of \$45,466.

**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 \$744,524. (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 \$744,524. 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 21.58 percent, the appropriate ROE is 11.16 percent.<sup>4</sup> Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

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<sup>4</sup>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.*

**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 6.03 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 discussed in Issue 9, 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, the Utility subsequently stated that no adjustments were made to reflect the removal of the non-utility funds from the loan balance. The Utility also stated that the cost rate does not take into account the closing costs of the loan. Staff reviewed the loan statement and 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.

The Utility provided the closing statement for a loan totaling \$1,005,226. The stated purpose of the loan was to fund the Englewood Project. However, the loan also paid off the balances of two existing loans. As discussed in Issue 3, two components of the Englewood Project, an interconnect and boost station, are allocated between Bocilla and KIU. The third component, a subaqueous crossing, was equally funded by the two Utilities. Although Bocilla secured the funding and commenced the project, KIU has a specific agreement with Bocilla to pay for its allocation of the Englewood Project costs. Therefore, staff believes an adjustment should be made to reflect a percent of the loan amount attributable to KIU.

Staff determined KIU'S allocation of the debt by isolating the amount of the loan that was associated with funding the allocated components of the project, not including the subaqueous crossing as it was equally funded. This results in a reduction of \$219,673 to the average balance of the long-term debt. 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 6.03 percent. Schedule No. 2 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 \$397,988 of annualized service revenues, \$2,168 of miscellaneous revenues and a deduction of \$4,761 for credits to customers. In review of the Utility’s adjusted test year billing data, staff found that the Utility used the incorrect number of gallons for each rate block in calculating annualized revenues. 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 a small increase of \$115 (\$398,103 - \$397,988).

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 the staff’s audit, Bocilla only billed two initial connection charges of \$25. Therefore, staff reduced miscellaneous revenues by \$661 (\$711-\$50). The total reduction to miscellaneous revenues is \$2,118 (\$1,292+\$165+\$661). For the reasons outlined above, the miscellaneous revenues for the Utility should be \$50 (\$2,168-\$2,118). In addition, the Utility gave \$4,761 in credits to customers who had abnormally high usage and met the Utility’s criteria for a credit. Staff did not include these credits in test year revenues. Staff believes this a business decision and the burden should not be carried by the general body of ratepayers. 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**

	<b>Water</b>
Service Revenues	
Utility Annualized Service Revenues	\$397,988
Staff’s Adjustment	<u>\$115</u>
<b>Total Service Revenues</b>	<b>\$398,103</b>
Miscellaneous Revenues	
Utility Recorded Miscellaneous Revenues	\$2,168
Staff’s Miscellaneous Revenue Adjustments	<u>(\$2,118)</u>
<b>Total Miscellaneous Revenues</b>	<b>\$50</b>
<b>Total Test Year Revenues</b>	<b>\$ 398,153</b>

**Issue 12:** Should any adjustments be made to the Utility's pro forma expenses?

**Recommendation:** Yes. Bocilla's requested pro forma O&M expenses should be reduced by \$29,402. A corresponding adjustment should be made to increase payroll taxes by \$765. (Hill, Frank)

**Staff Analysis:** In its filing, the Utility requested \$55,719 for pro forma expenses. Based on its review of Bocilla's requested pro forma expenses, staff recommends several adjustments to the Utility's proposed expenses as summarized below.

### **Salaries & Wages – Employees**

In its filing, the Utility requested an additional \$10,400 (\$25 x 416 hours) a year for its administrative employee to work one extra day a week. However, in response to staff's first data request, Bocilla stated that this figure was an error and that only 400 additional hours is being requested. Given the amount of responsibilities for this position as described by the Utility, and the difficulty Bocilla has had keeping adequate records, staff believes one additional day per week for the part-time administrative employee is reasonable. Staff reduced this expense by \$400 (\$10,400 - \$10,000) to reflect the corrected request. The Utility did not include in its request the corresponding increase in payroll taxes to reflect the additional time. Therefore, staff made a corresponding adjustment to increase payroll taxes by \$765.

### **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.

### **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 that \$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. The Utility points to its poor record keeping as evidence for its need of accounting services. 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 service for free, and as such should be done monthly as a paid function. Given the need for proper record keeping, staff recommends no adjustment to the requested \$4,200 for Contractual Services – Accounting.

### **New Utility Truck**

In its MFRs, Bocilla requested \$7,200 for the lease of a new truck to replace an older truck currently being used. It also made a corresponding request of \$2,500 for maintenance and gas and \$2,600 for insurance associated with the new truck. As discussed in Issue 5, staff capitalized the full amount of the new truck to plant after the Utility decided to purchase rather than lease it. Therefore, staff reduced O&M expense by \$7,200 to reflect the removal of the lease expense. The Utility also requested \$2,500 for maintenance and gas for the new vehicle and mileage reimbursements for its employees who may need to use personal vehicles for work. Staff believes because the Utility utilized a truck and reimbursed employees' fuel during



the test year, test year expenses should adequately reflect the costs of gas and maintenance and reimbursements for personal vehicles. Therefore, staff disallowed the requested \$2,500 for additional maintenance and gas. In response to a staff data request, the Utility provided an updated estimate for insurance expense of \$2,018. Staff believes because there was \$1,470 for test year insurance expense, an additional \$548 ( $\$2,018 - \$1,470$ ) is reasonable to reflect the estimate for the insurance on the new vehicle. Accordingly, staff recommends that the requested pro forma amount be reduced by \$2,052 ( $\$2,600 - \$548$ ). In total, staff recommends a decrease of \$11,752 ( $\$7,200 + \$2,500 + \$2,052$ ) to pro forma expenses associated with the purchase of a new truck.

### **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 \$3,544. Additionally, as discussed above in Issue 5, staff expensed the probable cause report associated with the boost station rebuild and amortized it over five years, pursuant to Rule 25-30.433(8), F.A.C. This results in an increase of \$397. In total, staff recommends a decrease of \$3,146 ( $\$3,544 - \$397$ ).

### **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. Staff notes that this total includes the chemicals needed to treat water consumed by KIU. In its response to staff's fourth data request, the Utility stated that 46 percent of the flows through this system can be attributable to KIU, and so staff recommends that the requested chemical expense be reduced to \$1,430, or 54 percent of the requested amount. Since this is a pro forma addition, O&M should be increased by \$490 for estimated repairs and maintenance associated with the feed system.

### **Fire Hydrant Maintenance and Exercise Program**

The Utility requested \$4,650 over two years for maintenance of 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 led 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. The Utility stated that it is critical to perform this maintenance for all hydrants within the next two years to prevent incurring these replacement costs. Staff believes that the first round of maintenance is prudent, but that more justification is required to approve an ongoing 2-year maintenance cycle. Staff therefore recommends that the \$4,650 should be amortized over two years. 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 this program is prudent and that the cost calculations submitted by Bocilla for this activity reflects 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 \$29,402 (-\$400 - \$16,024 - \$11,752 - \$3,146 + \$1,430 + \$490). A corresponding adjustment should be made to increase payroll taxes by \$765.

**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 \$13,896. Pensions and benefits should be decreased by \$1,510. A corresponding adjustment should be made to reduce payroll taxes by \$1,103. (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, Bocilla reflected a total expense of \$104,866 for employee salaries and wages. The Utility has one full-time operator, which the Utility allocates 20 percent of the operator's salary to KIU. Bocilla also has a part-time meter reader/distribution worker, a part time administrative employee, and a part-time sub-contractor. In an effort to examine the reasonableness of the Utility's salary levels, staff used multiple resources including the American Water Works Associations' (AWWA) 2015 Compensation Survey and believes all employee compensation falls within a reasonable range. Given the intensive description of job duties and no additional benefits included for the part-time positions, staff believes the salary levels are reasonable.

Staff believes there should be a 20 percent allocation to KIU for the operator's annual bonus. This results in a decrease of \$510 ( $\$2,550 \times 20\%$ ). Further, staff believes the operator's pensions and benefits should also reflect a 20 percent allocation to KIU. The operator is the only employee receiving pensions and benefits. Therefore, the allocation results in a decrease of \$1,510 ( $\$7,548 \times 20\%$ ) to the total amount of the Utility's pensions and benefits. In total, staff recommends reducing employees' salaries and wages expense by \$510.

### **Salaries & Wages – Officers**

In its MFRs, the Utility reflected an expense of \$88,061 for the officer's salary. This amount reflects a 10 percent allocation for the officer's time spent on KIU activities. The total salary of the officer is \$97,846. In response to staff data requests, Bocilla 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 have presented many additional problems that require continuous flushing.

According to Bocilla, the officer is responsible for overseeing and protecting a publicly regulated water supply 24 hours a day, 365 days a year. The Utility estimated the officer's total time per month tending to utility operations is 160 to 200 hours. Staff used the AWWA 2015 Compensation Survey (CS) to examine the reasonableness of the officer's starting salary of \$97,846. Staff compared the job description of the officer to a general manager in the AWWA to account for the overall oversight responsibility of the officer. According to the AWWA, the midpoint salary range for a water utility general manager is \$88,844. As such, staff believes that this is a reasonable level for the officer's salary. Staff recommends reducing the officer's total salary by \$9,002 to reflect the AWWA midpoint salary range for a general manager.

Further, staff believes that the Utility's ten percent allocation of officer's salary for non-utility activities does not reasonably reflect the officer's time spent on KIU business. Due to poor record keeping of the officer's time, the Utility was unable to provide staff with recorded hours for time associated with KIU. Staff believes that 20 percent, consistent with the Utility's suggested allocated time for the operator, of the officer's time is more reasonable given the amount of billing calculations and employee management that is involved with KIU. Therefore, staff believes that 20 percent of the officer's salary should be allocated to KIU. This decreases the recommended salary level by \$17,769 ( $\$88,844 \times 20\%$ ). This results in a recommended officer's salary of \$71,075 ( $\$88,844 - \$17,769$ ). In total, staff recommends decreasing the Utility's requested officer's salary by \$16,986 ( $\$88,061 - \$71,075$ ).

Staff increased officer's salaries and wages expense by \$10,800 for directors' fees reclassified from miscellaneous expenses. The Utility's board of directors consists of three directors who meet once a week for an hour and receive \$3,600 each annually. Staff believes it is excessive to have three directors meet weekly for a water reseller Utility with only one full-time employee. Staff recommends decreasing each director's fee to \$100 a month for a total reduction of \$7,200. This results in a net increase of \$3,600 ( $\$10,800 - \$7,200$ ).

In total, staff recommends reducing officer's salaries and wages expense by \$13,386 ( $-\$16,986 + \$3,600$ ).

### **Conclusion**

Based on the above, staff recommends that the Utility's salaries and wages expense be reduced by \$13,896 ( $\$510 + \$13,386$ ). Pensions and benefits should be decreased by \$1,510. A corresponding adjustment should be made to reduce payroll taxes by \$1,103.

**Issue 14:** Should further adjustments be made to the Utility's O&M expense?

**Recommendation:** Yes. O&M expense should be further decreased by \$18,520. (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.

#### **Purchased Power**

In its filing, Bocilla reflected an expense of \$4,549 for Purchased Power in the test year. Staff removed \$1,131 from test year expenses related to charges for the abandoned water treatment plant. Staff also 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. Purchased Power is also affected by the KIU relationship discussed in Issues 3 and 12. As a result, Purchased Power should also be reduced by \$1,078 to account for KIU's 46 percent share of pumping costs. In total, staff recommends a reduction of \$2,574 ( $\$1,131 + \$365 + \$1,078$ ).

#### **Contractual Services – Engineering**

Staff and the Utility agree that an expense of \$1,463 for well plugging is not recurring in nature and should be amortized over five years. The net adjustment to Contractual Services – Engineering should be a decrease of \$1,170.

#### **Contractual Services – Legal**

In its MFRs, the Utility reflected an expense of \$654 for Contractual Services – Legal 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 expenses in the test year. Staff reclassified barge fees totaling \$13,320 from miscellaneous expense. Although the Utility's office is located on the mainland, the infrastructure is located on a barrier island which requires a barge fee for transportation from the mainland to the island. In an effort to verify the actual costs of barging, staff requested the contract between Bocilla and Palm Island Transit, the transit company. The Utility provided a contract between Palm Island Transit and Islander Management Group, LLC (IMG), which in turn bills Bocilla for the barging. Staff compared the invoices from IMG to the contract agreement to verify the costs. The Utility also provided a new contract between Palm Island Transit and Bocilla. The contract allows for 50 round trips per month for a monthly rate of \$950 and \$19 for each additional trip. Staff recommends using the new contract total of \$11,400 ( $\$950 \times 12$  months) plus \$1,140 ( $\$19 \times 60$ ) to reflect additional trips based on an average of 60 additional trips per year. This results in a decrease of \$780 ( $\$13,320 - \$12,540$ ). In total, staff recommends a net increase of \$12,540 ( $\$13,320 - \$780$ ) to transportation expenses.

### **Insurance – Workman’s Comp**

In its MFRs, the Utility reflected an expense of \$4,383 for workman’s comp expense in the test year. Staff reduced this expense by \$442 to reflect a 20 percent allocation to KIU for the operator’s workman’s comp. Staff also reduced this expense by \$263 for capitalized overhead associated with the meter replacement program. In total, staff reduced workman’s comp by \$705 (-\$442 - \$263).

### **Advertising Expense**

In its MFRs, the Utility recorded \$375 for advertising expense in the test year. This expense comprised of rotary club membership fees. As such, staff removed \$375 for non-utility expense.

### **Salaries & Wages – Employees**

Staff made adjustments to correct capitalized employee time spent replacing meters for the meter replacement program. Staff decreased the sub-contractor’s expense by \$3,480 and increased the distribution worker’s expense by \$2,960. This results in a net decrease of \$520 (\$2,960 - \$3,480).

### **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 remove barge fees addressed above in transportation expense. Staff also reduced miscellaneous expense by \$10,800 to reclassify director’s fees to officer’s salaries and wages expense. Staff also removed \$1,237 related to meter replacements and capitalized the expense to plant. This results in a total reduction of \$25,357 (\$13,320 + \$10,800 + \$1,237).

### **Conclusion**

Based on the above, staff recommends that O&M expense be further decreased by \$18,520 (-\$2,574 - \$1,170 - \$360 + \$12,540 - \$705 - \$375 - \$520 - \$25,357).

**Issue 15:** What is the appropriate amount of rate case expense?

**Recommendation:** The appropriate amount of rate case expense is \$99,588. This expense should be recovered over four years for an annual expense of \$24,897. Therefore, annual rate case expense should be increased by \$3,797. (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 March 7, 2017, the Utility submitted its last revised estimate of rate case expense, through completion of the PAA process, which totaled \$117,328.

**Table 15-1  
 Bocilla's Initial and Revised Rate Case Expense Request**

	<b>MFR B-10 Estimated</b>	<b>Actual</b>	<b>Additional Estimated</b>	<b>Revised Total</b>
Friedman & Friedman, PA	\$38,000	\$28,688	\$4,635	\$33,323
Englewood Management Group, LLC	30,000	55,587	8,175	63,762
DMK Engineering	8,100	3,375	3,775	7,150
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	1,838	250	2,088
Customer Notices	1,200	0	0	0
Travel	<u>1,500</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total</b>	<b><u>\$84,400</u></b>	<b><u>\$100,493</u></b>	<b><u>\$16,835</u></b>	<b><u>\$117,328</u></b>

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.

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

In its MFRs, the Utility included \$38,000 in legal fees to complete the rate case. Bocilla provided documentation detailing this expense through March 1, 2017. The actual fees and costs totaled \$26,247 with an estimated \$4,635 to complete the rate case, totaling \$30,882.

C&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 C&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.<sup>5</sup> Consequently, staff recommends an adjustment to reduce C&F's actual legal fees by \$504.

C&F's estimate to complete the rate case includes fees for 12.5 hours at \$370/hr. and an additional \$10 for photocopies, totaling \$4,635. Staff has reviewed the estimate to complete and believes this amount is reasonable. Therefore, staff made no further adjustments.

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

In its MFRs, the Utility included \$30,000 in accounting fees to complete the rate case. Bocilla provided documentation detailing this expense through December 14, 2016. The actual fees and costs totaled \$55,587 with an estimated \$8,000 to complete the rate case, totaling \$63,587. Staff reviewed the invoices and found that a total of \$1,133 occurred before the test year. Staff notes that certain line items on these invoices referred to work with C&F that did not appear on any of C&F's rate case expense invoices. Also, lines items indicated work involving the correction of books and records to make the test year accurate. Staff believes it is the Utility's responsibility to keep accurate books and records. As such, staff removed \$1,133 from rate case expense. Staff further found that \$1,806 was 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 \$583 for traveling. 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 \$7,500 (50 hours at \$150/hr.) and an additional \$675 in costs for attending the Commission Conference. The estimate to complete included 18 hours for responding to staff requests and analysis for staff consideration in drafting final order. After the last estimate to complete was provided by Bocilla, invoices for 11.5 hours were submitted for EMG related to responding to staff requests. Therefore, staff removed 11.5 hours from the estimated 18 hours for responding to staff's requests. Staff also removed 8 hours for review of the Final Order as duplicative of another line item for an estimate of 4 hours to review the Commission's PAA Order. Further, staff removed 4 hours associated with miscellaneous items that may arise as unreasonable. As a result, staff reduced EMG's estimate to compete by \$3,525 (23.5 hours x \$150/hr.). In addition to EMG's estimated time to complete, Bocilla estimated \$675 for lodging, meals, and travel costs for EMG to attend the Commission Conference. In an effort to be consistent with other consultants' estimated travel costs, staff reduced this estimate to \$575 to reflect \$200 for a hotel reservation, \$50 for meals, and \$325 for mileage (650 miles x \$0.50/mile). This results in a decrease of \$100 (\$675 - \$575). Staff recommends a total decrease of \$3,625 (\$3,525 + \$100) to the estimate to

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<sup>5</sup>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.*



complete. In total, staff recommends that accounting fees for EMG be reduced by \$7,147 (\$3,522 + \$3,625).

### **DMK Engineering**

The Utility provided one invoice related to preparing MFRs, responding to data requests, and audit facilitation totaling \$3,375. Bocilla also provided an estimate to complete the rate case which includes \$560 for responding to data requests and \$2,640 (\$165/hr x 16 hrs.) for traveling and attending the Commission Conference. The estimate to complete also includes \$575 in costs for lodging, meals, and mileage. Staff believes these expenses are reasonable. As such, staff recommends no adjustment to actual and estimated rate case expense for DMK Engineering.

### **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, Bocilla 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, Bocilla 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, Bocilla 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.

### **In-House**

In its MFRs, the Utility did not include any estimated rate case expense for in-house employees. However, in response to staff's data requests, the Utility provided \$1,838 for rate case work done by their part-time administrative employee. Further, Bocilla provided an estimate to complete for the President to attend the Commission Conference. This estimate includes hotel and meals totaling \$250. Staff believes these expenses are reasonable and recommend no adjustment to in-house rate case expense.

### **Customer Notices**

In its MFRs, the Utility included estimated costs of \$1,200 for printing and shipping. Bocilla 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 supporting 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.<sup>6</sup> 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).<sup>7</sup> 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 an estimated \$1,500 for travel costs. However, Bocilla subsequently provided documentation detailing estimated travel costs for C&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 the Utility’s revised rate case expense of \$117,328 be decreased by \$18,940 to reflect staff’s adjustments, for a total of \$99,588. A breakdown of staff’s recommended rate case expense is as follows:

**Table 15-2  
 Staff Recommended Rate Case Expense**

<b>Description</b>	<b>MFR Estimated</b>	<b>Utility Revised Act.&amp; Est.</b>	<b>Staff Adjustment</b>	<b>Recom. Total</b>
Legal Fees	\$38,000	\$33,323	(\$2,504)	\$31,323
Accounting Consultant Fees	30,000	63,762	(7,147)	56,615
Engineering Consultant Fees	8,100	16,155	(9,005)	7,150
Filing Fee	4,000	2,000	0	2,000
Bocilla In-house	1,600	2,088	0	2,088
Customer Notices	1,200	0	(284)	916
Travel	<u>\$1,500</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total</b>	<b><u>\$84,400</u></b>	<b><u>\$117,328</u></b>	<b><u>(\$18,940)</u></b>	<b><u>\$99,588</u></b>

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

<sup>6</sup>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.*

<sup>7</sup>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.

In its MFRs, Bocilla 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 \$99,588 should be amortized over four years; pursuant to Section 367.0816, F.S.<sup>8</sup> This represents an annual expense of \$24,897. Based on the above, staff recommends that annual rate case expense be increased by \$3,797 (\$24,897 - \$21,100) compared to the original request in the MFRs.

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<sup>8</sup>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.

**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	\$82,665	\$480,818	20.76%

(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 \$480,818. This represents an increase in revenues of \$82,665 (or 20.76 percent). This increase will allow the Utility the opportunity to recover its operating expenses and earn a 6.03 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. In addition, the Utility currently has a bulk water rate for service to an emergency interconnection with an adjacent exempt utility and a private fire protection rate in accordance with Rule 25-30.465 F.A.C.

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 the BFC and three-tier gallonage charge rate structure, which includes a gallonage charge for non-discretionary usage for residential water customers, should be continued. However, 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 21 percent as well as the seasonal nature 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. The Utility has no customers for bulk water; therefore, staff recommends that Bocilla’s bulk water tariff be canceled. The Utility’s private fire protection rates should be updated in accordance with Rule 25-30.465 F.A.C.

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 for 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**

	<b>RATES AT TIME OF FILING</b>	<b>STAFF RECOMMENDED RATES 48% BFC</b>	<b>ALTERNATIVE I 56% BFC</b>	<b>ALTERNATIVE II 49% BFC</b>
<b>Residential</b>				
5/8" x 3/4" Meter Size	\$46.24	\$47.50	\$54.64	\$47.81
Charge per 1,000 gallons				
0-6,000 gallons	\$4.62			\$7.61
6,001 – 12,000 gallons	\$7.76			\$9.52
Over 12,000 gallons	\$12.32			\$19.04
0 – 3,000 gallons		\$6.93	\$6.25	
3,001 – 12,000 gallons		\$8.66	\$7.81	
Over 12,000 gallons		\$17.32	\$15.62	
3,000 Gallons	\$60.10	\$68.29	\$73.39	\$70.64
6,000 Gallons	\$73.96	\$94.27	\$96.82	\$93.47
12,000 Gallons	\$120.52	\$146.23	\$143.68	\$150.59

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 is shown below, in Table 18-1.

**Table 18-1**  
**Late Payment Cost Justification**

	Staff's Recommended
Labor	\$6.15
Printing	0.50
Postage	<u>0.47</u>
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.<sup>9</sup> Staff recommends that the Utility's requested late payment charge of \$7.12 is consistent with previously approved late payment charges and should be approved. The purpose of this charge is not only to provide an incentive for customers to make timely payment, thereby

<sup>9</sup>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.*



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 new meter installation charge of \$365 and a main extension charge of \$1,279 per ERC. The Utility's existing AFPI charge should be collected from the remaining 315 ERCs the system was originally 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, a system capacity charge of \$3,000 per ERC, and an AFPI charge.

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.

### **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.

### **Main Extension Charge**

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).

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.

**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 that is not included in rates. The costs are typically accumulated on a monthly basis for up to five years. The Bocilla AFPI charges accrued from 1992 to 1995. While the plant associated with those charges was subsequently retired in 2014, the Utility is entitled to continue to recover the costs incurred from 1992 to 1995 from future connections. 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.

**Conclusion**

Based on the above, Bocilla’s existing wastewater system capacity charge should be discontinued. Staff recommends a new meter installation charge of \$365 and a main extension charge of \$1,279 per ERC. The Utility’s existing AFPI charge should be collected from the remaining 315 ERCs the system was originally 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**

	<b>Current Charge</b>	<b>Recommended Charge</b>
Meter Installation Charge 5/8”x3/4”	\$165.00	\$365.00
Main Extension Charge Per ERC	\$0.00	\$1,279.00
System Capacity Charge	\$3,000.00	\$0.00
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 \$171 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 \$171 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 \$171 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.?<sup>10</sup>

**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 \$26,267.

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.

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<sup>10</sup>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.

**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 11.3 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 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. (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, 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 \$411,621 for water. The adjusted water interim revenue requirement of \$411,621 is lower than the interim revenue requirement of \$464,122, resulting in a refund of 11.3 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 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.



<b>Bocilla Utilities, Inc.</b>		<b>Schedule No. 1-A</b>			
<b>Schedule of Water Rate Base</b>		<b>Docket No. 160065-WU</b>			
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>
1 Plant in Service	\$1,230,651	(\$47,895)	\$1,182,756	\$105,557	\$1,288,313
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)	37,986	(311,122)
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	<u>0</u>	<u>45,466</u>	<u>45,466</u>	<u>(473)</u>	<u>44,993</u>
9 <b>Rate Base</b>	<b><u>\$688,417</u></b>	<b><u>\$1,737</u></b>	<b><u>\$690,154</u></b>	<b><u>\$54,370</u></b>	<b><u>\$744,524</u></b>

<b>Bocilla Utilities, Inc.</b>		<b>Schedule No. 1-B</b>
<b>Adjustments to Rate Base</b>		<b>Docket No. 160065-WU</b>
<b>Explanation</b>	<b>Water</b>	
<u>Plant In Service</u>		
1	Reflect appropriate test year plant. (Issue 3)	\$9,848
2	To remove duplicative land. (Issue 4)	(44,000)
3	Reflect appropriate pro forma Plant. (Issue 5)	<u>139,708</u>
	Total	<u>\$105,557</u>
<u>Land</u>		
	To remove non-used and useful land. (Issue 4)	<u>(\$44,000)</u>
<u>Accumulated Depreciation</u>		
1	Reflect appropriate test year accum. depr. (Issue 3)	\$49,695
2	Reflect appropriate pro forma accumulated depr. (Issue 5)	<u>(11,709)</u>
	Total	<u>\$37,986</u>
<u>CIAC</u>		
	Retirements related to meter hook-up charges. (Issue 5)	<u>(\$83)</u>
<u>Accumulated Amortization of CIAC</u>		
1	Agreed upon Audit Finding 6. (Issue 2)	(\$44,625)
2	Reflect meter installation via hook-up charges. (Issue 5)	<u>8</u>
	Total	<u>(\$44,617)</u>
<u>Working Capital</u>		
	Reflect the appropriate working capital amount. (Issue 7)	<u>(\$473)</u>

<b>Bocilla Utilities, Inc.</b>						<b>Schedule No. 2</b>		
<b>Capital Structure-Simple Average</b>						<b>Docket No. 160065-WU</b>		
<b>Description</b>	<b>Total Capital</b>	<b>Specific Adjustments</b>	<b>Subtotal Adjusted Capital</b>	<b>Prorata Adjustments</b>	<b>Capital Reconciled to Rate Base</b>	<b>Ratio</b>	<b>Cost Rate</b>	<b>Weighted Cost</b>
<b>Per Utility</b>								
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	<u>12,122</u>	<u>0</u>	<u>12,122</u>	<u>0</u>	<u>12,122</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
7 <b>Total Capital</b>	<u>\$1,233,499</u>	<u>\$0</u>	<u>\$1,233,499</u>	<u>\$0</u>	<u>\$1,233,499</u>	<u>100.00%</u>		<u>5.97%</u>
<b>Per Staff</b>								
8 Long-term Debt	\$1,005,226	(\$219,673)	\$785,553	(\$211,191)	\$574,362	77.14%	4.75%	3.66%
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	(58,111)	158,040	21.23%	11.16%	2.37%
12 Customer Deposits	0	0	0	0	0	0.00%	0.00%	0.00%
13 Deferred Income Taxes	<u>12,122</u>	<u>0</u>	<u>12,122</u>	<u>0</u>	<u>12,122</u>	<u>1.63%</u>	0.00%	<u>0.00%</u>
14 <b>Total Capital</b>	<u>\$1,233,499</u>	<u>(\$219,673)</u>	<u>\$1,013,826</u>	<u>(\$269,302)</u>	<u>\$744,524</u>	<u>100.00%</u>		<u>6.03%</u>
						<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>	
OVERALL RATE OF RETURN						<u>5.82%</u>	<u>6.25%</u>	

<b>Bocilla Utilities, Inc.</b>						<b>Schedule No. 3-A</b>	
<b>Statement of Water Operations</b>						<b>Docket No. 160065-WU</b>	
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjustments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjustments</b>	<b>Staff Adjusted Test Year</b>	<b>Revenue Increase</b>	<b>Revenue Requirement</b>
1 <b>Operating Revenues:</b>	<u>\$391,017</u>	<u>\$156,753</u>	<u>\$547,770</u>	<u>(\$149,617)</u>	<u>\$398,153</u>	<u>\$82,665</u> 20.76%	<u>\$480,818</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	363,729	60,795	424,524	(64,579)	359,945		359,945
3 Depreciation (net of CIAC Amort.)	14,743	0	14,743	14,214	28,957		28,957
4 Taxes Other Than Income	44,538	6,857	51,395	(8,114)	43,281	3,720	47,001
5 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
6 <b>Total Operating Expense</b>	<u>423,010</u>	<u>67,652</u>	<u>490,662</u>	<u>(58,479)</u>	<u>432,183</u>	<u>3,720</u>	<u>435,903</u>
7 <b>Operating Income</b>	<u>(\$31,993)</u>	<u>\$89,101</u>	<u>\$57,108</u>	<u>(\$91,138)</u>	<u>(\$34,030)</u>	<u>\$78,945</u>	<u>\$44,915</u>
8 <b>Rate Base</b>	<u>\$688,417</u>		<u>\$690,154</u>		<u>\$744,524</u>		<u>\$744,524</u>
9 <b>Rate of Return</b>	<u>-4.65%</u>		<u>8.27%</u>		<u>-4.57%</u>		<u>6.03%</u>

<b>Bocilla Utilities, Inc.</b>		<b>Schedule 3-B</b>
<b>Adjustment to Operating Income</b>		<b>Docket No. 160065-WU</b>
<b>Explanation</b>		<b>Water</b>
<u>Operating Revenues</u>		
1	Remove requested final revenue increase.	(\$152,375)
2	Reflect appropriate amount of annualized revenues. (Issue 11)	2,758
	Total	<u>(\$149,617)</u>
<u>Operation and Maintenance Expense</u>		
1	Agreed upon Audit Finding 8. (Issue 2)	(\$5,048)
2	Reflect appropriate pro forma O&M expenses. (Issue 12)	(29,402)
3	Reflect appropriate salaries & wages expense. (Issue 13)	(13,896)
4	Reflect appropriate pensions and benefits. (Issue 13)	(1,510)
5	Reflect appropriate test year expense adjustments. (Issue 14)	(18,520)
6	Reflect appropriate amount of rate case expense. (Issue 15)	3,797
	Total	<u>(\$64,579)</u>
<u>Depreciation Expense - Net</u>		
1	Agreed upon Audit Finding 6. (Issue 2)	\$3,538
2	Reflect appropriate test year depr. expense. (Issue 3)	(1,025)
3	Reflect meter installation via hook-up charges. (Issue 4)	(8)
4	Reflect appropriate pro forma depreciation exp. (Issue 5)	11,709
	Total	<u>\$14,214</u>
<u>Taxes Other Than Income</u>		
1	RAFs on revenue adjustments above.	(\$6,733)
2	Reflect appropriate test year property taxes. (Issue 4)	(3,179)
3	Reflect appropriate pro forma property taxes (Issue 5)	2,136
4	Reflect appropriate pro forma payroll taxes. (Issue 12)	765
5	Reflect appropriate payroll tax expense. (Issue 13)	(1,103)
	Total	<u>(\$8,114)</u>

<b>Bocilla Utilities, Inc.</b>		<b>SCHEDULE NO. 4</b>			
<b>TEST YEAR ENDED December 31, 2015</b>		<b>DOCKET NO. 160065-WU</b>			
<b>MONTHLY WATER RATES</b>					
	<b>RATES AT TIME OF FILING</b>	<b>COMMISSION APPROVED INTERIM</b>	<b>UTILITY REQUESTED RATES</b>	<b>STAFF RECOMMENDED RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential and General Service</u></b>					
<b>Base Facility Charge by Meter Size</b>					
5/8" X3/4"	\$46.24	\$53.83	\$63.60	\$47.50	\$2.63
3/4"	N/A	N/A	N/A	\$71.25	\$3.95
1"	\$115.60	\$134.58	\$159.00	\$118.75	\$6.58
1-1/2"	\$231.18	\$269.15	\$318.00	\$237.50	\$13.16
2"	\$369.85	\$430.64	\$508.00	\$380.00	\$21.05
3"	\$693.55	\$861.28	\$954.00	\$760.00	\$42.10
4"	\$1,155.93	\$1,345.75	\$1,590.00	\$1,187.50	\$65.79
6"	\$2,324.85	\$2,691.50	\$3,180.00	\$2,375.00	\$131.58
8"	\$3,699.02	\$4,306.40	\$5,088.00	\$3,800.00	\$210.52
<b>Charge per 1,000 gallons - Residential</b>					
0 - 6,000 gallons	\$4.62	\$5.38	\$6.35	N/A	N/A
6,001 - 12,000 gallons	\$7.76	\$9.03	\$10.71	N/A	N/A
Over 12,000 gallons	\$12.32	\$14.34	\$17.00	N/A	N/A
0 - 3,000 gallons	N/A	N/A	N/A	\$6.93	\$0.38
3,001 - 12,000 gallons	N/A	N/A	N/A	\$8.66	\$0.48
Over 12,000 gallons	N/A	N/A	N/A	\$17.32	\$0.96
<b>Charge per 1,000 gallons - General Service</b>					
0 - 6,000 gallons	\$4.62	\$5.38	\$6.35	\$10.17	\$0.56
6,001 - 12,000 gallons	\$7.76	\$9.03	\$10.71	N/A	N/A
Over 12,000 gallons	\$12.32	\$14.34	\$17.00	N/A	N/A
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>					
3,000 Gallons	\$60.10	\$69.97	\$82.65	\$68.29	
6,000 Gallons	\$73.96	\$86.11	\$101.70	\$94.27	
12,000 Gallons	\$120.52	\$140.29	\$165.96	\$146.23	