

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in
Charlotte County by Little Gasparilla Water
Utility, Inc.

DOCKET NO. 20130265-WU
ORDER NO. PSC-2018-0071-PAA-WU
ISSUED: February 2, 2018

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
JULIE I. BROWN
DONALD J. POLMANN
GARY F. CLARK

NOTICE OF PROPOSED AGENCY ACTION
ORDER ESTABLISHING PHASE II RATES
AND
FINAL ORDER
GRANTING TEMPORARY RATES AND ESTABLISHING RATE CASE EXPENSE

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission (Commission) that, except as otherwise noted, the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

CASE BACKGROUND

Little Gasparilla Water Utilities, Inc., (Little Gasparilla or Utility) is a Class B water Utility serving approximately 444 customers on Little Gasparilla Island in Charlotte County. The Utility's service area is on a private island, which consists primarily of vacation homes.

The Utility filed an application for a staff-assisted rate case in the instant docket on November 4, 2013. According to Little Gasparilla's 2016 annual report, total gross revenues were \$399,196, and total operating expenses were \$409,016, resulting in a net loss of \$9,820. By Order No. PSC-14-0626-PAA-WU, issued October 29, 2014, we approved Phase I rates and the Utility was given until December 3, 2015, to complete the Phase II pro forma construction of a new building and meter replacements (Phase II pro forma projects). However, the Utility encountered financing issues and requested an extension of time to complete the Phase II pro forma projects. By Order No. PSC-16-0023-FOF-WU, issued January 12, 2016, we approved the Utility's request for an extension of time to complete the required Phase II pro forma projects by June 3, 2016.

On May 19, 2016, the Utility requested a second extension of approximately six months to complete the Phase II pro forma projects. Little Gasparilla's reason for the delay in completing the Phase II pro forma projects was Charlotte County's potential action to repeal its mandatory water connection ordinance and the effect that it would have on the Utility's ability to borrow funds to finance the Phase II pro forma projects. By Order No. PSC-16-0023-FOF-WU, issued July 25, 2016, the Utility was given until December 15, 2016, to complete the pro forma projects. In addition, Little Gasparilla was required to provide proof that a simplified employee pension plan (SEP) had been established and that contributions to the fund had begun prior to our approval of the Phase II rate increase. The Utility has since provided proof the SEP has been established.

On December 4, 2016, the Utility requested a third extension through February 28, 2017, to complete the pro forma projects. The projects were substantially completed in February 2017, and the Utility provided us with the required documentation on April 28, 2017. On August 14, 2017, and November 8, 2017, the Office of Public Counsel (OPC) filed letters of concern that are addressed in this Order. By this Order, we address Phase II rates. We have jurisdiction pursuant to Sections 367.081, 367.121, and 367.0814, Florida Statutes.

ANALYSIS AND DECISION

I. Phase II Revenue Requirement, Return on Equity (ROE), and Overall Rate of Return

By Order No. PSC-14-0626-PAA-WU, issued October 29, 2014, we approved the following four pro forma projects in this docket: (1) a subaqueous pipeline and county interconnection to replace the Utility's aging reverse osmosis water treatment plant (WTP) and begin purchasing bulk water from Charlotte County Utilities (CCU); (2) an extension of the Utility's service lines to the north end of the island to provide water service to 67 additional lots; (3) construction of a new building on the site of the retired reverse osmosis treatment plant, to serve as a workshop, storage facility, and office; and (4) a meter replacement program to replace the Utility's aging water meters with remote-read meters. The subaqueous pipeline and county interconnection, and the north line extension were scheduled to be completed prior to the effective date of the Phase I rates, and, therefore, were included in the Phase I revenue requirement. The building construction and meter replacement program were scheduled to begin in 2015 after completion of the first two projects, and, therefore, were approved for consideration in a Phase II revenue requirement.

In the aforementioned Order we found each of the requested pro forma projects to be prudent. The reverse osmosis WTP was nearing the end of its useful life and was no longer adequately removing chlorides from the source water. We found the interconnection with CCU to be prudent because: (1) the costs are reasonable when compared to the costs to repair the existing WTP, (2) the quality of the water will improve, and (3) because reverse osmosis plants are more expensive to operate and maintain than other types of WTPs, the Utility is expected to realize long-term cost benefits. The project included the construction of an 8-inch subaqueous pipeline that would deliver water from CCU on the mainland to the island. Little Gasparilla's

responsibility for the entire pipeline begins at the master meter located on the mainland. The north line extension was necessary at that time to provide water service to 10 residents on the north end of the island who are located in the Utility's certificated service territory and who had already requested service. The extension would also enable the Utility to provide service to the remaining lots on the north end of the island that were not yet connected to the Utility's distribution system.

We also found that the construction of the new building is prudent, reasonable, and will allow the Utility to serve its customers better. The Florida Department of Environmental Protection (DEP) had noted in two Sanitary Survey Reports that the WTP building was deteriorating and that it would be beneficial to address the issue as part of the overall maintenance plan for the facility. Because of the poor condition of the building, the Utility proposed to demolish it and build a new structure on the site. The new building would serve as a workshop, storage facility for repair parts and other equipment, house meter testing equipment, serve as a Utility office, and also include restroom facilities, which did not previously exist at the WTP. At that time, the Utility rented office space on the mainland and any customers who wanted to visit the Utility office had to leave the island. The Utility indicated that no customers ever visited the mainland office, further illustrating the inconvenience of the mainland location for customers. Also, the only restrooms available to Utility personnel and others visiting the Utility premises were the public restrooms located at the Hide A Way Beach pool area. We determined that having equipment storage and testing equipment on the island could reduce repair time. The new building was proposed to be constructed on top of the concrete water tank that would be retired upon completion of the subaqueous pipeline and county interconnection, thereby using land that the Utility currently owns.

In 2013, the Utility's water meters were approximately 27 years old and in need of replacement. Little Gasparilla proposed to switch to remote-read meters for better meter accuracy, leak detection, and abnormal usage detection. The Utility noted that it sometimes had to estimate a meter reading because the meter was under water, and that this issue would be resolved by using remote read meters. Little Gasparilla proposed to replace 100 existing meters per year for four years. We found Little Gasparilla's proposed four-year meter replacement program prudent and reasonable, and that it would reduce the amount of excessive unaccounted for water (EUW) for the Utility. It was anticipated that the new building construction and the first year of the meter replacement program would be completed at the same time. Consequently, we determined that it would be appropriate to only include the first year of the meter replacement program in order to avoid any unnecessary delays in the Utility's implementation of the Phase II rate increase, which was primarily needed to recover the cost of the new building.

At our September 22, 2014 Agenda Conference, we approved Phase I rates that included estimated pro forma plant additions of \$679,775 for the subaqueous pipeline and county interconnection and \$86,200 for the north line extension, for a combined total of \$765,975. Due to concerns raised about the cost of the new building, we approved the Phase II projects, but determined that a final decision on the amount of the Phase II revenue requirement and rates would be made after the Utility completed the Phase II pro forma projects and the costs were evaluated. In addition, we ordered that if the approved Simplified Employee Pension (SEP) Plan

was not implemented, the Phase II rates would be reduced by the expense established for that purpose. We also asked Little Gasparilla's owner to continue working to reduce the cost of the building.

A. Phase I Documentation

On December 16, 2014, the Utility advised our staff that it had encountered a minor set back with the directional bore for the subaqueous pipeline. The drill head had to be replaced, which caused a total of six days delay in December. The entire directional bore was 3,750 feet across the bay and 90 feet deep. The drilling was already at 2,000 feet when the decision was made to pull the pipe because the drill would not steer. The drilling delay then triggered another delay in December when the work was put on hold for two weeks because the barge would not deliver during the holiday season. The drilling delays also caused delays in the testing and clearance from the county and the DEP. The Utility also experienced another unexpected change related to the directional drill work. The contractor for the project advised that the project fell short of the length needed to not impact the mangrove area, and that an additional 100 feet of drilled pipe had to be added at the contract price of \$135 per foot for an additional cost of \$13,500. The contractor issued a change order to include those costs, as well as additional work that became necessary during the subaqueous pipeline and north line extension projects. This increased the initial cost estimates. The change order also included items such as the cost of construction water that was necessary to test and flush the pipeline, professional services associated with onsite monitoring of the directional drill project, and land clearing.

On February 19, 2015, Little Gasparilla advised our staff that the subaqueous pipeline and county interconnection were completed on February 14, 2015. The Utility also advised that the north line extension could not be completed because one land owner would not let the Utility cross his property. This prevented the Utility from completing the last 300 feet of the main line and one fire hydrant. The Utility was also unable to complete the additional service lines that would be needed to connect customers to the main line. At that time, the Utility still had six homes requesting service that it was unable to serve without completing the line extension. As a result, the Utility found it necessary to start the eminent domain process to obtain the necessary easement to cross that parcel of land. The attorney representing the Utility in the eminent domain proceeding provided an estimated cost of at least \$27,250, which included the land appraisal cost, attorneys' fees, court filing fees, and the newspaper publication of the law suit. The attorney advised that the estimate did not include the amount of possible compensation to the property owner for the taking of the easement or other fees. Further, the attorney advised that under Florida eminent domain law, the taking party must pay the land owner's attorney fees and costs to defend the eminent domain suit, and the Utility was unable to determine those costs at that time. The Utility later advised our staff that on November 13, 2015, the Utility had proceeded successfully with the eminent domain in order to install service lines to some customers requesting service. Eminent domain is discussed later in this Order.

Based on our review of the Utility's supporting documentation for the Phase I work that was completed as of February 19, 2015, we determined that the Utility had completed \$774,977 of the plant additions related to the pro forma projects. We excluded \$677 for non-utility costs

and \$125 for an unrelated main repair from the Phase I totals for rate implementation purposes. The adjusted total for completed Phase I work is \$774,175, which surpassed our approved Phase I pro forma plant additions of \$765,975 by \$8,200 or 1.07 percent. This is deemed sufficient to implement the Phase I rates. Upon 100 percent completion of the subaqueous pipeline and county interconnection project, the Utility's actual project cost exceeded the original estimates by approximately five percent or \$33,000. Also, at that time, the Utility had incurred approximately \$61,000 of the original estimated \$86,200 north line extension project cost, representing approximately 71 percent completion of the project. Because the majority of the Phase I pro forma project costs are related to the subaqueous pipeline project, the remaining \$25,000 that was not spent on the north line extension during Phase I only represents approximately 3.3 percent of the total Phase I pro forma costs. Although the Utility was not able to complete the north line extension project at that time, the Utility was allowed to implement the Phase I rates upon completion of the subaqueous pipeline and county interconnection because the total expenditures on that project plus the completed portion of the north line extension exceeded the total pro forma project costs we approved for Phase I.

It is not uncommon for the final costs and timing of pro forma projects to differ from the original bids and estimates. Based on our practice, such differences are typically handled in one of two ways. First, a utility may be permitted to implement the approved rates once it has expended the necessary total funds, provided that the utility supplies the necessary supporting documentation for the costs incurred and payments made, all costs are verified to be related to an approved project, and the utility has provided sufficient justification for any variances from the original estimates. Second, in those instances when the final project costs differ materially from our approved costs, we may either increase or decrease the originally approved revenue requirement. In the instant case, the 1.07 percent in additional expenditures above our approved pro forma costs for Phase I was not sufficient to warrant a recalculation of the Phase I revenue requirement at that time, especially since we would be addressing Phase II rates after the Phase II pro forma projects were completed. Further, delaying the implementation of the Phase I rate increase until the north line extension could be completed would have had a detrimental impact on the Utility's ability to begin making payments on the loans that it secured for the construction of the subaqueous pipeline and county interconnection.

As agreed at our September 22, 2014 Agenda Conference, Little Gasparilla's owner worked to reduce the cost of the utility building. The additional time spent by the Utility on the redesign efforts contributed to some delays in the Utility's loan application process. The Utility also experienced some delays related to zoning and construction permitting. However, the most significant delays in the Utility's completion of the Phase II projects for the building construction and meter replacement program were due to the uncertainty of Charlotte County's decision on its mandatory water connection ordinance and the impact on Little Gasparilla's ability to obtain funding for the projects. The Charlotte County ordinance required that residents connect to a centralized water system within one year of availability, which would result in residents of Little Gasparilla Island being required to connect to the Utility's water system. A number of island residents receive water through other means, such as cisterns, and are opposed to being required to connect to the Utility's water system. Charlotte County decided not to repeal the mandatory water connection ordinance, but added a five-year grace period for residents who applied for the

exception to the mandatory connection. The exception to the mandatory connection requirement expires on January 1, 2021.

Pursuant to the Charlotte County ordinance, the existing residents who did not apply or were not approved for the exception to the mandatory connection requirement are expected to connect to the Utility's water system. The additional connections would pay Little Gasparilla's approved service availability charges, which would potentially increase the financial ability of the Utility to pay its existing and any additional loans. However, due to the length of time it took Charlotte County to make its decision, the Utility was required to revise projections that had been previously submitted, as loans are approved based on projections and the Small Business Administration's (SBA) guaranty. The funding for the meter replacement project was tied to the building construction loan, preventing the Utility from moving forward on the meter replacement project. The Utility was unable to proceed with the Phase II projects until the funding was approved. The Utility kept our staff informed of the progress throughout this process. As discussed in the case background, Little Gasparilla also requested, and was granted, several extensions on the time to complete the Phase II projects.

B. Phase II Documentation

On April 28, 2017, Little Gasparilla provided supporting documentation showing completion of the building construction and a portion of the meter replacement project, as well as additional work completed on the north line extension. On August 14, 2017, the Office of Public Counsel (OPC) filed a letter listing its concerns with the Utility's Phase II documentation. On September 18, 2017, the Utility provided additional documentation and clarification which also included information to address OPC's concerns. The Utility provided documentation supporting \$428,223 in project related costs, and confirmation of the Utility's \$18,637 investment in the SEP Plan that was approved in Phase I. We find that the Utility has provided sufficient documentation to support that it established and has maintained the SEP Plan, therefore, no further action is required for the SEP Plan in this docket.

In its November 8, 2017 letter, OPC expressed continued concern about the Utility's request for recovery of costs related to obtaining easements for the pro forma projects, and asked that we exclude these costs unless it can be determined that the costs were prudently incurred. In addition, OPC has objected to the inclusion of any other costs related to the north line extension in the Phase II revenue requirement. It appears that OPC's concern is due in part to a misunderstanding between the parties about the amount of work that remained to be done on the north line extension following implementation of the Phase I rates. As discussed above, the Utility was allowed to implement the Phase I rates upon completion of the subaqueous pipeline and county interconnection because the total expenditures on that project and the completed portion of the north line extension exceeded the total pro forma project costs approved this Commission for Phase I, and the implementation of the rate increase was necessary to enable the Utility to begin making payments on the loans secured to pay for the pipeline construction. Consequently, the construction costs incurred on the north line extension project during Phase II are not new costs, but rather a continuation of the original project that could not be completed during Phase I due to the easement issues. Therefore, we find that it is appropriate to include the

north line extension project costs that were completed during Phase II. We can consider cost increases and decreases that occur during the completion of an approved pro forma project. Even in cases when the Phase II revenue requirement is approved at the same time as the Phase I revenue requirement, we can approve an increase or decrease in the previously approved revenue requirement if we determine that the final project costs were materially different than the projected costs.

We agree with OPC that the costs associated with eminent domain were not anticipated when we approved the Phase I revenue requirement, but find it appropriate to include the prudently incurred easement costs related to the pro forma projects. Our staff asked the Utility the steps it took to obtain the easement prior to initiating the eminent domain proceedings and why other options, such as re-routing the line, were not possible. Little Gasparilla responded that for years it had asked the property owner to allow the Utility to cross his property. The property owner owns the land from the beach to the bay; therefore, the Utility has no other option except going through his property. After the Utility retained an attorney and incurred the associated costs, the property owner agreed to grant the easement if the Utility would pay his attorney fees as well.

We have reviewed the property records available on the Charlotte County Property Appraiser's Web site and verified that the property owner does own a continuous piece of land that runs the entire width of the island from the gulf beach side to the opposite side of the island on the bay. We agree that it would be impossible for the Utility to extend service to the rest of the north end of the island without an easement through that piece of property. It is common for utilities to obtain land easements to facilitate the construction of facilities and provision of service to customers. We find that the Utility took steps to minimize the costs associated with obtaining the easements that were necessary for the completion of the pro forma projects, and only resorted to using the eminent domain proceeding when it became obvious that the project could not proceed without it. Several of the other easements were obtained at no cost other than the recording and deed fees.

Section 367.111(1), Florida Statutes (F.S.), requires that each utility shall provide service to the area described in its certificate of authorization within a reasonable time. Therefore, we find that the Utility acted prudently in taking the necessary actions to obtain the easements required for completion of its pro forma projects and remain in compliance with Section 367.111, F.S. For these reasons, the Utility's requested easement costs shall be included in the Phase II revenue requirement with the exception of some minor adjustments discussed below. Addressing the additional pro forma costs in a single case minimizes rate case expense to the customers because the Utility will not need to file another rate case or limited proceeding to seek recovery of these items.

C. Approved Adjustments

Our adjustments to the Phase II rate base are discussed below.

1. Utility Plant in Service (UPIS)

The Utility requested recovery of \$26,064 in costs related to obtaining easements for the pro forma projects, comprised of \$21,175 for the eminent domain proceedings and \$4,889 for several other easements. We verified that the north line extension could not be completed without the easement that was obtained through the eminent domain proceedings because the land owner owns the entire parcel of land stretching the width of the island from the beach to the bay. The eminent domain costs include \$7,000 in court ordered payments, \$11,675 in attorneys' fees, and \$2,500 in land appraisal fees. The attorneys' fees cover legal work related to the eminent domain proceeding from February 2015 through August 2015. The Utility's final payment related to the proceedings was completed almost two years ago in December 2015. The \$21,175 related to the eminent domain is lower than the attorney's initial estimate of at least \$27,250 provided in 2015, demonstrating the Utility's efforts to minimize the costs related to this easement.

The remaining \$4,889 in easement costs includes four other easements related to the north line extension, one easement related to the county interconnection, one easement to provide service to a new customer, and some easement clearing work related to the new building construction. We removed \$500 for the new customer easement because this service was not related to one of the pro forma projects. We also removed \$2,500 for an easement related to the north line extension because the easement has not been executed yet. We find it appropriate to include the \$1,200 for easement clearing work related to the new building construction, but it would be more appropriate to identify this cost as part of the building costs rather than easement costs. Based on these adjustments, we include a total of \$21,864 ($\$26,064 - \$500 - \$2,500 - \$1,200 = \$21,864$) in easement costs related to the approved pro forma projects in the Phase II revenue requirement. Therefore, we increased UPIS Account 303 by \$54 to reflect the addition of easement costs related to the subaqueous pipeline and county interconnection project, and by \$21,810 to reflect the addition of easement costs related to the north line extension project, representing a total of \$21,864 in pro forma project related easement costs. In addition, we increased UPIS by \$1,200 to reflect the addition of easement clearing costs that are related to the new building construction to Account 304.

We received consumer correspondence from one island resident on November 27, 2017, asserting that the Utility had crossed 100 feet of their property with a 2-inch line without permission, an easement, or court ruling. The resident stated that they had been in a legal battle with the Utility over this issue for nearly two years. The resident also asked that we not allow legal fees related to this issue. We verified that the Utility did not request recovery of any costs related to any possible land issues with this resident. A representative of the Utility advised our staff that this resident is not currently a customer of the Utility and that Little Gasparilla has not incurred any legal costs related to this resident. Therefore, no adjustments are necessary to the Phase II costs related to this concern.

As discussed above, the Utility incurred approximately \$61,000 of the original estimated \$86,200 north line extension project costs, representing approximately 71 percent completion of the project during Phase I. In order to accurately reflect the portion of the work that was

completed during Phase I and the additional work that was completed during Phase II, several adjustments are necessary. We decreased Account 331 by \$25,023 to remove the portion of the project costs that were included in the Phase I revenue requirement, but were not completed during Phase I. In addition, we decreased UPIS by \$125 to remove an unrelated water main repair from the Phase I costs reflected in Account 331. As of September 2017, the Utility indicated that all 6-inch lines and all fire hydrants have been installed, which includes 300 linear feet of line running north to south and an additional 200 linear feet of laterals representing a total of 500 linear feet of line added during Phase II. Therefore, we increased Account 331 by \$9,426 to reflect the work that was completed on the north line extension during Phase II after the easements were obtained.

The Utility advised that an additional 150 linear feet of 2-inch pipe will still need to be run to connect a home that is under construction and four other homes on the north end of the island. However, the four homes received exemptions from Charlotte County's mandatory water connections until 2021. Little Gasparilla has a five-year permit from DEP for the north line extension project, and anticipates that the remaining 150 linear feet of line will be completed in 2018. The Utility will need to request recovery of any additional costs that are incurred to complete the remaining 150 linear feet of the north line extension in a future rate proceeding. Little Gasparilla has now completed \$70,478 of the original proposed cost of \$86,200. Adding the associated easement cost increases the north line extension project cost to \$92,288, which is \$6,089 over the previously approved project cost of \$86,200. However, we find that the increase is warranted because the easements were critical to the completion of this project and the Utility's ability to provide service to all the lots on the north end of the island when it becomes mandatory.

Additional adjustments are necessary to accurately reflect the final cost of the subaqueous pipeline and county interconnection project that was completed in Phase I. As discussed above, the Utility encountered some unexpected issues in the construction of the subaqueous pipeline that resulted in delays and increased costs. We find that it is appropriate to allow recovery of the additional costs because the additional work was necessary for the completion of the project. Accordingly, we increased UPIS by \$33,102 to reflect the additional costs that were incurred above the previously estimated and approved project costs to Account 309. In addition, the contractor established an account with the CCU for the purpose of purchasing construction water to test the subaqueous pipeline prior to placing the pipeline into service. The \$1,500 deposit that was paid by the contractor to CCU was refunded to the contractor after the project was completed. Therefore, we decreased UPIS by \$1,500 to remove the refunded deposit from Account 309. In addition, we decreased UPIS by \$677 to remove non-utility costs from Account 309.

We made the following adjustments to Account 304 to reflect the final cost of the new building. We increased UPIS by \$355,218 to reflect the addition for the new building. The Utility incurred additional legal fees for work to resolve issues related to the impact of Charlotte County's mandatory water connection ordinance on Little Gasparilla's financing for the pro forma building construction project. We will allow recovery of these legal fees as part of the project costs because the legal assistance was necessary to finalize the Utility's financing for the

pro forma projects. Therefore, we increased UPIS by \$3,645. The Utility's documentation also included \$216 in legal fees that are related to rate case expense rather than the project costs, and will be discussed further in the operation and maintenance expense section below. In addition, we decreased UPIS by \$250 to remove a non-related cost.

Based upon a review of the Utility's federal income tax information provided in Phase I, UPIS shall be decreased by \$52,151 to reflect the retirement of the original cost of the building. The final cost of the new building includes \$29,179 for the demolition and removal of the water treatment plant building and contents. At our September 22, 2014 Agenda Conference, OPC expressed concern about the accounting treatment of the demolition and removal costs. We agree with OPC that it is appropriate to record the demolition and removal costs in accumulated depreciation. Accordingly, we decreased UPIS by \$29,179 to reclassify the building demolition and removal costs to accumulated depreciation.

At our September 22, 2014 Agenda Conference, OPC also expressed concern that some of the engineering costs related to the building had been included in both Phase I and II, resulting in an overstatement of the estimated cost of the new building. A single engineering firm provided the engineering and design services for the subaqueous pipeline and county interconnection project, the north line extension project, and the new building project. In order to avoid any possible duplication of engineering costs between the phases, the actual engineering costs that were incurred have been included in either Phase I or II based on the paid invoices and completion dates.

Little Gasparilla's owner agreed to try to reduce the cost of the building. In order to reduce costs, Little Gasparilla redesigned the building eliminating the second floor, which was initially included to store records. The completed construction includes dormers for aesthetic purposes to blend in with the surrounding properties, but the completed building only includes one floor. The Utility also eliminated the proposed restroom facilities, which avoided the cost of installing a septic system. Also, the original cost projections were based on other new construction taking place on the island. Little Gasparilla changed the plans from conventional framed construction to a prefabricated construction that could better serve all possible needs for the next 30 years. For comparison purposes, the new building was initially projected to cost \$403,500 based on the lowest bid provided, prior to application of any of the adjustments proposed at the September 22, 2014 Agenda Conference. The actual cost of the building is \$359,813. Reclassifying the \$29,179 in demolition and removal costs to accumulated depreciation, as discussed above, results in a final cost of \$330,364 for rate setting purposes. The Utility incurred an additional \$10,300 in engineering costs related to a change order that was necessary to address concerns about how the building structure would be attached to the existing concrete water tank foundation, which offset some of the savings realized with the design changes.

We have approved a meter replacement project for Phase II. The Utility reported that it had completed 75 meter replacements as of September 1, 2017. The Utility also indicated that it was planning to work on the meter replacements during the off season months of September through December, and hoped to complete a total of 225 remote read meter replacements by the end of this year. Further, the Utility is working toward having all of the meter replacements

completed within a year. In November 2017, our staff requested an update on the status of the meter replacement project. Little Gasparilla indicated that it had completed 131 meter replacements as of November 14, 2017. The Utility initially proposed to replace 100 meters per year for four years at a total project cost of \$104,915, including \$84,915 in equipment costs and \$20,000 in labor costs. Further, the total cost was anticipated to be split over four years based on \$29,915 for the first year and \$25,000 each for the remaining three years.

The first year's cost included the additional equipment and software needed to read the meters, as well as training. The original estimate included the purchase of all the meters and equipment from one vendor. The Utility subsequently found another vendor to provide the meter bases at a lower cost. In addition, the Utility determined that the plastic meter bases work better in the island's corrosive environment. The remote read registers, equipment, software, and training were still purchased from the original vendor. Also, the Utility began ordering replacement and new installation meters two years ago that would adapt to the new meter replacement program allowing the Utility to save replacing 100 of the meter bases once the remote read meter replacements began. Specifically, the Utility continued to install traditional registers for new customer meter installations pending finalization of the project funding, but used the new plastic meter bases with the traditional registers so that the register will be the only part that needs to be replaced to convert those meters to the remote read system. The Utility reported that this saves approximately \$24.50 per meter base, for a total projected savings of \$2,450.

Little Gasparilla provided documentation including orders totaling \$60,476 for meter replacement equipment from the two vendors, and completed payments of \$56,094. Little Gasparilla has added additional customers since the original estimates were prepared, making it necessary to purchase more meter replacement equipment than was included in the original estimates. The Utility's actual purchase includes an additional 50 remote read registers and 50 less meter bases than were used in the original bid. For cost comparison purposes, we revised the Utility's actual cost to only reflect the 400 meter replacements that were included in the original estimate, resulting in a total equipment cost of \$55,535. Compared to the original bid of \$84,915, the Utility's modifications to its meter replacement program have resulted in a savings of \$29,380 in equipment costs over the original bid. As noted above, the Utility has completed 131 meter replacements. Therefore, we increased Account 334 by \$56,094 to reflect the meter installation project costs that have been paid for through September 2017. Also, based on a pro-rated share of the Phase I test year meter account balance and number of test year meters, we decreased UPIS by \$6,826 to reflect retirement of the 131 replaced meters. Although the Utility has reduced the overall cost of the meter replacement program by \$29,380 compared to the original estimate to replace 400 meters, the Utility has completed more than one year's worth of equipment purchases and meter installations resulting in a higher cost during Phase II than the one year of expense that was initially planned. Specifically, the Utility has already completed payments for \$56,094 of equipment and labor, which is \$26,179 higher than the first year cost of \$29,915. However, we find it appropriate to recognize the portion of the project that has been completed to date, particularly in consideration of the Utility's accelerated schedule to complete the meter replacements and the Utility's commitment to the program by securing a loan that would enable the Utility to complete the project more quickly. Since meter replacement remains

a work in progress, there is a slight mis-match between the materials and labor that the Utility has paid for and the meter replacements that have been completed. The associated retirements, and adjustments to accumulated depreciation and depreciation expense, shall be recorded on the Utility's books when the meters are replaced as established in Rule 25-30.140, F.A.C.

OPC proposed and the Utility agreed to the removal of \$5,000 in contractor's fees associated with the new building construction. Therefore, we removed \$5,000 in contractor's fees from Account 304 and made the associated adjustments to accumulated depreciation, depreciation expense, and property taxes.

By Order No. PSC-14-0626-PAA-WU, we approved a Phase I UPIS balance of \$1,655,176. Based on the above, the net increase to plant for these projects following the application of applicable retirements is \$359,816, resulting in a UPIS balance of \$2,014,992.

The OPC and some customers have expressed concern that the Utility's Phase II documentation includes costs that are not related to the pro forma projects or that appear to be non-utility expenditures. It is not uncommon for utilities to purchase items for multiple projects at the same time for efficiency or to occasionally purchase a personal item, such as a bottle of water or snack. Typically, our staff will review the documentation provided by a utility in a rate proceeding and remove any non-utility items that were not already excluded by the utility. Little Gasparilla's Phase II documentation has a number of invoices that include a combination of pro forma project costs, other Utility costs, and some non-utility expenditures. At first glance it may appear that the Utility is requesting to recover the full amount on each invoice. However, a closer look reveals that the Phase II documentation filed by the Utility includes handwritten notes on the combined invoices to identify the portion of each invoice that relates to one of the pro forma projects. For example, the documentation includes 14 invoices for the Utility's services and items purchased from Eldred's Marina located on the island. The total for the invoices equals \$3,502. However, the Utility has identified the specific charges on each invoice that relate to pro forma projects and is only requesting that \$960 of the total \$3,502 be included in the pro forma project costs. Based on our review, the non-utility items of concern were not included in the pro forma project costs requested by the Utility, and therefore, no further adjustment is necessary.

In addition, concerns were raised that some of the work on the pro forma projects was performed by affiliated companies. Utilities are not prohibited from hiring affiliated companies to perform utility work. However, it is important that the work performed by the affiliated company be provided at a comparable cost to work performed by a non-affiliated company, and that the work performed is not already included in the salaries or wages of Utility employees. In its data response, the Utility provided additional bids and information that demonstrate that the affiliated companies are performing the work at a lower cost than would be performed by the non-affiliated company. In one example, the Utility hired an affiliated company to perform the meter replacement work. In response to our staff's request, the Utility obtained a recent quote from a non-affiliated company. That quote shows an estimated cost for replacing the meters that is \$25 higher per meter, resulting in an additional cost of \$11,250 over the affiliated company's bid for replacing 450 meters. Based on our review, we find that the Utility has taken steps to reduce the costs of these projects and that the work performed by the affiliated company is not

included in any of the employees' work duties that were previously identified in the first phase of this rate proceeding.

2. Accumulated Depreciation

By Order No. PSC-14-0626-PAA-WU, we approved an accumulated depreciation balance of \$697,656 for Phase I. We increased this account by \$13,218 to reflect the accumulated depreciation for the pro forma additions and retirements. We also decreased this account by \$52,151 to reflect the retirement of the replaced building. As noted above, we reclassified the building demolition and removal costs to accumulated depreciation consistent with OPC's requested accounting treatment. Consequently, we decreased this account by \$29,179 to reflect the building demolition and removal costs. Finally, we decreased this account by \$6,826 to reflect the retirement of the 131 replaced meters. Since meter replacement remains a work in progress, there is a slight mis-match between the materials and labor that the Utility has paid for and the meter replacements that have been completed. The associated retirements, and adjustments to accumulated depreciation and depreciation expense, shall be recorded on the Utility's books when the meters are replaced as established in Rule 25-30.140, F.A.C. Our adjustment is a net decrease of \$74,938, resulting in a recommended accumulated depreciation balance of \$622,718 for Phase II.

3. Working Capital

Working capital is the short-term investor-supplied funds that are necessary to meet operating expenses of the Utility. By Order No. PSC-14-0626-PAA-WU, we approved a Phase I working capital allowance of \$26,205. Consistent with Rule 25-30.433(2), F.A.C., we used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance for Phase II. As will be discussed in the Operation and Maintenance Expense section below, we approved four price index and three pass through rate adjustments since the Phase I rates were implemented. We approve several adjustments to reflect the approved price index and pass through adjustments in the revenue requirement calculations. However, those adjustments are revenue neutral and shall not be included in the Phase II working capital allowance. Accordingly, we decreased the Phase II O&M expenses by \$14,181 to remove the price index and pass through expense adjustment, resulting in an adjusted O&M expense incremental increase of \$12,919. Applying this formula, we approve an incremental working capital allowance of \$1,615 ($\$12,919/8$), resulting in a total working capital allowance of \$27,819 for Phase II.

4. Rate Base Summary

By Order No. PSC-14-0626-PAA-WU, we approved a rate base of \$538,123 for Phase I. Our total adjustment to rate base is an increase of \$436,369. Therefore, we approve a rate base of \$974,492 for Phase II.

5. Capital Structure

The Utility previously arranged financing for several of the pro forma projects and those adjustments were incorporated into the Phase I capital structure. Based on that information, the Utility's Phase I capital structure reflected equity of \$82,000 and total debt of \$1,422,738. Some of the pro forma projects were financed through a combination of bank loans, SBA loans, and Utility equity. We increased equity by \$120,884 to reflect the Utility's equity investment in all of the projects. We also decreased long-term debt by \$54,460 to remove a test year bank loan that has been paid off by the Utility. In addition, we increased long-term debt by \$46,025 and \$1,600 to reflect the actual final amount of the bank and SBA loans that were previously added to the Phase I capital structure to reflect the proposed financing for the subaqueous pipeline construction and north line extension projects. During the construction of the subaqueous pipeline, the Utility also secured an additional loan for \$45,000. However, that loan has since been paid off and replaced with a smaller loan of \$25,150. Therefore, we increased long-term debt by \$25,150.

The Utility financed the construction of the new building with a combination of a bank loan, SBA loan, and Utility equity investment similar to the Phase I financing. We increased long-term debt by \$138,358 and \$109,000 to reflect the addition of those loans to the Utility's capital structure. In order to facilitate a faster schedule for the meter replacement project, the Utility secured an additional loan for \$62,400 to pay for a portion of the project. We increased long-term debt by \$62,400 to reflect the addition of this loan to the Utility's capital structure. In addition, we increased short-term debt by \$49,000 to reflect a promissory note that the Utility secured to pay for additional project related costs. Our adjustments reflect a \$120,884 increase to equity and a \$377,073 net increase to debt, for a total increase of \$497,957. The resulting capital structure reflects equity of \$202,884 and total debt of \$1,799,810. The \$109,000 SBA loan required a separate payment of approximately \$4,756 in loan closing costs. Amortizing the loan closing costs over the 11.5 year term of the associated debt account increases the effective interest rate of this loan from 4.75 percent to 5.64 percent. We note that the 11.5 year term was applied because this loan is scheduled to be combined with the \$138,358 bank loan in January 2018, which has an 11.5 year term. In addition, the \$62,400 bank loan resulted in separately paid closing costs of approximately \$2,264. Amortizing the loan closing costs over the 7 year term of the associated debt account increases the effective interest rate from 5.50 percent to 5.94 percent.

The Utility's capital structure has been reconciled with our approved rate base for Phase II. The appropriate ROE is 11.16 percent based upon the leverage formula currently in effect.¹ We approve an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 6.55 percent. The ROE and overall rate of return are shown on Schedule No. 2.

¹Order No. PSC-17-0249-PAA-WS, issued June 26, 2017, in Docket No. 20170006-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.*

6. Operation and Maintenance (O&M) Expense

Our adjustments to the O&M expense accounts that are affected by the completion of the pro forma projects are discussed below.

a. Excessive Unaccounted for Water Expense Adjustments

By Order No. PSC-14-0626-PAA-WU, we found that Little Gasparilla had unaccounted water of 17 percent for the test year ended September 30, 2013. This resulted in a 7 percent excessive unaccounted for water (EUW) adjustment to purchased water, purchased power, and chemical expenses for the test year. We noted that the EUW could be the result of flushing that was not recorded and old meters that were not registering properly.

We approved a meter replacement project for Phase II, and Little Gasparilla completed 131 of the meter replacements as of November 14, 2017. Little Gasparilla provided data on its purchased water, gallons sold, and water used for other uses (such as flushing) for the year 2016 and January to August of 2017. Based on this data, unaccounted for water has decreased to 6 percent for 2016 and 4.8 percent for part of 2017. We commend the Utility for keeping records of the estimated amount of water used for flushing and attributed to leaks.

Upon review, we shall remove the previously approved 7 percent EUW expense adjustments as it appears Little Gasparilla has taken the steps necessary to correct the problem. Based on our practice, the previously approved EUW adjustments would continue to be applied to the Utility's future price index and pass through rate adjustments until the Utility has another rate proceeding that includes a comprehensive unaccounted for water review. Therefore, it is important for us to recognize the Utility's correction of the EUW in this proceeding to prevent the continuation of future EUW adjustments that are no longer necessary. Accordingly, we increased the following accounts to reverse the 7 percent EUW adjustments previously approved by Order No. PSC-14-0626-PAA-WU: (1) increased Account No. 610 - Purchased Water by \$3,803; (2) increased Account No. 615 - Purchased Power by \$280; and (3) increased Account No. 618 - Chemicals by \$38.

b. Rent Expense (640)

With the completion of the new building, the Utility has moved its office from the mainland to the new building on the island. Consequently, we decreased rent expense by \$3,510 to remove office rent for the Utility's mainland office space that was included in the Phase I revenue requirement.

c. Insurance Expense (655)

As a condition of its building loans, the Utility was required to obtain additional insurance on the new office building, including wind and flood insurance. Because the actual insurance premiums on the completed building are notably higher than the 2014 estimates, we will discuss the reason for the increase. In 2014, it was estimated that the total insurance expense

for the new building would increase to \$7,000, resulting in an increase of \$3,272 over the Utility's 2013 test year insurance expense of \$3,728. However, the Utility's insurance provider advised that for the 2017/2018 term the premiums have increased and the insurance carrier will no longer include the wind coverage in the package policy, requiring a separate wind policy. The most significant premium increase is for the flood policy which increased from a premium of \$2,297 for the 2015/2016 term to a premium of \$7,879 for the 2017/2018 term. The Utility was not required to carry the separate flood insurance policy during the 2016/2017 term while the building construction was covered under a separate builder's insurance policy that was discontinued when the construction was completed. The insurance provider advised that the new building is no longer eligible for grandfathering and that actuarial rates must be used for rating, contributing to the significant increase in the flood insurance premium. The current policy includes a \$50,000 deductible.

Based on these changes, the total insurance expense for the new building is \$14,672, which results in an increase of \$10,944 over the 2013 test year expense of \$3,728. However, the insurance provider advised that if the SBA does not accept the \$50,000 deductible, the \$7,879 flood insurance premium will increase to either \$12,641 with a \$10,000 deductible, or \$16,054 with a \$1,250 deductible. Efforts are still underway to request the SBA's approval of the \$50,000 deductible. Therefore, based on the current premiums as of November 2017, we have increased the insurance expense by \$10,944 to reflect the increase in insurance on the new building going forward.

d. Regulatory Commission Expense (665)

Traditionally, when we approve a rate increase using a phased approach, all of the rate case expense is included in the Phase I revenue requirement. This process is more efficient and also eliminates the need for a second four-year rate reduction in the same rate proceeding. Accordingly, the rate case expense that we approved in Phase I included the cost of the future Phase II customer notice and a small amount of legal fees related to tariff and noticing work. However, due to the unique circumstances in the instant case, the Utility incurred additional rate case expense following implementation of the Phase I rate increase.

In its November 8, 2017 letter, OPC proposed that a notice should be provided to allow customer comments to be incorporated into our staff's recommendation on this matter. OPC also asserted that a customer meeting on quality of service issues should be held because it had been three years since the Phase I rates were approved. Consistent with our current practice in rate proceedings with a phased approach, we did not find that a second customer meeting was necessary. The customers were previously noticed about the proposed pro forma projects and proposed rate increases for both Phase I and Phase II. Although the type of notice proposed by OPC is not required by Rule 25-22.0407, F.A.C., Little Gasparilla voluntarily agreed to provide a notice advising its customers that a staff recommendation addressing the Phase II rate increase would be presented at our December 12, 2017 Agenda Conference. The Utility provided a notice to the customers on November 16, 2017. As of November 30, 2017, we had received comments from two customers who objected to the rate increase, but did not express any concerns about the

quality of service. Based upon the foregoing, we find that it is appropriate to include the cost of this additional notice in the Utility's rate case expense.

The cost of the future Phase II rate increase notice that was included in the Phase I rate case expense was calculated based on 372 customers in the 2013 test year. Since that time, Little Gasparilla has added approximately 84 new customers, which will result in an additional \$62 in noticing costs. We find it appropriate to include this incremental increase in the noticing cost since the notice is required by Rule 25-22.0407, F.A.C., and must be provided to all customers who are receiving service when the notice is sent. The Utility shall also be required to provide notice of the four-year rate reduction to its customers when the rates are reduced to remove the amortized rate case expense. For noticing, we estimated \$488 for postage expense, \$199 for printing expense, and \$50 for envelopes. This results in \$737 for the Phase II noticing requirements. The noticing cost is the only expense in this Order that was updated based on the current number of customers.

The Utility has incurred an additional \$3,100 in rate case related legal fees for additional legal services provided during Phase II. Some concern has been expressed about allowing recovery for services such as requesting an extension of time to complete the pro forma projects. In a typical case when the Phase II rate increase is approved at the same time as the Phase I increase, such additional legal fees would likely be recovered as part of a utility's recurring contractual services – legal expense. However, Little Gasparilla's Phase I increase did not include an allowance for any recurring legal expenses. Consequently, the Utility will be unable to recover the rate case related legal expenses that it incurred to complete the second phase of this case unless a specific adjustment is included. We reviewed the additional rate case expense to ensure that there is no duplication of any legal fees previously included in the Phase I rate case expense or any other legal expenses related directly to the pro forma projects. We find that the requested legal fees are reasonable and shall be approved.

By Order No. PSC-14-0626-PAA-WU, we approved annual regulatory commission expense of \$3,546 for Phase I, which included \$200 to reflect the five-year amortization of the Utility's grandfather certificate filing fee, and \$3,346 to reflect the four-year amortization of the Phase I rate case expense. The grandfather certificate filing will not be fully amortized until February 2020, and the Phase I rate case expense will not be fully amortized until February 2019. Having approved a Phase II rate increase that includes additional rate case expense, the incremental Phase II rate case expense will be amortized separately from the Phase I rate case expense, and will be fully amortized in early 2021. As will be discussed below, we are approving an additional four-year rate reduction in this case to remove the incremental Phase II rate case expense at the end of the four-year amortization period. Thus, we approve an incremental increase in rate case expense of \$3,837 ($\$737 + \$3,100 = \$3,837$), which amortized over four years is \$959.

e. Post Phase I Price Index and Pass Through Rate Adjustments

Since the Phase I rates were implemented, Little Gasparilla also received approval of four price index and three pass through rate adjustments for 2014 through 2017. The pass through rate adjustments were necessary to reflect the increase in Little Gasparilla's purchased water expense

due to increases in CCU's water rates. Little Gasparilla's revenues were increased by a total of \$14,848 for the price index and pass through adjustments, which is comprised of a \$14,181 expense increase and approximately \$667 in associated regulatory assessment fees (RAFs). Because the revenue requirement for Phase II is built upon the previously approved Phase I revenue requirement, an additional adjustment is necessary to reflect the increase in expenses associated with the approved price index and pass through rate adjustments. Consistent with our practice, the price index and pass through adjustment included our previously approved 7 percent EUW adjustment. The EUW adjustment was eliminated because the Utility has corrected the issue. Therefore, the \$405 in total EUW reductions that were applied to Little Gasparilla's 2014 through 2017 price index and pass through rate adjustments shall also be removed to reflect the appropriate expenses going forward. Consequently, we increased the Utility's 2013 test year approved operating expenses by \$14,181 to reflect the operating expense increases that were associated with the price index and pass through adjustments approved from 2014 through 2017, and by \$405 to reverse the EUW adjustments. A total increase of \$14,586 ($\$14,181 + \$405 = \$14,586$) shall be reflected in the Utility's O&M expenses to retain the price index and pass through rate adjustments that Little Gasparilla has received since the Phase I rate increase went into effect. The RAF portion of the price index and pass through rate adjustments will be addressed in the Other Operating Expenses and Operating Expense Summary section below.

f. Operation and Maintenance Expense Summary

By Order No. PSC-14-0626-PAA-WU, we approved O&M expense of \$209,637 for Phase I. Based on the above adjustments, O&M expense shall be increased by \$27,100 for Phase II, resulting in total O&M expense of \$236,737 for Phase II. Our approved adjustments to O&M expense are shown on Schedule Nos. 3-A through 3-C.

7. Other Operating Expenses and Operating Expense Summary

We adjusted depreciation expense to reflect the pro forma additions and retirements, resulting in an increase of \$13,218. We also increased taxes other than income (TOTI) by \$667 to reflect the RAFs that were included in the Utility's approved 2014 through 2017 price index and pass through rate adjustments as discussed above. In addition, we increased TOTI by \$5,401 to reflect the increase in Utility property taxes associated with the net plant additions, and by \$2,900 to reflect RAFs of 4.5 percent on the change in revenues, for a total TOTI increase of \$8,968 ($\$667 + \$5,401 + \$2,900 = \$8,968$). Our total adjustment to operating expenses, including additional RAFS, is \$49,286, resulting in total operating expenses of \$346,889.

D. Conclusion

The Utility's Phase II revenue requirement is \$410,718, resulting in an annual increase of \$64,454 or 18.61 percent over the approved Phase I revenue requirement, adjusted to reflect the Utility's current rates based on the price index and pass through adjustments that have been approved since the Utility's Phase I rates were implemented. The appropriate return on equity is 11.16 percent with a range of 10.16 percent to 12.16 percent. The appropriate overall rate of

return is 6.55 percent. Phase II rate base is shown on Schedule Nos. 1-A and 1-B. The capital structure for Phase II is shown on Schedule No. 2. The revenue requirement is shown on Schedule Nos. 3-A and 3-B. The resulting rates are shown on Schedule No. 4.

II. Phase II Water Rates

Since the implementation of Phase I rates, the Utility has had four price index and three pass through rate adjustments for 2014 through 2017. In order to determine the appropriate percentage price increase to the existing rates, we increased revenues used to set Phase I rates by \$14,848 to reflect the Utility's revenue increases that were associated with the price index and pass through adjustments approved from 2014 through 2017. This results in an increase of 18.67 percent for water over the existing rates. The calculation is shown below.

Determination of Percentage Service Rate Increase	
	Water
Adjusted Revenues	\$346,264
Less: Miscellaneous Revenues	\$980
Adjusted Service Revenue Requirement	\$345,284
Phase II Revenue Increase	\$64,454
% Service Rate Increase (Line 4/Line 3)	18.67%

The Phase II rate increase of 18.67 percent for water shall be applied to the existing rates as shown on Schedule No. 4. The Utility shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. The Utility shall provide proof of the date notice was given within 10 days of the date of the notice.

III. Amortized Rate Case Expense (Final Agency Action)

Little Gasparilla's water rates shall be reduced immediately following the expiration of the four-year rate case expense recovery period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return on working capital, and the

gross-up for RAFs which is \$1,012.² Using the Utility's current revenues, expenses, and customer base, the reduction in revenues will result in the rate decrease shown on Schedule No. 4. The rate case expense we approved in Phase I will be fully amortized in February 2019. The incremental increase in rate case expense for Phase II will be fully amortized in early 2021, requiring a second four-year rate reduction for this docket.

Little Gasparilla shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility also shall file a proposed customer notice setting forth the lower rates and the reason for the reduction. If Little Gasparilla files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall 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.

IV. Temporary Rates (Final Agency Action)

By this Order we approve an increase in rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, the new rates are approved as temporary rates. The Utility shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall 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 temporary rates shall not be implemented until our staff has approved the proposed notice, and the notice has been received by the customers. The approved rates collected by the Utility shall be subject to the refund provisions discussed below.

The Utility is authorized to collect the temporary rates upon our staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security shall be in the form of a bond or letter of credit in the amount of \$43,237. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If the Utility chooses a bond as security, the bond shall contain wording to the effect that it will be terminated only under the following conditions:

1. This Commission approves the rate increase; or,
2. If this Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

If the Utility chooses a letter of credit as a security, it shall contain the following conditions:

1. The letter of credit is irrevocable for the period it is in effect.

²We included the return on rate case expense in working capital because the docket was opened prior to the July 1, 2016, repeal of Section 367.0816, F.S., that formerly established the guidelines for recovery of rate case expense in SARCs.

2. The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions shall be part of the agreement:

1. This Commission's Clerk, or his or her designee, must be a signatory to the escrow agreement.
2. No monies in the escrow account may be withdrawn by the Utility without the prior written authorization of this Commission's Clerk, or his or her designee.
3. The escrow account shall be an interest bearing account.
4. If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
5. If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility.
6. All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
7. The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
8. This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to *Cosentino v. Elson*, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
9. The account must specify by whom and on whose behalf such monies were paid.

In no instance shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the Utility. Irrespective of the form of security chosen by the Utility, an account of all monies received as a result of the rate increase shall be maintained by the Utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

The Utility shall maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility shall file reports with our Clerk's office no later than the 20th of every month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed shall also indicate the status of the security being used to guarantee repayment of any potential refund.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the approved revenue requirement for Little Gasparilla Water Utilities, Inc. is \$410,718, resulting in an annual increase of \$64,454 for water (18.61 percent). The approved return on equity is 11.16 percent with a range of 10.16 percent to 12.16 percent. The approved overall rate of return is 6.55 percent. It is further

ORDERED that the Phase II rate increase of 18.67 percent for water shall be applied to the existing rates as shown on Schedule No. 4. Little Gasparilla Water Utilities, Inc. shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. Little Gasparilla Water Utilities, Inc. shall provide proof of the date notice was given within 10 days of the date of the notice. It is further

ORDERED that Little Gasparilla Water Utilities, Inc.'s water rates shall 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 shall become effective immediately following the expiration of the four-year rate case expense recovery period. Little Gasparilla Water Utilities, Inc. is hereby 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 Little Gasparilla Water Utilities, Inc. files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall 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. **(Final Agency Action)**. It is further

ORDERED that the rates are approved for Little Gasparilla Water Utilities, Inc. on a temporary basis, subject to refund, in the event of a protest filed by a party other than Little Gasparilla Water Utilities, Inc. The Utility shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall 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 temporary rates shall not be implemented until our staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, Little Gasparilla Water Utilities, Inc. shall provide appropriate security. If the rates are approved on a temporary basis, the rates collected by Little Gasparilla Water Utilities, Inc. shall be subject to the refund provisions set forth in the body of this Order. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Little Gasparilla Water Utilities, Inc. shall file reports with our Clerk's office no later than the 20th of every month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed shall also indicate the status of the security being used to guarantee repayment of any potential refund. **(Final Agency Action)**. It is further

ORDERED that if no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. This docket shall remain open for our staff's verification that the revised tariff sheets and the customer notice have been filed by Little Gasparilla Water Utilities, Inc. and approved by our staff. When the tariff and notice actions are complete, this docket may be closed administratively.

By ORDER of the Florida Public Service Commission this 2nd day of February, 2018.



HONG WANG
Chief Deputy Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

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

CWM

Commissioner Gary F. Clark dissents without opinion.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, our actions are preliminary in nature, with the exception of our decisions (1) regarding the granting or temporary rates in the event of a protest and (2) addressing rate case expense which are final agency actions. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on February 23, 2018. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Any party adversely affected by the Commission's final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Office of Commission Clerk and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

LITTLE GASPARILLA WATER UTILITY, INC.		SCHEDULE NO. 1-A		
TEST YEAR ENDED 9/30/2013		DOCKET NO. 20130265-WU		
SCHEDULE OF WATER RATE BASE (PHASE II)				
DESCRIPTION	PHASE I APPROVED BY COMM.	COMM. ADJUST. TO UTILITY BALANCE	APPROVED BALANCE	
1. UTILITY PLANT IN SERVICE	\$1,655,176	\$359,816	\$2,014,992	
2. LAND & LAND RIGHTS	52,475	0	52,475	
3. NON-USED AND USEFUL COMPONENTS	(110,295)	0	(110,295)	
4. CIAC	(479,873)	0	(479,873)	
5. ACCUMULATED DEPRECIATION	(697,656)	74,938	(622,718)	
6. AMORTIZATION OF CIAC	92,092	0	92,092	
7. WORKING CAPITAL ALLOWANCE	<u>26,205</u>	<u>1,615</u>	<u>27,819</u>	
8. WATER RATE BASE	<u>\$538,123</u>	<u>\$436,369</u>	<u>\$974,492</u>	

LITTLE GASPARILLA WATER UTILITY, INC.		SCHEDULE NO. 1-B
TEST YEAR ENDED 9/30/2013		DOCKET NO. 20130265-WU
ADJUSTMENTS TO RATE BASE (PHASE II)		
		<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>		
1.	To reflect pro forma plant addition for easements for county interconnect to Account 303.	54
2.	To reflect pro forma plant addition for easements for north line extension to Account 303.	21,810
3.	To reflect pro forma easement clearing costs for new building to Account 304.	1,200
4.	To reflect actual cost incurred during Phase I for north line extension project to Account 331.	(25,023)
5.	To reflect removal of an unrelated water main repair from Account 331.	(125)
6.	To reflect plant addition for north line extension after obtained easements to Account 331.	9,426
7.	To reflect actual cost for subaqueous pipeline and interconnection to Account 309.	33,102
8.	To remove the refunded construction water deposit from Account 309.	(1,500)
9.	To reflect removal of non-utility items from Account 309.	(677)
10.	To reflect pro forma plant addition for new building to Account 304.	355,218
11.	To reflect pro forma legal fees for new building to Account 304.	3,645
12.	To reflect removal of non-project related expense.	(250)
13.	To reflect retirement of plant replaced by building.	(52,151)
14.	To reclassify building demolition/removal cost to accumulated depreciation.	(29,179)
15.	To reflect completed pro forma drive-by meter change out program to Account 334.	56,094
16.	To reflect completed retirement of replaced meters.	(6,826)
17.	To reflect removal of contractor fees from Account 304.	<u>(5,000)</u>
	Total	<u>\$359,816</u>
<u>ACCUMULATED DEPRECIATION</u>		
1.	To reflect accumulated depreciation on pro forma additions and retirements.	(\$13,218)
2.	To reflect retirement of replaced building.	\$52,151
3.	To reflect building demolition/removal costs.	\$29,179
4.	To reflect retirement of replaced meters.	<u>\$6,826</u>
	Total	<u>\$74,938</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
	To reflect 1/8 of test year O&M expenses.	<u>\$1,615</u>

LITTLE GASPARILLA WATER UTILITY, INC.
TEST YEAR ENDED 09/30/13
SCHEDULE OF CAPITAL STRUCTURE (PHASE II)

CAPITAL COMPONENT	PHASE I PER COMM.	COMM. ADJUST- MENTS	TEST YEAR BALANCE PER COMM.	ADJUSTMENTS TO RECONCILE RATE BASE	RECONCILED CAPITAL STRUCTURE PER COMM.	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$1,000	\$0	\$1,000					
2. OTHER COMMON EQUITY	<u>81,000</u>	<u>120,884</u>	<u>201,884</u>					
TOTAL COMMON EQUITY	\$82,000	\$120,884	\$202,884	(\$104,163)	\$98,722	10.13%	11.16%	1.13%
3. LONG TERM DEBT - BB&T	\$54,460	(\$54,460)	\$0	\$0	\$0	0.00%	6.75%	0.00%
4. LONG TERM DEBT - Promissory Notes	\$608,775	0	608,775	(312,551)	296,224	30.40%	8.00%	2.43%
5. LONG TERM DEBT - Stonegate Bank	\$405,000	46,025	451,025	(231,560)	219,465	22.52%	4.75%	1.07%
6. LONG TERM DEBT - Stonegate/SBA	\$324,000	1,600	325,600	(167,166)	158,434	16.26%	4.75%	0.77%
7. LONG TERM DEBT - John Deere	\$30,503	0	30,503	(15,660)	14,842	1.52%	2.31%	0.04%
8. LONG TERM DEBT - Stonegate Bank	\$0	25,150	25,150	(12,912)	12,238	1.26%	4.00%	0.05%
9. LONG TERM DEBT - Stonegate Bank	\$0	138,358	138,358	(71,034)	67,323	6.91%	4.75%	0.33%
10. LONG TERM DEBT - Stonegate/SBA	\$0	109,000	109,000	(55,962)	53,038	5.44%	5.64%	0.31%
11. LONG TERM DEBT - Stonegate Bank	\$0	62,400	62,400	(32,037)	30,363	3.12%	5.94%	0.19%
12. SHORT-TERM DEBT - Promissory Note	<u>\$0</u>	<u>49,000</u>	<u>49,000</u>	<u>(25,157)</u>	<u>23,843</u>	<u>2.45%</u>	10.00%	0.24%
TOTAL DEBT	1,422,738	\$377,073	\$1,799,810	(\$924,039)	\$875,771	89.87%		
13. CUSTOMER DEPOSITS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	2.00%	<u>0.00%</u>
14. TOTAL	<u>\$1,504,738</u>	<u>\$497,957</u>	<u>\$2,002,694</u>	<u>(\$1,028,202)</u>	<u>\$974,492</u>	<u>100.00%</u>		<u>6.55%</u>
			RANGE OF REASONABLENESS			LOW	HIGH	
			RETURN ON EQUITY			<u>10.16%</u>	<u>12.16%</u>	
			OVERALL RATE OF RETURN			<u>6.45%</u>	<u>6.67%</u>	

LITTLE GASPARILLA WATER UTILITY, INC.					SCHEDULE NO. 3-A	
TEST YEAR ENDED 9/30/2013					DOCKET NO. 20130265-WU	
SCHEDULE OF WATER OPERATING INCOME (PHASE II)						
	PHASE I		COMM.	ADJUST.		
	APPROVED BY	COMM.	ADJUSTED	FOR	REVENUE	
	COMMISSION	ADJUSTMENTS	TEST YEAR	INCREASE	REQUIREMENT	
1. OPERATING REVENUES	<u>\$331,416</u>	<u>\$14,848</u>	<u>\$346,264</u>	<u>\$64,454</u> 18.61%	<u>\$410,718</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$209,637	\$27,100	\$236,737	\$0	\$236,737	
3. DEPRECIATION (NET)	41,943	13,218	55,161	0	55,161	
4. AMORTIZATION	0	0	0	0	0	
5. TAXES OTHER THAN INCOME	46,023	6,068	52,091	2,900	54,991	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$297,602</u>	<u>\$46,386</u>	<u>\$343,988</u>	<u>\$2,900</u>	<u>\$346,889</u>	
8. OPERATING INCOME/(LOSS)	<u>\$33,814</u>		<u>\$2,276</u>		<u>\$63,829</u>	
9. WATER RATE BASE	<u>\$538,123</u>		<u>\$974,492</u>		<u>\$974,492</u>	
10. RATE OF RETURN	<u>6.28%</u>		<u>0.23%</u>		<u>6.55%</u>	

LITTLE GASPARILLA WATER UTILITY, INC.
TEST YEAR ENDED 9/30/2013
ADJUSTMENTS TO OPERATING INCOME (PHASE II)

SCHEDULE NO. 3-B
DOCKET NO. 20130265-WU

	<u>WATER</u>
OPERATING REVENUES	
To reflect annualized service revenues.	<u>\$14,848</u>
OPERATION AND MAINTENANCE EXPENSES	
1. Purchased Water (610)	
To reverse 7% EUW adjustment approved by Order No. PSC-14-0626-PAA-WU.	<u>\$3,803</u>
2. Purchased Power (615)	
To reverse 7% EUW adjustment approved by Order No. PSC-14-0626-PAA-WU.	<u>\$280</u>
3. Chemicals (618)	
To reverse 7% EUW adjustment approved by Order No. PSC-14-0626-PAA-WU.	<u>\$38</u>
4. Rents (640)	
To reflect reduction in office rent after construction of new building.	<u>(\$3,510)</u>
5. Insurance Expense (655)	
To reflect pro forma increase in insurance expense for new building.	<u>\$10,944</u>
6. Regulatory Commission Expense (665)	
To reflect 4-year amortization of Phase II rate case expense (\$3,837/4).	<u>\$959</u>
7. Post Phase I Price Index and Pass Through Rate Adjustments	
a. To reflect total 2014-2017 index and pass through O&M expense increases.	\$14,181
b. To reverse EUW adjustments made to 2014-2017 index and pass through increases.	<u>\$405</u>
Subtotal	<u>\$14,586</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$27,100</u>
DEPRECIATION EXPENSE	
To reflect depreciation expense for pro forma plant additions and retirements.	<u>\$13,218</u>
TAXES OTHER THAN INCOME	
a. To reflect RAFs approved for 2014-2017 index and pass through increases.	\$667
b. To reflect pro forma increase to Utility property taxes on net pro forma plant.	<u>\$5,401</u>
Total	<u>\$6,068</u>

LITTLE GASPARILLA WATER UTILITY, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 9/30/2013		DOCKET NO. 20130265-WU	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE (PHASE II)			
	PHASE I PER COMM.	COMM. ADJUST- MENTS	TOTAL PER COMM.
(601) SALARIES AND WAGES - EMPLOYEES	\$22,665	\$0	\$22,665
(603) SALARIES AND WAGES - OFFICERS	70,710	0	70,710
(604) EMPLOYEE PENSIONS AND BENEFITS	11,672	0	11,672
(610) PURCHASED WATER	50,522	3,803	54,325
(615) PURCHASED POWER	3,720	280	4,000
(616) FUEL FOR POWER PRODUCTION	1,512	0	1,512
(618) CHEMICALS	504	38	542
(620) MATERIALS AND SUPPLIES	2,000	0	2,000
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	4,660	0	4,660
(635) CONTRACTUAL SERVICES - TESTING	1,929	0	1,929
(636) CONTRACTUAL SERVICES - OTHER	9,257	0	9,257
(640) RENTS	5,910	(3,510)	2,400
(650) TRANSPORTATION EXPENSE	6,359	0	6,359
(655) INSURANCE EXPENSE	8,708	10,944	19,652
(665) REGULATORY COMMISSION EXPENSE	3,546	959	4,505
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSE	5,962	0	5,962
POST PHASE I PRICE INDEX/PASS THROUGHES	<u>0</u>	<u>14,586</u>	<u>14,586</u>
	<u>\$209,637</u>	<u>\$27,100</u>	<u>\$236,737</u>

LITTLE GASPARILLA WATER UTILITY, INC.		SCHEDULE NO. 4	
TEST YEAR ENDED SEPTEMBER 30, 2013		DOCKET NO. 20130265-WU	
MONTHLY WATER RATES			
	PHASE I CURRENT RATES	COMM. APPROVED PHASE II RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$64.98	\$77.11	\$0.16
3/4"	\$97.47	\$115.67	\$0.24
1"	\$162.45	\$192.78	\$0.40
1-1/2"	\$324.90	\$385.55	\$0.80
2"	\$519.84	\$616.88	\$1.28
3"	\$1,039.68	\$1,233.76	\$2.57
4"	\$1,624.50	\$1,927.75	\$4.01
6"	\$3,249.00	\$3,855.50	\$8.02
Charge per 1,000 gallons - Residential and General Service	\$6.28	\$7.45	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$83.82	\$99.46	
6,000 Gallons	\$102.66	\$121.81	
8,000 Gallons	\$115.22	\$136.71	