

State of Florida



Public Service Commission

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

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

DATE: April 3, 2018
TO: Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk
FROM: Robert Graves, Public Utilities Supervisor, Division of Engineering *RG*
RE: Docket No. 20170230-WU-Application for staff-assisted rate case in Pasco County by Orange Land Utilities, LLC. *RS*

Please file the attached Staff Report in the above mentioned Docket File.

Thank you

Attachments

State of Florida



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

DATE: April 3, 2018

TO: Laura King, Chief of Reliability & Resource Planning, Division of Engineering

FROM: Division of Engineering (Knoblauch, Graves) *ph EK*
Division of Accounting and Finance (Frank, Johnson, Norris) *AMJ DF LS*
Division of Economics (Bruce, Hudson) *FCH PD*
Office of the General Counsel (DuVal) *MD CM*

RE: Docket No. 20170230-WU-Application for staff-assisted rate case in Pasco County by Orange Land Utilities, LLC.

--STAFF REPORT--

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting on April 30, 2018.

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Case Background

Orange Land Utilities, LLC (Orange Land or Utility) is a Class C water utility serving approximately 74 residential and 2 general service customers in Pasco County. Orange Land's service territory is located in the Southwest Florida Water Management District (SWFWMD). The Florida Public Service Commission (Commission) granted the transfer of Certificate No. 288-W from Orangeland Water Supply to Orange Land Utilities, LLC, effective the date of the Commission vote on February 7, 2017.¹ The Utility's rates were last established in its 2008 staff-assisted rate case (SARC) settlement with the Office of Public Counsel (OPC) by Order No. PSC-08-0640-AS-WU.²

On October 26, 2017, Orange Land filed an application for a SARC. Pursuant to Section 367.0814(2), Florida Statute, (F.S.), the official filing date of the SARC has been determined to be December 15, 2017. The 12 month period ending September 30, 2017, was selected as the test year for the instant case. Orange Land is requesting recovery of plant additions, including the replacement of a hydropneumatic tank, well house roof, electric panel, flow meter, and customer water meters. According to Orange Land's 2016 Annual Report, its total operating revenue was \$14,232 and its net operating income was (\$777).

This Staff Report is a **preliminary** analysis of the Utility prepared by Commission staff to give customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission is currently scheduled to be filed July 26, 2018, for consideration at the August 7, 2018 Commission Conference. The recommendation will be revised as necessary using any updated information and results of customer quality of service concerns or other relevant information received at the customer meeting. The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, and 367.091 F.S.

¹Order No. PSC-17-0092-PAA-WU, issued March 13, 2017, in Docket No. 160144-WU, *In re: Application for transfer of Certificate No. 288-W in Pasco County from Orangeland Water Supply to Orange Land Utilities, LLC.*

²Issued October 3, 2008, in Docket No. 070601-WU, *In re: Application for staff-assisted rate case in Pasco County by Orangeland Water Supply.*

Discussion of Issues

Issue 1: Is the quality of service provided by Orange Land Utilities, LLC satisfactory?

Preliminary Recommendation: Staff's recommendation regarding quality of service will not be finalized until after the April 30, 2018 customer meeting. (Knoblauch)

Staff Analysis: Pursuant to Section 367.081(2)(a)1, F.S., in water and wastewater rate cases, the Commission shall consider the overall quality of service provided by a utility. Rule 25-30.433(1), Florida Administrative Code (F.A.C.), provides for the consideration of three separate components of the Utility's operations. The components are: (1) the quality of the Utility's product; (2) the operating conditions of the Utility's plant and facilities; and (3) the Utility's attempt to address customer satisfaction. The Rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (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 the DEP.

Quality of Utility's Product

In evaluation of Orange Land's product quality, staff reviewed the Utility's compliance with the DEP primary and secondary drinking water standards. Primary standards protect public health, while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water. A review of the DEP compliance records from October 1, 2014, through September 30, 2017, indicate Orange Land's finished product met all primary and secondary water quality standards. The most recent chemical analyses were performed on December 1, 2015, and the results were in-compliance with the DEP's standards. These chemical analyses are performed every three years; therefore, the next scheduled analysis should be completed in 2018.

Operating Condition of the Utility's Plant and Facilities

Orange Land's water treatment system has two wells and a hydropneumatic tank. The raw water obtained from the two wells is treated with chlorine bleach. Staff reviewed the Utility's last DEP Sanitary Survey, dated April 24, 2017, which identified six deficiencies at Orange Land's water treatment facility. The deficiencies found were bio-growth on the hydropneumatic tank and piping, lack of sampling and monitoring plans, low chlorine residual levels in the distribution system, and absence of meter accuracy checks. In a letter dated October 26, 2017, the DEP stated that all deficiencies that had been identified had been corrected and the system was determined to be in-compliance with the DEP's rules and regulations.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the Commission's complaint records from October 1, 2012, through September 30, 2017, and found one complaint received on February 10, 2017. The complaint involved the Utility's limited access to a customer's water meter, which was located inside of a fenced yard with a dog. The Utility requested that the customer move the fence so the Utility could access the meter without having to enter the fenced enclosure; however, the customer attested that the fence was not located on the Utility's easement and they would not remove the fence. A resolution

letter was sent to the customer on August 22, 2018, following several failed attempts by staff to contact the customer and the complaint was subsequently closed.

Staff requested all complaints received by the Utility during the test year and four years prior. The Utility provided one complaint which was received on May 8, 2017. The complaint stated that the bathroom sink faucet was dripping and dirty water was backing up into the customer's bathtub. To address the water dripping from the sink, the Utility cleaned the faucet aerator, which contained sand. The issue of backup in the bathtub would be a matter addressed by the utility providing wastewater service or the customer. Additionally, staff did not identify any DEP complaints made during the test year or four years prior.

Conclusion

Orange Land's quality of service will be determined at a later date, pending review of comments made at the customer meeting on April 30, 2018.

Issue 2: What are the used and useful (U&U) percentages of Orange Land Utilities, LLC's water treatment plant and distribution system?

Preliminary Recommendation: Orange Land's water treatment plant and distribution system should continue to be considered 100 percent U&U. There appears to be no excessive unaccounted for water (EUW); therefore, staff is not recommending an adjustment be made to operating expenses for chemicals and purchased power. (Knoblauch)

Staff Analysis: Orange Land's water treatment system has two wells rated at 110 gallons per minute (gpm) and 100 gpm. The Utility's water system does not have a storage tank, but has one hydropneumatic tank totaling 1,000 gallons in capacity. The distribution system is composed of 960 linear feet of 4 inch polyvinyl chloride (PVC), 570 linear feet of 4 inch asbestos cement (AC), and 2,250 linear feet of 2 inch PVC pipes.

Rule 25-30.4325, F.A.C., addresses the method by which the U&U of a water system is determined. The U&U for Orange Land's water treatment plant and distribution system were last determined in Order No. PSC-08-0309-PAA-WU.³ In that Order, the Commission determined the Utility's service territory was built-out and found the water treatment plant and distribution system to be 100 percent U&U.

Used and Useful Percentages

As noted above, the Commission found both the water treatment plant and distribution system to be 100 percent U&U in the prior rate case. The Utility has not increased the capacity of its water treatment facilities or distribution system since its last rate case. Therefore, consistent with the Commission's previous decision, staff recommends the Utility's water treatment plant and water distribution system be considered 100 percent U&U.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., additionally provides factors to be considered in determining whether adjustments to operating expenses are necessary for EUW. EUW is defined as "unaccounted for water in excess of 10 percent of the amount produced." Unaccounted for water is all water produced that is not sold, metered, or accounted for in the records of the Utility.

EUW is calculated by subtracting both the gallons sold to customers and the gallons used for other services, such as flushing, from the total gallons pumped for the test year. Based on monthly operating reports, Orange Land produced 4,107,000 gallons of water from October 1, 2016, to September 30, 2017. From the audit completed by staff, the utility sold 3,680,739 gallons of water to customers. The Utility did not have any documented water usage for other uses. The resulting calculation $([4,107,000 - 3,680,739] / 4,107,000)$ for unaccounted for water is 10.4 percent; therefore, the EUW is 0.4 percent. Considering the EUW is less than half a percent, staff considers this amount of excess unaccounted for water to be negligible and recommends no adjustments should be made to purchased power and chemicals at this time. Staff will continue to evaluate the Utility's water usage to determine if any adjustments need to be made.

³Issued May 13, 2008, in Docket No. 070601-WU, *In re: Application for staff-assisted rate case in Pasco County by Orangeland Water Supply*.

Conclusion

Orange Land's water treatment plant and distribution system should be considered 100 percent U&U. Additionally, staff recommends no adjustment to purchased power and chemicals should be made for EUW.

Issue 3: What is the appropriate average test year rate base for Orange Land Utilities, LLC?

Preliminary Recommendation: The appropriate average test year rate base for Orange Land is \$34,197. (Frank, Knoblauch)

Staff Analysis: The test year ended September 30, 2017, was used for the instant case. A summary of each rate base component and recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

The Utility recorded a test year UPIS balance of \$52,241. Staff increased UPIS by \$866 to include an averaging adjustment.

Orange Land has requested several pro forma plant projects. The projects include the replacement of a hydropneumatic tank, well house roof, electrical panel, and flow meter. The Utility also requested a meter replacement program to replace customer meters with new water meters. As such, staff increased UPIS by \$16,709 (\$9,091 + \$1,518 + \$700 + \$5,122 + \$278).

Staff's net adjustment to UPIS is an increase of \$17,575 (\$866 + \$16,709). Therefore, staff recommends that the appropriate UPIS balance is \$69,816.

Land & Land Rights

The Utility recorded a test year land balance of \$1,000. Based on staff's preliminary review, no adjustment is necessary. Therefore, staff recommends that the appropriate balance is \$1,000.

Used & Useful

As discussed in Issue 2, Orange Land's water treatment plant and distribution system are considered 100 percent U&U. Therefore, no U&U adjustments are necessary

Accumulated Depreciation

Orange Land recorded a test year accumulated depreciation balance of \$44,378. Staff increased accumulated depreciation by \$825 to include an averaging adjustment. Staff also decreased accumulated depreciation by \$6,566 to reflect pro forma additions and corresponding retirements. Staff's net adjustment decreases accumulated depreciation by \$5,741 (\$6,566 - \$825). Staff recommends an accumulated depreciation balance of \$38,637.

Contributions In Aid of Construction (CIAC)

The Utility recorded a CIAC balance of \$7,350. Based on staff's preliminary review, no adjustment is necessary. Therefore, staff recommends that the appropriate balance is \$7,350.

Accumulated Amortization of CIAC

The Utility recorded a test year accumulated amortization of CIAC balance of \$6,222. Staff reduced accumulated amortization of CIAC by \$54 to include an averaging adjustment. As such, staff recommends an accumulated amortization of CIAC balance of \$6,168.

Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$3,200 (based on O&M expense of \$25,596/8).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base for Orange Land is \$34,197. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

Issue 4: What is the appropriate return on equity and overall rate of return for Orange Land Utilities, LLC?

Preliminary Recommendation: The appropriate return on equity (ROE) is 11.16 percent with a range of 10.16 percent to 12.16 percent. The appropriate overall rate of return is 8.85 percent. (Frank)

Staff Analysis: According to staff's audit, Orange Land's test year capital structure reflected common equity of \$8,391 and long term debt of \$9,801. The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE for the Utility is 11.16 percent based upon the Commission-approved leverage formula currently in effect.⁴ Staff recommends an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 8.85 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁴Order 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.*

Issue 5: What are the appropriate test year revenues for Orange Land Utilities, LLC?

Preliminary Recommendation: The appropriate test year revenues for Orange Land's water system are \$22,617. (Bruce)

Staff Analysis: Orange Land recorded total revenues of \$22,351. The water revenues included \$21,975 of service revenues and \$376 of miscellaneous revenues. During the test year, the Utility had a rate increase as a result of a price index. Therefore, staff annualized test year revenues by applying the rates in effect as of July 1, 2017, to the appropriate billing determinants. As a result, staff determined that service revenues should be \$22,241, which is an increase of \$266. There is no adjustment to miscellaneous revenues. The appropriate test year revenues for Orange Land water system, including miscellaneous revenues are \$22,617 (\$22,241+ \$376).

Issue 6: What is the appropriate amount of operating expense for Orange Land Utilities, LLC?

Preliminary Recommendation: The appropriate amount of operating expense for Orange Land is \$29,588. (Johnson, Frank)

Staff Analysis: Orange Land recorded operating expense of \$28,276 for the test year ended September 30, 2017. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made a few adjustments to the Utility's operating expenses as summarized below.

Operation & Maintenance Expense

Salaries and Wages – Employees (601)

Orange Land recorded salaries and wages – employee's expense of \$8,116. The Utility requested an increase in salaries and wages expense for employees. Staff is further evaluating the Utility's request at this time.

Salaries and Wages – Officers (603)

Orange Land recorded salaries and wages – officers' expense of \$3,553. The Utility requested an increase in salaries and wages expense for officers. Staff is further evaluating the Utility's request at this time.

Pensions and Benefits (604)

Orange Land recorded pensions and benefits expense of \$958. Pensions and benefits expense will be based on staff's evaluation of the Utility's requested increase in salaries and wages.

Purchased Power (615)

The Utility recorded purchased power expense of \$826. Staff decreased this account by \$5 for the removal of late payment fees. As such, staff recommends purchased power expense of \$821.

Insurance Expense (655)

Orange Land recorded insurance expense of \$1,624 for the test year. Staff decreased this expense by \$265 to reflect the appropriate test year expense. Therefore, staff recommends insurance expense of \$1,359.

Regulatory Commission Expense (665)

Orange Land did not record regulatory commission expense for the test year. Staff calculated a total of \$1,137 in regulatory commission expense. This amount includes a \$1,000 filing fee and \$137 in noticing costs for the instant case. The recommended total rate case expense of \$1,137 should be amortized over four years, pursuant to Section 367.081(6), F.S. This represents an annual expense of \$284 ($\$1,137/4$). As such, staff recommends regulatory commission expense of \$284.

Operation and Maintenance Expense Summary

Based on the above adjustments, staff recommends that O&M expense should be increased by \$14, resulting in total O&M expense of \$25,596. Staff's recommended adjustments to O&M expense are shown on Schedule No 3-C.

Date: April 3, 2018

Depreciation Expense (Net of Amortization of CIAC)

Orange Land recorded depreciation expense of \$751 during the test year. Staff calculated depreciation expense for the pro forma plant additions and retirements the Utility requested. These additions result in an increase of \$728. As such, staff recommends depreciation expense of \$1,479.

Taxes Other Than Income (TOTI)

Orange Land recorded a TOTI balance of \$1,943 during the test year. Staff decreased TOTI by \$53 to reflect the appropriate amount of a property tax bill received by the Utility in November of 2017. Staff increased the Regulatory Assessment Fees (RAFs) by \$12 to reflect the adjusted test year revenues. Staff also increased property tax expense by \$161 as a corresponding adjustment to the pro forma plant additions. This results in a net increase of \$120 ($-\$53 + \$12 + \161).

In addition, as discussed in Issue 7, revenues have been increased by \$9,999 to reflect the change in revenue required to cover expenses and allow the recommended return on investment. As a result, TOTI should be increased by \$450 to reflect RAFs of 4.5 percent on the change in revenues. Staff's net adjustments are an increase of \$570 ($\$120 + \450). Therefore, staff recommends TOTI of \$2,513.

Operating Expenses Summary

The application of staff's recommended adjustments to Orange Land's test year operating expenses results in operating expenses of \$29,588. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule Nos. 3-B and 3-C.

Issue 7: What is the appropriate revenue requirement for Orange Land Utilities, LLC?

Preliminary Recommendation: The appropriate revenue requirement is \$32,616 resulting in an annual increase of \$9,999 (44.21 percent). (Frank)

Staff Analysis: Orange Land should be allowed an annual increase of \$9,999 (44.21 percent). The calculations are shown below in Table 7-1:

**Table 7-1
Revenue Requirement**

Adjusted Rate Base	\$34,197
Rate of Return	<u>x 8.85%</u>
Return on Rate Base	\$3,028
Adjusted O&M Expense	\$25,596
Depreciation Expense (Net)	1,479
Taxes Other Than Income	2,063
Test Year RAFs	<u>450</u>
Revenue Requirement	\$32,616
Less Adjusted Test Year Revenues	<u>22,617</u>
Annual Increase	<u>\$9,999</u>
Percent Increase	<u>44.21%</u>

Date: April 3, 2018

Issue 8: What is the appropriate rate structure and rates for Orange Land Utilities, LLC's water systems?

Preliminary Recommendation: 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. (Bruce)

Staff Analysis: Orange Land's water system is located in Pasco County within the SWFWMD. The Utility provides water service to 74 residential water customers and 2 general service customers. Approximately 4 percent of the residential customer bills during the test year had zero gallons indicating a non-seasonal customer base. The average residential water demand is 4,303 gallons per month. The Utility's current residential and general service rate structure consists of a base facility charge (BFC) and a two-tier inclining block rate structure. The rate blocks are 0-5,000 gallons and all usage in excess of 5,000 gallons per month.

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

Currently, approximately 60 percent of the Utility's revenues are recovered through the BFC. Typically, the Commission sets the BFC cost recovery no greater than 40 percent unless the Utility's customer base is seasonal. Seasonality is not an issue for this Utility. However, staff recommends 45 percent of the revenue requirement should be recovered through the BFC, which avoids lowering the BFC and allows the Utility to maintain its existing level of revenue stability. The average persons per household served by the water system is three; therefore, based on the number of persons per household, 50 gallons per day per persons, and the number of days per month, the non-discretionary usage threshold should be 5,000 gallons per month. Staff recommends a continuation of the current rate structure with separate gallonage charges for discretionary and non-discretionary usage for residential water customers. This rate structure will continue to send the appropriate pricing signals, which will target customers with high consumption levels and minimize price increases for customers at non-discretionary levels. Typically, general service rates do not include an inclining block because general service customers are less likely to conserve since they typically pass the cost to their customers. Therefore, staff recommends that the general service rate structure be revised to include a BFC and uniform gallonage charge.

Based on a recommended revenue increase of 44.21 percent, which excludes miscellaneous revenues, the residential consumption can be expected to decline by 268,000 gallons resulting in anticipated average residential demand of 3,980 gallons per month. Staff recommends a 7.5 percent reduction in test year residential gallons for rate setting purposes and corresponding reductions of \$60 for purchased power and \$3 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$32,177.

Based on the above, 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 9: What are the appropriate initial customer deposits for Orange Land Utilities, LLC?

Preliminary Recommendation: The appropriate initial customer deposit should be \$74 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. The approved initial customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding. (Bruce)

Staff Analysis: Rule 25-30.311, F.A.C., provides the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. An initial customer deposit ensures that the cost of providing service is recovered from the cost causer. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.⁵ Currently, the Utility's initial deposit for residential water is \$42 for the 5/8 inch x 3/4 inch meter size and two times the average estimated bill for the general service meter sizes. Based on the staff recommended water rates and post repression average residential demand, the appropriate initial customer deposit for water should be \$74 to reflect an average residential customer bill for two months.

Staff recommends the appropriate initial customer deposits should be \$74 for the residential 5/8 inch x 3/4 inch meter size for water. 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. The approved initial customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding.

⁵Order No. PSC-15-0142-PAA-SU, issued March 26, 2015, in Docket No. 130178-SU, *In re: Application for staff-assisted rate case in Polk County by Crooked Lake Park Sewerage Company.*

Issue 10: What is the appropriate amount by which rates should be reduced in four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.081(8) F.S.?

Preliminary Recommendation: The 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 367.081(8), F.S. Orange Land 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. (Frank, Bruce)

Staff Analysis: Section 367.081(8), 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 and the gross-up for RAFs. The total reduction is \$298.

The 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 367.081(8), F.S. Orange Land should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 11: Should the recommended rates be approved for Orange Land Utilities, LLC on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

Preliminary Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility. Orange Land 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 temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Frank)

Staff Analysis: This recommendation proposes 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, staff recommends that the recommended rates be approved as temporary rates. Orange Land 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 temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

Orange Land should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$6,734. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

- 1) The Commission approves the rate increase; or,
- 2) If the 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 should contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect, and,
- 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 should be part of the agreement:

- 1) The Commission 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 express approval of the Commission;
- 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 should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should 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 should be maintained by the Utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

Should the recommended rates be approved by the Commission on a temporary basis, Orange Land should maintain a record of the amount of the security, 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 should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 12: Should the Orange Land Utilities, LLC be required to notify the Commission in writing that it has adjusted its books in accordance with the Commission's decision?

Preliminary Recommendation: Yes. Orange Land should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Orange Land should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) primary 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 the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Frank)

Staff Analysis: Orange Land should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Orange Land should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary 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 the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Issue 13: Should this docket be closed?

Preliminary Recommendation: 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. Once these actions are complete, this docket should be closed administratively. (Duval)

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. Once these actions are complete, this docket should be closed administratively.

Orange Land Utilities, LLC		SCHEDULE NO. 1-A	
TEST YEAR ENDED 09/30/2017		DOCKET NO. 20170230-WU	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$52,241	\$17,575	\$69,816
LAND & LAND RIGHTS	1,000	0	1,000
ACCUMULATED DEPRECIATION	(44,378)	5,741	(38,637)
CIAC	(7,350)	0	(7,350)
AMORTIZATION OF CIAC	6,222	(54)	6,168
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>3,200</u>	<u>3,200</u>
RATE BASE	<u>\$7,735</u>	<u>\$26,462</u>	<u>\$34,197</u>

Orange Land Utilities, LLC		SCHEDULE NO. 1-B
TEST YEAR ENDED 09/30/2017		DOCKET NO. 20170230-WU
ADJUSTMENTS TO RATE BASE		
UTILITY PLANT IN SERVICE		
1.	To reflect an averaging adjustment.	\$866
2.	To reflect pro forma plant additions and retirements.	<u>16,709</u>
	Total	<u>\$17,575</u>
ACCUMULATED DEPRECIATION		
1.	To reflect an averaging adjustment.	(\$825)
2.	To reflect pro forma plant additions and retirements.	<u>6,566</u>
	Total	<u>\$5,741</u>
ACCUMULATED AMORTIZATION OF CIAC		
	To reflect an averaging adjustment.	<u>(\$54)</u>
WORKING CAPITAL ALLOWANCE		
	To reflect 1/8 of test year O & M expenses.	<u>\$3,200</u>

Orange Land Utilities, LLC							SCHEDULE NO. 2		
TEST YEAR ENDED 09/30/2017							DOCKET NO. 20170230-WU		
SCHEDULE OF CAPITAL STRUCTURE									
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. LONG-TERM DEBT	\$9,801	\$0	\$9,801	8,623	\$18,424	53.88%	6.88%	3.71%	
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	8,391	0	8,391	7,382	15,773	46.12%	11.16%	5.15%	
5. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	2.00%	0.00%	
6. DEFERRED INCOME TAXES	0	0	0	0	0	0.00%	0.00%	0.00%	
7. TOTAL CAPITAL	<u>\$18,192</u>	<u>\$0</u>	<u>\$18,192</u>	<u>\$16,005</u>	<u>\$34,197</u>	<u>100.00%</u>		<u>8.85%</u>	
RANGE OF REASONABLENESS						LOW	HIGH		
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>		
OVERALL RATE OF RETURN						<u>8.39%</u>	<u>9.32%</u>		

Orange Land Utilities, LLC TEST YEAR ENDED 09/30/2017 SCHEDULE OF WATER OPERATING INCOME						SCHEDULE NO. 3-A DOCKET NO. 20170230-WU
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$22,351</u>	<u>\$266</u>	<u>\$22,617</u>	<u>\$9,999</u> 44.21%	<u>\$32,616</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$25,582	\$14	\$25,596	\$0	\$25,596	
3. DEPRECIATION (NET)	751	728	1,479	0	1,479	
4. TAXES OTHER THAN INCOME	1,943	120	2,063	450	2,513	
5. TOTAL OPERATING EXPENSES	<u>\$28,276</u>	<u>\$862</u>	<u>\$29,138</u>	<u>\$450</u>	<u>\$29,588</u>	
6. OPERATING INCOME/(LOSS)	<u>(\$5,925)</u>		<u>(\$6,521)</u>		<u>\$3,028</u>	
7. RATE BASE	<u>\$7,735</u>		<u>\$34,197</u>		<u>\$34,197</u>	
8. RATE OF RETURN	(76.60%)		(19.07%)		<u>8.85%</u>	

Orange Land Utilities, LLC TEST YEAR ENDED 09/30/2017 ADJUSTMENTS TO OPERATING INCOME		Schedule No. 3-B Docket No. 20170230-WU Page 1 of 1
OPERATING REVENUES		
1.	To reflect the appropriate test year revenues.	<u>\$266</u>
OPERATION AND MAINTENANCE EXPENSES		
1.	Purchased Power (615)	
	a. To reflect appropriate amount of purchased power expense.	<u>(\$5)</u>
2.	Insurance Expense (655)	
	a. To reflect appropriate amount of insurance expense.	<u>(\$265)</u>
3.	Regulatory Commission Expense (665)	
	a. To reflect amortization of rate case expense.	<u>\$284</u>
TOTAL OPERATION AND MAINTENANCE ADJUSTMENTS		<u>\$14</u>
DEPRECIATION EXPENSE		
1.	To reflect appropriate pro forma depreciation expense.	<u>\$728</u>
TAXES OTHER THAN INCOME		
1.	To reflect the appropriate test year RAFs.	\$12
2.	To reflect pro forma property tax.	161
3.	To reflect real property tax.	<u>(53)</u>
	Total	<u>\$120</u>

Orange Land Utilities, LLC		SCHEDULE NO. 3-C	
TEST YEAR ENDED 09/30/2017		DOCKET NO. 20170230-WU	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$8,116	\$0	\$8,116
(603) SALARIES AND WAGES - OFFICERS	3,553	0	3,553
(604) EMPLOYEE PENSIONS AND BENEFITS	958	0	958
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	826	(5)	821
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	0	0	0
(620) MATERIALS AND SUPPLIES	474	0	474
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	473	0	473
(633) CONTRACTUAL SERVICES - LEGAL	0	0	0
(635) CONTRACTUAL SERVICES - TESTING	465	0	465
(636) CONTRACTUAL SERVICES - OTHER	3,460	0	3,460
(640) RENTS	756	0	756
(650) TRANSPORTATION EXPENSE	1,228	0	1,228
(655) INSURANCE EXPENSE	1,624	(265)	1,359
(657) INSURANCE - GENERAL LIABILITY	0	0	0
(665) REGULATORY COMMISSION EXPENSE	0	284	284
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSE	<u>3,649</u>	<u>0</u>	<u>3,649</u>
	<u>\$25,582</u>	<u>\$14</u>	<u>\$25,596</u>

Orange Land Utilities, LLC		SCHEDULE NO. 4	
TEST YEAR ENDED 09/30/2017		DOCKET NO. 20170230-WU	
MONTHLY WATER RATES			
	RATES AT TIME OF FILING	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$14.91	\$16.49	\$0.15
3/4"	\$22.37	\$24.74	\$0.23
1"	\$37.28	\$41.23	\$0.38
1-1/2"	\$74.55	\$82.45	\$0.76
2"	\$119.28	\$131.92	\$1.22
3"	\$238.56	\$263.84	\$2.44
4"	\$372.75	\$412.25	\$3.82
6"	\$745.50	\$824.50	\$7.64
Charge per 1,000 gallons - Residential and General Service			
0-5,000 gallons	\$2.15		\$0.02
Over 5,000 gallons	\$3.17		\$0.03
Charge per 1,000 gallons - Residential Service			
0-5,000 gallons		\$4.82	
Over 5,000 gallons		\$6.40	
Charge per 1,000 gallons - General Service	\$0.00	\$5.19	\$0.05
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
4,000 Gallons	\$23.51	\$35.77	
8,000 Gallons	\$35.17	\$59.79	
10,000 Gallons	\$41.51	\$72.59	