

State of Florida



## Public Service Commission

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

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

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**DATE:** November 29, 2018

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

**FROM:** Division of Economics (Friedrich) *MF PA 84 JSH*  
Office of the General Counsel (Murphy, Crawford) *JCO*

**RE:** Docket No. 20180219-SU – Request for approval of amendment to tariff to charge a standby charge to customers significantly impacted by Hurricane Michael in Gulf County, by ESAD Enterprises, Inc. d/b/a Beaches Sewer System.

**AGENDA:** 12/11/18 – Regular Agenda – Tariff Filing – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** 1/20/19 (60-Day Suspension Date)

**SPECIAL INSTRUCTIONS:** Place after 20160165-SU on the Agenda.

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COMMISSION CLERK

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### Case Background

ESAD Enterprises, Inc. d/b/a Beaches Sewer System, Inc. (Beaches or utility) is a Class C wastewater-only utility operating in Gulf County, Florida. The utility serves approximately 316 residential and four general service customers. In addition, the utility collects a guaranteed revenue charge for 45 properties that have paid service availability charges but have not yet connected to the system. Water service is provided by the City of Port St. Joe.

On October 10, 2018, Hurricane Michael hit the utility's service territory, significantly damaging the area and the utility's plant and lift stations. While the utility's ability to serve has been restored, the homes of numerous customers have not. The utility indicated that approximately 76 customers or 23 percent of the customer base is unable to receive wastewater service due to extensive storm damage incurred due to Hurricane Michael.

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As a result, the utility filed a letter dated November 20, 2018, describing a new charge it has implemented for those affected customers not receiving service. Beaches is currently authorized to bill a monthly flat rate for wastewater service of \$43.03.<sup>1</sup> In its letter, the utility stated it has noticed the 76 affected customers and has billed them in the amount of \$11.79, the amount of the utility's approved guaranteed revenue charge, instead of \$43.03 for the November 2018 billing period. Further, the utility indicated that numerous customers contacted the utility to express that they understood the purpose of the change in billing and would remit payment for the \$11.79. The utility has also received a request to discontinue service from one customer who does not intend to rebuild. The Commission has jurisdiction pursuant to Sections 367.081 and 367.091, Florida Statutes (F.S.).

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<sup>1</sup>The utility's current rates and charges were approved in Docket No. 20160165-SU by Order No. PSC-2017-0383-PAA-SU, issued October 4, 2017.

### Discussion of Issues

**Issue 1:** Should the Commission approve Beaches' request to offer a standby charge of \$11.79 to customers whose homes incurred extensive damage due to Hurricane Michael and, therefore, cannot utilize wastewater service?

**Recommendation:** Yes. The utility's request to offer a standby charge of \$11.79 to customers whose homes incurred extensive damage due to Hurricane Michael and, therefore, cannot utilize wastewater service should be approved. The utility should file a tariff sheet and a proposed customer notice which encompasses the amount and purpose of the standby charge, the customer's right to discontinue service by providing written notice to the utility, and that the continuance of the standby charge will be reviewed by the Commission staff in January 2020 subsequent to the utility filing a report by January 1, 2019 detailing the number of customers still being billed the standby charge. Beaches should be required to provide notice to all customers. The approved charge should apply to affected customers on a temporary basis until all affected customers have either resumed wastewater service or disconnected from the system. The utility should provide proof of noticing within 10 days of rendering its approved notice. (Friedrich)

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**Staff Analysis:** Beaches provides wastewater service to approximately 320 customers on the Florida Panhandle in Port St. Joe. The utility bills each customer its approved flat rate of \$43.03 per month for wastewater service. This area was impacted considerably by Hurricane Michael in October of 2018. The utility indicated that the homes of approximately 76 customers incurred extensive storm damage and are uninhabitable and, therefore, those customers cannot utilize wastewater service. The utility has demonstrated concern regarding its revenue stability, considering that approximately 23 percent of its customer base cannot utilize wastewater service in the immediate future. In order to maintain a stable revenue stream, Beaches requested approval to bill the affected customers a temporary monthly charge in the amount of its approved guaranteed revenues charge (\$11.79), instead of its flat rate.

By letter dated November 20, 2018, the utility advised the Commission of its intended billing changes to those affected customers. As mentioned previously, the utility indicated that it would bill those customers with homes that cannot utilize wastewater service a charge of \$11.79 instead of its approved \$43.03 flat rate. The utility additionally indicated that while many customers impacted by the hurricane may not currently be sending wastewater back to the Beaches' wastewater system, there are still many fixed costs attributable to the utility being able to provide wastewater service on demand to this group of customers in the near future. Staff is interpreting the utility's filed letter as a request to establish a new class of service pursuant to Section 367.091(5), F.S., since the affected customers would be billed a new standby charge which is a new customer class that did not exist previously under the utility's tariff.

In its letter, Beaches requested to bill its guaranteed revenue charge to affected customers. Pursuant to Rule 25-30.515(9), Florida Administrative Code (F.A.C.), and the utility's service availability policy in its tariff, a guaranteed revenue charge is designed to help the utility recover a portion of its fixed costs from the time capacity is reserved until a customer begins to pay monthly service charges. Based on the aforementioned, it is not appropriate to bill this customer group a guaranteed revenue charge because they have previously connected to the utility's

wastewater system. In this context, the utility's efforts to recover the fixed portion of the cost of providing wastewater service from customers who will resume service in the short term is analogous to the purposes of the guaranteed revenue charge which has been approved for the utility by the Commission.<sup>2</sup> The distinction is that the guaranteed revenue charge is for customers who have not yet hooked up to the system while the standby charge is for customers who are temporarily not able to use the services because of a natural disaster.

Section 367.091(6), F.S., provides that an application to establish a rate or charge other than monthly rates for service pursuant to Section 367.081, F.S., must be accompanied by a cost justification. Historically, the Commission has based guaranteed revenue charges on the utility's approved base facility charge (BFC) to reflect the fixed costs associated with the reserved capacity.<sup>3</sup> Beaches' approved rate for wastewater service is a flat rate of \$43.03. Typically, the Commission allocates approximately 50 percent of wastewater revenues to the BFC when designing wastewater rates to allow the utility to recover fixed costs associated with providing wastewater service.<sup>4</sup> However, staff believes the proposed \$11.79 charge for standby service, which mirrors the approved guaranteed revenue charge and represents approximately 27 percent of the utility's current flat rate, is a reasonable proxy for estimating the fixed costs associated with providing wastewater service. The proposed charge appears to be just, reasonable, and compensatory consistent with Section 367.091(5), F.S.

Further, staff considered the importance of the utility's ability to maintain a stable revenue stream, as well as the impact Hurricane Michael had on customers. Staff agrees with the utility's concern to maintain a stable revenue stream and the importance in sustaining the utility's wastewater system at a safe and reliable level. If no revenues are collected from the affected customers, the remaining customer base could be adversely affected in the utility's next rate case.

For the November 2018 billing period, Beaches sent a notice outlining its intended change in billing and a revised bill of \$11.79 to the 76 affected customers. While staff is not opposed to the utility's requested billing method, staff believes that those affected customers without homes suitable for service should be made aware that they may discontinue service with the utility and would, therefore, no longer be billed. The disconnected customer would then be responsible for remitting the utility's approved initial connection charge at the time of reconnection, in the event the customer is ready to resume service in the future. Currently, the utility's approved initial connection charge is \$25.70.

Based on the foregoing, staff believes the utility's request is reasonable and should be approved. The proposed standby charge is intended to be utilized by customers rebuilding their homes and resuming service in the future. Therefore, staff recommends the utility file a report with the

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<sup>2</sup>Staff notes that financial information to evaluate the utility's rates and charges is available within Docket No. 20160165-SU, the utility's open rate case.

<sup>3</sup>Order Nos. PSC-99-0513-FOF-WS, issued March 12, 1999, in Docket No. 980214-WS, *In re: Application for rate increase in Duval, St. Johns, and Nassau Counties by United Water Florida Inc.*; PSC-2017-0383-PAA-SU, issued October 4, 2017, in Docket No. 20160165-SU, *In re: Application for staff-assisted rate case in Gulf County by ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.*

<sup>4</sup>Order No. PSC-2018-0389-PAA-WS, issued August 2, 2018, in Docket No. 20170147-WS, *In re: Application for staff-assisted rate case in Levy County by FIMC Hideaway, Inc.*

Commission by January 1, 2020, detailing the number of customers still being billed the standby charge in order for staff to evaluate the number of remaining affected customers and whether the standby charge should be continued. Staff understands that there may be customers whose homes were completely destroyed and who may not have intentions to rebuild and resume service in the near future. Staff believes those customers that do not intend to rebuild and resume service in the near future should be advised that they may file a written request to discontinue service with the utility.

Although the utility provided notice to the affected customers of its intended change in billing, the notice was not reviewed by staff and incorrectly characterized the utility's proposed charge as a guaranteed revenue charge. Therefore, the utility should re-notice all customers. The notice should accurately describe the purpose and amount of the standby charge and clearly explain to customers that they have the option to disconnect from the utility's wastewater system. Additionally, the notice should describe the process for a customer to disconnect from the system and the applicable miscellaneous service charges the customer would be subject to in order to resume service after disconnecting. Since Beaches is a wastewater only utility, the notice should additionally state that it is the customer's responsibility to notify Beaches when the customer has resumed water service with the City in order for Beaches to transition to billing the customer the flat rate for wastewater service instead of the standby charge. While the utility believes it has identified the affected customers, there may be additional customers that cannot receive wastewater service; therefore, staff believes all customers of the utility should be noticed. If additional customers contact the utility requesting the standby charge, then the additional customers must provide the utility proof that they are not receiving water service in order to be billed the standby charge for wastewater service.

Based on the above, the utility's request to offer a standby charge of \$11.79 to customers whose homes incurred extensive damage due to Hurricane Michael and, therefore, cannot utilize wastewater service should be approved. The utility should file a tariff sheet and a proposed customer notice which encompasses the amount and purpose of the standby charge, the customer's right to discontinue service by providing written notice to the utility, and that the continuance of the standby charge will be reviewed by the Commission staff in January 2020 subsequent to the utility filing a report by January 1, 2019<sup>20</sup> detailing the number of customers still being billed the standby charge. Beaches should be required to provide notice to all customers. The approved charge should apply to affected customers on a temporary basis until all affected customers have either resumed wastewater service or disconnected from the system. The utility should provide proof of noticing within 10 days of rendering its approved notice.

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**Issue 2:** Should this docket be closed?

**Recommendation:** No. If a protest is filed within 21 days of issuance of the Order, the standby charge approved herein should remain in effect with any charges held subject to refund pending resolution of the protest. If no timely protest is filed, a consummating order should be issued. This docket should remain open for the Commission to reevaluate the continuance of the standby charge in 2020. (Murphy, Crawford)

**Staff Analysis:** No. If a protest is filed within 21 days of issuance of the Order, the standby charge approved herein should remain in effect with any charges held subject to refund pending resolution of the protest. If no timely protest is filed, a consummating order should be issued. This docket should remain open for the Commission to reevaluate the continuance of the standby charge in 2020.