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| State of FloridapscSEAL | Public Service CommissionCapital Circle Office Center ● 2540 Shumard Oak BoulevardTallahassee, Florida 32399-0850-M-E-M-O-R-A-N-D-U-M- |
| DATE: | March 21, 2019 |
| TO: | Office of Commission Clerk (Teitzman) |
| FROM: | Division of Engineering (Lewis, King)Division of Accounting and Finance (Fletcher, Mouring, L. Smith)Division of Economics (Bruce)Office of the General Counsel (Murphy) |
| RE: | Docket No. 20150010-WS – Application for staff-assisted rate case in Brevard County by Aquarina Utilities, Inc. |
| AGENDA: | 04/02/18 – Proposed Agency Action – Interested Persons May Participate |
| COMMISSIONERS ASSIGNED: | All Commissioners |
| PREHEARING OFFICER: | Brown |
| CRITICAL DATES: | None |
| SPECIAL INSTRUCTIONS: | None |

 Case Background

Aquarina Utilities, Inc., (Aquarina or Utility) is a Class B utility providing service to approximately 296 water and 311 wastewater customers in Brevard County. Aquarina also provides non-potable water for irrigation to approximately 107 customers.

The Utility filed its application for a staff-assisted rate case (SARC) on January 2, 2015. By Order No. PSC-16-0583-PAA-WS (SARC Order) issued December 29, 2016, the Florida Public Service Commission (Commission) approved Phase I revenue requirements and rates. The SARC Order further stated that implementation of Phase II rates was conditioned upon Aquarina completing certain pro forma items within 12 months of the issuance of a consummating order in this docket. A Consummating Order (Order No. PSC-17-0031-CO-WS) was issued on January 23, 2017. Therefore, the pro forma items were to be completed before January 23, 2018.

The pro forma items consisted of the replacement of the water treatment plant’s reverse osmosis (R/O) skid; the wastewater treatment plant’s (WWTP) catwalks, WWTP blowers, and sand filters; along with the acquisition of a plant map by use of a Geographical Information System (GIS). The SARC Order also provided that if Aquarina encountered any unforeseen events that would impede the completion of the pro forma items, it shall immediately notify the Commission in writing. On November 9, 2017, the Utility notified staff that it would not be able to meet the deadline for completing the pro forma items. The Utility requested an extension within the timeframe required until March 1, 2018, to complete the pro forma items, which was granted by Order No. PSC-2017-0485-FOF-WS.

On February 5, 2018, the Utility informed staff that it could not meet the March 1, 2018, deadline and requested another extension. By Order No. PSC-2018-0218-FOF-WS, the Commission granted Aquarina an extension until November 30, 2018, to complete the pro forma items. On February 1, 2019, the Utility provided documentation for consideration in determining Phase II rates. On February 20, 2019, Aquarina filed a motion requesting that the Commission restructure its rates in connection with the establishment and implementation of Phase II rates. The Utility withdrew the motion on March 11, 2019.

This recommendation addresses the appropriate Phase II rates. The Commission has jurisdiction pursuant to Sections 367.081, 367.0814, and 367.121, Florida Statutes.

Discussion of Issues

Issue :

 What are the appropriate Phase II revenue requirements for Aquarina?

Recommendation: The appropriate revised Phase II revenue increases are $7,550 for potable water, no increase for non-potable water, and $965 for wastewater, which equate to increases of 4.77 percent for potable water and 0.54 percent for wastewater, over Phase I revenue requirements. Phase II rate base is shown on Schedule Nos. 1-A through 1-D. The operating income for Phase II is shown on Schedule Nos. 2-A through 2-D. (Lewis, L. Smith)

Staff Analysis:

 By Order No. PSC-16-0583-PAA-WS, the Commission approved five pro forma items in this docket. In the SARC Order, the Commission approved Phase II rates conditioned upon Aquarina’s completion of the items. The Utility has provided documentation (invoices) demonstrating that four of the five items have been completed. For comparison purposes, staff provides a summary of the costs approved in the SARC Order and the costs being recommended in Table 1-1.

Table 1-1

Summary of Phase II Costs

|  |  |  |  |
| --- | --- | --- | --- |
| Item | Approved | Recommended | Difference |
| R/O Skid\*  | $52,232 | $49,602 | ($2,630) |
| WWTP Blower\*\* | 28,716 | 24,569 | (4,147) |
| Catwalks\*\* | 9,703 | 20,954 | 11,251  |
| Sand Filter Blowers\*\* | 5,603 | 7,502 | $,899  |
| GIS Mapping\*\*\* | 76,768 | 0 | (76,768) |
| Total | $173,022 | $102,627 | ($69,603) |

\*Potable Water Plant in Service

\*\*Wastewater Plant in Service

\*\*\*Operation and Maintenance

**Phase II Documentation**

Aquarina provided documentation for Phase II rates on February, 1, 2019. Prior to providing its documentation, the Utility provided multiple updates regarding the status of its pro forma items. Staff believes that the documentation provided by the Utility should be considered for establishing Phase II rates.

Based on the documentation the actual costs associated with the replacement of the R/O skid and the WWTP blower were below the amounts approved by the Commission. Recognizing the increase of more than 100 percent in the cost to replace the catwalks, the Utility indicated that the original contractor could not perform the job and a new quote was obtained. Aquarina explained that when the plant fixtures and catwalks were evaluated it was determined the steel frames for the catwalks were not going to work because the extent of deterioration was greater than originally understood.

Staff also notes that the cost of the sand filter blowers increased by more than 30 percent. Based on staff’s review of the original quote and the actual invoices provided by the Utility, the difference in cost appears to be related to the installation charges on the sand filter blowers which were not included in the originally approved amount.

Because the Utility did not have accurate and up to date plant maps for its distribution and collection systems, the Commission authorized $76,768 to obtain the services to create the maps. Aquarina provided an unsigned contract, dated September 1, 2018, with the Florida Rural Water Association (FRWA) to rent the necessary equipment to conduct the plant surveys at a cost of $792. As stated, the contract was not signed by the FRWA, furthermore, the mapping has not been completed to date; therefore, staff does not believe the costs should be included in Phase II revenue requirements. Based on the above, staff believes Aquarina has provided sufficient explanation and documentation to support a total amount of $102,627 in Phase II items.

In addition to providing documentation and invoices associated with the approved Phase II pro forma items, the Utility also provided invoices totaling $3,640 for maintenance and repair of its old R/O skid as well as a bid of $14,985 for the installation of a new control panel. The Utility indicated that the new control panel is needed to allow switching between the new R/O skid and the old R/O skid. In the SARC Order, the Commission found replacement of the old R/O skid to be prudent based on its age and scarcity of replacement parts. Therefore, the continued operation and maintenance of the old R/O skid was not contemplated by the Commission during the SARC. Staff does not believe that the costs associated with the old R/O skid should be included in Phase II revenue requirements as they were not contemplated in the SARC.

As discussed above, staff has revised the Phase II pro forma amounts. These revised amounts are shown in Table 1-2.

**Table 1-2**

**Revised Phase II Pro Forma Adjustments**

|  |  |  |  |
| --- | --- | --- | --- |
|   |   | Accum | Depr. |
| Description | UPIS | Depr. | Expense |
| Potable Water |   |   |   |
| Reverse Osmosis Skid | $49,602  | ($2,255) | $2,255  |
|  Retirement | (37,202) | 37,202  | (1,691) |
|  Revised Total | $12,401  | $34,947  | $564  |
| Previous Total | 13,434  | 37,859  | 611  |
|  Difference | ($1,033) | ($2,912) | ($47) |
|   |  |  |   |
| Wastewater |  |  |   |
| Catwalks at Plant | $20,954  | ($776) | $776  |
| Blower | 24,569  | (1,638) | 1,638  |
| Sand Filters | 7,502  | (417) | 417  |
|  Retirements | (39,769) | 39,769  |  (1,918) |
|  Revised Total | $13,256  | $36,938  | $912  |
| Previous Total | 11,005  | 30,431  | 646  |
|  Difference | $2,251  | $6,507  | $266  |

 Source: Responses to Staff’s Data Requests

As a result of the revised Phase II pro forma amounts, staff has summarized the UPIS, Operating Expenses, and Revenue Increase amounts in Table 1-3.

 **Table 1-3**

**Summary of Revenue Increase Amounts**

|  |  |  |  |
| --- | --- | --- | --- |
|    | Approved | Revised |   |
| Description | Phase II | Phase II | Difference |
| Potable |   |   |   |
|  UPIS | $1,463,661  | $1,462,628  | ($1,033) |
|  Operating Expenses | $163,201  | $157,670  | ($5,531) |
|  Revenue Increase | $13,022  | $7,550  | ($5,472) |
| Non-Potable |   |   |   |
|  UPIS | $945,345  | $945,345  | $0  |
|  Operating Expenses | $245,825  | $240,466  | ($5,359) |
|  Revenue Increase | $5,382  | $0  | ($5,382) |
| Wastewater |   |   |   |
|  UPIS | $1,623,048  | $1,625,299  | $2,251  |
|  Operating Expenses | $175,657  | $170,629  | ($5,028) |
|  Revenue Increase | $5,994  | $965  | ($5,029) |

 Source: Staff’s Calculations

**Conclusion**

Based on staff’s review of documentation provided by Aquarina, the appropriate revised Phase II revenue increases are $7,550 for potable water, no increase for non-potable water, and $965 for wastewater, which equate to increases of 4.77 percent for potable water and 0.54 percent for wastewater, over Phase I revenue requirements.Phase II rate base is shown on Schedule Nos. 1-A through 1-D. The operating income for Phase II is shown on Schedule Nos. 2-A through 2-D.

Issue :

What are the appropriate rates for Phase II?

Recommendation:

The appropriate Phase II rates are shown on Schedule Nos. 3-A and 3-B. 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 sheets 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***: By Order No. PSC-16-0583-PAA-WS, issued December 29, 2016, in the instant docket, the Commission approved Phase II revenue requirements and rates associated with the pro forma items. As discussed in Issue 1, staff is recommending Phase II revenue requirements be revised to reflect the actual cost incurred for the pro forma items. As a result, Phase II rates should be recalculated to reflect the staff recommended revised Phase II revenue requirements.

In Phase I, the potable water system was overearning by $12,593. When there are overearnings for a water and wastewater system, it has been Commission practice to avoid decreasing water rates by netting the revenues of the water and wastewater systems if the customer bases are similar. Decreasing the potable water rates undermines conservation efforts. There is a 5 percent difference in the number of water customers and wastewater customers. Due to the minimal difference between potable water and wastewater customers, the Commission approved netting the potable water overearnings with the wastewater system increase in order to avoid decreasing potable water rates. Therefore, for Phase I, the potable water rates remained unchanged.

For Phase II, the staff recommended revenue requirement of $165,805 for potable water is less than the revenues of $170,848 generated by the Phase I potable water rates. Therefore, staff recommends a continuation of the netting. However, $5,043 ($170,848 - $165,805) is required to maintain the Phase I potable water rates, which is less than the $12,593 required in Phase I. For this reason, in addition to the Phase II revenue increase of $965, the wastewater system revenues of $7,550 ($12,593 - $5,043) previously included in Phase I potable water rates should be returned to the wastewater system in Phase II. As a result, the revenue increase after netting is $8,515 ($7,550 + $965) for wastewater in Phase II. Table 2-1 outlines the revenues used for designing rates.

**Table 2-1**

**Commission-Approved Phase I and Staff Recommended Phase II**

**Revenue Requirements for Rate Setting**

|  |  |  |
| --- | --- | --- |
|  | Phase I | Phase II |
|  | Potable Water | Wastewater | Potable Water | Wastewater |
| Commission-Approved/Staff Recommended Revenue Requirement  | $158,255 | $179,663 | $165,805 | $180,628 |
| Revenue generated from rates | $170,848 | $161,821 | $170,848 | $167,070 |
| Revenue Increase/Decrease | ($12,593) | $17,842 | ($5,043) | $13,558 |
| Netting  | $12,593 | ($12,593) | $5,043 | ($5,043) |
| Revenue Increase | $0 | $5,249 | $0 | $8,515 |
| Percent Increase to Rates | 0% | 3.24% | 0% | 5.10% |
| Revenue Requirement for Rate Setting | $170,848 | $167,070 | $170,848 | $175,585 |

For Phase II, netting the potable water and wastewater systems’ revenues results in an increase of 5.10 percent for the wastewater system. The revenue increase of $8,515, excluding miscellaneous revenues of $655, results in a 5.12 percent increase. The 5.12 percent increase should be applied as an across-the-board increase to the Phase I wastewater rates. Since the implementation of the Phase I rates, the Utility was approved for a price index increase effective December 7, 2018. In order to maintain the price index increase, staff recommends that the incremental difference between the Phase I and Phase II rates be added to the Utility’s current wastewater rates. Staff recommends no change to the potable water rates. There is no revenue or rate change for non potable water rates.

The appropriate Phase II rates are shown on Schedule Nos. 3-A and 3-B. 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 sheets 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 3:***

 Should this docket be closed?

Recommendation:

 No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff’s verification that the revised tariff sheets and the customer notice have been filed by the Utility and approved by staff. When the tariff and notice actions are complete, this docket may be closed administratively. (Murphy)

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 will be issued. The docket should remain open for staff’s verification that the revised tariff sheets and the customer notice have been filed by the Utility and approved by staff. When the tariff and notice actions are complete, this docket may be closed administratively.



















