

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: October 28, 2019

TO: Adam J. Teitzman, Commission Clerk, Office of Commission Clerk

FROM: Sonica C. Bruce, Economic Analyst, Division of Economics *SH* *[Signature]*

RE: Docket No. 20190114-WU - Application for staff-assisted rate case in Alachua County, and request for interim rate increase by Gator Waterworks, Inc.

Please incorporate the attached documents into the docket file.

RECEIVED-FPSC
2019 OCT 28 AM 11:28
COMMISSION
CLERK

COMMISSIONERS:
ART GRAHAM, CHAIRMAN
JULIE I. BROWN
DONALD J. POLMANN
GARY F. CLARK

STATE OF FLORIDA



OFFICE OF THE GENERAL COUNSEL
KEITH C. HETRICK
GENERAL COUNSEL
(850) 413-6199

Public Service Commission

October 18, 2019

Mr. Troy Rendell
Gator Waterworks, Inc.
4939 Cross Bayou Boulevard
New Port Richey, FL 34652

VIA EMAIL & US MAIL

Re: Docket No. 20190114-WU, Application for staff-assisted rate case in Alachua County, and request for interim rate increase by Gator Waterworks, Inc.

Dear Mr. Rendell:

This will confirm that Commission staff will hold a customer meeting on Wednesday, November 13, 2019. We ask that, if at all possible, you or another knowledgeable representative of the Utility attend the meeting in order to answer customer questions. The location of the general meeting will be as follows:

Wednesday, November 13, 2019, at 5:00 P.M.
Headquarters Branch Library
401 East University Avenue
Gainesville, FL 32601

As required by Rule 25-22.0407(9)(b), Florida Administrative Code (F.A.C.), the Utility shall provide, in writing, a customer meeting notice to all customers within its service area, and any other required persons, no less than 14 days and no more than 30 days prior to the date of a customer meeting. A draft customer meeting notice is enclosed. Please note the date has been left blank so that you can fill in the date that the notice is sent to the customers. Please furnish me with a copy of the notice, as reproduced at the time it is distributed to your customers, together with a cover letter indicating the exact date(s) on which the notice was mailed or otherwise delivered to the customers.

In addition, we have enclosed two copies of the staff report. Please ensure that a copy of the completed Application for Staff Assistance and the staff report are available for review, pursuant to Rule 25-22.0407(9)(a), F.A.C., by all interested persons at the above location.

For your convenience, I have also enclosed a copy of Rule 25-22.0407(9), F.A.C. Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-6076. In addition, you may contact Sonica Bruce at (850) 413-6994 or Shannon Hudson at (850) 413-7021 with any questions.

Sincerely,

Margo A. DuVal
Senior Attorney

Enclosures

MD/sb

cc: Office of Commission Clerk (Docket No. 20190114-WU)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

NOTICE OF CUSTOMER MEETING

TO THE CUSTOMERS OF GATOR WATERWORKS, INC.

AND

ALL OTHER INTERESTED PERSONS

DOCKET NO. 20190114-WU

APPLICATION OF GATOR WATERWORKS, INC.

FOR A STAFF-ASSISTED RATE CASE IN

ALACHUA COUNTY

Date Issued: _____

NOTICE is hereby given that the Staff of the Florida Public Service Commission (Commission) will conduct a customer meeting to discuss Gator Waterworks, Inc.'s (Gator or utility) application for a staff-assisted rate case (SARC) in Alachua County. The meeting will be held at the following time and place:

Wednesday, November 13, 2019, at 5:00 P.M.

Headquarters Branch Library
401 East University Avenue
Gainesville, FL 32601

All persons who wish to comment are urged to be present at the beginning of the meeting, since the meeting may be adjourned early if no customers are present. One or more Commissioners of the Commission may attend and participate in this meeting. The meeting will begin as scheduled and will continue until all the customers have been heard.

If a named storm or other disaster requires cancellation of the meeting, Commission staff will attempt to give timely direct notice to the parties. Notice of the cancellation of the meeting will also be provided on the Commission's website (<http://www.psc.state.fl.us/>) under the Hot Topics link found on the home page. Cancellation can also be confirmed by calling the Commission's Office of the General Counsel at (850) 413-6199.

Any person requiring some accommodation at the customer meeting because of a physical impairment should call the Office of Commission Clerk at (850) 413-6770 at least five calendar days prior to the meeting. Any person who is hearing or speech impaired should contact the Commission by using the Florida Relay Service, which can be reached at 1-800-955-8771 (TDD).

PURPOSE

The purpose of this meeting is to give customers and other interested persons an opportunity to offer comments to Commission staff regarding the quality of service the utility provides, the recommended rate increase, and to ask questions and comment on staff's preliminary rates included in this notice as well as other issues. Staff members will summarize Gator's filing, the preliminary work accomplished, and answer questions to the extent possible. A representative from the utility has also been invited to respond to questions.

At the beginning of the meeting, procedures will be established for the order of comments. Commission staff will have sign-up sheets, and customers will be called to speak in the order that they sign up. Staff will be available to coordinate customers' comments and to assist members of the public.

Any person who wishes to comment or provide information to staff may do so at the meetings, orally or in writing. Written comments may also be sent to the Commission at the address given at the end of this notice. Your letter will be placed in the correspondence file of this docket. You may also submit comments through the Commission's toll-free facsimile line at 1-800-511-0809 or online at <https://secure.floridapsc.com/ClerkOffice/EfilingPublic>.

BACKGROUND

Gator is a Class C utility serving approximately 331 residential water customers and 4 general service customers in Alachua County. The utility has never had a staff-assisted rate case before the Commission. According to Gator's 2018 annual report, total gross revenue was \$47,041 and total operating expense was \$80,178.

The utility began providing water service in 1965 under the name Kincaid Hills Water Company. On June 30, 1992, the Alachua County Board of County Commissioners adopted a resolution, which gave jurisdiction over the regulation of privately-owned water and wastewater utilities to this Commission. On November 18, 1992, Kincaid filed its application for an original certificate to provide water service in Alachua County under grandfather rights, and Certificate No. 555-W was granted by Order No. PSC-93-1027-FOF-WU, issued July 13, 1993.¹ The utility's rates and charges were last approved in the grandfather certificate proceeding. However, the utility's rates have been amended through three price index increases.

Gator purchased Kincaid Hills Water Company on February 23, 2018, and filed an application for Transfer of Certificate on March 12, 2018. By Order No. PSC-2018-0587-PAA-WU, the Commission approved the transfer. On May 13, 2019, Gator filed its application for a staff-assisted rate case. In its application, the utility requested a test year ended March 31, 2019, for interim and final rate purposes.

¹Order No. PSC-93-1027-FOF-WU, issued July 13, 1993, in Docket No. 19921195-WU, *In re: Application for certificate to provide water service in Alachua County under grandfather rights by Kincaid Hills Water Company*.

CURRENT AND PRELIMINARY RATES AND CHARGES

Staff has compiled the following recommended rates for the purpose of discussion at the customer meeting. These rates are preliminary and subject to change based on information gathered at the customer meeting, further staff review, and the final decision by the Commission. The utility's current and staff's recommended preliminary rates are as follows:

	RATES AT THE TIME OF FILING	COMMISSION APPROVED INTERIM RATES	STAFF RECOMMENDED RATES
<u>Residential and General Service</u>			
All Meter Sizes	\$6.94	\$9.76	
Base Facility Charge by Meter Size			
5/8"X3/4"			\$14.90
3/4"			\$22.35
1"			\$37.25
1-1/2"			\$74.50
2"			\$119.20
3"			\$238.40
4"			\$372.50
6"			\$745.00
Charge per 1,000 Gallons - Residential			
0-5,000 gallons			\$6.77
5,001-10,000 gallons			\$10.16
Over 10,000 gallons			\$13.54
Charge per 1,000 gallons - General Service	\$0.92	\$1.29	\$7.07
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
5,000 Gallons	\$11.54	\$16.21	\$48.75
8,000 Gallons	\$14.30	\$20.08	\$79.23
10,000 Gallons	\$16.14	\$22.66	\$99.55

STAFF REPORTS AND UTILITY APPLICATION

The results of staff's preliminary investigation are contained in a staff report dated October 18, 2019. Copies of the report may be examined by interested members of the public at the following location:

Headquarters Branch Library
401 East University Avenue
Gainesville, FL 32601

PROCEDURES AFTER CUSTOMER MEETING

After the customer meeting, Commission staff will prepare a recommendation which is tentatively scheduled to be submitted to the Commission on January 23, 2020. The Commission is tentatively scheduled to vote on staff's recommendation at its February 4, 2020 Commission Conference. The Commission will thereafter issue a proposed agency action (PAA) order containing rates which may be different from those contained in staff's final recommendation. Substantially affected persons have 21 days from the date that the PAA order is issued to protest the Commission's PAA order. Customers are able to obtain a copy of staff's recommendation and all documents filed in this docket under the Clerk's Office tab at the Commission's website (<http://www.floridapsc.com/>).

HOW TO CONTACT THE COMMISSION

Any person who wishes to comment or provide information to Commission staff may do so at the meetings, either orally or in writing. Other written comments regarding the utility and the proposed rates, or requests to be placed on the mailing list for this case, may be directed to this address:

Director, Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

All correspondence should refer to "**Docket No. 20190114-WU, GATOR WATERWORKS, INC.**" Your letter will be placed in the correspondence file of this docket. You may also submit comments through the Florida Public Service Commission's email at clerk@psc.state.fl.us, or the Commission's website available at <https://secure.floridapsc.com/ClerkOffice/EfilingPublic>.

If you wish to contact the Florida Public Service Commission regarding complaints about service, you may call the Commission's Office of Consumer Assistance and Outreach at the following toll-free number: 1-800-342-3552.

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: October 14, 2019

TO: Elisabeth Draper, Bureau Chief, Bureau of Economic Impact and Rate Design

FROM: Division of Economics (Bruce)
Division of Accounting and Finance (Wilson, T. Brown)
Division of Engineering (Knoblauch, Lewis)

RE: Docket No. 20190114-WU – Application for staff-assisted rate case in Alachua County, and request for interim rate increase by Gator Waterworks, Inc.

- STAFF REPORT -

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting scheduled for November 13, 2019.

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Case Background

Gator Waterworks, Inc. (Gator or utility) is a Class C utility serving approximately 331 residential water customers and 4 general service customers in Alachua County. The utility has never had a staff-assisted rate case before the Commission. According to Gator's 2018 annual report, total gross revenue was \$47,041 and total operating expense was \$80,178.

The utility began providing water service in 1965 under the name Kincaid Hills Water Company. On June 30, 1992, the Alachua County Board of County Commissioners adopted a resolution, which gave jurisdiction over the regulation of privately-owned water and wastewater utilities to this Commission. On November 18, 1992, Kincaid filed its application for an original certificate to provide water service in Alachua County under grandfather rights, and Certificate No. 555-W was granted by Order No. PSC-1993-1027-FOF-WU, issued July 13, 1993.¹ The utility's rates and charges were last approved in the grandfather certificate proceeding. However, the utility's rates have been amended through three price index increases.

Gator purchased Kincaid Hills Water Company on February 23, 2018, and filed an application for Transfer of Certificate on March 12, 2018. By Order No. PSC-2018-0587-PAA-WU, the Commission approved the transfer. On May 13, 2019, Gator filed its application for a staff-assisted rate case. In its application, the utility requested a test year ended March 31, 2019, for interim and final rate purposes. The Commission approved interim rates designed to generate revenue increase of 37.42 percent.²

Florida Department of Environmental Protection (DEP) personnel conducted a sanitary survey inspection of the facility on July 24, 2019, and based on the information provided during and following the inspection, the system was determined to be in compliance with the DEP's drinking water rules and regulations.

This Staff Report is a preliminary analysis of the utility prepared by the Commission staff to give utility customers and the utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed January 23, 2020, for the February 4, 2020 Commission Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting. The Commission has jurisdiction pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, and 367.121, Florida Statutes (F.S.)

¹Order No. PSC-93-1027-FOF-WU, issued July 13, 1993, in Docket No. 19921195-WU, *In re: Application for certificate to provide water service in Alachua County under grandfather rights by Kincaid Hills Water Company.*

²Order No. PSC-2019-0307-PCO-WU, issued July 29, 2019, in Docket No. 20190114-WU, *In re: Application for staff-assisted rate case in Alachua County, and request for interim rate increase by Gator Waterworks, Inc.*

Discussion of Issues

Issue 1: Is the quality of service provided by Gator satisfactory?

Preliminary Recommendation: Staff's recommendation regarding quality of service will not be finalized until after the November 13, 2019 customer meeting. (Knoblauch, Lewis)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission, in every rate case, shall make a determination of the quality of service provided by the utility by evaluating the quality of utility's product (water) and the utility's attempt to address customer satisfaction (water and wastewater). The Rule states that the most recent chemical analyses, outstanding citations, violations, and consent orders on file with the DEP and the county health department, along with any DEP and county health department officials' testimony concerning quality of service shall be considered. In addition, any customer testimony, comments, or complaints shall also be considered.

Quality of Utility's Product

In evaluation of Gator'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. The most recent chemical analyses were performed on October 3, 2018, 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 2021.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the Commission's complaint records from January 2014 through September 27, 2019. The Commission received six complaints from the utility's customers from 2014 through 2017 while under previous ownership. No complaints have been received by the Commission against the utility since its purchase by Gator. DEP received a total of four complaints since 2014 with two occurring in 2014 and two occurring in 2017. In July 2014, DEP received two complaints regarding low water pressure and chlorine residue. Both complaints were investigated and closed with no further action. One complaint received in 2017, concerned the lawn maintenance at the water treatment plant while the other dealt with the placement of a meter.

The utility reported 94 complaints received from its customers from 2014 through 2018. The utility stated that the majority of the calls were concerning low pressure or no water due to line breaks. The majority of the low pressure calls were prior to the completion of the water plant rehabilitation projects. The water treatment plant, wells, and tanks were deteriorated and needed to be replaced. In addition, numerous complaints concerned line breaks, which have been repaired. As a result of these repairs, the utility states that the water pressure issues have subsided.

Conclusion

Quality of service will be determined at a later date, pending review of comments made at the customer meeting.

Issue 2: What are the used and useful (U&U) percentages of Gator's water treatment plant (WTP) and water distribution system?

Preliminary Recommendation: Gator's WTP and water distribution system should be considered 100 percent U&U. There appears to be no excessive unaccounted for water (EUW); therefore, staff recommends that no adjustment be made to operating expenses for chemicals and purchased power. (Knoblauch, Lewis)

Staff Analysis: Gator's WTP has two wells rated at a combined 400 gallons per minute (gpm). The utility's water system does not have a storage tank, but has one hydropneumatic tank totaling 5,000 gallons in capacity. The distribution system is composed of varying sizes, from 2 to 6 inch, polyvinyl chloride (PVC) and asbestos cement (AC) pipes.

Water Treatment Plant Used and Useful

This is the utility's first staff-assisted rate case since receiving its grandfather certificate in 1993.³ Therefore, this is the first determination of used and useful percentages by the Commission.

Rule 25-30.4325, F.A.C., addresses the method by which the U&U of a water system is determined. The formula for calculating U&U for the WTP is given by $[2 \times (\text{Maximum Day Peak Demand} - \text{EUW}) / 1,440 + \text{Fire Flow} + \text{Growth}] / \text{Firm Reliable Capacity}$. Peak demand is based on a peak hour for a water treatment system with no storage capacity. The formula for calculating peak hour demand is given by $[(\text{SMD} - \text{EUW}) / 1,440] \times 2$, where SMD is the single maximum day in the test year where there is no unusual occurrence on that day, such as a fire or line break. Based on the Monthly Operating Reports that the utility files with the DEP, the SMD in the test year was 191,150 gallons per day (gpd). As discussed below, there appears to be no EUW. Subsequently, the peak hour demand is calculated to be 265 gpm $[(191,150 \text{ gpd} - 0) / 1,440] \times 2$.

The utility does not currently own any fire hydrants; consequently, there is no Fire Flow. Growth allowance is based on the requirements outlined in Rule 25-30.431, F.A.C., which states that a linear regression analysis using average equivalent residential connections (ERCs) for the last 5 years should be used to determine growth. Staff attempted to obtain ERC data for the period of 2014-2018; however, no data was available for 2017. Instead, staff utilized data from 2013-2016 and 2018 to perform a linear regression over 5 years, and the Growth was calculated to be 14 gpm. Firm Reliable Capacity assumes loss of the largest capacity well (250 gpm) and is therefore 150 gpm. This calculation results in a U&U greater than 100 percent, as such, staff recommends the WTP be considered 100 percent U&U.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., defines EUW 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. In determining whether adjustments to plant and operating expenses are necessary in accordance with Rule 25-30.4325(10), F.A.C., staff

³Order No. PSC-93-1027-FOF-WU, issued July 13, 1993, in Docket No. 19921195-WU, *In re: Application for certificate to provide water service in Alachua County under grandfather rights by Kincaid Hills Water Company*.

considers several factors. These include (1) the causes of EUW, (2) any corrective action taken, or (3) the economical feasibility of a proposed solution. 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.

The Monthly Operating Reports indicate that the utility pumped 39,264,456 gallons during the test year. In response to a staff data request, the utility indicated that it purchased no water and estimated 9,637,134 gallons for other uses, such as flushing or water line breaks, during the test year. According to the staff audit report, the utility sold 25,735,000 gallons of water for the test year. When both the gallons sold and water used for other uses is subtracted from the total gallons pumped, 3,892,322 gallons are unaccounted for. The formula for unaccounted for water is given by gallons of unaccounted for water / (total gallons pumped + gallons purchased). The resulting unaccounted for water is 9.9 percent and the excessive unaccounted for water is 0 percent. Accordingly, staff recommends no adjustment to purchased power and chemical expenses due to EUW.

Water Distribution System Used and Useful

The water distribution system is evaluated based on ERCs consisting of growth, customer demand, and system capacity. The utility provided that there are only four vacant lots in the service territory; thus, the system is virtually built out. The customer demand is 335 ERCs for the test year and the system capacity is 365 ERCs, resulting in a U&U percentage of 92 percent for the distribution system. Considering all of the water mains are required to adequately serve the existing customers, and consistent with prior Commission practice, staff recommends the distribution system be considered 100 percent U&U.⁴

Conclusion

Gator's WTP and water distribution system should be considered 100 percent U&U. There appears to be no EUW; therefore, staff recommends that no adjustment be made to operating expenses for chemicals and purchased power.

⁴Order No. PSC-98-1269-FOF-WS, issued September 24, 1998, in Docket No. 19971401-WS, *In re: Application for staff-assisted rate case in Bay County by Bayside Utilities, Inc.*
Order No. PSC-11-0345-PAA-WS, issued August 16, 2011, in Docket No. 20100359-WS, *In re: Application for staff-assisted rate case in Volusia County by Tymber Creek Utilities, Incorporated.*

Issue 3: Should the Commission approve a year-end rate base for Gator and if so, what is the appropriate year-end rate base?

Preliminary Recommendation: Yes. The Commission should approve a year-end rate base for Gator. The appropriate year-end water test year rate base is \$549,249. (Wilson, T. Brown Knoblauch)

Staff Analysis: The appropriate components of a utility's rate base include utility plant in service, contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. As mentioned earlier, this utility has never had a SARC before the Commission. Commission audit staff determined that the utility's books and records are in compliance with the National Association of Regulatory utility Commissioners' Uniform System of Accounts (NARUC USOA). A summary of each component of rate base and staff's recommended adjustments are discussed below.

Year-End Rate Base

In its application, the utility requested a year-end rate base for its water system in order to have an opportunity to recover its allowed rate of return on the significant capital improvements that were made during the test year to install a new well and make additional plant improvements to address water quality concerns. In the Transfer Order, the Commission approved net utility plant in service for water in the amount of \$92,804, and total rate base of \$63,321. In the utility's 2018 Annual Report, Gator reported total plant in service of \$466,889 and net plant of \$205,755. This represents an increase in net plant in service of more than 120 percent. Subsequent to the acquisition of the utility, Gator made substantial improvements to the water system. The utility repaired numerous water main breaks over the past year totaling over \$67,000 to date. In addition, during 2018, Gator replaced over 250 meters that were inoperable at a cost of over \$40,000. If an average rate base is used, the utility will not be afforded the opportunity to recover its allowed rate of return on the new investment and will be put in the position of requesting a subsequent SARC at a later date.

The Commission has the authority to apply a year-end rate base, but should only apply a year-end rate base in extraordinary circumstances.⁵ Staff believes extraordinary circumstances exist in the instant case. Following the recent transfer of the utility, Gator stated that the water system was in immediate need of repairs. A complete rehabilitation of the existing WTP was completed, which included a new hydro-pneumatic tank, generator, well pump, disinfection system, disinfection shed, storage unit, and supply mains. The year-end rate base will provide the utility with an opportunity to recover the investment made to improve water quality and provide for compensatory rates for this utility in this rate case. The Commission has previously authorized the use of a year-end rate base in other cases involving significant test year improvements.⁶ Therefore, staff recommends that the Commission approve a year-end water rate base for Gator.

⁵See, *Citizens of Florida v. Hawkins*, (FLA.1978), 356 So. 2d 254.

⁶Order No. PSC-98-0763-FOF-SU, issued June 3, 1998, in Docket No. 19971182-SU, *In re: Application for staff-assisted rate case in Marion County by BFF Corp.*; Order No. PSC-00-1774-PAA-WU, issued September 27, 2000, in Docket No. 19991627-WU, *In re: Application for rate increase in Polk County by Park Water Company Inc.*; Order No. PSC-01-0323-PAA-WU, issued February 5, 2001, in Docket No. 20000580-WU, *In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Alturas Water Works)*; and Order

Utility Plant in Service (UPIS)

The utility recorded a test year UPIS balance of \$468,703. Based on audit staff’s review of the utility’s books and records, no adjustments were necessary to reflect the appropriate UPIS test year balances. However, the utility also filed three separate requests for consideration of pro forma plant in this docket. The first project, included with the utility’s initial filing, totaled \$158,790 for a rehabilitation and replacement project of the water treatment plant. The utility provided staff with invoices. The second, filed on July 29, 2019, was for the replacement of water mains on two of the streets in the service territory that have experienced a high number of leaks and the addition of three new fire hydrants for added fire protection for the customers. The utility received three bid proposals for the project, and the bid with the lowest cost of \$204,650 was selected. Staff has included this project for purposes of the Staff Report, but notes that the amount is still subject to change depending on the support documentation provided by the utility upon project completion. The third request, dated September 23, 2019, was for \$13,204 related to various emergency repairs. The utility provided staff with invoices for the repairs. In total, Gator has requested recovery of \$376,644 (\$158,790 + \$204,650 + \$13,204) in pro forma plant in this docket.

Staff calculated pro forma plant retirements based on Commission practice that a factor of 75 percent of replacement cost be used for retirements. Staff believes the amount of retirement to plant in service and accumulated depreciation reflected in the adjusted test year should be calculated based on either the 75 percent methodology or on the actual balance in the impacted plant in service account as of March 31, 2019, if that balance would be negative as a result of the 75 percent methodology. Therefore, when a retirement results in a negative plant balance, staff limited the retirement amount to the test year plant balance so there would be no negative plant. This situation occurred in five plant accounts in this docket, as reflected in Table 3-1 below.

**Table 3-1
 Capped Pro Forma Plant Retirements**

Plant Account	Staff Calculated Retirement	TY Plant Balance	Difference
304	\$35,566	\$12,500	(\$23,066)
309	\$28,325	\$1,500	(\$26,825)
310	\$27,427	\$18,300	(\$9,127)
330	\$25,990	\$24,905	(\$1,085)
333	\$62,187	\$5,716	(\$56,471)

Source: Audit Report and staff calculations.

No. PSC-02-1449-PAA-WS, issued October 21, 2002, in Docket No. 20011451-WS, *In re: Investigation of water and wastewater rates for possible overearnings by Plantation Bay Utility Co. in Volusia County*; Order No. PSC-2017-0428-PAA-WS, issued November 7, 2017, in Docket No. 20160195-WS, *In re: Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.*, and Order No. PSC-2018-0553-PAA-WS, issued November 19, 2018, in Docket No. 20180021-WU, *In re: Application for staff-assisted rate case in Highlands County by Country Walk Utilities, Inc.*

Table 3-2 reflects staff's recommended UPIS adjustments, by account.

**Table 3-2
 Pro Forma UPIS Adjustments**

Account	Pro Forma Plant	Pro Forma Retirement
304	\$47,422	\$12,500
307	1,980	1,485
309	37,766	1,500
310	36,569	18,300
311	639	479
320	400	300
330	34,653	24,905
331	123,893	92,920
333	82,916	5,716
334	656	492
335	<u>9,750</u>	<u>0</u>
Total	<u>\$376,644</u>	<u>\$158,597</u>

Staff also made corresponding adjustments to accumulated depreciation (elsewhere in this issue), while depreciation expense and TOTI adjustments for taxes related to pro forma plant are discussed in Issue 6. Staff's adjustments to UPIS result in a net increase of \$218,047 (\$376,644 - \$158,597). Therefore, staff recommends a UPIS balance of \$686,750 (\$468,703 + \$218,047).

Land & Land Rights

The utility recorded a test year land balance of \$8,000. The Commission approved a land balance of \$8,000 in the utility's 2018 transfer docket.⁷ There have been no additions to land since the transfer; therefore, no adjustments are necessary. Staff recommends a land and land rights balance of \$8,000.

Used & Useful

As discussed in Issue 2, Gator's WTP and distribution system are considered 100 percent U&U. Therefore, no U&U adjustments are necessary.

Accumulated Depreciation

Gator recorded a test year accumulated depreciation balance of \$265,341. Staff increased accumulated depreciation by \$167 to reflect depreciation pursuant to Rule 25-30.140, F.A.C. In addition, staff made adjustments to accumulated depreciation based on the pro forma plant recommended in UPIS. Like the capped retirements discussed above, staff believes pro forma accumulated depreciation adjustments should be limited to the actual account balance when the

⁷Order No. PSC-2018-0587-PAA-WU, issued December 17, 2018, in Docket No. 20180066-WU, *In re: Application for transfer of facilities of Kincaid Hills Water Company and Water Certificate No. 555-W to Gator Waterworks, Inc.*

adjustment would exceed the accumulated depreciation balance as of March 31, 2019. This situation impacted the same five accounts discussed above, as reflected in Table 3-3 below.

**Table 3-3
 Capped Pro Forma Acc. Depreciation Adjustments**

Account	Staff Calculated Acc. Dep. Adj.	TY Acc. Dep. Balance
304	\$35,566	\$6,497
309	\$28,325	\$316
310	\$27,427	\$18,300
330	\$25,990	\$20,984
333	\$62,187	\$82

Source: Audit Report and staff calculations.

Table 3-4 reflects staff's recommended accumulated depreciation adjustments, by account.

**Table 3-4
 Pro Forma Acc. Depreciation Adjustments**

Account	Recommended Acc. Dep. Adj.
304	\$6,497
307	1,485
309	316
310	18,300
311	479
320	300
330	20,984
331	92,920
333	82
334	492
335	(244)
Total	<u>\$141,611</u>

Staff's adjustments to accumulated depreciation result in a net decrease of \$141,444 (-\$167 + \$141,611). Therefore, staff recommends an accumulated depreciation balance of \$123,897 (\$265,341 - \$141,444).

Contributions in Aid of Construction (CIAC)

The utility recorded a test year CIAC balance of \$165,685. Based on staff's review, no adjustment is necessary. Therefore, staff recommends that the appropriate balance is \$165,685.

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Accumulated Amortization of CIAC

The utility recorded a test year accumulated amortization of CIAC balance of \$134,990. Based on staff's review, accumulated amortization of CIAC should be reduced by \$686. Therefore, staff recommends that the appropriate balance is \$134,304 (\$134,990 - \$686).

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(3), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Section 367.081(9), F.S., prohibits a utility from earning a return on the unamortized balance of rate case expense. As such, staff removed the rate case expense balance of \$656 for this calculation resulting in an adjusted O&M expense balance of \$78,216 (\$78,872 - \$656). Applying this formula approach to the adjusted O&M expense balance, staff recommends a working capital allowance of \$9,777 (\$78,216/8).

Rate Base Summary

Based on the forgoing, staff recommends that the appropriate test year average rate base is \$549,249. 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 of equity and overall rate of return for Gator?

Preliminary Recommendation: The appropriate return on equity (ROE) is 7.85 percent with a range of 6.85 percent to 8.85 percent. The appropriate overall rate of return is 7.85 percent. (Wilson, T. Brown)

Staff Analysis: Gator's capital structure consists of \$356,836 in common equity. The utility has no customer deposits. Audit staff determined that no test year adjustments were necessary. The utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE is 7.85 percent based upon the Commission-approved leverage formula currently in effect.⁸ Staff recommends an ROE of 7.85 percent, with a range of 6.85 percent to 8.85 percent, and an overall rate of return of 7.85 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁸Order No. PSC-2019-0267-PAA-WS, issued July 1, 2019, in Docket No. 20190006-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 amounts of test year revenues for Gator's water system?

Preliminary Recommendation: The appropriate test year revenues for Gator's water system are \$56,781. (Bruce)

Staff Analysis: Gator recorded test year revenues of \$56,351. The water revenues included \$51,833 of service revenues and \$4,518 of miscellaneous revenues. In order to determine the appropriate test year revenues, staff applied the number of billing determinants by the rates in effect as of January 4, 2019. As a result, staff determined that service revenues should be \$52,255, which is an increase of \$422. Staff made an adjustment to the miscellaneous revenues. During the test year, the utility incorrectly recorded the number of late payments. Therefore, staff increased miscellaneous revenues by \$8 for late payment charges. Staff determined that miscellaneous revenues should be \$4,526. Based on the above, the appropriate test year revenues for Gator water system, including miscellaneous revenues are \$56,781 (\$52,255 +\$4,526).

Issue 6: What is the appropriate amount of operating expense for Gator?

Preliminary Recommendation: The appropriate amount of operating expense for Gator is \$117,287. (Wilson, T. Brown, Knoblauch)

Staff Analysis: Gator recorded operating expense of \$89,965 for the test year ended March 31, 2019. 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 – Officers (603)

The utility recorded salaries and wages – officers expense of \$5,000 in the test year to reflect the president's monthly salary of \$417. According to the utility's 2018 Annual Report, Gator's officers also include an accounting manager who does not receive a salary. In addition, the utility indicated in audit work papers that the president only receives compensation through distribution of retained earnings if there are any net operating profits from operations that are not used for continuing operations or capital improvements. As such, staff's preliminary recommendation for salaries and wages – officers expense for the test year is \$5,000.

Purchased Power (615)

The utility recorded purchased power expense of \$12,923 in the test year. Supporting documentation confirming the purchased power expense was provided. Staff made no adjustments to this account. As such, staff's preliminary recommendation for purchased power for the test year is \$12,293.

Chemicals Expense (618)

The utility recorded chemicals expense of \$669 in the test year. Supporting documentation confirming the chemicals expense was provided. Staff made no adjustments to this account. As such, staff's preliminary recommendation for chemicals expense for the test year is \$669.

Contractual Services – Accounting (632)

The utility recorded contractual services – accounting expense of \$400. Supporting documentation confirming the accounting expense was used for preparing and filing the corporate tax preparation was provided. Staff made no adjustments to accounting expense. Therefore, staff's preliminary recommendation for contractual services – accounting expense for the test year is \$400.

Contractual Services – Legal (633)

The utility recorded contractual services – legal expense of \$300 in the test year. Supporting documentation confirming the legal expense was provided. Staff made no adjustments to this account. As such, staff's preliminary recommendation for contractual services – legal expense for the test year is \$300.

Contractual Services – Testing Expense (635)

The utility recorded contractual services – testing expense of \$157 in the test year. This expense only included notices for two boil water notices. Normal testing is included in the operations

contract with U.S. Water Services Corporation (USWSC). As a result, staff made no adjustments. Staff's preliminary recommendation for contractual services – testing expense for the test year is \$157.

Contractual Services – Other Expense (636)

The utility recorded contractual services – other expense of \$49,732 in the test year. Gator receives all of its operational and administrative services under a contract with an affiliated company USWSC. Pursuant to the contract, Gator employed the services of USWSC in distinct functions; administrative management, operation, maintenance and billing/collection of the utility. This includes management and financial oversight, water system operations, maintenance, and customer service. The USWSC contract dated February 24, 2018, was originally in the amount of \$49,732. According to the utility, this contract amount has increased to \$50,906 as a result of an index increase. Staff has included the increased amount for purposes of the Staff Report since it is known, measurable, and already in effect. This represents an increase of \$1,174 (\$50,906 - \$49,732) over the amount included in the test year. Additionally, the utility provided substantial information related to outside contractual services which staff will analyze before making its final recommendation.⁹ Therefore, staff's preliminary recommendation for contractual services – other expense for the test year is \$50,906.

Insurance Expense (655)

The utility recorded insurance expense of \$1,256 in the test year. Staff increased this amount by \$251 to reflect the annualized expense to the utility. Therefore, staff's preliminary recommendation for insurance expense for the test year is \$1,507 (\$1,256 + \$251).

Regulatory Commission Expense (665)

The utility did not record any regulatory commission expense in this account. Rule 25-30.433(8), F.A.C., requires that non-recurring expenses be amortized over a five-year period unless a shorter or longer period of time can be justified. Accordingly, staff increased this account by \$300 (\$1,500/5) to reflect the five-year amortization of the 2018 certificate transfer application filing fee.¹⁰ The remaining unamortized portion of the filing fee should be recorded in Account No. 186-Miscellaneous Deferred Debits.

Regarding the instant case, the utility is required by Rule 25-22.0407, F.A.C., to provide notices of the customer meeting and notices of final rates in this case to its customers. For noticing, staff estimated \$728 for postage expense, \$331 for printing expense, and \$66 for envelopes. This results in \$1,125 for the noticing requirement. The utility paid a \$1,000 rate case filing fee. The utility requested travel and lodging expense of \$250 to attend the customer meeting and \$250 to attend the Commission Conference. Based on staff's initial review, the requested travel expense appears reasonable. Based on the above, staff recommends total rate case expense of \$2,625 (\$1,125 + \$1,000 + \$250 + \$250), which amortized over four years is \$656. Based on the above, staff's total adjustment to this account is an increase of \$956 (\$300 + \$656). As such, staff's preliminary recommendation for regulatory commission expense is \$956.

⁹Document No. 07317-2019, filed on August 9, 2019.

¹⁰Docket No. 20180066-WU, *In re: Application for transfer of facilities of Kincaid Hills Water Company and Water Certificate No. 555-W to Gator Waterworks, Inc.*

Bad Debt Expense (670)

The utility recorded \$5,404 in this account for test year bad debt expense. While current Commission practice is to calculate bad debt expense using a three-year average, three years of records are not yet available for the current owner. Staff did not make an adjustment to bad debt expense for purposes of the Staff Report, but notes that the recorded amount requires additional review. As such, staff believes that additional information is needed in order to determine the utility's appropriate bad debt expense. Therefore, staff's preliminary recommendation for bad debt expense for the test year is \$5,404.

Miscellaneous Expense (675)

The utility recorded miscellaneous expense of \$650. Supporting documentation confirming the miscellaneous expense was used for an annual operating license fee through the DEP and the utility's annual report was provided. Staff made no adjustments to this account. As such, staff's preliminary recommendation for miscellaneous expense for the test year is \$650.

Operation & Maintenance Expense Summary

Based on the above adjustments, staff recommends that O&M expense be increased by \$2,381, resulting in total O&M expense of \$78,872. Staff's recommended adjustments to O&M expense are shown on Schedule No. 3-C.

Depreciation Expense (Net of Amortization of CIAC)

The utility's records reflect test year depreciation of \$16,307 and CIAC amortization of \$6,788, for a net depreciation expense of \$9,519 (\$16,307 - \$6,788). Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined test year depreciation expense to be \$16,334, resulting in an increase to this account of \$27. Staff also increased this account by \$7,106 to reflect the incremental increases in depreciation expense related to several pro forma projects, net of retirements. These projects were previously discussed in Issue 3. Staff's total adjustment to depreciation expense is a net increase of \$7,133 (\$27 + \$7,106). Accordingly, staff recommends depreciation expense of \$23,440 (\$16,307 + \$7,133). In addition, staff calculated test year CIAC amortization expense of \$6,041. Accordingly, staff decreased this account by \$747 (\$6,788 - \$6,041). This results in net depreciation expense of \$17,399 (\$23,440 - \$6,041). Therefore, staff recommends net depreciation expense of \$17,399.

Taxes Other Than Income (TOTI)

Gator recorded a TOTI balance of \$3,995 during the test year, comprised of \$2,705 for Regulatory Assessment Fees (RAFs) and \$1,250 for property taxes. Staff decreased the RAFs by \$150 to reflect the adjusted test year revenues. Staff decreased this account by \$416 to reflect the appropriate test year property taxes. The utility also requested consideration of pro forma taxes of \$10,032.¹¹ In 2018, Gator's property taxes were \$834 and no tangible taxes were assessed. Based on the utility's Alachua County TRIM Notices, Gator's property taxes will increase and tangible taxes will be applied. Staff increased tax expense by \$8,797 to reflect the appropriate amount of property tax going forward, based on the highest amount reflected on the utility's 2019 TRIM Notices less a four percent discount for early payment. Staff has included the increases for purposes of the Staff Report, but notes that the amount is still subject change

¹¹Document No. 08242-2019, filed on August 20, 2019 (2019 Alachua County TRIM Notices).

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depending on whether Alachua County makes changes to its budget or not. Staff will verify with the Alachua County Taxing Authorities prior to making its final recommendation. Additionally, staff increased this account by \$4,166 to reflect the incremental increase in property taxes associated with the pro forma projects discussed in Issue 3. This results in a net increase of \$12,397 ($-\$150 - \$416 + \$8,797 + \$4,166$) to TOTI.

In addition, as discussed in Issue 7, revenues have been increased by \$103,622 to reflect the change in revenue required to cover expenses and allow the recommended operating margin. As a result, TOTI should be increased by \$4,663 to reflect RAFs of 4.5 percent on the change in revenues. Staff's adjustments result in an increase of \$21,015 ($\$12,397 + \$4,663$). Therefore, staff recommends TOTI of \$21,015.

Income Tax

The utility is a Subchapter S Corporation and therefore did not record any income tax expense for the test year. Staff recommends no adjustment to income tax expense.

Operating Expenses Summary

The application of staff's recommended adjustments to Gator's test year operating expenses results in operating expenses of \$117,287. 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 Gator?

Preliminary Recommendation: The appropriate revenue requirement is \$160,403 resulting in an annual increase of \$103,622 (182.49 percent). (Wilson, T. Brown)

Staff Analysis: Gator should be allowed an annual increase of \$103,622 (182.49 percent). The calculations are shown in Table 8-1:

**Table 7-1
Revenue Requirement**

Adjusted Rate Base	\$549,249
Rate of Return (%)	x 7.85%
Return on Rate Base	\$43,116
Adjusted O&M Expense	78,872
Depreciation Expense (Net)	17,399
Taxes Other Than Income	21,015
Revenue Requirement	\$160,403
Less Adjusted Test Year Revenues	56,781
Annual Increase	<u>\$103,622</u>
Percent Increase	<u>182.49%</u>

Issue 8: What are the appropriate rate structures and rates for Gator's water system?

Preliminary Recommendation: The recommended rate structures 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: Gator is located in Alachua County within the St. Johns River Water Management District. The utility provides water service to approximately 331 residential customers and four general service customers. Approximately 20 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 6,190 gallons per month. The average water demand excluding zero gallon bills is 7,683 gallons per month. Currently, the utility's water rate structure consists of a monthly base facility charge (BFC) and uniform gallonage charge for the residential and general service customers.

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.

Staff recommends that 40 percent of the water revenues be generated from the BFC, which will provide sufficient revenues to design gallonage charges that send pricing signals to customers using above the non-discretionary level. The average people per household served by the water system is 3; therefore, based on the number of people per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 5,000 gallons per month. Staff recommends a BFC and a three-tier inclining block rate structure, which includes separate gallonage charges for discretionary and non-discretionary usage for residential water customers. The rate blocks are: (1) 0-5,000 gallons; (2) 5,001-10,000 gallons; and (3) all usage in excess of 10,000 gallons per month. This rate structure sends the appropriate pricing signals because it targets customers with high consumption levels and minimizes price increases for customers at non-discretionary levels. In addition, the third tier provides an additional pricing signal to customers using in excess of 10,000 gallons of water per month, which includes approximately 38 percent of the water demand. General service customers should be billed a BFC and uniform gallonage charge.

Based on a recommended revenue increase of 182.5 percent, which excludes miscellaneous revenues, the residential consumption can be expected to decline by 12,713,000 gallons resulting in anticipated average residential demand of 3,057 gallons per month. Staff recommends a 50.5 percent reduction in test year residential gallons for ratesetting purposes and corresponding reductions of \$6,384 for purchased power, \$330 for chemicals, and \$316 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$153,372.

Due to the magnitude of the revenue requirement increase, staff will evaluate the rates and rate structures for the final recommendation.

Issue 9: What are the appropriate initial customer deposits for Gator's water system?

Preliminary Recommendation: The appropriate initial customer deposit should be \$72 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.¹² Currently, the utility's initial deposit for residential water is \$25 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 \$72 to reflect an average residential customer bill for two months.

Staff recommends the appropriate initial customer deposits should be \$72 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

¹²Order No. PSC-15-0142-PAA-SU, issued March 26, 2015, in Docket No. 20130178-SU, *In re: Application for staff-assisted rate case in Polk County by Crooked Lake Park Sewerage Company.*

Issue 10: Should Gator be authorized to collect Non-Sufficient Funds (NSF) charges?

Preliminary Recommendation: Yes. Gator should be authorized to collect NSF charges. Staff recommends that Gator revise its tariffs to reflect the NSF charges currently set forth in Sections 68.065, F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. Furthermore, the charges should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given within 10 days of the date of the notice. (Bruce)

Staff Analysis: Section 367.091, F.S., requires that rates, charges, and customer service policies be approved by the Commission. The Commission has authority to establish, increase, or change a rate or charge. Staff believes that Gator should be authorized to collect NSF charges consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Sections 68.065(2), F.S., the following NSF charges may be assessed:

1. \$25, if the face value does not exceed \$50.
2. \$30, if the face value exceeds \$50 but does not exceed \$300.
3. \$40, if the face value exceeds \$300, or 5 percent of the face amount of the check, whichever is greater.

Approval of NSF charges is consistent with prior Commission decisions.¹³ Furthermore, NSF charges place the cost on the cost-causer, rather than requiring that the costs associated with the return of the NSF checks be spread across the general body of ratepayers. As such, staff recommends that Gator revise its tariffs to reflect the NSF charges currently set forth in Sections 68.065 and 832.08(5) F.S. The NSF charges should be effective after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the NSF charges should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given within 10 days of the date of the notice.

¹³Order Nos. PSC-10-0364-TRF-WS, issued June 7, 2010, in Docket No. 100170-WS, *In re: Application for authority to collect non-sufficient funds charges, pursuant to Sections 68.065 and 832.08(5), F.S., by Pluris Wedgefield Inc.; and PSC-10-0168-PAA-SU*, issued March 23, 2010, in Docket No. 090182-SU, *In re: Application for increase in wastewater rates in Pasco County by Ni Florida, LLC*.

Issue 11: Should the late payment charge requested by Gator be approved?

Preliminary Recommendation: Staff's recommendation regarding the utility's miscellaneous service charges will not be finalized until after the November 13, 2019 Customer Meeting. (Bruce)

Staff Analysis: Section 367.091, F.S. authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. Gator's current late payment charge is \$2.00 and was established in Docket No. 921195-WU.¹⁴ The utility provided cost justification and requested a \$6.50 late payment charge consistent with Commission practice and related utilities managed also by US Water Services Corporation. However, the utility's cost justification represents a late payment charge of \$8.07. Staff believes that additional information is needed in order to determine the appropriate late payment charge. Therefore, staff's recommendation regarding Gator's requested late payment charge will not be finalized until after the November 13, 2019 Customer Meeting.

¹⁴Order No. PSC-93-1027-FOF-WU, issued July 13, 1993, in Docket No. 921195-WU, *In re: Application for certificate to provide water service in Alachua County under grandfather rights by Kincaid Hills Water Company.*

Issue 12: Should Gator's miscellaneous service charges be revised?

Preliminary Recommendation: Staff's recommendation regarding the utility's miscellaneous service charges will not be finalized until after the November 13, 2019 Customer Meeting. (Bruce)

Staff Analysis: Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. The utility's existing initial connection, normal reconnection, premises visit, and violation reconnection charges were last established in Docket No. 921195-WU.¹⁵ The utility provided cost justification and requested initial connection and premises visit charges of \$31.05 for normal hours and \$36.12 for after hours. In addition, the utility requested normal reconnection and violation reconnection charges of \$57.03 during normal hours and \$64.64 after hours. Staff believes additional information is needed in order to determine the appropriate miscellaneous service charges. Therefore, staff's recommendation regarding Gator's miscellaneous service charges will not be finalized until after the November 13, 2019 Customer Meeting.

¹⁵Order No. PSC-93-1027-FOF-WU, issued July 13, 1993, in Docket No. 921195-WU, *In re: Application for certificate to provide water service in Alachua County under grandfather rights by Kincaid Hills Water Company.*

Issue 13: What is the appropriate amount by which the rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816 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 rate case expense recovery period, pursuant to Section 367.081(8), F.S. Gator 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. (Bruce, Wilson, T. Brown)

Staff Analysis: Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the recovery 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 \$687.

Staff recommends that 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 rate case expense recovery period, pursuant to Section 367.081(8), F.S., Gator 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 published effective date to reflect the removal of the amortized rate case expense?

Issue 14: Should the recommended rates be approved for Gator 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. Gator 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. (Wilson, T. Brown)

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. Gator 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.

Gator 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 \$70,037. 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, Gator 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

GATOR WATERWORKS, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 3/31/2019		DOCKET NO. 20190114-WU	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$468,703	\$218,047	\$686,750
LAND & LAND RIGHTS	8,000	0	8,000
NON-USED AND USEFUL COMPONENTS	0	0	0
CIAC	(165,685)	0	(165,685)
ACCUMULATED DEPRECIATION	(265,341)	141,444	(123,897)
AMORTIZATION OF CIAC	134,990	(686)	134,304
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>9,777</u>	<u>9,777</u>
WATER RATE BASE	<u>\$180,667</u>	<u>\$368,582</u>	<u>\$549,249</u>

GATOR WATERWORKS, INC.	SCHEDULE NO. 1-B
TEST YEAR ENDED 3/31/2019	DOCKET NO. 20190114-WU
ADJUSTMENTS TO RATE BASE	PAGE 1 OF 1
	<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
1. To reflect pro forma plant additions.	\$376,644
2. To reflect pro forma plant retirements.	<u>(158,597)</u>
Total	<u>\$218,047</u>
<u>ACCUMULATED DEPRECIATION</u>	
1. To reflect audit adjustment to accumulated depreciation.	(\$167)
2. To reflect pro forma meter replacements.	<u>141,611</u>
Total	<u>\$141,444</u>
<u>AMORTIZATION OF CIAC</u>	
To reflect audit adjustment.	(\$686)
<u>WORKING CAPITAL ALLOWANCE</u>	
To reflect 1/8 of test year O & M expenses.	<u>\$9,777</u>

GATOR WATERWORKS, INC.				SCHEDULE NO. 2				
TEST YEAR ENDED 3/31/2019				DOCKET NO. 20190114-WU				
SCHEDULE OF CAPITAL STRUCTURE								
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$122,500	\$0	\$122,500					
2. RETAINED EARNINGS	(33,137)	0	(33,137)					
3. PAID IN CAPITAL	267,473	0	267,473					
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>					
TOTAL COMMON EQUITY	<u>\$356,836</u>	<u>\$0</u>	<u>356,836</u>	<u>\$192,413</u>	<u>\$549,249</u>	<u>100.00%</u>	7.85%	7.85%
5. LONG-TERM DEBT	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
6. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
7. PREFERRED STOCK	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%
TOTAL LONG-TERM DEBT	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>		
8. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	2.00%	<u>0.000%</u>
9. TOTAL	<u>\$356,836</u>	<u>\$0</u>	<u>\$356,836</u>	<u>\$192,413</u>	<u>\$549,249</u>	<u>100.00%</u>	<u>0.00%</u>	<u>7.85%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>6.85%</u>	<u>8.85%</u>	
OVERALL RATE OF RETURN						<u>6.85%</u>	<u>8.85%</u>	

GATOR WATERWORKS, INC. TEST YEAR ENDED 3/31/2019 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 20190114-WU			
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$56,351</u>	<u>\$430</u>	<u>\$56,781</u>	<u>\$103,622</u> 182.49%	<u>\$160,403</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$76,491	\$2,381	\$78,872	\$0	\$78,872	
3. DEPRECIATION EXPENSE	16,307	7,133	23,440	0	23,440	
4. AMORTIZATION EXPENSE	(6,788)	747	(6,041)	0	(6,041)	
5. TAXES OTHER THAN INCOME	3,955	12,397	16,352	4,663	21,015	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$89,965</u>	<u>\$22,659</u>	<u>\$112,624</u>	<u>\$4,663</u>	<u>\$117,287</u>	
8. OPERATING INCOME/(LOSS)	<u>(\$33,614)</u>		<u>(\$55,843)</u>		<u>\$43,116</u>	
9. WATER RATE BASE	<u>\$180,667</u>		<u>\$549,249</u>		<u>\$549,249</u>	
10. RATE OF RETURN	<u>(18.61%)</u>		<u>(10.17%)</u>		<u>7.85%</u>	

GATOR WATERWORKS, INC.		SCHEDULE NO. 3-B
TEST YEAR ENDED 3/31/2019		DOCKET NO. 20190114-WU
ADJUSTMENTS TO OPERATING INCOME		Page 1 of 1
		<u>WATER</u>
OPERATING REVENUES		
1.	To reflect test year revenues.	\$422
2.	To reflect miscellaneous revenues.	<u>\$8</u>
	Subtotal	<u>\$430</u>
OPERATION AND MAINTENANCE EXPENSES		
1.	Contractual Services - Other (636)	
	To reflect current USWSC contract amount.	<u>\$1,174</u>
2.	Insurance Expenses (655)	
	To reflect audit adjustment.	<u>\$251</u>
3.	Regulatory Commission Expense (665)	
	a. To reflect 5-year amortization of transfer filing fee.	\$300
	b. To reflect 4-year amortization of rate case expense (\$2,269/4).	<u>656</u>
	Subtotal	<u>\$956</u>
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$2,381</u>
DEPRECIATION EXPENSE		
1.	To reflect audit adjustment per Rule 25-30.140(2).	\$27
2.	To reflect pro forma plant additions (net of retirements).	<u>7,106</u>
	Total	<u>\$7,133</u>
AMORTIZATION		
	To reflect appropriate CIAC amortization expense.	<u>\$747</u>
TAXES OTHER THAN INCOME		
1.	To reflect the appropriate test year RAFs.	(\$150)
2.	To reflect the appropriate test year property taxes.	(416)
3.	To reflect property associated with pro forma plant.	4,166
4.	To reflect pro forma property taxes.	<u>8,797</u>
	Total	<u>\$12,397</u>
	INCOME TAX	<u>\$0</u>

GATOR WATERWORKS, INC.	SCHEDULE NO. 3-C		
TEST YEAR ENDED 3/31/2019	DOCKET NO. 20190114-WU		
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(603) SALARIES AND WAGES - OFFICERS	5,000	0	5,000
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	12,923	0	12,923
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	669	0	669
(620) MATERIALS AND SUPPLIES	0	0	0
(632) CONTRACTUAL SERVICES - ACCOUNTING	400	0	400
(633) CONTRACTUAL SERVICES - LEGAL	300	0	300
(635) CONTRACTUAL SERVICES - TESTING	157	0	157
(636) CONTRACTUAL SERVICES - OTHER	49,732	1,174	50,906
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	1,256	251	1,507
(665) REGULATORY COMMISSION EXPENSE	0	956	956
(670) BAD DEBT EXPENSE	5,404	0	5,404
(675) MISCELLANEOUS EXPENSE	<u>650</u>	<u>0</u>	<u>650</u>
	<u>\$76,491</u>	<u>\$2,381</u>	<u>\$78,872</u>

GATOR WATERWORKS, INC.		SCHEDULE NO. 4		
TEST YEAR ENDED 3/31/ 2019		DOCKET NO. 20190114-WU		
MONTHLY WATER RATES				
	RATES AT THE TIME OF FILING	COMMISSION APPROVED INTERIM RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>				
All Meter Sizes	\$6.94	\$9.76		
Base Facility Charge by Meter Size				
5/8"X3/4"			\$14.90	\$0.07
3/4"			\$22.35	\$0.10
1"			\$37.25	\$0.17
1-1/2"			\$74.50	\$0.34
2"			\$119.20	\$0.55
3"			\$238.40	\$1.10
4"			\$372.50	\$1.71
6"			\$745.00	\$3.43
Charge per 1,000 Gallons - Residential				
0-5,000 gallons			\$6.77	\$0.03
5,001-10,000 gallons			\$10.16	\$0.05
Over 10,000 gallons			\$13.54	\$0.06
Charge per 1,000 gallons - General Service	\$0.92	\$1.29	\$7.07	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
5,000 Gallons	\$11.54	\$16.21	\$48.75	
8,000 Gallons	\$14.30	\$20.08	\$79.23	
10,000 Gallons	\$16.14	\$22.66	\$99.55	