

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: February 20, 2020

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Ramos, Hudson) *MR SH EJD*
Office of the General Counsel (Trierweiler) *WJ JSC*

RE: Docket No. 20190189-WS – Application for establishment of wastewater allowance for funds prudently invested (AFPI) charges in Lake County.

RECEIVED-FPSC
020 FEB 20 AM 8:36
COMMISSION CLERK

AGENDA: 03/03/20 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 06/05/20 (8-month Effective Date)

SPECIAL INSTRUCTIONS: None

Case Background

Utilities, Inc. of Florida (UIF or utility) is a Class A utility providing water and wastewater services to 27 systems in the following counties: Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole. In its 2018 annual report, the utility reported operating revenues of \$15,633,470 for water and \$19,795,636 for wastewater.

On October 7, 2019, the utility filed an application to revise its existing allowance for funds prudently invested (AFPI) charges for its wastewater system formerly known as Lake Utility Services, Inc. (LUSI), along with tariff sheets reflecting the proposed charges. The utility's existing AFPI charges for the LUSI wastewater system were approved April 4, 2018.¹ The utility is requesting to revise its existing AFPI charges for LUSI's wastewater system based on the

¹Order No. PSC-2018-0174-TRF-SU, issued April 4, 2018, in Docket No. 20170223-SU, *In re: Application for establishment of wastewater allowance for funds prudently invested (AFPI) charges in Highlands, Lake, Marion, Pasco, and Pinellas Counties, by Utilities, Inc. of Florida.*

Commission's remand decision in Order No. PSC-2019-0363-PAA-WS, issued August 27, 2019, which reduced the used and useful (U&U) value of LUSI's wastewater treatment plant (WWTP) from 58.78 to 53.54 percent.² The U&U value was reduced to reflect the removal of prepaid connections from the U&U calculation because capacity devoted to prepaid connections does not qualify under Section 367.081(2)(a)2.b., Florida Statutes (F.S.), as property used and useful in the public service. The utility's proposed AFPI tariffs were suspended by Order No. PSC-2019-0546-PCO-WS, issued December 23, 2019, in the instant docket, pending further investigation.³ Staff sent out its first data request on November 26, 2019 and the utility provided its response on December 5, 2019. On January 30, 2019, the utility filed revised schedules to correct an error in the calculation of net depreciation expense. In addition, the utility filed a schedule detailing the amount of AFPI collected and the number of equivalent residential connections (ERCs) reserved or connected to the system from April 17, 2017 through October 1, 2019.

This recommendation addresses UIF's request to establish revised AFPI charges for its LUSI wastewater system. The Commission has jurisdiction pursuant to Sections 367.081 and 367.091, F.S.

²Order No. PSC-2019-0363-PAA-WS, issued August 27, 2019, in Docket No. 20160101-WS, *In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties by Utilities, Inc. of Florida.*

³Order No. PSC-2019-0546-PCO-WS, issued December 23, 2019, in Docket No. 20190189-WS, *In re: Application for establishment of wastewater allowance for funds prudently invested (AFPI) charges in Lake County.*

Discussion of Issues

Issue 1: Should UIF's request to revise its existing AFPI charges for LUSI's wastewater system be approved, and if so, what are the appropriate AFPI charges?

Recommendation: Yes, UIF's request to revise its existing AFPI charges for LUSI's wastewater system should be approved and the appropriate AFPI charges are shown on Table 1-1. The AFPI charges should apply until all 1,658 ERCs included in the calculation have connected to LUSI's wastewater system. After December 31, 2020, the AFPI charge should cease accruing and the utility should be allowed to collect the constant charge of \$1,171.57 until the ERCs included in the calculation of the charge (1,658) have been added, upon which the charges should be discontinued. UIF should provide notice to property owners who have requested service during the 12 months prior to the month this application was filed. The approved charges should be effective for connections made on or after the stamped approval date on the tariff sheets. The utility should provide proof of noticing within 10 days of providing its approved notice. (Ramos, Hudson)

Staff Analysis: Pursuant to Rule 25-30.434, Florida Administrative Code (F.A.C.), an AFPI charge is a mechanism which allows a utility the opportunity to earn a fair rate of return on prudently constructed plant held for future use from the future customers to be served by that plant in the form of a charge paid by those customers. The AFPI charge is calculated for one ERC on a monthly basis up to the time the utility reaches the designed capacity of the plant for which the charge applies. The charges cease when the plant has reached its designed capacity.

UIF's existing AFPI charges for LUSI's wastewater system became effective on March 15, 2018, and were calculated based on a U&U value of 58.78 percent for LUSI's WWTP pursuant to Order No. PSC-2017-0361-FOF-WS.⁴ The utility's existing charges apply to the connection of 1,471 ERCs as of December 31, 2015. Portions of Order No. PSC-2017-0361-FOF-WS were appealed by participating intervenors in the docket and as a result, the Commission ordered adjustments to the U&U calculations to eliminate the prepaid connections. Thus, Order No. PSC-2019-0363-PAA-WS reduced the U&U value of LUSI's WWTP to 53.54 percent.⁵

On October 7, 2019, UIF filed a request to revise its existing AFPI charges for LUSI's wastewater system in order to reflect the reduction in the U&U value of LUSI's WWTP. Since the U&U value of LUSI's WWTP decreased, the non-U&U value of the WWTP or available system capacity for future customers increased. Pursuant to Rule 25-30.434, F.A.C., the calculation of AFPI charges is based in part on the dollar amount of the non U&U plant and accumulated depreciation and the related capacity in terms of ERCs. The utility requested the AFPI charges apply to future connections of 1,658 ERCs, based on the non-U&U capacity of LUSI's WWTP. Staff believes the utility's request to revise its AFPI charges to reflect the reduced U&U percentage is appropriate. Furthermore, the requested charges reflect the costs

⁴Order No. PSC-2018-0174-TRF-SU, issued April 4, 2018, in Docket No. 20170223-SU, *In re: Application for establishment of wastewater allowance for funds prudently invested (AFPI) charges in Highlands, Lake, Marion, Pasco, and Pinellas Counties, by Utilities, Inc. of Florida*

⁵Order No. PSC-2019-0363-PAA-WS, issued August 27, 2019, in Docket No. 20160101-WS, *In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties by Utilities, Inc. of Florida.*

associated with one ERC based on 280 gallons per day (gpd) per ERC. If a future customer is expected to place more demand on the system than one ERC, the charge should be multiplied by the number of ERCs of demand which are needed to provide service to the customer.

Pursuant to Rule 25-30.434(4), F.A.C., the beginning date for accruing the AFPI charges should agree with the month following the end of the test year that was used to establish the amount of non-U&U plant. The test year ended December 31, 2015, was used to initially establish the utility's existing AFPI charges and remains unchanged. For this reason, the beginning date of the five-year accrual period should remain January 1, 2016 through December 31, 2020. After December 31, 2020, the utility should be allowed to collect the constant charge of \$1,171.57 until the projected ERCs (1,658) included in the calculation of the charge have been added, upon which the charges should be discontinued.

In response to staff's data request, the utility indicated that it has reserved capacity for 1,542 ERCs since the beginning of the accrual period. Therefore, the utility is eligible to collect AFPI charges for 116 remaining ERCs (1,658 – 1,542). Staff's recommended AFPI charges for UIF's LUSI wastewater system are shown on Table 1-1. The amount of AFPI charges collected from an ERC is based on the month of the connection to the system.

**Table 1-1
 Allowance for Funds Prudently Invested Charges**

	2016	2017	2018	2019	2020
January	\$18.00	\$234.69	\$459.98	\$694.47	\$938.79
February	\$36.00	\$253.40	\$479.45	\$714.75	\$959.95
March	\$53.99	\$272.11	\$498.92	\$735.04	\$981.12
April	\$71.99	\$290.82	\$518.40	\$755.33	\$1,002.28
May	\$89.99	\$309.53	\$537.87	\$775.62	\$1,023.44
June	\$107.99	\$328.24	\$557.34	\$795.90	\$1,044.60
July	\$125.99	\$346.95	\$576.81	\$816.19	\$1,065.76
August	\$143.98	\$365.66	\$596.29	\$836.48	\$1,086.92
September	\$161.98	\$384.37	\$615.76	\$856.77	\$1,108.92
October	\$179.98	\$403.08	\$635.23	\$877.05	\$1,129.25
November	\$197.98	\$421.79	\$654.71	\$897.34	\$1,150.41
December	\$215.98	\$440.50	\$674.18	\$917.63	\$1,171.57

Source: Staff's calculations and revised utility application

Based on the above, UIF's request to revise its existing AFPI charges for LUSI's wastewater system should be approved and the appropriate AFPI charges are shown on Table 1-1. The AFPI charges should apply until all 1,658 ERCs included in the calculation have connected to LUSI's wastewater system. After December 31, 2020, the AFPI charge should cease accruing and the utility should be allowed to collect the constant charge of \$1,171.57 until the ERCs included in the calculation of the charge (1,658) have been added, upon which the charges should be discontinued. UIF should provide notice to property owners who have requested service during the 12 months prior to the month this application was filed. The approved charges should be

effective for connections made on or after the stamped approval date on the tariff sheets. The utility should provide proof of noticing within 10 days of providing its approved notice.

Issue 2: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheet and customer notice have been filed by the utility and approved by staff. Once these actions are complete, this docket should be closed administratively. (Trierweiler)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheet and customer notice have been filed by the utility and approved by staff. Once these actions are complete, this docket should be closed administratively.