

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: October 22, 2020

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Engineering (M. Watts, Doehling, Maloy, Ramos) *TB*
Division of Accounting and Finance (Norris, Sowards) *ALM*
Division of Economics (Bethea, Hudson) *JGH*
Office of the General Counsel (Lherisson, Crawford) *JSC*

RE: Docket No. 20190170-WS – Application for transfer of facilities and Certificate Nos. 259-W and 199-S in Broward County from Royal Utility Company to Royal Waterworks, Inc.

AGENDA: 11/03/20 – Regular Agenda – Proposed Agency Action for Issues 2 through 8 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Clark

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

Royal Utility Company (RUC or Seller) is a Class B water and wastewater utility providing service to approximately 801 residential and 116 general service customers in Broward County. RUC is located in the South Florida Water Management District (SFWMD). The SFWMD has year-round landscape watering restrictions, with additional water shortage orders issued by the SFWMD as needed. There are currently no water shortage orders in effect. RUC's 2019 Annual Report indicates gross revenues of \$366,158 and \$353,700 for water and wastewater, respectively, and net operating income of \$54,019 for water and \$53,541 for the wastewater system.

The Florida Public Service Commission (Commission) granted original water and wastewater certificates to University Utility Corporation in 1976.¹ The Commission approved a transfer of majority organizational control for University Utility Corporation in 1983.² In 1988, the Commission approved the transfer of the system to RUC.³ The rates for the utility were last set by the Commission in 1983.⁴ On August 29, 2019, Royal Waterworks, Inc. (Royal, Buyer or Utility) filed an application with the Commission for the transfer of Certificate Nos. 259-W and 199-S from RUC to Royal in Broward County.

This recommendation addresses the transfer of the water and wastewater systems and Certificate Nos. 259-W and 199-S, the appropriate net book value of the water and wastewater systems for transfer purposes, the need for an acquisition adjustment, and Royal's request to add miscellaneous service charges, a late payment charge, non-sufficient funds charges, customer deposits, and a new class of service to its tariff. The Commission has jurisdiction pursuant to Sections 367.071 and 367.081, Florida Statutes (F.S.)

¹ Order No. 7273, issued June 10, 1976, in Docket Nos. 19750635-W and 19750636-S, *In re: Application of UNIVERSITY UTILITY CORPORATION for certificates to operate a water and sewer utility in Broward County and the objection thereto filed by the Board of County Commissioners of Broward County.*

² Order No. 12384, issued August 18, 1983, in Docket No. 19820275-WS, *In re: Application for approval of transfer of majority control of UNIVERSITY UTILITY CORPORATION from Ambank Properties to Rowan Construction Equipment, Inc.*

³ Order No. 19867, issued August 22, 1988, in Docket No. 19880557-WS, *In re: Application of Royal Utility Company to transfer of Certificates Nos. 259-W and 199-S from University Utility Corporation.*

⁴ Order No. 12170, issued June 24, 1983, in Docket No. 19820237-WS, *In re: Application of UNIVERSITY UTILITY CORPORATION for an increase in its rates to its customers in Broward County, Florida.*

Discussion of Issues

Issue 1: Should the transfer of Certificate Nos. 259-W and 199-S in Broward County from Royal Utility Company to Royal Waterworks, Inc. be approved?

Recommendation: Yes. The transfer of the water and wastewater systems and Certificate Nos. 259-W and 199-S is in the public interest and should be approved effective the date of the Commission's vote. The resultant order should serve as the Buyer's certificate and should be retained by the Buyer. The existing rates, service availability charges, and billing policy should remain in effect until a change is authorized by the Commission in a subsequent proceeding. The tariffs reflecting the transfer should be effective for services rendered or connections made on or after the stamped approval date on the tariffs, pursuant to Rule 25-30.475, Florida Administrative Code (F.A.C.). The Seller is current with respect to annual reports and regulatory assessment fees (RAFs) through December 31, 2019. Royal should be responsible for filing annual reports and paying RAFs for 2020 and all future years. (Doehling, M. Watts, Sowards, Bethea)

Staff Analysis: On August 29, 2019, Royal filed an application for the transfer of Certificate Nos. 259-W and 199-S from RUC to Royal in Broward County. The application is in compliance with Section 367.071, F.S., and Commission rules concerning applications for transfer of certificates. The sale to Royal occurred on July 1, 2019, contingent upon Commission approval, pursuant to Section 367.071(1), F.S.

Noticing, Territory, and Land Ownership

Royal provided notice of the application pursuant to Section 367.071, F.S., and Rule 25-30.030, F.A.C. No objections to the transfer were filed, and the time for doing so has expired. The application contains a description of the service territory which is appended to this recommendation as Attachment A. Royal provided a copy of a warranty deed executed on July 24, 2019, as evidence that Royal has rights to long-term use of the land upon which the treatment facilities are located pursuant to Rule 25-30.037(2)(s), F.A.C.

Purchase Agreement and Financing

Pursuant to Rule 25-30.037(2)(i), and (j), F.A.C., the application contains a statement regarding financing and a copy of the purchase agreement, which includes the purchase price, terms of payment, and a list of the assets purchased. There are no customer deposits, developer agreements, or customer advances that must be disposed of with regard to the transfer. According to the purchase agreement, the total purchase price of the assets is \$2,150,000. According to the application, the sale took place on July 1, 2019, subject to Commission approval, pursuant to Section 367.071(1), F.S.

Facility Description and Compliance

The Utility's water system is composed of three surficial wells with aeration, filtration, softening, and gas chloramination used as the primary form of treatment. Wastewater treatment service is provided by the City of Coral Springs. The last sanitary survey of the water treatment facility was conducted on June 4, 2020, by the Department of Environmental Protection (DEP). There were no deficiencies noted and the water system was determined to be in compliance with the DEP's rules and regulations.

Technical and Financial Ability

Pursuant to Rule 25-30.037(2)(l) and (m), F.A.C., the application contains statements describing the technical and financial ability of the Buyer to provide service to the proposed service area. Royal's application states that its president, Gary Deremer, has over 30 years of Florida-related water and wastewater industry experience with previous private utility ownership of five utility systems. Also, Mr. Deremer is a major shareholder in 18 water and wastewater utilities regulated by the Commission. Further, the application indicates that Mr. Deremer has secured the services of U.S. Water Services Corporation (U.S. Water) to provide contract operating service, billing, and collection services. Staff reviewed the personal financial statements of Royal's primary shareholder, which is Mr. Deremer.⁵ Based on its review, staff believes the Buyer has demonstrated the technical and financial ability to provide service to the existing service territory.

Rates and Charges

Royal's rates were last approved in its only staff-assisted rate case in 1983.⁶ The rates were subsequently amended by 26 price indexes and pass through rate adjustments. In addition, in 1993, the Utility was granted approval to bill customers with one inch meters at the 5/8 inch meter rate.⁷ The Utility's existing service availability and miscellaneous service charges were approved prior to 1983. Royal has requested to revise its miscellaneous service charges for water and add miscellaneous service charges for wastewater, add late payment and non-sufficient funds (NSF) charges, implement a new class of service for private fire protection rates, and establish customer deposits, which are discussed in Issues 4 through 8 of this recommendation. Rule 25-9.044(1), F.A.C., provides that, in the case of a change of ownership or control of a Utility, the rates, classifications, and regulations of the former owner must continue unless authorized to change by this Commission. Therefore, staff recommends that Royal's existing rates, service availability charges, and billing policy, as reflected in Schedule Nos. 2-A and 2-B, remain in effect, until a change is authorized by the Commission.

Regulatory Assessment Fees and Annual Report

Staff has verified that the Seller is current with respect to annual reports and RAFs through December 31, 2019. Royal will be responsible for filing annual reports and paying RAFs for 2020 and all future years.

Conclusion

Based on the foregoing, staff recommends the transfer of the water and wastewater systems and Certificate Nos. 259-W and 199-S is in the public interest and should be approved effective the date of the Commission's vote. The resultant order should serve as the Buyer's certificate and should be retained by the Buyer. The existing rates, service availability charges, and billing policy should remain in effect until a change is authorized by the Commission in a subsequent proceeding. The tariffs reflecting the transfer should be effective for services rendered or

⁵ Document No. 08649-2019 (Confidential), filed September 6, 2019.

⁶ Order No. 12170, issued June 24, 1983, in Docket No. 19820237-WS, *In re: Application of University Utility Corporation for an increase in its rates to its customers in Broward County, Florida*.

⁷ Order No. PSC-93-1171-FOF-WS, issued August 10, 1993, in Docket No. 19930455-WS, *In re: Request for Approval of Tariff Filings for Authority to Continue Existing Billing Policy in Broward County by Royal Utility Company*.

connections made on or after the stamped approval date on the tariffs, pursuant to Rule 25-30.475, F.A.C. The Seller is current with respect to annual reports and RAFs through December 31, 2019. Royal should be responsible for filing annual reports and paying RAFs for 2020 and all future years.

Issue 2: What is the appropriate net book value for Royal's water and wastewater systems for transfer purposes?

Recommendation: The net book value (NBV) of the water and wastewater systems for transfer purposes is \$943,455 and \$539,395, respectively, as of July 1, 2019. Royal should be required to notify the Commission in writing that it has adjusted its books in accordance with the Commission's decision. The adjustments should be reflected in the 2020 Annual Report when filed. (Sewards)

Staff Analysis: Rate base was last established in 1983. The purpose of establishing NBV for transfers is to determine whether an acquisition adjustment should be approved. Royal's request for a positive acquisition adjustment is addressed in Issue 3. The NBV has been updated to reflect balances as of July 1, 2019. Staff's recommended NBV, as described below, is shown on Schedule No. 1.

Utility Plant in Service (UPIS)

According to the Seller's general ledger, the water and wastewater UPIS balances were \$3,187,937 and \$1,814,757, respectively, as of May 31, 2019. Staff auditors determined a significant portion of plant recorded between January 1, 1988, and July 1, 2019, could not be verified due to lack of supporting documentation. In order to verify the UPIS recorded in the annual report, staff obtained the tax returns of the Seller for the years 2014 through 2018.⁸ The Commission has previously approved this approach to calculate UPIS when original records were not available.⁹

In order to calculate the recommended balances for UPIS, staff has relied upon the annual reports and the Seller's tax returns, as well as invoices for additions made through July 1, 2019. Therefore, staff recommends that the Utility's UPIS balances for water and wastewater be \$3,389,692 and \$1,944,996, respectively, as of July 1, 2019. As a result, UPIS for water and wastewater should be increased by \$201,755 and \$130,239, respectively.

Land

In Order No. 19867, the Commission established the value of land for water and wastewater to be \$76,123 and \$71,802, respectively. There have been no additional land purchases since that Order was issued. Therefore, staff recommends land balances for water and wastewater of \$76,123 and \$71,802, as of July 1, 2019.

Accumulated Depreciation

According to the Seller's general ledger, the water and wastewater accumulated depreciation balances were \$2,473,158 and \$1,471,604, respectively, as of May 31, 2019. Staff calculated the appropriate accumulated depreciation balances, pursuant to Rule 25-30.140, F.A.C., through July 1, 2019. Based on staff's calculation, staff recommends that the Utility's accumulated depreciation balances for water and wastewater be \$2,522,360 and \$1,477,403, respectively, as

⁸ Document No. 08649-2019

⁹ Order No. PSC-14-0626-PAA-WU, issued October 29, 2014, in Docket No. 20130265-WU, *In re: Application for staff-assisted rate case in Charlotte County by Little Gasparilla Water Utility, Inc.*

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of July 1, 2019. As a result, accumulated depreciation for water and wastewater should be increased by \$49,202 and \$5,799, respectively.

Contributions-in-Aid-of-Construction (CIAC) and Accumulated Amortization of CIAC

According to the Seller's general ledger, the water and wastewater CIAC balances were \$571,643 and \$238,921, respectively, as of May 31, 2019. Staff reviewed the CIAC balances and there have been no additional collections of CIAC through July 1, 2019. Therefore, staff recommends water and wastewater CIAC balances of \$571,643 and \$238,921, respectively, as of July 1, 2019.

According to the Seller's general ledger, the water and wastewater accumulated amortization of CIAC balances were \$579,047 and \$206,294, respectively. Staff auditors determined that the water and wastewater balances were fully amortized as of July 1, 2019. Therefore, staff recommends that the Utility's accumulated amortization of CIAC balances for water and wastewater are \$571,643 and \$238,921, respectively, as of July 1, 2019. As a result, accumulated amortization of CIAC should be reduced by \$7,404 for water, and increased by \$32,627 for wastewater.

Net Book Value

The Utility's general ledger reflected a NBV for water and wastewater of \$798,303 and \$382,328, respectively. Based on the adjustments described above, staff recommends a NBV for the Utility's water and wastewater systems of \$943,455 and \$539,395, respectively, as of July 1, 2019. Staff's recommended NBV and the balances for UPIS and accumulated depreciation, based on the National Association of Regulatory Utility Commissioners, Uniform System of Accounts, are shown on Schedule No. 1, as of July 1, 2019.

Conclusion

Based on the above, staff recommends a NBV of Royal's water and wastewater systems for transfer purposes of \$943,455 and \$539,395, respectively, as of July 1, 2019. Within 90 days of the date of the final order, the Buyer should be required to notify the Commission in writing that it has adjusted its books in accordance with the Commission's decision. The adjustments should be reflected in the Utility's 2020 Annual Report when filed.

Issue 3: Should a positive acquisition adjustment be recognized for ratemaking purposes?

Recommendation: No. Pursuant to Rule 25-30.0371, F.A.C., a positive acquisition adjustment should not be granted as the Utility failed to demonstrate extraordinary circumstances. (Sewards, Doehling)

Staff Analysis: In its filing, the Utility requested a positive acquisition adjustment be included in the calculation of the Utility's rate base. An acquisition adjustment results when the purchase price differs from the NBV of the assets at the time of acquisition. Pursuant to Rule 25-30.0371, F.A.C., a positive acquisition adjustment results when the purchase price is greater than the NBV and a negative acquisition adjustment results when the purchase price is less than the NBV. A positive acquisition adjustment, if approved, increases rate base. There have been no positive acquisition adjustments requested since Rule 25-30.0371, F.A.C., was enacted in 2002.

According to the purchase agreement, the Buyer purchased the Utility for \$2,150,000. As discussed in Issue 2, staff is recommending a total NBV for the water and wastewater systems of \$1,482,850 (\$943,455 + \$539,395). This would result in a positive acquisition adjustment of \$667,150.

Rule 25-30.0371(2), F.A.C., states, in part, the following:

In determining whether extraordinary circumstances have been demonstrated, the Commission shall consider evidence provided to the Commission such as anticipated improvements in quality of service, anticipated improvements in compliance with regulatory mandates, anticipated rate reductions or rate stability over a long-term period, anticipated cost efficiencies, and whether the purchase was made as part of an arms-length transaction.

The Buyer provided information regarding improvements in quality of service, improvements in compliance with regulatory mandates, and anticipated cost efficiencies.

Improvements in Quality of Service

Royal stated in its application that through its contract with U.S. Water, it has significantly improved the quality of service to its water and wastewater customers. This is in part due to U.S. Water's extensive experience in the water and wastewater industry, as well as providing Royal with a dedicated call center for customer service. In response to staff's data requests, Royal provided a list of several improvements it has made to the water treatment plant and wastewater lift station since its acquisition. These improvements include: rehabilitation of the lime softening unit, repair of the backwash filters, replacement of the recirculation system service pump, and replacement of the master lift station pumps.¹⁰ Royal stated these repairs have improved water quality and reduced the number of overflows at the lift station. Royal also stated that it has staged U.S. Water equipment on site to enable it to provide a quicker response time for emergencies than was provided by RUC.

¹⁰ Document No. 10815-2019

Staff reviewed the complaints filed with the Commission for the five-year period prior to the acquisition, June 2014 to June 2019, as well as after the acquisition, July 2019 to October 14, 2020. For the time period prior to the acquisition, the Commission recorded a total of 11 complaints pertaining to billing, quality of service, or quality of the water product. The Commission recorded a total of two billing complaints for the time period following the acquisition. Given the minimal number of complaints for the entire period, before and after the acquisition, staff is unable to draw any conclusions regarding the anticipated improvements in quality of service since the change in ownership based upon the Commission's customer complaint data.

Improvements in Compliance with Regulatory Mandates

The last sanitary survey conducted by the DEP, while the system was owned by RUC, occurred on May 30, 2017. During this inspection six deficiencies were noted and RUC's system was found to be out of compliance with the DEP's rules and regulations. Of particular concern were holes in the roof of the clear well tank, corroded plant components, failure to establish a cross-connection control plan, and failure to follow the approved lead and copper sampling plan. Based on staff's review of DEP documents, it appears RUC had cleared these deficiencies prior to Royal's acquisition.

After Royal's acquisition, on September 16, 2019, Broward County conducted an inspection of the storage tanks on behalf of the DEP.¹¹ During the inspection, potential non-compliance was noted and a Compliance Assistance Offer letter was sent to Royal. This was in part due to the diesel fuel tank's fill cap not being properly labeled and excessive rust areas on the tank. Royal promptly labeled and painted the fill cap yellow, as well as cleaned and painted the tank to rectify the situation.

Additionally, Royal stated that Broward County has a requirement that fluoride be added to the public's drinking water.¹² Royal found that the fluoride injection system was not in service, and RUC had not purchased fluoride in the year prior to the sale of the system. Royal's review of RUC's Monthly Operating Reports to the DEP revealed, however, that RUC had been recording fluoride residuals. Royal installed the fluoride injection system in October 2019 and is injecting the fluoride as required by Broward County.

The DEP conducted a sanitary survey of Royal's water treatment plant on June 4, 2020. The report issued on July 1, 2020, stated that the system was in compliance with the DEP's rules and regulations. Also, the complete battery of water quality tests for the DEP's primary and secondary water quality standards were performed on samples taken on January 29, 2020. All contaminants were found to be below the DEP's maximum contaminant levels for each respective substance.

As discussed above, RUC had satisfied its deficiencies with the DEP prior to the sale. Since the acquisition, Royal has maintained the system in compliance with the DEP. In addition, RUC's issues with respect to regulatory compliance and quality of service prior to the transfer do not

¹¹ Document No. 11191-2020

¹² Document No. 02094-2020

appear to be especially egregious.¹³ For this reason, staff does not believe the Utility has demonstrated extraordinary circumstances for its requested positive acquisition adjustment. Instead, staff believes that the improvements in quality of service and compliance with regulatory mandates demonstrates Royal's responsible execution of its obligations as a utility owner.

Anticipated Cost Efficiencies

In its application, the Buyer stated that based on operational changes, it expects a reduction in operation and maintenance expense. In response to staff's third data request, the Utility calculated a reduction of approximately \$100,000, based on a comparison of 2018 expenses of \$762,373 and annualized 2020 expenses of \$661,610. Staff notes bad debt expense was not included due to the adverse effects the COVID-19 pandemic has had on this account. Additionally, purchased wastewater expense was not included as it is a pass-through cost and the Utility does not have control over the amount it is charged by the provider or how those charges fluctuate from year to year. The Buyer also stated that customers would receive a benefit through a reduction of cost of capital. More specifically, the Buyer was able to obtain financing through long-term debt at an interest rate of 5.25 percent, whereas the previous owner maintained long-term debt at an interest rate of 8.65 percent.

In response to staff's first data request, the Buyer stated that it believes the NBV is understated. Staff has addressed the inclusion of plant as supported by the Utility's annual reports and tax returns in Issue 2. However, Royal also believes certain replacements or repairs in previous years were recorded as operation and maintenance expenses that should have been capitalized, which has led to a further understatement of NBV. In the past, the Commission has disallowed the inclusion of previously expensed items in rate base.¹⁴ As such, staff does not believe these adjustments are appropriate for consideration of a positive acquisition adjustment.

Rule 25-30.0371(2), F.A.C., states that a positive acquisition adjustment shall not be included in rate base absent a demonstration of extraordinary circumstances. Any entity that believes a full or partial positive acquisition adjustment should be made has the burden to prove the existence of extraordinary circumstances. Prior to this transfer, the Utility may have been in need of the improvements made. However, it was not in such a dire state of operation that if the Buyer did not step in the Utility would have failed to operate properly or provide services to its customers. While staff acknowledges that the Buyer has made improvements and accomplished cost savings, staff does not believe the actions performed demonstrate extraordinary circumstances. Additionally, as discussed above, staff believes that many of the improvements undertaken by Royal, regarding quality of service and compliance with regulatory mandates, demonstrate responsible utility ownership and should not be considered extraordinary circumstances.

¹³ For comparison, see Order No. PSC-2020-0088-PAA-SU, issued March 25, 2020, in Docket No. 20190116-SU, *In re: Application for staff-assisted rate case in Brevard County, and request for interim rate increase by Merritt Island Utility Company*, Infrastructure and Operational Conditions.

¹⁴ Order No. PSC-99-1917-PAA-WS, issued September 28, 1999, in Docket Nos. 19970536-WS and 19980245-WS, *In re: Application for limited proceeding increase in water and wastewater rates in Pasco County by Aloha Utilities, Inc.*

Conclusion

Pursuant to Rule 25-30.0371, F.A.C., staff believes a positive acquisition adjustment should not be granted as the Utility did not demonstrate extraordinary circumstances.

Issue 4: Should Royal’s request to revise water and add wastewater miscellaneous service charges be approved?

Recommendation: Yes. Royal’s request to revise water and add wastewater miscellaneous service charges should be approved. Royal should be required to file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective 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 charges should not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. Royal should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bethea)

Staff Analysis: Currently, the Utility’s existing miscellaneous service charges for water consist of a violation reconnection charge of \$5.00 for normal hours and \$7.50 for after hours. There are no miscellaneous service charges for wastewater. Section 367.091, F.S., authorizes the Commission to change miscellaneous service charges. The Utility’s requested miscellaneous service charges were accompanied by its reason for requesting the charges, as well as the cost justification required by Section 367.091(6), F.S. The requested charges are consistent with those recently approved for its sister companies: LP Waterworks, Inc., Country Walk Utilities, Inc., and Gator Waterworks, Inc.¹⁵ The calculations for charges for miscellaneous service charges, shown in the tables below, are rounded up to the nearest tenth. The Utility’s current and staff’s recommended miscellaneous service charges are shown in Table 4-5.

Initial Connection Charge

The initial connection charge is levied for service initiation at a location where service did not exist previously. A Royal representative makes one trip when performing the service of an initial connection. Based on labor and transportation to and from the service territory, staff recommends initial connection charges for Royal’s water and wastewater systems of \$31.10 for normal hours and \$36.20 for after hours. Staff’s calculations are shown in Table 4-1.

**Table 4-1
 Initial Connection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$28/hr x 1/4hr)	\$7.00	Labor (Administrative) (\$28/hr x 1/4hr)	\$7.00
Labor (Field) (\$30.42/hr x 1/3 hr)	\$10.14	Labor (Field) (\$45.63/hr x 1/3 hr)	\$15.21
Transportation (\$0.535/mile x 26 miles-to/from)	\$13.91	Transportation (\$0.535/mile x 26 miles-to/from)	\$13.91
Total	\$31.05	Total	\$36.12

¹⁵ Order Nos. PSC-2018-0553-PAA-WU, 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.*; PSC-2017-0334-PAA-WS, issued August 23, 2017, in Docket No. 20160222-WS, *In re: Application for staff-assisted rate case in Highlands County by LP Waterworks, Inc.*; and PSC-2020-0086-PAA-WU, issued March 24, 2020, 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.*

Normal Reconnection Charge

A normal reconnection charge is levied for the transfer of service subsequent to a customer requested disconnection. A normal reconnection requires two trips, which includes one to turn service on and the other to turn service off. Based on labor and transportation to and from the service territory, staff recommends normal reconnection charges for Royal’s water and wastewater systems of \$57.10 for normal hours and \$64.70 for after hours. Staff’s calculations are shown in Table 4-2.

**Table 4-2
 Normal Reconnection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$28/hr x 1/4hr x 2)	\$14.00	Labor (Administrative) (\$28/hr x 1/4hr x 2)	\$14.00
Labor (Field) (\$30.42/hr x 1/4 hr x 2)	\$15.21	Labor (Field) (\$45.63/hr x 1/4hr x 2)	\$22.82
Transportation (\$0.535/mile x 26 miles-to/from x 2)	\$27.82	Transportation (\$0.535/mile x 26 miles-to/from x 2)	\$27.82
Total	\$57.03	Total	\$64.64

Violation Reconnection Charge

The violation reconnection charge is levied prior to reconnection of an existing customer after discontinuance of service for cause. The service performed for violation reconnection requires two trips, which includes one trip to turn off service and a subsequent trip to turn on service once the violation has been remedied. Based on labor and transportation to and from the service territory, staff recommends violation reconnection charges for Royal’s water system of \$57.10 for normal hours and \$64.70 for after hours. For the wastewater system, staff recommends actual cost pursuant to Rule 25-30.460, F.A.C. Staff’s calculations are shown in Table 4-3.

**Table 4-3
 Violation Reconnection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$28/hr x 1/4hr x 2)	\$14.00	Labor (Administrative) (\$28/hr x 1/4hr x 2)	\$14.00
Labor (Field) (\$30.42/hr x 1/4 hr x 2)	\$15.21	Labor (Field) (\$45.63hr x 1/4 hr x 2)	\$22.82
Transportation (\$0.535/mile x 26 miles-to/from) x 2	\$27.82	Transportation (\$0.535/mile x 26 miles-to/from) x 2	\$27.82
Total	\$57.03	Total	\$64.64

Premises Visit Charge

The premises visit charge is levied when a service representative visits the premises at the customer’s request for complaint resolution and the problem is found to be the customer’s responsibility. In addition, the premises visit charge can be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill, and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. A premises visit requires one trip.

Based on labor and transportation to and from the service territory, staff recommends premises visit charges of \$31.10 for normal hours and \$36.20 for after hours. Staff’s calculations are shown in Table 4-4.

**Table 4-4
 Premises Visit Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$28.00/hr x 1/4hr)	\$7.00	Labor (Administrative) (\$28.00/hr x 1/4hr)	\$7.00
Labor (Field) (\$30.42/hr x 1/3 hr)	\$10.14	Labor (Field) (\$45.63/hr x 1/3 hr)	\$15.21
Transportation (\$0.535/mile x 26 miles-to/from)	\$13.91	Transportation (\$0.535/mile x 26 miles-to/from)	\$13.91
Total	\$31.05	Total	\$36.12

Conclusion

Based on the above, the miscellaneous service charges identified in Table 4-5 below are appropriate and should be approved. The charges should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges 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.

**Table 4-5
 Miscellaneous Service Charges**

	Current		Staff Recommended	
	Water	Wastewater	Normal Hours	After Hours
Initial Connection Charge	N/A	N/A	\$31.10	\$36.20
Normal Reconnection Charge	N/A	N/A	\$57.10	\$64.70
Violation Reconnection Charge (Water)	\$5.00		\$57.10	\$64.70
Violation Reconnection Charge (Wastewater)		N/A	Actual Cost	
Premises Visit Charge	N/A	N/A	\$31.10	\$36.20

Issue 5: Should Royal's request to implement a late payment charge of \$6.50 be approved?

Recommendation: Yes. Royal's request to implement a late payment charge of \$6.50 should be approved. Royal should be required to file a proposed customer notice to reflect the Commission-approved charge. The approved charge should be effective 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 charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. Royal should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bethea)

Staff Analysis: Royal is requesting a \$6.50 late payment charge to recover the cost of labor, supplies, postage, and RAFs associated with processing late payment notices. The Utility currently does not have a late payment charge. Royal is requesting \$6.50 for its late payment charge, which is consistent with recent Commission practice and the charge is consistent with that charged by other utilities managed by U.S. Water.¹⁶ The purpose of this charge is not only to provide an incentive for customers to make timely payment, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing delinquent accounts solely upon those who are cost causers. 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.

Royal calculated the actual costs for its late payment charges to be \$8.07. Royal indicated that it will take approximately 15 minutes per account to research, compile, and produce late notices. The delinquent customer accounts will be processed by the administrative contract employee, which results in labor cost of \$7.00 (\$28.00 x 0.25 hr). This is consistent with prior Commission decisions where the Commission has allowed 10-15 minutes per account for the administrative labor associated with processing delinquent customer accounts.¹⁷ However, \$8.07 would be the highest late payment charge approved amongst all other water and wastewater utilities regulated by the Commission.¹⁸ Therefore, Royal is requesting a charge of \$6.50, consistent with recent Commission decisions. Royal's calculation for its actual costs associated with a late payment charge is shown in Table 5-1.

¹⁶ Order No. PSC-2018-0334-PAA-WU, issued June 28, 2018, in Docket No. 20170155-WU, *In re: Application for grandfather water certificate in Leon County and application for pass through increase of regulatory assessment fees, by Seminole Waterworks, Inc.*

¹⁷ Order Nos. PSC-2020-0086-PAA-WU, issued March 24, 2020, 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.*; PSC-16-0041-TRF-WU, issued January 25, 2016, in Docket No. 20150215-WU, *In re: Request for approval of tariff amendment to include miscellaneous service charges for the Earlene and Ray Keen Subdivisions, the Ellison Park Subdivision and the Lake Region Paradise Island Subdivision in Polk County, by Keen Sales, Rentals and Utilities, Inc.*; and PSC-15-0569-PAA-WS, issued December 16, 2015, in Docket No. 20140239-WS, *In re: Application for staff-assisted rate case in Polk County by Orchid Springs Development Corporation.*

¹⁸ Order Nos. PSC-14-0105-TRF-WS, issued February 20, 2014, in Docket No. 20130288-WS, *In re: Request for approval of late payment charge in Brevard County by Aquarina Utilities, Inc.*; PSC-15-0535-PAA-WU, issued November 19, 2015, in Docket No. 20140217-WU, *In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.*; and PSC-15-0569-PAA-WS, issued December 16, 2015, in Docket No. 20140239-WS, *In re: Application for staff-assisted rate case in Polk County by Orchid Springs Development Corporation.*

Table 5-1
Late Payment Charge Cost Justification

Activity	Cost
Labor	\$7.00
Supplies	\$0.22
Postage	<u>\$0.49</u>
Markup for RAFs	<u>\$0.36</u>
Total Cost	<u>\$8.07</u>

Source: Utility's cost justification documentation

Conclusion

Based on the above, Royal's request to implement a late payment charge of \$6.50 should be approved. Royal should be required to file a proposed customer notice to reflect the Commission-approved charge. The approved charge should be effective 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 charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. Royal should provide proof of the date notice was given no less than 10 days after the date of the notice.

Issue 6: Should Royal be authorized to collect Non-Sufficient Funds Charges?

Recommendation: Yes. Royal should be authorized to collect NSF charges. Royal should file a tariff sheet and a proposed customer notice to reflect the Commission-approved NSF charges. The approved charges should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. Royal should provide proof of noticing within 10 days of rendering its approved notice. (Bethea)

Staff Analysis: Section 367.091, F.S., requires that rates, charges, and customer service policies be approved by the Commission. Staff recommends that Royal 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 Section 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
- (4) 5 percent of the face amount of the check, whichever is greater.

Conclusion

Approval of NSF charges is consistent with prior Commission decisions.¹⁹ 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, Royal should be authorized to collect NSF charges. Royal should file a tariff sheet and a proposed customer notice to reflect the Commission-approved NSF charges. The approved charges should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. Royal should provide proof of noticing within 10 days of rendering its approved notice.

¹⁹ Order Nos. PSC-2020-0086-PAA-WU, issued March 24, 2020, 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.*; PSC-2018-0334-PAA-WU, issued June 28, 2018, in Docket No. 20170155-WU, *In re: Application for grandfather water certificate in Leon County and application for pass through increase of regulatory assessment fees, by Seminole Waterworks, Inc.*; PSC-14-0198-TRF-SU, issued May 2, 2014, in Docket No. 20140030-SU, *In re: Request for approval to amend Miscellaneous Service charges to include all NSF charges by Environmental Protection Systems of Pine Island, Inc.*; and PSC-13-0646-PAA-WU, issued December 5, 2013, in Docket No. 20130025-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*

Issue 7: Should Royal's request for a new class of service for private fire protection be approved?

Recommendation: Yes. Royal's request to establish a new class of service for a private fire protection rate of \$50.96 for a six inch meter should be approved. Royal should file a proposed tariff and customer notice to reflect the Commission-approved rate. The approved rate should be effective on or after the stamped approval date on the tariff sheet provided customers have received notice pursuant to Rule 25-30.475(1), F.A.C. Royal should provide proof of noticing within 10 days of rendering its approved notice. (Bethea)

Staff Analysis: Royal is requesting a new class of service for a six inch meter private fire protection rate of \$50.96. Currently, the Utility does not have any private fire protection rates. The Utility is requesting that the private fire protection rate be consistent with Rule 25-30.465, F.A.C., which states that the rate shall be one-twelfth the Utility's current base facility charge (BFC) for each meter size.

At this time, the Utility does not have a BFC for a six inch meter. Royal's proposed rate is one-twelfth of what the BFC charge would be for a six inch meter. Pursuant to Rule 25-30.437(6), F.A.C, the rates are first established with the 5/8 inch x 3/4 inch meter as the foundation. The rates for the other meter sizes are determined by factoring the BFC by the American Water Works Association meter equivalents as provided for in Rule 25-30.055(1)(b), F.A.C. The meter equivalent for a six inch meter is 50. Based on Royal's existing BFC of \$12.23 for the 5/8 inch x 3/4 inch meter and the meter equivalent of 50 for a six inch meter, the BFC for the six-inch meter is \$611.50 (\$12.23 x 50). Pursuant to Rule 25-30.465, F.A.C., the resulting private fire protection rate is \$50.96 (\$611.50/12). Therefore, staff believes the Utility's request is reasonable and should be approved.

Based on the above, Royal's request to establish a new class of service for private fire protection rate of \$50.96 for a six inch meter should be approved. Royal should file a proposed tariff and customer notice to reflect the Commission-approved rate. The approved rate should be effective on or after the stamped approval date on the tariff sheet provided customers have received notice pursuant to Rule 25-30.475(1), F.A.C. Royal should provide proof of noticing within 10 days of rendering its approved notice.

Issue 8: Should Royal's request to establish initial customer deposits be approved?

Recommendation: Yes. Royal's request to establish initial customer deposits should be approved. The appropriate initial customer deposit should be \$62.26 for water and \$79.08 for wastewater for the residential 5/8 inch x 3/4 inch meter size. The initial customer deposit for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill. The approved customer deposits should be effective for 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 initial customer deposits until authorized to change them by the Commission in a subsequent proceeding. (Bethea)

Staff Analysis: Rule 25-30.311, F.A.C., contains criteria for collecting, administering, and refunding customer deposits. Rule 25-30.311(1), F.A.C., requires that each utility's tariff contain its specific criteria for determining the amount of initial deposits. The Utility requested customer deposits of \$62.26 for water and \$79.08 for wastewater, which was based on two months of average residential monthly bills and the Utility's proposed rates. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. In addition, collection of customer deposits is consistent with one of the fundamental principles of rate making—ensuring that the cost of providing service is recovered from the cost-causer.

Rule 25-30.311(7), F.A.C., authorizes utilities to collect new or additional deposits from existing customers not to exceed an amount equal to the average actual charge for water and/or wastewater service for two billing periods for the 12-month period immediately prior to the date of notice. The two billing periods reflect the lag time between the customer's usage and the Utility's collection of the revenues associated with that usage. Commission practice has been to set initial customer deposits equal to two months bills based on the average consumption for a 12-month period for each class of customers. The Utility indicated that the average monthly residential usage is 6,000 gallons per customer. Therefore, the average residential monthly bill is approximately \$31.13 for water and \$39.54 for wastewater service, based on the Utility's existing rates.

Based on the above, the appropriate initial customer deposit should be \$62.26 for water and \$79.08 for wastewater for the residential 5/8 inch x 3/4 inch meter size. The initial customer deposit for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill. The approved customer deposits should be effective for 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 initial customer deposits until authorized to change them by the Commission in a subsequent proceeding.

Issue 9: Should this docket be closed?

Recommendation: Yes. If no protest to the proposed agency action is filed by a substantially affected person within 21 days of the date of the issuance of the order, a consummating order should be issued and the docket should be closed administratively upon Commission staff's verification that the revised tariff sheets have been filed, the Buyer has notified the Commission in writing that it has adjusted its books in accordance with the Commission's decision, and proof that appropriate noticing has been done pursuant to Rule 25-30.4345, F.A.C. (Lherisson)

Staff Analysis: If no protest to the proposed agency action is filed by a substantially affected person within 21 days of the date of the issuance of the order, a consummating order should be issued and the docket should be closed administratively upon Commission staff's verification that the revised tariff sheets have been filed, the Buyer has notified the Commission in writing that it has adjusted its books in accordance with the Commission's decision, and proof that appropriate noticing has been done pursuant to Rule 25-30.4345, F.A.C.

TERRITORY DESCRIPTION
Royal Waterworks, Inc.
Broward County
Water and Wastewater Service

Township 48 South, Range 41 East
Section 15

The north 1/2 of Section 15, Township 48 South, Range 41 East, situated in Broward County, Florida and containing 320 acres, more or less.

FLORIDA PUBLIC SERVICE COMMISSION
authorizes
Royal Waterworks, Inc.
pursuant to
Certificate Number 259-W

to provide water service in Broward County in accordance with the provisions of Chapter 367, Florida Statutes, and the Rules, Regulations, and Orders of this Commission in the territory described by the Orders of this Commission. This authorization shall remain in force and effect until superseded, suspended, cancelled or revoked by Order of this Commission.

<u>Order Number</u>	<u>Date Issued</u>	<u>Docket Number</u>	<u>Filing Type</u>
7273	07/10/76	750635-W	Original Certificate
12170	6/24/83	820237-WS	Rate Increase
12384	08/18/83	820275-WS	Transfer of Majority Control
19867	08/22/88	880557-WS	Transfer
*	*	20190170-WS	Transfer

***Order Number and date to be provided at time of issuance**

FLORIDA PUBLIC SERVICE COMMISSION
authorizes
Royal Waterworks, Inc.
pursuant to
Certificate Number 199-S

to provide wastewater service in Broward County in accordance with the provisions of Chapter 367, Florida Statutes, and the Rules, Regulations, and Orders of this Commission in the territory described by the Orders of this Commission. This authorization shall remain in force and effect until superseded, suspended, cancelled or revoked by Order of this Commission.

<u>Order Number</u>	<u>Date Issued</u>	<u>Docket Number</u>	<u>Filing Type</u>
7273	07/10/76	750636-S	Original Certificate
12170	6/24/83	820237-WS	Rate Increase
12384	08/18/83	820275-WS	Transfer of Majority Control
19867	08/22/88	880557-WS	Transfer
*	*	20190170-WS	Transfer

***Order Number and date to be provided at time of issuance**

Royal Waterworks, Inc.
Schedule of Net Book Value as of July 1, 2019

Water System

<u>Description</u>	<u>Balance Per Utility</u>	<u>Adjustments</u>	<u>Staff Recommended</u>
Utility Plant In Service	\$3,187,937	\$201,755	\$3,389,692
Land & Land Rights	76,123	0	76,123
Accumulated Depreciation	(2,437,158)	(49,202)	(2,522,360)
CIAC	(571,643)	0	(571,643)
Amortization of CIAC	<u>579,047</u>	<u>(7,404)</u>	<u>571,643</u>
Total	<u>\$798,306</u>	<u>\$145,149</u>	<u>\$943,455</u>

Wastewater System

<u>Description</u>	<u>Balance Per Utility</u>	<u>Adjustments</u>	<u>Staff Recommended</u>
Utility Plant In Service	\$1,814,757	\$130,239	\$1,944,996
Land & Land Rights	71,802	0	71,802
Accumulated Depreciation	(1,471,604)	(5,799)	(1,477,403)
CIAC	(238,921)	0	(238,921)
Amortization of CIAC	<u>206,294</u>	<u>32,627</u>	<u>238,921</u>
Total	<u>\$382,328</u>	<u>\$157,067</u>	<u>\$539,395</u>

**Explanation of Staff's Recommended Adjustments
To Net Book Value as of July 1, 2019**

<u>Explanation</u>	<u>Water</u>	<u>Wastewater</u>
Utility Plant in Service To reflect the appropriate amount of utility plant in service	<u>\$201,755</u>	<u>\$130,239</u>
Accumulated Depreciation To reflect the appropriate amount of accumulated depreciation	<u>(\$49,202)</u>	<u>(\$5,799)</u>
Amortization of CIAC To reflect the appropriate amount of amortization of CIAC	<u>(\$7,404)</u>	<u>\$32,627</u>
Total Adjustments	<u>\$145,149</u>	<u>\$157,067</u>

Royal Waterworks, Inc.
Schedule of Staff's Recommended Account Balances as of July 1, 2019
Water System

Account			UPIS	Accumulated
<u>No.</u>	<u>Description</u>			<u>Depreciation</u>
302	Franchises		\$713	(\$494)
304	Structure and Improvements		542,157	(404,877)
307	Wells and Springs		23,683	(23,683)
309	Supply Mains		48,267	(48,267)
310	Power Generation Equipment		11,948	(7,169)
311	Pumping Equipment		735,632	(728,171)
320	Water Treatment Equipment		224,484	(55,242)
330	Distribution Reservoirs and Standpipes		9,100	(9,100)
331	Transmission and Distribution Mains		974,103	(569,917)
333	Services		168,098	(131,089)
334	Meters and Meter Installations		335,937	(339,645)
335	Hydrants		68,439	(47,249)
339	Other Plant / Misc Equipment		60,527	(46,978)
340	Office Furniture and Equipment		11,693	(11,692)
341	Transportation Equipment		13,029	(13,029)
343	Tools, Shop and Garage Equipment		10,370	(10,370)
344	Laboratory Equipment		5,856	(5,856)
347	Misc Equipment		25,650	(25,650)
348	Other Tangible Plant		<u>43,883</u>	<u>(43,883)</u>
	Total		<u>\$3,389,692</u>	<u>\$2,522,360</u>

Royal Waterworks, Inc.
Schedule of Staff's Recommended Account Balances as of July 1, 2019
Wastewater System

Account			Accumulated
<u>No.</u>	<u>Description</u>	<u>UPIS</u>	<u>Depreciation</u>
354	Structure and Improvements	\$145,709	\$103,668
355	Power Generation Equipment	37,368	18,987
360	Collection Sewers-Force	120,328	120,328
361	Collection Sewers-Gravity	1,007,571	728,031
364	Flow Measuring Devices	81,227	81,227
371	Pumping Equipment	273,926	221,187
389	Other Plant/Misc Equipment	121,758	121,758
390	Office Furniture & Equipment	11,276	11,276
391	Transportation Equipment	13,029	13,029
393	Tools, Shop, and Garage Equipment	22,947	22,947
394	Laboratory Equipment	26,858	23,768
398	Other Tangible Plant	<u>11,197</u>	<u>11,197</u>
	Total	<u>\$1,944,996</u>	<u>\$1,477,403</u>

**Royal Waterworks, Inc.
 Monthly Water Rates**

Residential and General Service

Base Facility Charge by Meter Size

5/8" x 3/4"	\$12.23
1"	\$83.32
1 1/2"	\$166.52
2"	\$266.46
3"	\$532.92

Charge Per 1,000 gallons \$3.15

Billing Policy * The City of Coral Springs requires installation of 1" meters at a minimum on all water services provided by the Utility. In situations where the Utility believes the customer would otherwise be entitled to a 5/8" x 3/4" meter, but for the existence of the prevailing South Florida Building Code, the Utility will bill that customer at the 5/8" rate for such service.

Service Availability Charges

Customer Service Line Installation Charge

All Meter Sizes Actual Cost

Guaranteed Revenue Charge

Residential-per ERC (615 GPD) per month	\$ 3.33
Per gallon per month	\$.00542

Meter Installation Charge

5/8" x 3/4"	\$100.00
1"	\$190.00
1 1/2"	\$350.00
2"	\$520.00
Over 2"	Actual Cost

**Royal Waterworks, Inc.
Monthly Wastewater Rates**

Residential Service

All Meter Sizes \$13.02

Charge Per 1,000 gallons \$4.58
10,000 gallon cap

General Service

Base Facility Charge by Meter Size

5/8" x 3/4" \$13.02

1" \$92.61

1 1/2" \$185.38

2" \$296.31

3" \$592.72

Charge Per 1,000 gallons \$4.59

Service Availability Charges

Customer Service Line Installation Charge

All Meter Sizes

Actual Cost

Guaranteed Revenue Charge

Residential-per ERC (350 GPD) per month \$ 3.18

Per gallon per month \$.012722