

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: March 24, 2022

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Engineering (Knoblauch, Ramos) *TB*
Division of Accounting and Finance (D. Buys, Mathis) *ALM*
Division of Economics (Hudson, Sibley) *JGH*
Office of the General Counsel (Imig) *TLI*

RE: Docket No. 20210182-WU – Application for limited alternative rate increase in Highlands County by Country Walk Utilities, Inc.

AGENDA: 04/05/22 – Regular Agenda – Proposed Agency Action – Except Issue Nos. 3 and 4 - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Passidomo

CRITICAL DATES: 04/14/22 – 90 day deadline Pursuant to Rule 25-30.457(11), F.A.C.

SPECIAL INSTRUCTIONS: None

Case Background

Country Walk Utilities, Inc. (Country Walk or Utility) is a Class C utility providing water service to approximately 70 residential customers and 1 general service customer in Highlands County. The service area is located in the Southwest Florida Water Management District. Wastewater treatment is provided by septic tank. Country Walk was granted Certificate No. 579-W in a transfer from Holmes Utilities, Inc. in Docket No. 20130294-WU.¹ The Utility's rates were last approved by the Commission in a staff-assisted rate case in 2018.²

¹Order No. PSC-14-0495-PAA-WU, issued September 17, 2014, in Docket No. 20130294-WU, *In re: Application for transfer of water systems and Certificate No. 579-W in Highlands County from Holmes Utilities, Inc. to Country Walk Utilities, Inc.*

²Order No. 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.*

On November 16, 2021, Country Walk filed an application for a limited alternative rate increase (LARI) pursuant to Rule 25-30.457, Florida Administrative Code (F.A.C.). In its application, the Utility stated the reason for filing this request was due to under earnings as a result of decreased revenues, increased operating expenses, and an increase in Highlands County taxes. On December 15, 2021, staff notified the Utility that it had met the initial requirements of Rule 25-30.457, F.A.C., and the official date of filing was established as January 14, 2022. The 90-day time frame for the Florida Public Service Commission (Commission) to render a decision began on that date.

As stated above, Country Walk's rates were last set in 2018, and in that proceeding, the Commission found the Utility's overall quality of service to be satisfactory. Since the 2018 rate case, staff has identified no secondary water quality complaints filed with either the Commission or the Florida Department of Environmental Protection (DEP). Four complaints were received by the Utility pertaining to DEP secondary standards. Two of those complaints originated from the same customer, and all of the complaints were related to odor from the water. A Notice for the Solicitation of Comments (Notice) was sent to customers on February 17, 2022, and three comments were received. Staff notes that the most recent DEP secondary standard test results, dated November 15, 2021, indicate that Country Walk is currently passing all secondary standards.

Country Walk selected the test year ended September 30, 2021, for this proceeding. The Commission has jurisdiction pursuant to Sections 367.0814(9) and 367.121(1), Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Should the Commission approve Country Walk Utilities, Inc.'s application for a LARI?

Recommendation: Yes. Staff recommends a revenue increase of \$4,340 or 7.62 percent. Pursuant to Rule 25-30.457(7), F.A.C., the Utility is required to hold any revenue increase granted subject to refund. To ensure overearnings will not occur due to the implementation of the rate increase, staff will conduct an earnings review of the 12-month period following the implementation of the revenue increase. If overearnings occur, such overearnings, up to the amount held subject to refund, with interest, must be disposed of to the benefit of the customers. If staff determines that the Utility did not exceed the range of its last authorized return on equity, the revenue increase will no longer be held subject to refund. (Mathis, Knoblauch)

Staff Analysis: Pursuant to Rule 25-30.457, F.A.C., any utility eligible to file for a staff-assisted rate case may petition the Commission for a rate increase of up to 20 percent applied to metered or flat recurring rates as an alternative to a rate case. This Rule was designed to streamline the rate increase process for qualifying water or wastewater utilities by establishing an abbreviated procedure for a limited rate increase that is less time consuming and thus less costly for utilities, their customers, and the Commission. This Rule is similar to the rules governing price index and pass-through increases, in that neither an engineering review nor a financial audit of the utility's books and records is required.

On November 16, 2021, Country Walk notified the Commission of its intent to implement a LARI pursuant to Rule 25-30.457, F.A.C. Staff determined the Utility's application met the initial requirements of the Rule, and established January 14, 2022, as the official filing date. Staff verified that the Utility is current on the filing of regulatory assessment fees (RAFs) and annual reports. Country Walk has had rates established within the last seven years, pursuant to Rule 25-30.457(2)(1), F.A.C., and was under earning based on information provided in its application. The filing contained additional relevant information in support of the Utility's application.

On February 17, 2022, the Utility sent its customers the Notice that provided a summary of the rate request, the current and proposed rates, detailed instructions on how comments may be filed with the Commission prior to the Commission Conference, and instructions if a customer wished to comment at the Commission Conference. Also attached to the Notice was a customer comment card that customers could complete and mail to the Commission. As of March 23, 2022, three customers submitted comments. The customers expressed concerns regarding water quality issues, specifically the smell of the water and a dark or black substance developing in their sinks, showers, and toilets after repeated contact with the water. Based on Country Walk's most recent DEP test results, the Utility is currently passing all secondary standards.

Utility's Requested Revenue Increase

Country Walk requested a revenue increase of \$4,658, or 8.18 percent. The three main drivers for the requested revenue increase are an increase in Contractual Services – Other of \$2,009, an increase in Miscellaneous Expenses of \$1,150, and a Highlands County property tax increase of

\$1,312, as compared to the amounts approved in Country Walk’s last rate case.³ The Utility also requested an allowance for rate case expense of \$1,153, which amortized over four years is \$288 per year. Staff’s recommended adjustments and the increase in property taxes are explained below.

The increase in Contractual Services – Other of \$2,009 was due to a price increase for the service contract with U.S. Water Service Corporation from \$21,828 to \$23,837. In its filing, the Utility requested an amount of \$23,699 for Contractual Services – Other, but provided a more recent cost of \$23,837 in its response to Staff’s First Data Request.⁴ Staff made an adjustment to increase the expense by the difference of \$138.

The increase in Miscellaneous Expenses included an amount of \$1,000 for a political contribution. The Utility acknowledged this amount was inadvertently included and was removed.

The increase in county property taxes in 2021 was due to an increase in the assessed value of the utility plant from \$25,999 in 2020 to \$150,754 in 2021.

Staff reviewed Country Walk’s requested allowance for rate case expense of \$1,153, or \$288 per year, and believes the following adjustments are appropriate. The Utility paid a filing fee of \$1,000, but only included \$500 in its rate case expense request. Therefore, staff increased rate case expense by \$500. Staff also increased the total customer noticing expense by \$45, and removed \$250 for the travel expense to attend the customer meeting. In total, staff calculated an allowance for rate case expense of \$1,448, which amortized over four years is \$362 per year, an increase of \$74 per year.

As result of staff’s recommended reduction to the revenue requirement, RAFs are reduced by \$15. A summary of Country Walk’s requested expenses and staff’s recommended adjustments are shown in Table 1-1.

Table 1-1
Summary of Staff’s Recommended Adjustments

Operation & Maintenance (O&M) Expenses	Utility Requested	Staff Adjustment	Staff Recommended
Contractual Services – Other	\$23,699	\$138	\$23,837
Misc. Expenses	\$1,250	(\$1,000)	\$250
Rate Case Expense	\$288	\$74	\$362
RAFs on Rev. Increase	\$210	(\$15)	\$195
Total Operating Expense	\$50,123	(\$803)	\$49,320

Source: Utility’s application and response to Staff’s First Data Request, and staff calculations.

³Order No. 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.*

⁴Document No. 00219-2022, filed on January 13, 2022.

Additionally, to calculate its requested revenue increase and revenue requirement, Country Walk used a rate of return of 7.75 percent based on its most recent capital structure and a return on equity of 7.85 percent that was derived from the current leverage formula. In the instant petition, staff believes it is more appropriate to calculate the revenue increase using the return on equity of 8.11 percent and overall rate of return of 8.08 percent that was approved by the Commission in the Utility's most recent rate case.⁵ After applying the recommended adjustments to the O&M expenses, and calculating the revenue requirement to achieve the authorized return on equity mid-point of 8.11 percent, the adjusted revenue increase is \$4,340, or 7.62 percent.

Conclusion

The information presented in the application was based on annualized revenues by customer class and meter size for the period ended September 30, 2021, the most recent 12-month period. As discussed above, staff recommends an annual revenue increase of \$4,340, which includes an allowance for rate case expense of \$1,448, which amortized over four years is \$362 per year. A summary of Country Walk's requested revenue increase and staff's recommended revenue increase is presented in Table 1-2.

Table 1-2
Staff's Recommended Increase

	Annualized Revenues	Revenue Increase	Revenue Requirement	Percent Increase
Utility Requested	\$56,943	\$4,658	\$61,602	8.18%
Staff Recommended	\$56,943	\$4,340	\$61,283	7.62%

Source: Utility's application and staff calculations.

Pursuant to Rule 25-30.457(7), F.A.C., Country Walk is required to hold any revenue increase granted subject to refund in accordance with Rule 25-30.360(4), F.A.C.

To ensure overearnings will not occur due to the implementation of this rate increase, staff will conduct an earnings review of the 12-month period following the implementation of the revenue increase. At the end of the 12-month period, each Utility has 90 days to complete and file Form PSC 1025 (03/20), entitled "Limited Alternative Rate Increase Earnings Review." In the event Country Walk needs additional time to complete the form, the Utility may request an extension of time supported by a statement of good cause that must be filed with Commission staff no less than seven days prior to the 90-day deadline. If staff's earnings review demonstrates that Country Walk exceeded the range of its last authorized rate of return on equity, such overearnings, up to the amount held subject to refund, with interest, shall be disposed of to the benefit of the customers. If staff determines that the Utility did not exceed the range of its last authorized return on equity, the revenue increase will no longer be held subject to refund.

Based on the information described above, staff recommends approval of the Country Walk's application with the recommended modifications discussed above.

⁵Order No. 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.*

Issue 2: What are the appropriate monthly service rates for Country Walk?

Recommendation: The existing service rates for Country Walk should be increased by 7.62 percent in accordance with Rule 25-30.457, F.A.C. The appropriate service rates are shown on Schedule No. 1. The Utility should file tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Sibley)

Staff Analysis: Based on staff's recommended approval of the Utility's LARI in Issue 1, the existing service rates for Country Walk should be increased by 7.62 percent in accordance with Rule 25-30.457, F.A.C. Therefore, staff calculated rates by applying the 7.62 percent increase across-the-board to the existing base facility and gallonage charges. The Utility's existing water rates and the staff recommended rates are shown on Schedule No. 1. The Utility should file tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

Issue 3: What is the appropriate amount by which 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 367.081(8), F.S.?

Recommendation: The rates should be reduced to remove rate case expenses 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. Country Walk should be required to file revised tariffs and proposed customer notices setting forth the lower rates and the reason for the reductions no later than one month prior to the actual date of the required rate reductions. If the Utility files this reduction in conjunction with price index or pass-through rate adjustments, separate data should be filed for the price index and/or pass-through increase or decrease and the reductions in the rates due to the amortized rate case expenses. (Sibley, Mathis) (Procedural Agency Action)

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. These reductions will reflect the removal of revenue associated with the amortization of rate case expense and the gross-up for RAFs. The total revenue reduction for the Utility is \$1,516 ($\$1,448 \div 0.955$) or \$379 annually.

Staff recommends that the rates should be reduced 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. Country Walk should be required to file revised tariffs and proposed customer notices setting forth the lower rates and the reason for the reductions no later than one month prior to the actual date of the required rate reductions. If the Utility files these reductions in conjunction with price index or pass-through rate adjustments, separate data should be filed for the price index and/or pass-through increases or decreases and the reductions in the rates due to the amortized rate case expenses.

Issue 4: Should the recommended rates be approved for Country Walk on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility?

Recommendation: Yes. Pursuant to Rule 25-30.457(9), F.A.C., in the event of a protest of the Proposed Agency Action (PAA) Order by a substantially affected person other than Country Walk, the Utility should be authorized to implement the rates established in the LARI PAA Order on a temporary basis subject to refund upon filing a staff-assisted rate case (SARC) application within 21 days from the date the protest is filed. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The 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. If the recommended rates are approved on a temporary basis, the incremental increase collected by the Utility will be subject to the refund provisions outlined in Rule 25-30.360, F.A.C. Pursuant to Rule 25- 30.457(9), F.A.C., if Country Walk fails to file a SARC application within 21 days in the event there is a protest, the application for a LARI will be deemed withdrawn. (Mathis, Imig) (Procedural Agency Action)

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 for the Utility. Therefore, pursuant to Rule 25-30.457(9), F.A.C., Country Walk should be authorized to implement the rates established in the LARI PAA Order on a temporary basis subject to refund upon filing a SARC application within 21 days from the date the protest is filed. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The 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. If the recommended rates are approved on a temporary basis, the incremental increase collected by the Utility will be subject to the refund provisions outlined in Rule 25-30.360, F.A.C. Pursuant to Rule 25-30.457(9), F.A.C., if Country Walk fails to file a SARC application within 21 days in the event there is a protest, the application for a LARI will be deemed withdrawn.

Issue 5: Should this docket be closed?

Recommendation: No. In the event of a protest, Country Walk may implement the rates established in the PAA Order on a temporary basis, subject to refund with interest, upon the Utility's filing of a SARC application within 21 days of the date the protest is filed. If Country Walk fails to file a SARC within 21 days, the Utility's petition for a LARI will be deemed withdrawn pursuant to Rule 25-30.457(9), F.A.C. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the PAA Order, a Consummating Order should be issued. The docket should remain open for staff's verification that the revised tariff sheets which reflect the Commission-approved rates, and the customer notice, have been filed by Country Walk and approved by staff, and so that staff may conduct an earnings review of the Utility pursuant to Rule 25-30.457(8), F.A.C. Upon staff's approval of the tariff and completion of the earnings review process as set forth in Rule 25-30.457(8)(a), F.A.C., this docket should be closed administratively. (Imig)

Staff Analysis: In the event of a protest, Country Walk may implement the rates established in the PAA Order on a temporary basis, subject to refund with interest, upon the Utility's filing of a SARC application within 21 days of the date the protest is filed. If Country Walk fails to file a SARC within 21 days, the Utility's petition for a LARI will be deemed withdrawn pursuant to Rule 25-30.457(9), F.A.C. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the PAA Order, a Consummating Order should be issued. The docket should remain open for staff's verification that the revised tariff sheets which reflect the Commission-approved rates, and the customer notice, have been filed by Country Walk and approved by staff, and so that staff may conduct an earnings review of the Utility pursuant to Rule 25-30.457(8), F.A.C. Upon staff's approval of the tariff and completion of the earnings review process as set forth in Rule 25-30.457(8)(a), F.A.C., this docket should be closed administratively.

Country Walk Utilities, Inc.			Schedule No. 1	
Test Year Ended 12/31/21			Docket No. 20210182-WU	
Water Rates				
	UTILITY'S EXISTING RATES	UTILITY'S PROPOSED RATES	STAFF RECOMMENDED RATES	4-YEAR RATE REDUCTION
<u>Residential and General Service</u>				
Base Facility Charge by Meter Size				
5/8" x 3/4"	\$29.65	\$32.08	\$31.91	\$0.20
3/4"	\$44.48	\$48.12	\$47.87	\$0.30
1"	\$74.13	\$80.19	\$79.78	\$0.50
1 1/2"	\$148.25	\$160.38	\$159.55	\$1.00
2"	\$237.20	\$256.61	\$255.28	\$1.60
3"	\$474.40	\$513.21	\$510.56	\$3.20
4"	\$741.25	\$801.89	\$797.75	\$5.00
6"	\$1,482.50	\$1,603.78	\$1,595.50	\$10.00
Charge per 1,000 gallons - Residential Service				
0-3,000 gallons	\$13.29	\$14.38	\$14.30	\$0.09
Over 3,000 gallons	\$24.15	\$26.13	\$25.99	\$0.16
Charge per 1,000 gallons - General Service				
	\$15.45	\$16.71	\$16.63	\$0.10
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
3,000 Gallons	\$69.52	\$75.22	\$74.81	
6,000 Gallons	\$141.97	\$153.61	\$152.78	
10,000 Gallons	\$238.57	\$258.13	\$256.74	