

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: August 22, 2022

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

FROM: Division of Economics (Bethea) *TB*
Division of Accounting and Finance (Richards) *CR*
Division of Engineering (Lewis) *TB*

RE: Docket No. 20220026-WU – Application for staff-assisted rate case in Marion County, and request for interim rate increase, by Leighton Estates Utilities, LLC

– 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 September 12, 2022.

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Table of Contents

<i>Issue</i>	<i>Description</i>	<i>Page</i>
	Case Background.....	3
1	Quality of Service (Lewis)	4
2	Operating Conditions (Lewis)	5
3	Used and Useful (Lewis)	6
4	Test Year Rate Base (Richards)	8
5	Rate of Return (Richards).....	10
6	Test Year Revenues (Bethea)	11
7	Operating Expenses (Richards)	12
8	Revenue Requirement (Richards).....	15
9	Rates and Rate Structure (Bethea).....	16
10	Miscellaneous Service Charge Amendment (Bethea).....	18
11	Customer Deposits (Bethea).....	19
12	Four Year Rate Reduction (Bethea, Richards)	20
13	Recommended Rates on a Temporary Basis (Richards)	21
14	Adjustment of Books (Richards)	23
	Schedule No. 1-A Rate Base	24
	Schedule No. 1-B Rate Base	25
	Schedule No. 2 Capital Structure	26
	Schedule No. 3-A Water NOI	27
	Schedule No. 3-B Adjustments to NOI	28
	Schedule No. 3-C Water Operation and Maintenance Expense.....	29
	Schedule No. 4 Monthly Water Rates	30

Case Background

Leighton Estates Utilities, LLC (Leighton or utility) is a Class C utility which is currently providing water only service to approximately 80 customers. Leighton is located in the St. Johns River Water Management District (SJRWMD) in Marion County. According to the utility's 2021 Annual Report, Leighton's operating revenues were \$28,104 and operating expenses were \$30,544.

Certificate No. 652-W was originally granted in 2010 to Arma Water Service, LLC by the Commission.¹ In 2021, the Commission approved the transfer of Arma Water Service, LLC to Leighton Estates Utilities, LLC.²

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 October 10, 2022, for the November 1, 2022 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, 366.091 and 367.121, Florida Statutes (F.S.).

¹ Order No. PSC-10-0522-PAA-WU, issued September 3, 2010, in Docket No. 090366, *In Re: Application for certificate to operate water utility in Marion County by Arma Water Service, LLC.*

² Order No. PSC-2021-0408-PAA-WU, issued November 1, 2021, in Docket No. 20210043-WU, *In re: Application to transfer facilities and water Certificate No. 652-W in Marion County from Arma Water Service, LLC to Leighton Estates Utilities, LLC.*

Discussion of Issues

Issue 1: Is the quality of service provided by Leighton Estates Utilities, LLC satisfactory?

Preliminary Recommendation: Staff's recommendation regarding quality of service will not be finalized until after the September 12, 2022 customer meeting. (Lewis)

Staff Analysis: Pursuant to Section 367.081(2)(a), F.S., and 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 the 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 state's Department of Environmental Protection (DEP) and the county health departments, 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. The operating condition of the water system is addressed in Issue 2.

Quality of Product

In evaluating Leighton'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 June 16, 2021, 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 2023.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the complaints filed in the Commission's Consumer Activity Tracking System for the test year and four years prior. No customer complaints were received by the Commission during this time period. Likewise, the DEP and the utility indicated that no customer complaints were received for this same time period.

Conclusion

Staff's recommendation regarding quality of service will not be finalized until after the September 12, 2022 customer meeting.

Issue 2: Are the infrastructure and operating condition of Leighton Estates Utilities, LLC water system in compliance with the Department of Environmental Protection regulations?

Preliminary Recommendation: Staff's recommendation regarding the DEP compliance will not be finalized until after the September 12, 2022 customer meeting. (Lewis)

Staff Analysis: Rule 25-30.225(2), F.A.C., requires each water and wastewater utility to maintain and operate its plant and facilities by employing qualified operators in accordance with the rules of the DEP. Rule 25-30.433(2), F.A.C., requires consideration of whether the infrastructure and operating conditions of the plant and facilities are in compliance with Rule 25-30.225, F.A.C. In making this determination, the Commission must consider testimony of the DEP and county health department officials, sanitary surveys for water systems and compliance evaluation inspections for wastewater systems, citations, violations, and consent orders issued to the utility, customer testimony, comments, and complaints, and utility testimony and responses to the aforementioned items.

Water System Operating Conditions

Leighton's water system has a permitted design capacity of 65,800 gallons per day (gpd). The utility's water system is supplied by one well with a rated pumping capacity of 96 gallons per minute (gpm). The treated water is pumped into a 5,000 gallon hydropneumatic storage tank before entering the distribution system. The hydropneumatic tank passed inspection on June 24, 2020. Staff reviewed the Sanitary Survey conducted by the DEP on September 11, 2020. The water treatment plant (WTP) was in compliance with no deficiencies indicated. Staff did not find any warning letters or consent orders issued to the utility.

Conclusion

Staff's recommendation regarding the DEP compliance will not be finalized until after the September 12, 2022 customer meeting.

Issue 3: What are the used and useful percentages for Leighton Estates Utilities LLC's water treatment plant and water distribution system?

Preliminary Recommendation: Leighton's water treatment plant (WTP) and water distribution system should be considered 100 percent used and useful (U&U). Additionally, 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 at this time. These are preliminary determinations and are subject to change. (Lewis)

Staff Analysis: Leighton's WTP consists of one well at a rated pumping capacity of 96 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 approximately 3,520 feet of 2 inch and 4,000 feet of 4 inch polyvinyl chloride pipes.

Water Treatment Plant Used & Useful

Rule 25-30.4325(4), F.A.C., states that a water treatment system is considered 100 percent used and useful if the service territory the system is designed to serve is built out and there is no apparent potential for expansion of the service territory or the system is served by a single well. Leighton is served by a single well and therefore, Leighton's WTP should be considered 100 percent U&U.

Water Distribution System Used and Useful

The water distribution system is evaluated based on equivalent residential connections (ERCs) consisting of growth, customer demand, and system capacity. During the test year, 80 residential customers were being served. The utility provided a map of the customer lots and indicated that there were no vacant lots.³ Based on this information, the water distribution system should be considered 100 percent U&U.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., additionally provides factors to be considered in determining whether adjustments to operating expenses are necessary for EUW. EUW is defined 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. A review of the utility's Monthly Operating Reports, 2021 Annual Report, and audited billing data indicate that Leighton treated 4,924,400 gallons and sold 4,352,400 gallons with 572,000 gallons used for flushing during the test year. The resulting calculation $([4,924,400 - 4,352,400 - 572,000] / 4,924,400)$ for unaccounted for water is 0 percent; therefore, there is no EUW. Staff's preliminary recommendation is that no adjustments should be made to purchased power and chemicals at this time.

Conclusion

Leighton's WTP and distribution system should both be considered 100 percent U&U. Additionally, there appears to be no EUW; therefore, staff recommends that no adjustment be

³Document No. 03603-2022, in Docket No. 20220026-WU, dated June 13, 2022.

made to operating expenses for chemicals and purchased power at this time. These are preliminary determinations and are subject to change.

Issue 4: What is the appropriate average test year rate base for Leighton Estates Utilities, LLC?

Preliminary Recommendation: The appropriate average test year rate base for Leighton is \$233,745. (Richards)

Staff Analysis: The appropriate components of the utility's rate base include utility plant in service (UPIS), land, accumulated depreciation, contributions-in-aid-of-construction (CIAC), accumulated amortization of CIAC, and working capital. The utility's rate base was established as part of its transfer proceeding, in Docket No. 20210043-WU.⁴ Staff selected the test year ended December 31, 2021, for the instant rate case. 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 and staff's recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

The utility recorded a UPIS balance of \$366,405. Staff decreased UPIS by \$2,077 to reflect an averaging adjustment. Staff increased UPIS by \$25 to reflect the transfer of a chlorinator part from Account 620 – Materials and Supplies, in addition to increasing UPIS by \$1,850 to reflect pro forma additions. Staff also decreased UPIS by \$1,388 to reflect pro forma retirement associated with the utility's requested meter replacement program.

The utility requested a meter replacement program to replace all 80 residential meters with Automated Meter Reading (AMR) capable meters. At this time, the utility has not provided information supporting its request. As a result, staff recommends the utility's requested meter replacement consists of the replacement of 40 AMR meters at a cost of \$185 per meter.⁵ Therefore, staff recommends a UPIS balance of \$364,816 ($\$366,405 - \$2,077 + \$1,850 + \$25 - \$1,388$). However, this is a preliminary determination and subject to change once further information is received.

Land & Land Rights

The utility recorded a land balance of \$30,000. Staff made no adjustment to this amount and therefore recommends a land balance of \$30,000.

Used & Useful

As discussed in Issue 3, Leighton's WTP and distribution system are considered 100 percent U&U. Therefore, no U&U adjustments are necessary.

Accumulated Depreciation

Leighton recorded an accumulated depreciation balance of \$123,119. Staff decreased accumulated depreciation by \$48 to reflect overstated depreciation expense for Account 320 – Water Treatment Equipment. Additionally, staff decreased accumulated depreciation by \$6,128

⁴Order No. PSC-2021-0408-PAA-WU, issued November 1, 2021, in Docket No. 20210043-WU, *In re: Application to transfer facilities and water Certificate No. 652-W in Marion County from Arma Water Service, LLC to Leighton Estates Utilities, LLC.*

⁵Staff used the cost of the AMR meter provided in Order No. PSC-2019-0493-PAA-WS.

to reflect an averaging adjustment. Staff also decreased accumulated depreciation by \$1,360 to reflect retirements associated with pro forma plant. Therefore, staff recommends an accumulated depreciation balance of \$115,583 (\$123,119 - \$48 - \$6,128 - \$1,360).

Contributions in Aid of Construction (CIAC)

The utility recorded a CIAC balance of \$10,165. Staff made an averaging adjustment decreasing CIAC by \$1,083. Therefore, staff recommends a CIAC balance of \$9,083 (\$10,165 - \$1,083).

Accumulated Amortization of CIAC

Leighton recorded accumulated amortization of CIAC of \$846. Staff made an averaging adjustment decreasing this amount by \$167. Therefore, staff recommends an accumulated amortization of CIAC balance of \$680 (\$846 - \$167).

Acquisition Adjustment Net

The utility recorded a negative acquisition adjustment of \$47,985 based on Order No. PSC-2021-0408-PAA-WU.⁶ The utility did not record accumulated amortization of acquisition adjustment. Staff annualized the amortization amount and determined it to be \$6,855. Staff recommends a net acquisition adjustment of \$41,130 (\$47,985 - \$6,855).

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 one-eighth of the operation and maintenance expense (less rate case expense) formula 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 \$295 for this calculation resulting in an adjusted O&M expense balance of \$32,358 (\$32,653 - \$295). Applying this formula, staff recommends a working capital allowance of \$4,045 (\$32,359 ÷ 8).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$233,745. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

⁶Order No. PSC-2021-0408-PAA-WU, issued November 1, 2021, in Docket No. 20210043-WU, *In re: Application to transfer facilities and water Certificate No. 652-W in Marion County from Arma Water Service, LLC to Leighton Estates Utilities, LLC.*

Issue 5: What is the appropriate return on equity and overall rate of return for Leighton Estates Utilities, LLC?

Preliminary Recommendation: The appropriate return on equity (ROE) is 10.45 percent with a range of 9.45 percent to 11.45 percent. The appropriate rate of return is 6.82 percent. (Richards)

Staff Analysis: The utility's capital structure is comprised of long-term debt, common equity, and customer deposits. The utility's proposed capital structure has been reconciled with staff's preliminary recommended rate base. The appropriate ROE for the utility is 10.45 percent based upon the Commission-approved leverage formula currently in effect.⁷ Staff recommends an ROE of 10.45 percent, with a range of 9.45 percent to 11.45 percent, and an overall rate of return of 6.82 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁷Order No. PSC-2022-0208-PAA-WS, issued June 15, 2022, in Docket No. 20220006-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 6: What are the appropriate test year revenues for Leighton Estates Utilities, LLC's water system?

Preliminary Recommendation: The appropriate test year revenues for Leighton's water system are \$28,269. (Bethea)

Staff Analysis: Leighton recorded test year revenues of \$28,105. The water revenues included \$27,740 of service revenues and \$365 of miscellaneous revenues. Staff annualized service revenues by applying the number of billing determinants to the utility's existing rates. As a result, staff determined that service revenues should be \$28,104, which is an increase of \$364. Staff also made an adjustment to miscellaneous revenues to remove \$200 of service availability charges that were inaccurately reflected in miscellaneous revenues. Staff determined that miscellaneous revenues should be \$165. Based on the above, the appropriate test year revenues for Leighton's water system, including miscellaneous revenues are \$28,269 (\$28,104 + \$165).

Issue 7: What is the appropriate operating expense for Leighton Estates Utilities, LLC?

Preliminary Recommendation: The appropriate amount of operating expense for Leighton is \$41,692. (Richards)

Staff Analysis: The Utility recorded operating expense of \$45,072. The test year O&M expenses have been reviewed by staff, including invoices and other supporting documentation. Staff has made several adjustments to the Utility's operating expenses as described below.

Operation and Maintenance Expenses

Previously, the Commission approved the sharing of common O&M expenses by all utilities under the parent company, FUS1.⁸ O&M common costs are allocated among all of the utilities in the FUS1 system based on each utility's number of customers relative to the total number of customers receiving service under FUS1. Based on the number of customers for Leighton, the allocation of FUS1 common costs is 2 percent.

Materials and Supplies (620)

The Utility recorded materials and supplies expense of \$3,465. Staff decreased this amount by \$25 to reflect the removal of a chlorine injector part that belongs in Account 320 – Water Treatment Equipment. Therefore, staff recommends a materials and supplies expense of \$3,440 (\$3,465 - \$25).

Contractual Services – Other (636)

The Utility recorded contractual services – other expense of \$5,945. Staff increased this amount by \$27 to reflect the allocated portion of replacing an air conditioning system at FUS1's New Port Richey office. The total cost for the system was \$6,650. The Commission approved the expense of the air conditioning system in Docket No. 20200152-WS, and determined that the cost should be amortized over five years.⁹ As such, staff increased contractual services – other for all FUS1 systems by \$1,330 ($\$6,650 \div 5$ years) in that docket. The allocated portion attributable to Leighton is \$27 ($\$1,330 \times 2$ percent). Therefore, staff recommends contractual services – other expense of \$5,972 ($\$5,945 + \27).

Regulatory Commission Expense (665)

Leighton recorded transfer cost in the amount of \$1,463 ($\$7,316 \div 5$ years) in account 186.2 to be amortized each year. Staff annualized the amortization amount and determined it to be \$1,463. These costs were related to legal, consulting, and filing fees associated with the Utility's transfer docket.¹⁰ Staff believes these costs should be included in the instant docket because they have not been recovered in rates to date.

⁸ Order No. PSC-2019-0503-PAA-SU, issued November 25, 2019, in Docket No. 201802020-SU, In re: *Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC*.

⁹ Order No. PSC-2020-0396-PAA-WS, issued October 22, 2020, in Docket No. 20200152-WS, In re: *Application for a limited increase proceeding in Polk and Marion Counties, by Alturas Water, LLC, Sunrise Water, LLC, Pinecrest Utilities, LLC, and East Marion Utilities, LLC*.

¹⁰ Order No. PSC-2021-0408-PAA-WU, issued November 1, 2021, in Docket No. 20210043-WU, In re: *Application for transfer facilities and water Certificate No. 625-W in Marion County from Arma Water Services, LLC to Leighton Estates Utilities, LLC*.

Regarding the instant case, the utility is required by Rule 25-22.0407, F.A.C., to mail notices of the rate case overview, the interim rates as approved by Order No. PSC-2022-0142-PCO-WU, final rates, and four-year rate reduction. Staff calculated noticing costs to be \$201. Staff calculated travel to the Commission Conference to be \$480. Additionally, the Utility paid a \$500 filing fee.¹¹ Staff recommends noticing costs, travel, and filing fee of \$1,181 ($\$201 + \$480 + \500), which amortized over four years is \$295 ($\$1,181 \div 4$ years) per year. Therefore, staff recommends a regulatory commission expense of \$1,758 ($\$295 + \$1,463$).

Bad Debt Expense (670)

The Utility recorded bad debt expense of \$0. However, for the purpose of the staff report, staff used 2 percent of revenues to reflect bad debt expense. Therefore, staff recommends a bad debt expense of \$565.

Miscellaneous Expense (675)

The Utility recorded miscellaneous expense of \$2,498. Staff decreased this amount by \$216 to remove service charges, loan fees, and non-sufficient fund fees recorded in the account. Therefore, staff recommends miscellaneous expense of \$2,282 ($\$2,498 - \216).

Operation and Maintenance Expense Summary

The Utility recorded O&M expenses of \$30,544 for the test year. Based on the above adjustments, staff recommends the O&M expense balance be increased by \$2,109, resulting in a total O&M expense of \$32,653 ($\$30,544 + \$2,109$). Staff's recommended adjustments to O&M expenses are shown on Schedule No. 3-B.

Depreciation Expense

The Utility recorded depreciation expense of \$12,603. Audit staff decreased depreciation expense by \$36 to reflect over depreciation of Account 320 – Water Treatment Equipment. Using the prescribed rates set forth in Rule 25-30.140, F.A.C., staff increased depreciation expense by \$46 to reflect the depreciation on the allocated portion of vehicles owned by FUS1 and used by the Utility. Staff further increased depreciation expense by \$28 to reflect pro forma additions. Therefore, staff recommends depreciation expense of \$12,640 ($\$12,603 - \$36 + \$46 + \28).

Amortization Expense

The Utility recorded an amortization expense of \$333. Staff increased amortization expense by \$6,855 to reflect amortization expense for the acquisition adjustment. Therefore, staff recommends amortization expense of \$7,188 ($\$333 + \$6,855$).

Taxes Other Than Income (TOTI)

The Utility recorded TOTI of \$2,258. Staff increased TOTI by \$7 to reflect the appropriate test year regulatory assessment fees (RAFs). These adjustments by staff result in a test year balance of \$2,265 ($\$2,258 + \7).

As discussed in Issue 7, revenues have been increased by \$29,380 to reflect the change in revenue required to cover expenses and allow an opportunity to earn the recommended rate of

¹¹ Document No. 02148-2022, filed on March 30, 2022.

Date: August 22, 2022

return. As a result, TOTI should be increased by \$1,322 to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$3,587 ($\$2,265 + \$1,322$).

Income Taxes

Leighton is a sole proprietorship, and therefore did not record any income tax expense for the test year. As such, staff recommends no adjustments to income tax expense.

Operating Expenses Summary

The utility recorded operating expenses of \$45,072. The application of staff's recommended adjustments to the utility's operating expenses result in a total operating expense of \$41,692. Operating expenses are shown on Schedule No. 3-A, and the related adjustments are shown on Schedule No. 3-B.

Issue 8: What is the appropriate revenue requirement for Leighton Estates Utilities, LLC?

Preliminary Recommendation: The appropriate revenue requirement is \$57,645, resulting in an annual increase of \$29,376 (103.92 percent). (Richards)

Staff Analysis: Leighton should be allowed an annual increase of \$29,376 (103.92 percent). This should allow the Utility the opportunity to recover its expenses and earn a 6.82 percent return on its water system. The calculations are shown in Table 9-1:

**Table 8-1
Revenue Requirement**

Rate Base	\$233,745
Rate of Return	<u>x 6.82%</u>
Return on Rate Base	\$15,953
O&M Expense	32,653
Depreciation Expense	12,640
Amortization	(7,188)
Taxes Other Than Income	<u>3,587</u>
Revenue Requirement	<u>\$57,645</u>
Less Adjusted Test Year Revenues	<u>28,269</u>
Annual Increase	<u>\$29,376</u>
Percent Increase	<u>103.92%</u>

Issue 9: What are the appropriate rate structure and rates for Leighton Estates Utilities, LLC water system?

Preliminary Recommendation: The recommended rate structure 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 sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice. (Bethea)

Staff Analysis: The utility provides water service to 80 residential customers. Approximately two 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 4,587 gallons per month. The average water demand excluding zero gallon bills is 4,660 gallons per month. Currently, the utility's residential and general service water rate structure consists of a monthly base facility charge (BFC) and a gallonage charge.

Staff performed an analysis of the utility's billing 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.

In this case, 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 2.5; therefore, based on the number of people per household, 50 gallons per day per person, and the number of days per month, the appropriate non-discretionary threshold should be 4,000 gallons. Staff's review of the billing analysis indicates that the usage above 4,000 gallons represents 48 percent of the bills, which account for approximately 36 percent of the water demand. This is considered moderately high discretionary usage for this customer base.

For this case, staff recommends a BFC and a two-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) 0-4,000 gallons and (2) all usage in excess of 4,000 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. General service customers should be billed a BFC and an uniform gallonage charge.

Based on staff's recommended revenue increase of 104.5 percent, which excludes miscellaneous revenues, the residential consumption can be expected to decline by 1,286,000 gallons resulting

in anticipated average residential demand of 3,231 gallons per month. Staff recommends a 29.6 percent reduction in test year residential gallons for ratesetting purposes. As a result, the corresponding reductions for purchased power expense is \$334, and \$16 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$57,130.

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 sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 10: Should Leighton Estates Utilities, LLC's miscellaneous service charges be revised to conform to amended Rule 25-30.460, F.A.C.?

Preliminary Recommendation: Yes. Staff recommends the miscellaneous service charges be revised to conform to the recent amendment to Rule 25-30.460, F.A.C. The tariff should be revised to reflect the removal of initial connection and normal reconnection charges. Leighton 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 charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bethea)

Staff Analysis: Effective June 24, 2021, Rule 25-30.460, F.A.C., was amended to remove initial connection and normal reconnection charges.¹² The definitions for initial connection charges and normal reconnection charges were subsumed in the definition of the premises visit charge. Leighton's miscellaneous service charges consist of initial connection and normal reconnection charges. Therefore, staff recommends that the initial connection and normal reconnection charges be removed, and the definition for the premises visit charge be updated to comply with amended Rule 25-30.460, F.A.C. The premises visit and violation reconnection charge will remain at \$25 for normal hours and \$50 for after hours.

Conclusion

Based on the above, staff recommends the miscellaneous service charges be revised to conform to the recent amendment to Rule 25-30.460, F.A.C. The tariff should be revised to reflect the removal of initial connection and normal reconnection charges. Leighton 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 charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

¹²Order No. PSC-2021-0201-FOF-WS, issued June 4, 2020, in Docket No. 20200240-WS, *In re: Proposed amendment of Rule 25-30.460, F.A.C., Application for Miscellaneous Service Charges.*

Issue 11: Should the requested initial customer deposits for Leighton Estates Utilities, LLC be approved?

Preliminary Recommendation: The appropriate initial customer deposits should be \$119 for the single family 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 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. (Bethea)

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.¹³ Currently, the utility's initial customer deposit for single family residential water customer is \$50 for the 5/8 inch x 3/4 inch meter size. However, the amount does not cover two months' average bill based on staff's recommended rates. The average monthly bill based on staff's recommended rates is \$59.38 for water.¹⁴

Based on the above, the appropriate initial customer deposits for the residential 5/8 inch x 3/4 inch meter size are \$119 for water. The initial customer deposit for all other residential meter sizes and all general service meter sizes should be two times the average estimated monthly bill for water. The approved initial 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.

¹³Order No. PSC-2022-0043-PAA-WU, issued January 26, 2022, in Docket No. 20210055-WU, *In re: Application for staff-assisted rate case in Lake County by Brendenwood Waterworks, Inc.*

¹⁴The post repression average consumption is 3,231 gallons.

Issue 12: 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?

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. Pursuant to Section 367.081(8), F.S., the decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. Leighton 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, the Utility shall file separate data 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, Richards) (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. 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 \$309.

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. Leighton 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, the Utility shall file separate data for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 13: Should the recommended rates be approved for Leighton Estates Utilities, LLC on a temporary basis, subject to refund, 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. Leighton 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. (Richards) (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 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. Leighton 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.

Leighton 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 \$19,699. 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.
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 prior written authorization of the Commission Clerk, or his or her designee.
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.

The Utility should maintain a record of the amount of the bond, 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 Clerk's office no later than the 20th of every 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.

Issue 14: Should Leighton Estates Utilities, LLC be required to notify the Commission within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) associated with the Commission approved adjustments?

Preliminary Recommendation: Yes. Leighton should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Leighton should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all applicable National Association of Regulatory and Utility Commissioners Uniform System of Accounts (NARUC USOA) primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice providing good cause should be filed not less than seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Richards)

Staff Analysis: Leighton should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Leighton should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice providing good cause should be filed not less than seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

LEIGHTON ESTATES UTILITIES, LLC		SCHEDULE NO. 1-A	
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220026-WU	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$366,405	(\$1,589)	\$364,816
2. LAND & LAND RIGHTS	30,000	0	30,000
3. ACCUMULATED DEPRECIATION	(123,119)	7,536	(115,583)
4. CIAC	(10,165)	1,083	(9,083)
5. ACCUMULATED AMORTIZATION OF CIAC	846	(167)	680
6. ACQUISITION ADJUSTMENT (NET)	(47,985)	6,855	(41,130)
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>4,045</u>	<u>4,045</u>
8. WATER RATE BASE	<u>\$215,982</u>	<u>\$17,763</u>	<u>\$233,745</u>

LEIGHTON ESTATES UTILITIES, LLC	SCHEDULE NO. 1-B
TEST YEAR ENDED 12/31/2021	DOCKET NO. 20220026-WU
ADJUSTMENTS TO RATE BASE	
	<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
1. To reflect staff adjustment for chlorinator part per ENG.	\$25
2. To reflect pro forma addition.	1,850
3. To reflect pro forma retirement.	(1,388)
4. To reflect an averaging adjustment.	<u>(2,077)</u>
Total	<u>(\$1,589)</u>
<u>ACCUMULATED DEPRECIATION</u>	
1. To reflect appropriate balance in Account 320	\$48
2. To reflect pro forma adjustment	1,360
3. To reflect an averaging adjustment	<u>6,128</u>
Total	<u>\$7,536</u>
<u>CIAC</u>	
To reflect an averaging adjustment.	<u>\$1,083</u>
<u>ACCUMULATED AMORTIZATION OF CIAC</u>	
To reflect an averaging adjustment.	<u>(\$167)</u>
<u>ACCUMULATED AMORTIZATION OF ACQUISITION ADJUSTMENT</u>	
To reflect a staff adjustment to include amortization.	<u>\$6,855</u>
<u>WORKING CAPITAL ALLOWANCE</u>	
To reflect 1/8 of test year O&M expenses.	<u>\$4,045</u>

LEIGHTON ESTATES UTILITIES, LLC TEST YEAR ENDED 12/31/2021 SCHEDULE OF CAPITAL STRUCTURE							SCHEDULE NO. 2 DOCKET NO. 20220026-WU		
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE AFTER ADJ	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON STOCK	\$0	\$0	\$0	\$0	\$0	0.00%			
2. RETAINED EARNINGS	58,106	0	58,106	0	58,106	25.12%			
3. PAID IN CAPITAL	3,355	0	3,355	0	3,355	1.45%			
TOTAL EQUITY	<u>\$61,461</u>	<u>\$0</u>	<u>\$61,461</u>	<u>\$644</u>	<u>\$62,105</u>	<u>26.57%</u>	10.45%	2.78%	
5. LONG-TERM DEBT	\$169,167	\$0	\$169,167	\$1,773	\$170,940	73.13%	5.53%	4.04%	
TOTAL DEBT	<u>\$169,167</u>	<u>\$0</u>	<u>\$169,167</u>	<u>\$0</u>	<u>\$170,940</u>	<u>73.13%</u>	0.00%	0.00%	
8. CUSTOMER DEPOSITS	\$700	\$0	\$700	\$0	\$700	0.30%	2.00%	0.01%	
9. DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
10. TOTAL	<u>\$231,328</u>	<u>\$0</u>	<u>\$231,328</u>	<u>\$2,417</u>	<u>\$233,745</u>	<u>100.00%</u>		<u>6.82%</u>	
<u>RANGE OF REASONABLENESS</u>							<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY							9.45%	11.45%	
OVERALL RATE OF RETURN							6.56%	7.09%	

LEIGHTON ESTATES UTILITIES, LLC		SCHEDULE NO. 3-A			
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220026-WU			
SCHEDULE OF WATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR	ADJUST FOR INCREASE	REVENUE REQUIREMENT
TOTAL OPERATING REVENUES	<u>\$28,105</u>	<u>\$164</u>	<u>\$28,269</u>	<u>\$29,376</u> 103.92%	<u>\$57,645</u>
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	\$30,544	\$2,109	\$32,653		\$32,653
DEPRECIATION	\$12,603	\$37	\$12,640		\$12,640
AMORTIZATION	(\$333)	(\$6,855)	(\$7,188)		(\$7,188)
TAXES OTHER THAN INCOME	\$2,258	\$7	\$2,265	\$1,322	\$3,587
INCOME TAXES	\$0		\$0		\$0
TOTAL OPERATING EXPENSES	<u>\$45,072</u>	<u>(\$4,701)</u>	<u>\$40,370</u>		<u>\$41,692</u>
OPERATING INCOME / (LOSS)	<u>(\$16,967)</u>		<u>(\$12,101)</u>		<u>\$15,953</u>
WATER RATE BASE	<u>\$215,982</u>		<u>\$17,763</u>		<u>\$233,745</u>
RATE OF RETURN					6.82%

LEIGHTON ESTATES UTILITIES, LLC TEST YEAR ENDED 12/31/2021 ADJUSTMENTS TO OPERATING INCOME	SCHEDULE NO. 3-B DOCKET NO. 20220026-WU
	<u>WATER</u>
OPERATING REVENUES	
1. To reflect an auditing adjustment to Service Revenues.	\$0
2. To reflect the appropriate test year Service Revenues.	364
3. To reflect the appropriate test year Miscellaneous Revenues.	<u>(200)</u>
Total	<u>\$164</u>
OPERATION AND MAINTENANCE EXPENSE	
1. Materials and Supplies (620) To reflect the removal of chlorine injector part that belongs in account 320 – Water Treatment Equipment.	<u>(\$25)</u>
2. Contractual Services – Other (636) To reflect allocated pro forma increase per Docket No. 20200152-WS.	<u>\$27</u>
3. Regulatory Commission Expense (665)	
a. To reflect 1/4 rate case expense.	\$295
b. To reflect transfer from 186.2 to 665 to reflect amortization of transfer cost.	<u>\$1,463</u>
Total	<u>\$1,758</u>
4. Bad Debt Expense (670) To reflect 2 percent of test year revenues.	<u>\$565</u>
5. Miscellaneous Expense (675) To remove service charges, loan fees, and NSF fees record in account.	<u>(\$216)</u>
TOTAL OPERATION AND MAINTENANCE ADJUSTMENTS	<u>\$2,109</u>
DEPRECIATION EXPENSE	
1. To reflect an auditing adjustment.	(\$36)
2. To reflect staff adjustment to add depreciation for Acct. 341.	46
3. To reflect pro forma additions.	27
Total	<u>\$37</u>
AMORTIZATION EXPENSE (NET) To reflect amortization expense for acquisition adjustment.	<u>\$6,855</u>
TAXES OTHER THAN INCOME To reflect appropriate test year RAFs.	<u>\$7</u>
TOTAL OPERATING EXPENSE	<u>\$4,701</u>

LEIGHTON ESTATES UTILITIES, LLC		SCHEDULE NO. 3-C		
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220026-WU		
ANALYSIS OF WATER O&M EXPENSE				
ACCT. #	DESCRIPTION	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
601	Salaries and Wages – Employees	\$7,589	\$0	\$7,589
603	Salaries and Wages – Officers	1,600	0	1,600
604	Employee Pensions and Benefits	68	0	68
615	Purchased Power	1,131	0	1,131
620	Materials and Supplies	3,465	(25)	3,440
631	Contractual Services – Professional	257	0	257
635	Contractual Services – Testing	2,555	0	2,555
636	Contractual Services – Other	5,945	27	5,972
640	Rents	1,027	0	1,027
650	Transportation Expense	967	0	967
655	Insurance Expense	3,442	0	3,442
665	Regulatory Commission Expense	0	1,758	1,758
670	Bad Debt Expense	0	565	565
675	Miscellaneous Expenses	<u>\$2,498</u>	<u>(\$216)</u>	<u>\$2,282</u>
	Total O&M Expense	<u>\$30,544</u>	<u>\$2,109</u>	<u>\$32,653</u>
	Working Capital is 1/8 O&M Less RCE			\$4,045

LEIGHTON ESTATES UTILITIES, LLC TEST YEAR ENDED DECEMBER 31, 2021 MONTHLY WATER RATES		SCHEDULE NO. 4 DOCKET NO. 20220026-WU		
	UTILITY CURRENT RATES	UTILITY INTERIM 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"	\$22.00	\$24.48	\$24.08	\$0.13
3/4"	N/A	N/A	\$36.12	\$0.20
1"	\$55.00	\$61.20	\$60.20	\$0.33
1-1/2"	\$110.00	\$122.40	\$120.40	\$0.65
2"	\$176.00	\$195.84	\$192.64	\$1.04
3"	N/A	N/A	\$385.28	\$2.08
4"	N/A	N/A	\$602.00	\$3.25
6"	N/A	N/A	\$1,204.00	\$6.50
Charge per 1,000 gallons - Residential Service				
0 - 4,000 gallons	N/A	N/A	\$10.93	\$0.06
Over 4,000 gallons	N/A	N/A	\$13.67	\$0.07
Charge per 1,000 gallons - General Service				
	\$1.66	\$1.85	\$11.18	\$0.06
Charge per 1,000 gallons - Residential and General Service				
	\$1.66	\$1.85	N/A	N/A
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
3,000 Gallons	\$26.98	\$30.03	\$56.87	
6,000 Gallons	\$31.96	\$35.58	\$95.14	
10,000 Gallons	\$38.60	\$42.98	\$149.82	