

State of Florida



# Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

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**DATE:** November 1, 2022

**TO:** Laura V. King, Chief of Reliability & Resource Planning, Division of Engineering

**FROM:** Division of Engineering (Knoblauch, Ramos) *CK MR*  
Division of Accounting and Finance (Higgins, Mouring, Richards) *CEE*  
Division of Economics (Hudson) *SA*  
Office of the General Counsel (Imig, Trierweiler) *ACT*

**RE:** Docket No. 20210098-WU – Application for staff-assisted rate case in Pasco County by A Utility Inc.

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**– 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 December 1, 2022.

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## Case Background

A Utility Inc. (AUI or Utility) is a Class C utility serving 118 residential water customers in Pasco County. The service area is located in the Southwest Florida Water Management District (SWFWMD). The water system was initially built in 1963 to serve the residents of Tropical Trailer Park in Zephyrhills, Florida. The Utility was granted an original certificate in 1974, and was subsequently transferred four times before being transfer to AUI on May 20, 2021.<sup>1</sup>

The Utility's rates were last set by the Commission in 1988.<sup>2</sup> According to AUI's 2020 Annual Report, total gross revenues were \$20,667, and total operating expenses were \$18,171, resulting in net operating income of \$1,950. On May 14, 2021, AUI filed an application for a staff-assisted rate case. Staff selected a test year ended December 31, 2020, for the instant case.

This Staff Report is a preliminary analysis of the Utility's books and records prepared by Commission staff to give customers and the Utility an initial look at potential staff proposals. The final recommendation to the Commission is currently scheduled to be filed December 28, 2022, for consideration at the January 10, 2023 Commission Conference. The recommendation will be revised as necessary using any relevant new or updated information, responses from pending data requests, and the results of customer quality of service concerns (if any) or other pertinent information received at the virtual customer meeting scheduled for December 1, 2022. The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, 367.091, and 367.121, F.S.

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<sup>1</sup> Order No. 6020, issued February 4, 1974, in Docket No. 1974037-W, *In re: Application of John W. Beeman for a certificate to operate a water utility in Pasco County, Florida*; Order No. 6998, issued November 14, 1975, in Docket No. 1974544-W, *In re: Application for transfer of water utility d/b/a Tropical Utilities and Certificate No. 165-W from John W. Beeman to Fisher Ames and his wife, Helen Ames, in Pasco County, Florida*; Order No. 10151, issued July 21, 1981, in Docket No. 19800253-W, *In re: Application for the transfer of Certificate No. 165-W from Fisher Ames and His Wife, Helen Ames, to Dale Hendryx, in Pasco County*; Order No. 11946, issued May 19, 1983, in Docket No. 19830048-W, *In re: Application for transfer of Certificate No. 165-W from Dale Hendryx to Barbara Cobb in Pasco County, Florida*; Order No. 19163, issued April 18, 1988, in Docket No. 19871156-WU, *In re: Application for transfer of Certificate No. 165-W from Melvin Cobb to Allen LaFortune and Otis Fonder (Tropical Park Water System) in Pasco County*.

<sup>2</sup> Order No. 21652, issued August 2, 1989, in Docket No. 19881601-WU, *In re: Application of Allen LaFortune and Otis Fonder for a staff-assisted rate case in Pasco County*.

## Discussion of Issues

**Issue 1:** Is the quality of service provided by A Utility Inc. satisfactory?

**Preliminary Recommendation:** Staff's recommendation regarding quality of service will not be finalized until after the customer meeting scheduled for December 1, 2022. (Knoblauch)

**Staff Analysis:** Pursuant to Section 367.081(2)(a)1, 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 requires that the most recent chemical analyses, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department, along with any DEP and county health department officials' testimony concerning quality of service shall be considered. In addition, any customer testimony, comments, or complaints shall also be considered. The operating condition of the water system is addressed in Issue 2.

### Quality of Utility's Product

In evaluation of AUI'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 comprehensive chemical analyses were performed on August 3, 2021. All results were in compliance with the DEP's standards.

### The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the complaints filed in the Commission's Consumer Activity Tracking System (CATS), filed with the DEP, and received by the Utility for the test year and four years prior. No complaints were recorded through the CATS system, with the DEP, or the Utility during this time.

### Conclusion

Staff's recommendation regarding quality of service will not be finalized until after the customer meeting scheduled for December 1, 2022.

Date: November 1, 2022

**Issue 2:** Are the infrastructure and operating conditions of A Utility Inc.'s water system in compliance with DEP regulations?

**Preliminary Recommendation:** Staff's recommendation regarding AUI's compliance with DEP regulations will not be finalized until after the customer meeting scheduled for December 1, 2022. (Knoblauch)

**Staff Analysis:** Rule 25-30.225(2), F.A.C., requires each water 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, 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**

AUI's water system has two wells with a combined pumping capacity range of 50 to 70 gallons per minute (gpm), one 220-gallon hydropneumatic storage tank, and two 850-gallon bladder storage tanks. Staff reviewed the sanitary survey conducted by the DEP for the system to determine the Utility's overall water facility compliance. The sanitary survey conducted on December 12, 2019, noted no deficiencies or violations, and the system was determined to be in compliance.

### **Conclusion**

Staff's recommendation regarding AUI's compliance with DEP regulations will not be finalized until after the customer meeting scheduled for December 1, 2022.

**Issue 3:** What are the used and useful (U&U) percentages of A Utility Inc.'s water treatment plant (WTP) and water distribution system?

**Preliminary Recommendation:** AUI's WTP and water distribution system should be considered 100 percent U&U. Additionally, staff recommends no adjustment to purchased power and chemicals should be made for excessive unaccounted for water (EUW) at this time. These are preliminary determinations and are subject to change. (Knoblauch)

**Staff Analysis:** AUI's WTP consists of two wells with a combined pumping capacity ranging between 50 to 70 gpm, a 220-gallon hydropneumatic storage tank, and two 850-gallon hydropneumatic bladder storage tanks. AUI's water distribution system is composed of approximately 2,200 feet of 2-inch polyvinyl chloride (PVC) pipe, 1,800 feet of 1.5-inch PVC pipe, 1,000 feet of 1.25-inch PVC pipe, 1,200 feet of 1.25-inch galvanized pipe, and 300 feet of 1-inch galvanized pipe.

### **Used and Useful Percentages**

Rule 25-30.4325, F.A.C., addresses the method by which the U&U of a water system is determined. AUI's U&U percentages were last determined in Docket No. 19881601-WU. In that docket, the Commission determined the Utility's treatment facilities and distribution system were 100 percent U&U. The Utility has not increased the capacity of its facilities and the service area is built out. Therefore, consistent with the Commission's previous decision, staff recommends the Utility's WTP and distribution system 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.

EUW is calculated by subtracting both the gallons sold to customers and the gallons used for other services, such as flushing, from the total gallons pumped for the test year. AUI's customers are unmetered; therefore, staff is unable to calculate EUW and recommends no adjustment to purchased power and chemicals.

### **Conclusion**

AUI's WTP and distribution system should be considered 100 percent U&U. Additionally, staff recommends no adjustment to purchased power and chemicals should be made for EUW at this time. These are preliminary determinations and are subject to change.

**Issue 4:** What is the appropriate average test year rate base for A Utility Inc.?

**Preliminary Recommendation:** The appropriate average test year rate base for AUI is \$10,053. (Richards)

**Staff Analysis:** The appropriate components of the Utility's rate base include utility plant in service (UPIS), land and land rights, accumulated depreciation, contributions-in-aid-of-construction (CIAC), accumulated CIAC, and working capital. Staff selected the test year ended December 31, 2020, for the instant rate case. According to Audit Finding 7, Commission audit staff determined that the Utility does not maintain a general ledger to record its transactions, instead relying on a profit and loss (P&L) statement and a balance sheet in order to track the balances in its accounts. As such, audit staff has determined that the Utility's books and records are not in compliance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). A summary of each component of rate base and the recommended adjustments are discussed below.

### **Utility Plant in Service**

The Utility recorded UPIS of \$97,700. During the audit, it was found that the Utility did not make the Commission ordered adjustments from Order No. PSC-2021-0183-PAA-WU (2017 Transfer Order).<sup>3</sup> Therefore, staff decreased this amount by \$43,107. Staff made no further adjustments to UPIS and therefore recommends average UPIS of \$54,593 (\$97,700 - \$43,107).

### **Land and Land Rights**

The Utility recorded a land value of \$19,300. In the 2017 Transfer Order, the Commission determined the original cost of the land was \$1,000. There have been no additions to land since the prior rate case. To reflect the prior Commission Order, staff decreased land and land rights by \$18,300. Therefore, staff recommends land and land rights of \$1,000 (\$19,300 - \$18,300).

### **Accumulated Depreciation**

The Utility recorded accumulated depreciation of \$15,267. During the audit, it was found that the Utility did not properly record accumulated depreciation. Staff recalculated accumulated depreciation from January 1, 2017, to December 31, 2020, using the adjusted UPIS plant balances from the 2017 Transfer Order, and the depreciation rates established by Rule 25-30.140(2), F.A.C. As such, staff increased accumulated depreciation by \$33,692. Staff further made an adjustment decreasing accumulated depreciation by \$315 to reflect an averaging adjustment. Therefore, staff recommends average accumulated depreciation of \$48,645 (\$15,267 + \$33,692 - \$315).

### **Contributions-In-Aid-Of-Construction**

The Utility did not record any CIAC on its P&L Statement or its Balance Sheet as of December 31, 2020. However, the Commission established a CIAC balance of \$26,625 in its 2017 Transfer Order. There have been no additions to CIAC since the last rate proceeding. Therefore, staff recommends a CIAC balance of \$26,625.

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<sup>3</sup> Order No. PSC-2021-0183-PAA-WU, issued May 20, 2021, in Docket No. 20170114-WU, *In re: Application for transfer of facilities and water Certificate No. 165-W in Pasco County from Allen LaFortune and Otis Fonder to A Utility Inc.*

### **Accumulated Amortization of CIAC**

The Utility did not record any accumulated amortization of CIAC on its P&L Statement or its Balance Sheet as of December 31, 2020. According to the 2017 Transfer Order, CIAC is fully amortized, therefore staff recommends accumulated amortization of CIAC of \$26,625.

### **Working Capital Allowance**

Working Capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(3), F.A.C., staff used the one-eighth operation and maintenance (O&M) 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, for this calculation staff removed the recommended rate case expense of \$341. This resulted in an adjusted O&M expense balance of \$24,839 (\$25,180 - \$341). Applying this formula, staff recommends a working capital allowance of \$3,105 ( $\$24,839 \div 8$ ).

### **Rate Base Summary**

In its response to the Commission Audit, the Utility stated that as of January 1, 2021, the Commission-Ordered adjustments have been made for UPIS, land and land rights, and accumulated depreciation.<sup>4</sup> Based on the foregoing, staff recommends that the appropriate average test year rate base is \$10,053. Rate Base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

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<sup>4</sup>Document No. 03342-2022, filed June 2, 2022.



**Issue 5:** What is the appropriate return on equity and overall rate of return for A Utility Inc.?

**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 overall rate of return is 9.95 percent. (Richards)

**Staff Analysis:** AUI's capital structure consists entirely of long-term debt, and has been reconciled with staff's recommended rate base. The appropriate ROE is 10.45 percent based on the Commission-approved leverage formula currently in effect.<sup>5</sup> 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 9.95 percent. The ROE and overall rate of return are shown on Schedule No. 2.

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<sup>5</sup> Order 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 rate 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 A Utility Inc.'s water system?

**Preliminary Recommendation:** The appropriate test year revenues for AUI are \$21,608. (Hudson)

**Staff Analysis:** AUI recorded total test year revenues of \$20,722. The water revenues included only service revenues. There are no miscellaneous revenues. AUI had a price index rate increase subsequent to the test year. As a result, staff annualized the test year revenues. Based on staff's review of the Utility's billing determinants and the price index rate increase, staff determined test year service revenues should be \$21,608. This results in an increase of \$866 (\$21,608 - \$20,722) to service revenues. The Utility did not collect any miscellaneous revenues during the test year.

**Conclusion**

Based on the above, the appropriate test year revenues for AUI are \$21,608.

**Issue 7:** What is the appropriate operating expense for A Utility Inc.?

**Preliminary Recommendation:** The appropriate amount of operating expense for AUI is \$27,476. (Richards)

**Staff Analysis:** The Utility recorded operating expense of \$12,614. 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. Many of staff's adjustments reflect updated invoices from 2021, which were used to calculate O&M expense, as the costs are known and measureable, and staff believes more accurately reflect the expenses going forward.

### **Operation and Maintenance Expenses**

#### ***Salaries and Wages – Employees (601)***

The Utility did not record any salaries expense for the test year. In response to Staff's Second Data Request, the Utility calculated salaries expense of \$3,874.<sup>6</sup> Staff believes this amount is reasonable, and therefore recommends salaries expense of \$3,874.

#### ***Purchased Power (615)***

The Utility recorded purchased power expense of \$401. Through discovery, the Utility provided invoices in response to Staff's First and Third Data Requests for both of its locations.<sup>7,8</sup> Based on its calculations, staff increased purchased power expense by \$772, recommending a total purchased power expense of \$1,173 (\$401 + \$772).

#### ***Chemicals (618)***

The Utility recorded chemicals expense of \$84. In response to Staff's First Data Request, the Utility provided invoices for two purchases of chlorine during 2021. The first invoice was from January 2021, for \$89, and the second was from July 2021, for \$90; totaling \$179 (\$89 + \$90). To reflect the semi-annual purchase of chemicals, staff increased the Utility recorded chemicals expense by \$95. Therefore, staff recommends chemicals expense of \$179 (\$84 + \$95).

#### ***Materials and Supplies (620)***

The Utility recorded materials and supplies expense of \$3,723. Staff made an audit adjustment decreasing this amount by \$76, and therefore recommends materials and supplies expense of \$3,647 (\$3,723 - \$76).

#### ***Contractual Services – Professional (631)***

The Utility recorded contractual services – professional expense of \$3,450. This amount did not fully encapsulate the expenses paid to MCL Environmental Services (MCL) for monthly well operations fees of \$217.50, or \$2,610 (\$217.50 x 12 months) annually. In response to Staff's First Data Request, the Utility provided invoices for work orders totaling \$2,716 from January 2021 through December 2021. Combined, the Utility paid MCL \$5,326 (\$2,610 + \$2,716) for

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<sup>6</sup> Document No. 03343-2022, filed June 2, 2022.

<sup>7</sup> Document No. 00041-2022, filed January 4, 2022.

<sup>8</sup> Document No. 06273-2022, filed September 13, 2022.

plant operations. Therefore, staff increased the Utility's recorded amount by \$1,876, and recommends a contractual services – professional expense of \$5,326 (\$3,450 + \$1,876).

***Contractual Services – Accounting (632)***

The Utility did not record any expenses for contractual services – accounting for the test year. Staff believes it is necessary for the Utility to contract with someone to provide accounting services in order to help the Utility maintain its books and records in accordance with NARUC standards. Because of this, in its second data request, staff requested the Utility receive an estimate for accounting services. In response to Staff's Second Data Request, the Utility provided an estimate from Henson & Murtha CPAs (Firm) to get the Utility's books and records in compliance with Rule 25-30.110 and maintain the books. The Firm provided a quote of \$3,900 for its services. Staff believes this is a necessary service for the Utility, and therefore recommends contractual services – accounting fee of \$3,900.

***Contractual Services – Testing (635)***

The Utility did not record any contractual services – testing expense for the test year. In response to Staff's First Data Request, the Utility provided invoices from MCL for performing lab testing from January 2021 through December 2021. These tests totaled \$3,529, and therefore staff recommends contractual services – testing expense of \$3,529.

***Contractual Services – Other (636)***

The Utility did not record any contractual services – other expense for the test year. In response to Staff's Second Data Request, the Utility provided a contract effective January 1, 2023, between itself and Rich Allbright Property Maintenance. This contract was for the performance of professional property maintenance at a cost of \$40 per month for each of the Utility's three lots. Combined, property maintenance for the Utility is \$120 per month, or \$1,440 annually. Therefore, staff recommends contractual services – other expense of \$1,440.

***Transportation Expense (650)***

The Utility did not record any transportation expense for the test year. In response to Staff's Second Data Request, the Utility estimates 100 miles of transportation monthly. Using the 2022 IRS business mileage rate of \$0.625 per miles, staff calculated transportation expense of \$756 ( $\$0.625 \times 100 \text{ miles} \times 12 \text{ months}$ ).<sup>9</sup>

***Rate Case Expense (665)***

The Utility did not record any rate case expense. The Utility is required by Rule 25-22.0407, F.A.C., to mail notices of the rate case overview, final rates, and four-year rate reduction. Staff calculated noticing costs to be \$348. Staff calculated the distance from the Utility to Tallahassee as 253 miles. Based on the 2022 IRS mileage rate, staff calculated a round-trip travel expense to the Commission Conference of \$516. Additionally, the Utility paid a \$500 filing fee.<sup>10</sup>

Staff calculated total rate case expense as \$1,364 ( $\$348 + \$516 + \$500$ ) for noticing costs, travel and filing fee. This amount amortized over four years is \$341 ( $\$1,364 \div 4 \text{ years}$ ), and therefore recommends rate case expense of \$341.

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<sup>9</sup> <https://www.irs.gov/newsroom/irs-increases-mileage-rate-for-remainder-of-2022>.

<sup>10</sup> Document No. 07094-2021, filed June 28, 2021.

**Bad Debt Expense (670)**

The Utility did not record any bad debt expense for the test year. For purposes of the staff report, staff calculated bad debt expense as two percent of total revenues. As such, staff recommends bad debt expense of \$432.

**Miscellaneous Expense (675)**

The Utility did not record any miscellaneous expenses for the test year. However, in response to Staff's Second Data Request, the Utility provided a list of costs which are necessary for running its operations. A list of the costs can be found below in Table 7-1.

**Table 7-1  
Miscellaneous Expenses**

<b>Expense</b>	<b>Amount</b>
Consumer Confidence Report	\$125
Valve Exercising Cost	150
Meter Accuracy Testing	48
Florida Rural Water Association Annual Fee	161
DEP Licensing Fee	100
Total Miscellaneous Expenses	<u>\$583</u>

Source: Staff's Second Data Request

Staff believes the costs provided by the Utility in its response to Staff's Second Data Request are appropriate and therefore recommends miscellaneous expense of \$583.

**Operation and Maintenance Expense Summary**

The Utility recorded test year O&M expense of \$7,658. Based on the above adjustments, staff recommends the O&M expense be increased by \$17,522. This results in total O&M expense of \$25,180 (\$7,658 + \$17,522). Staff's recommended adjustments to O&M expense are shown on Schedule No. 3-C.

**Depreciation Expense**

The Utility recorded depreciation expense of \$3,818. Using the depreciation rates prescribed in Rule 25-30.140, F.A.C., staff decreased this amount by \$3,385 based on many of the Utility's plant accounts being fully depreciated. Therefore, staff recommends depreciation expense of \$433 (\$3,818 - \$3,385).

**Taxes Other Than Income (TOTI)**

The Utility recorded TOTI of \$1,138. Staff increased TOTI by \$292 due to an audit adjustment. Additionally, staff increased TOTI by \$34 to reflect the appropriate regulatory assessment fees (RAFs) based on corrected Utility test year revenues. These adjustments result in a test year TOTI increase of \$326 (\$292 + \$34).

As discussed in Issue 9, staff recommends revenues be increased by \$8,849 to reflect the change in revenue required to cover expenses and allow an opportunity an operating margin of 12

percent. As a result, TOTI should be increased by \$398 to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$1,863 ( $\$1,138 + \$326 + \$398$ ).

**Operating Expense Summary**

The Utility recorded operating expenses of \$12,614. The application of staff's recommended adjustments to the Utility's operating expense result in a total operating expense of \$27,476. Operating expenses are shown on Schedule No. 3-A and the related adjustments are shown on Schedule No. 3-B.

**Issue 8:** Does A Utility Inc. meet the criteria for application of the Operating Ratio Methodology?

**Preliminary Recommendation:** Yes. AUI meets the requirement for application of the Operating Ratio Methodology for calculating revenue requirement. (Richards)

**Staff Analysis:** Rule 25-30.4575(2), F.A.C., provides that, in rate cases processed under Rule 25-30.455, F.A.C., the Commission will use the Operating Ratio Methodology to establish the Utility's revenue requirement when its rate base is not greater than 125 percent of O&M expenses, less rate case expense, and the use of the Operating Ratio Methodology does not change the Utility's qualification for a SARC.

With respect to AUI, staff has recommended a rate base of \$10,053. After removal of rate case expense, staff has calculated an O&M expense of \$24,839 (\$25,180 - \$341). Based on staff's recommended amounts, the Utility's rate base is 40 percent of its adjusted O&M expense.

### **Conclusion**

Based on the above, the Utility qualifies for application of the Operating Ratio Methodology.

**Issue 9:** What is the appropriate revenue requirement for A Utility Inc.?

**Preliminary Recommendation:** The appropriate revenue requirement for AUI is \$30,457, resulting in an annual increase of \$8,849 (40.95 percent). (Richards)

**Staff Analysis:** AUI should be allowed an annual increase of \$8,849 (40.95 percent). This should allow the Utility the opportunity to recover expenses and earn an operating margin of 12 percent. The calculations are shown below in Table 9-1.

**Table 9-1**  
**Water Revenue Requirement**

Adjusted O&M Expense	\$24,839
Operating Margin (%)	<u>12.00%</u>
Operating Margin (\$)	<u>\$2,981</u>
Water O&M Expense	25,180
Depreciation Expense	433
Taxes Other Than Income	<u>1,863</u>
Revenue Requirement	<u>\$30,457</u>
Less Test Year Revenues	<u>\$21,608</u>
Annual Increase	<u>\$8,849</u>
Percent Increase	40.95%

Source: Staff Calculations



**Issue 10:** What are the appropriate rate structure and rates for A Utility Inc.?

**Preliminary Recommendation:** Staff recommends a monthly flat rate for residential service of \$21.51 per month as shown on Schedule No. 4. The Utility should file a revised tariff sheet and a proposed customer notice to reflect the Commission-approved rate. The approved rate should be effective for service rendered or connections made on or after the stamped approval date on the tariff sheet provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility should provide proof of noticing within 10 days of rendering its approved notice. (Hudson)

**Staff Analysis:** AUI is located in Pasco County and currently provides water service to 118 residential and no general service customers. The Utility's current rate structure for residential customers consists of a monthly flat rate of \$15.26. AUI currently does not have any meters to measure water usage. In this proceeding, the Utility has not proposed to install any meters. The Commission's preferred rate structure is a base facility and gallonage charge rate structure. The conversion from flat to metered rates would include the Utility earning a return on the meter investment as well as additional billing costs. At this time, the Utility does not have any issues in terms of its permitted withdrawal and a need for conservation-oriented rates. Thus, staff does not believe it would be cost effective to require AUI to install meters and bill based on metered water usage. Therefore, staff recommends a continuation of the Utility's current flat rate structure is appropriate. As a result, staff's recommended increase of 40.95 percent should be applied across the board to the existing monthly flat rate.

### **Conclusion**

Based on the above, staff recommends a monthly flat rate for residential service of \$21.51 per month as shown on Schedule No. 4. The Utility should file a revised tariff sheet and a proposed customer notice to reflect the Commission-approved rate. The approved rate should be effective for service rendered or connections made on or after the stamped approval date on the tariff sheet provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility should provide proof of noticing within 10 days of rendering its approved notice.

**Issue 11:** 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. AUI should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and rationale no later than one month prior to the effective date of the new rates. If the Utility files revised tariffs reflecting this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase and the reduction in the rates due to the amortized rate case expense. (Procedural Agency Action) (Richards, Hudson)

**Staff Analysis:** Section 367.081(8), F.S., requires that the rates be reduced by the amount of the rate case expense previously included in rates immediately following the expiration of the recovery period. With respect to AUI, 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 \$357.

### **Conclusion**

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. 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. AUI should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and rationale no later than one month prior to the effective date of the new rates. If the Utility files revised tariffs reflecting this reduction in conjunction with a price index, or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase and the reduction in the rates due to the amortized rate case expense.

**Issue 12:** Should the recommended rates be approved for A Utility Inc., on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

**Preliminary Recommendation:** Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the utility. AUI should file revised tariff sheets and a proposed customer notice reflecting the Commission-approved rates. The approved rates should be effective for services 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. Further, prior to implementing any temporary rates, the utility should provide appropriate financial 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 both the current monthly and total amount 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. (Procedural Agency Action) (Richards)

**Staff Analysis:** This recommendation proposes an increase in rates. A timely protest might delay a 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 proposed rates be approved on a temporary basis. AUI should file revised tariff sheets and a proposed customer notice reflecting 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 it has been received by the customers. The additional revenue produced by staff's recommended rates and collected by the Utility should be subject to the refund provisions discussed below.

AUI should be authorized to initiate the temporary rates upon staff's approval of an appropriate security for the potential refund and cost of the proposed customer notice. Security should be in the form of either a bond or letter of credit in the amount of \$5,991. Alternatively, the Utility may establish an escrow agreement with an independent financial institution.

If the Utility chooses a bond for securing the potential refund, 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 for securing the potential refund, the letter of credit 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.

<b>A UTILITY INC.</b>		<b>SCHEDULE NO. 1-A</b>		
<b>TEST YEAR ENDED 12/31/2020</b>		<b>DOCKET NO. 20210098-WU</b>		
<b>SCHEDULE OF WATER RATE BASE</b>				
<b>DESCRIPTION</b>	<b>BALANCE PER UTILITY</b>	<b>STAFF ADJ.</b>	<b>BALANCE PER STAFF</b>	
1. UTILITY PLANT IN SERVICE	\$97,700	(\$43,107)	\$54,593	
2. LAND & LAND RIGHTS	19,300	(18,300)	1,000	
3. ACCUMULATED DEPRECIATION	(15,267)	(33,378)	(48,645)	
4. CIAC	0	(26,625)	(26,625)	
5. ACCUMULATED AMORTIZATION CIAC	0	26,625	26,625	
6. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>3,105</u>	<u>3,105</u>	
<b>WATER RATE BASE</b>	<b><u>\$101,733</u></b>	<b><u>(\$91,680)</u></b>	<b><u>\$10,053</u></b>	

<b>A UTILITY INC.</b>		<b>SCHEDULE NO. 1-B</b>
<b>TEST YEAR ENDED 12/31/2020</b>		<b>DOCKET NO. 20210098-WU</b>
<b>ADJUSTMENTS TO RATE BASE</b>		
		<b><u>WATER</u></b>
<b><u>UTILITY PLANT IN SERVICE</u></b>		
To reflect Commission-ordered adjustments. (Audit Finding 1)		<u>(\$43,107)</u>
<b><u>LAND &amp; LAND RIGHTS</u></b>		
To reflect an auditing adjustment.		<u>(\$18,300)</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>		
1.	To reflect an auditing adjustment.	(\$33,692)
2.	To reflect an averaging adjustment.	315
	Total	<u>(\$33,378)</u>
<b><u>CIAC</u></b>		
To reflect an auditing adjustment.		<u>(\$26,625)</u>
<b><u>ACCUMULATED AMORTIZATION OF CIAC</u></b>		
To reflect an auditing adjustment.		<u>\$26,625</u>
<b><u>WORKING CAPITAL ALLOWANCE</u></b>		
To reflect 1/8 of test year O&M expense less RCE.		<u>\$3,105</u>

<b>A UTILITY INC.</b>					<b>SCHEDULE NO. 2</b>	
<b>TEST YEAR ENDED 12/31/2020</b>					<b>DOCKET NO. 20210098-WU</b>	
<b>SCHEDULE OF CAPITAL STRUCTURE</b>						
<b>CAPITAL COMPONENT</b>	<b>BALANCE PER UTILITY</b>	<b>PRO RATA ADJUSTMENT</b>	<b>BALANCE PER STAFF</b>	<b>PERCENT OF TOTAL</b>	<b>COST</b>	<b>WEIGHTED COST</b>
1. LONG-TERM DEBT	\$118,000	(\$107,947)	\$10,053	100%	9.95%	9.95%
2. SHORT-TERM DEBT	0	0	0	0%	0%	0%
3. COMMON EQUITY	0	0	0	0%	10.45%	0%
4. CUSTOMER DEPOSITS	0	0	0	0%	2.00%	0%
5. DEFERRED INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>
TOTAL CAPITAL	<u>\$118,000</u>	<u>(\$107,947)</u>	<u>\$10,053</u>	<u>100%</u>		<u>9.95%</u>
<b><u>RANGE OF REASONABLENESS</u></b>					<b><u>LOW</u></b>	<b><u>HIGH</u></b>
<b>RETURN ON EQUITY</b>					9.45%	11.45%
<b>RATE OF RETURN</b>					9.95%	9.95%

<b>A UTILITY INC.</b>		<b>SCHEDULE NO. 3-A</b>				
<b>TEST YEAR ENDED 12/31/2020</b>		<b>DOCKET NO. 20210098-WU</b>				
<b>SCHEDULE OF WATER OPERATING INCOME</b>						
	<b>TEST YEAR PER UTILITY</b>	<b>STAFF ADJUST- MENTS</b>	<b>STAFF ADJUSTED TEST YEAR</b>	<b>ADJUST FOR INCREASE</b>	<b>REVENUE REQUIREMENT</b>	
1.	<b>TOTAL OPERATING REVENUES</b>	<u>\$20,722</u>	<u>\$886</u>	<u>\$21,608</u>	<u>\$8,849</u> 40.95%	<u>\$30,457</u>
	<b>OPERATING EXPENSES</b>					
2.	OPERATION AND MAINTENANCE	\$7,658	\$17,522	\$25,180	\$0	\$25,180
3.	DEPRECIATION EXPENSE	3,818	(3,385)	433	0	433
4.	TAXES OTHER THAN INCOME	1,138	326	1,464	398	1,863
5.	INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<b>TOTAL OPERATING EXPENSES</b>	<u>\$12,614</u>	<u>\$14,463</u>	<u>\$27,078</u>	<u>\$398</u>	<u>\$27,476</u>
6.	<b>OPERATING INCOME / (LOSS)</b>	<u>\$8,108</u>		<u>(\$5,470)</u>		<u>\$2,981</u>
7.	<b>WATER RATE BASE</b>	<u>\$101,733</u>		<u>(91,680)</u>		<u>\$10,053</u>
8.	<b>OPERATING MARGIN</b>					12.00%



<b>A UTILITY INC.</b>	<b>SCHEDULE NO. 3-B</b>
<b>TEST YEAR ENDED 12/31/2020</b>	<b>DOCKET NO. 20210098-WU</b>
<b>ADJUSTMENTS TO OPERATING INCOME</b>	<b>PAGE 1 OF 2</b>
	<b>WATER</b>
<b>OPERATING REVENUES</b>	
1. To reflect an auditing adjustment to Service Revenues.	\$136
2. To reflect appropriate test year Service Revenues.	<u>750</u>
Total	<u>\$886</u>
<b>OPERATION AND MAINTENANCE EXPENSE</b>	
1. Salaries and Wages – Employees (601) To reflect 2021 salaries per data request 2.	<u>\$3,874</u>
2. Purchased Power (615) To reflect 2021 purchased power per data request 1.	<u>\$772</u>
3. Chemicals (618) To reflect 2021 chlorine expense per data request 1.	<u>\$95</u>
4. Materials and Supplies (620) To reflect an auditing adjustment.	<u>(\$76)</u>
5. Contractual Services – Professional (631) To reflect appropriate plant operator fees per data request 1.	<u>\$1,876</u>
6. Contractual Services – Accounting (632) To reflect accounting service per data request 2.	<u>\$3,900</u>
7. Contractual Service – Testing (635) To reflect appropriate 2021 testing expense per data request 1.	<u>\$3,529</u>
8. Contractual Services – Other (636) To reflect lawn maintenance bid per data request 2.	<u>\$1,440</u>
9. Transportation Expense (650) To reflect 2022 IRS travel expense at 100 miles per month.	<u>\$756</u>
10. Rate Case Expense (665) To reflect 1/4 rate case expense.	<u>\$341</u>
11. Bad Debt Expense (670) To reflect 2 percent of test year revenues.	<u>\$432</u>

<b>A UTILITY INC.</b>	<b>SCHEDULE NO. 3-B</b>
<b>TEST YEAR ENDED 12/31/2020</b>	<b>DOCKET NO. 20210098-WU</b>
<b>ADJUSTMENTS TO OPERATING INCOME</b>	<b>PAGE 2 OF 2</b>
	<b>WATER</b>
12. Miscellaneous Expense (675)	
a. To reflect cost of Consumer Confidence Report per data request 2.	\$125
b. To reflect cost of Valve Exercising per data request 2.	150
c. To reflect cost of meter accuracy testing per data request 2.	48
d. To reflect annual fee for Florida Rural Water Association.	161
e. To reflect licensing fee for DEP.	<u>100</u>
Total	<u>\$583</u>
<b>TOTAL OPERATING AND MAINTENANCE ADJUSTMENTS</b>	<b><u>\$17,522</u></b>
<b>DEPRECIATION EXPENSE</b>	
To reflect an auditing adjustment.	<u>(\$3,385)</u>
<b>TAXES OTHER THAN INCOME</b>	
1. To reflect an auditing adjustment.	\$292
2. To reflect appropriate test year RAFs.	<u>34</u>
Total	<u>\$326</u>
<b>TOTAL OPERATING EXPENSE</b>	<b><u>\$14,463</u></b>

<b>A UTILITY INC.</b>		<b>SCHEDULE NO. 3-C</b>		
<b>TEST YEAR ENDED 12/31/2020</b>		<b>DOCKET NO. 20210098-WU</b>		
<b>ANALYSIS OF WATER O&amp;M EXPENSE</b>				
<b>ACCT #</b>	<b>DESCRIPTION</b>	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUST- MENT</b>	<b>TOTAL PER STAFF</b>
601	Salaries and Wages – Employees	\$0	\$3,874	\$3,874
615	Purchased Power	401	772	1,173
618	Chemicals	84	95	179
620	Materials and Supplies	3,723	(76)	3,647
631	Contractual Services – Professional	3,450	1,876	5,326
632	Contractual Services – Accounting	0	3,900	3,900
635	Contractual Services – Testing	0	3,529	3,529
636	Contractual Services – Other	0	1,440	1,440
650	Transportation Expense	0	756	756
665	Rate Case Expense	0	341	341
670	Bad Debt Expense	0	432	432
675	Miscellaneous Expense	<u>0</u>	<u>583</u>	<u>583</u>
	Total O&M Expense	<u>\$7,658</u>	<u>\$17,522</u>	<u>\$25,180</u>
	Working Capital is 1/8 O&M less RCE			\$3,105

<b>A UTILITY INC.                  TEST YEAR ENDED 12/31/2020                  MONTHLY WATER RATES</b>		<b>DOCKET NO. 20210098-WU                  SCHEDULE NO. 4</b>	
	<b>EXISTING                  RATES</b>	<b>STAFF                  PRELIMINARY                  RATES</b>	<b>FOUR-YEAR                  RATE                  REDUCTION</b>
<b><u>Residential</u></b>			
Flat Rate	\$15.26	\$21.51	\$0.25