

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: February 20, 2025

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Engineering (Ramirez-Abundez, Ramos, Smith II, King) *TB*
Division of Accounting and Finance (Folkman, G. Kelley) *ALM*
Division of Economics (Sibley, Bruce) *JP*
Office of the General Counsel (Imig, Augspurger) *ACH*

RE: Docket No. 20250023-WS – Application for staff-assisted rate case in Polk County, by North Carolina Real Estate Projects LLC d/b/a Grenelefe Utility.

AGENDA: 03/04/25 –Regular Agenda – Decision on Interim Rates – Participation is at the Discretion of the Commission

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Graham

CRITICAL DATES: 03/11/25 (60 day Decision on Interim Rates)

SPECIAL INSTRUCTIONS: None

Case Background

NC Real Estate Projects LLC d/b/a Grenelefe Utility (Grenelefe or Utility) is a Class B water and wastewater utility operating in Polk County. Grenelefe currently provides service to approximately 2,343 water and wastewater customers. The Utility is in the St. Johns River Water Management District (SJRWMD). The Utility's last rate case was in 2011.¹ According to the Utility's 2023 Annual Report, Grenelefe reported net operating losses of \$184,215 for water, and \$233,950 for wastewater.

¹ Order No. PSC-12-0433-PAA-WS, issued August 21, 2012, in Docket No. 110141-WS, *In re: Application for staff-assisted rate case in Polk County by Grenelefe Resort Utility, Inc.*

On September 17, 2024, Grenelefe filed an application with the Commission for an amendment of Certificate Nos. 589-W and 507-S, water and wastewater service territories in Polk County. The Commission voted to approve Grenelefe's certificate amendments on February 4, 2025, which included the addition of a new development of approximately 1,080 new customers.² On January 10, 2025, Grenelefe filed an application for a staff-assisted rate case (SARC). In its application, the Utility requested interim rates and service availability charges. On February 11, 2025, Grenelefe withdrew its request for interim service availability charges. A test year ended October 31, 2024, has been established for purposes of interim and final rates.

This recommendation addresses the Utility's request for interim rates. The Commission has jurisdiction pursuant to Sections 367.082 and 367.0814(4), Florida Statutes (F.S.).

² Document No. 00408-2025, in Docket No. 20240140-WS.

Discussion of Issues

Issue 1: Should an interim revenue increase be approved?

Recommendation: Yes, Grenelefe should be authorized to collect an interim revenue increase of \$64,840 for water and \$341,994 for wastewater as shown below:

	Test Year Revenues	Increase (\$)	Revenue Requirement	Increase (%)
Water	\$359,309	\$64,840	\$424,149	18.05%
Wastewater	\$225,428	\$341,994	\$567,422	151.71%

(Folkman)

Staff Analysis: On January 10, 2025, Grenelefe filed an application requesting an interim increase of its water and wastewater rates. Section 367.0814(4), F.S., details the criteria for evaluating a request for an interim rate increase for staff-assisted rate cases.

Section 367.0814(4), F.S., states:

The Commission may, upon its own motion, or upon petition from the regulated utility, authorize the collection of interim rates until the effective date of the final order. Such interim rates may be based upon a test period different from the test period used in the request for permanent rate relief. To establish interim relief, there must be a demonstration that the operation and maintenance expenses exceed the revenues of the regulated utility, and interim rates shall not exceed the level necessary to cover operation and maintenance expenses as defined by the Uniform System of Accounts for Class C Water and Wastewater Utilities (1996) of the National Association of Regulatory Utility Commissioners.

While Grenelefe is not a Class C utility, it does qualify for a SARC and therefore falls under the above-referenced Section. Staff has reviewed the Utility's operation and maintenance (O&M) expenses in relation to its revenues. Based on the Utility's filing, staff recommends that Grenelefe has demonstrated a *prima facie* entitlement to an interim rate increase in accordance with Section 367.0814(4), F.S.

Revenue Increase

In order to establish interim rate relief, staff utilized the Utility's revenues reflected in its application as requested by the Utility for the test year ended October 31, 2024. The test year revenues are \$359,309 for water and \$225,428 for wastewater. The test year O&M expenses are \$421,231 for water and \$552,032 for wastewater. The difference between the Utility's reported revenues and O&M expenses is \$61,922 for water and \$326,604 for wastewater.

In addition, the interim water and wastewater increase should be grossed up to include regulatory assessment fees (RAFs). The Commission has previously determined that it would be inappropriate to approve an increase in a utility's rates to cover its operating expenses and deny

that same utility the funds to cover increased RAFs.³ The RAFs associated with the interim increase are \$2,918 for water and \$15,390 for wastewater.

In total, Grenelefe should be allowed an interim revenue increase of \$64,840 (\$61,922 + \$2,918) for water and \$341,944 (\$326,604 + \$15,390) for wastewater to generate sufficient revenue to cover water and wastewater O&M expenses and additional RAFs. Thus, staff recommends the appropriate interim revenue requirement is \$424,149 for water and \$567,422 for wastewater. This represents an 18.05 percent increase for water and a 151.71 percent increase for wastewater over the Utility’s test year revenues. Tables 1-1 and 1-2 illustrate staff’s interim increase calculations.

**Table 1-1
 Water Interim Increase Calculation**

	Water
1. Utility Adjusted Test Year O&M Expenses	\$421,231
2. Less: Utility Test Year Revenues	<u>359,309</u>
3. Revenues to Cover O&M Expenses	<u>\$61,922</u>
4. RAFs on Interim Rate Increase	<u>2,918</u>
5. Total Interim Revenue Increase (\$)	<u>\$64,840</u>
6. Total Interim Revenue Increase (%)	18.05%

Sources: Utility’s Application and staff’s calculations.

**Table 1-2
 Wastewater Interim Increase Calculation**

	Wastewater
1. Utility Adjusted Test Year O&M Expenses	\$552,032
2. Less: Utility Test Year Revenues	<u>225,428</u>
3. Revenues to Cover O&M Expenses	<u>\$326,604</u>
4. RAFs on Interim Rate Increase	<u>15,390</u>
5. Total Interim Revenue Increase (\$)	<u>\$341,994</u>
6. Total Interim Revenue Increase (%)	151.71%

Sources: Utility’s Application and staff’s calculations.

³ Order No. PSC-01-1654-FOF-WS, issued August 13, 2001, in Docket No. 010396-WS, *In re: Application for staff-assisted rate case in Brevard County by Burkim Enterprises, Inc.*

Issue 2: What are the appropriate interim water and wastewater rates for Grenelefe?

Recommendation: The interim rate increase of 18.05 percent for water and 151.71 percent for wastewater should be applied as an across-the-board increase to the water and wastewater rates, respectively. The rates, as shown on Schedule No. 1 should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code (F.A.C.) The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. In addition, the approved rates should not be implemented until the required security has been filed, 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. (Sibley)

Staff Analysis: Staff recommends that interim service rates for Grenelefe be designed to allow the Utility the opportunity to generate annual operating revenues of \$424,149 for water and \$567,422 for wastewater.

The interim rate increase of 18.05 percent for water and 151.71 percent for wastewater should be applied as an across-the-board increase to the water and wastewater rates, respectively. The rates, as shown on Schedule No. 1 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. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. In addition, the approved rates should not be implemented until the required security has been filed, 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 3: What is the appropriate security to guarantee the interim increase?

Recommendation: The appropriate security to guarantee the funds collected subject to refund is a corporate undertaking, guaranteed by the Utility's owner. (Folkman)

Staff Analysis: Pursuant to Section 367.082, F.S., revenues collected under interim rates shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by the Commission. As recommended in Issue 1, the interim increase is \$64,840 for water and \$341,994 for wastewater. In accordance with Rule 25-30.360, F.A.C., staff calculated the combined potential refund of revenues and interest collected under interim conditions to be \$275,132. This amount is based on an estimated eight months of revenue being collected under the recommended interim rates shown on Schedule No. 1.

The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Staff reviewed Grenelefe's 2021, 2022, and 2023 annual reports filed with the Commission to determine the financial condition of the Utility. Based on the annual reports, Grenelefe's working capital and equity are within acceptable parameters. However, Grenelefe has experienced a decreasing Net Income over the past three years, with a reported negative Net Income of \$418,165 in the 2023 Annual Report, which is significantly less than the requested corporate undertaking amount. However, the Utility's owner provided a recent balance sheet of his personal financial net worth. Staff reviewed the personal financial information provided by the owner. Staff believes that in this circumstance, the owner has demonstrated the financial ability and wherewithal to guarantee the interim refund in this rate increase, if necessary. Further, the owner provided a personal guarantee in the amount of \$275,132 in this docket.

Pursuant to Rule 25-30.360(6), F.A.C., the Utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and in accordance with Rule 25-30.360, F.A.C. 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.

Accordingly, the appropriate security to guarantee the funds collected subject to refund is a corporate undertaking, guaranteed by the Utility's owner. This brief financial analysis is only appropriate for deciding if the Utility can support a corporate undertaking in the amount requested and should not be considered a finding regarding staff's position on other issues in this proceeding.

Issue 4: Should this docket be closed?

Recommendation: This docket should remain open pending the Commission's final action on the Utility's requested rate increase (Imig, Augspurger)

Staff Analysis: This docket should remain open pending the Commission's final action on the Utility's requested rate increase.

NC REAL ESTATE PROJECTS LLC D/B/A GRENELEFE UTILITY		SCHEDULE NO. 1	
TEST YEAR ENDED 12/31/24		Page 1 of 2	
MONTHLY WATER RATES		DOCKET NO. 20250023-WS	
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	
Residential and General Service			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$6.81	\$8.04	
3/4"	\$10.22	\$12.06	
1"	\$17.03	\$20.10	
1-1/2"	\$34.05	\$40.20	
2"	\$54.48	\$64.32	
3"	\$108.96	\$128.64	
4"	\$170.25	\$201.00	
6"	\$340.50	\$402.00	
Charge per 1,000 gallons - Residential Service			
0 - 5,000 gallons	\$1.50	\$1.77	
5,001 - 10,000 gallons	\$1.89	\$2.23	
10,001 - 15,000 gallons	\$2.82	\$3.33	
Over 15,000 gallons	\$3.75	\$4.43	
Charge per 1,000 gallons - General Service			
	\$2.09	\$2.47	

NC REAL ESTATE PROJECTS LLC D/B/A GRENELEFE UTILITY		SCHEDULE NO. 1	
TEST YEAR ENDED 12/31/24		Page 2 of 2	
MONTHLY WASTEWATER RATES		DOCKET NO. 20250023-WS	
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	
Residential Service			
All Meter Sizes	\$9.98	\$25.12	
Charge per 1,000 gallons 8,000 gallon cap	\$2.93	\$7.38	
General Service			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$9.98	\$25.12	
3/4"	\$14.97	\$37.68	
1"	\$24.95	\$62.80	
1-1/2"	\$49.90	\$125.60	
2"	\$79.84	\$200.96	
3"	\$159.68	\$401.92	
4"	\$249.50	\$628.00	
6"	\$499.00	\$1,256.00	
Charge per 1,000 gallons	\$3.52	\$8.86	