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DANIEL PEREZ
Speaker of the House of Representatives

March 28, 2025

VIA: ELECTRONIC FILING

Adam Teitzman
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Docket No. 20240119-WU - Application for staff-assisted rate case in Polk County, by Alturas Water, LLC.

Dear Mr. Teitzman:

The intent of this letter is to advise the Commission staff and Alturas Water, LLC (Alturas or Utility) of the Office of Public Counsel's (OPC) concerns, based on a preliminary review of the Staff Report dated March 3, 2025. First and foremost, the OPC would like to acknowledge all the work put into this Staff Report.

Issue 3 – Excess Unaccounted for Water (EUW)

Although the recommended 26.2% EUW is preliminary and subject to change, the OPC noticed that there was no preliminary recommendation to reduce purchased power and chemicals in Issue 3 nor Issue 7. If the 26.2% EUW does not change for the staff recommendation purposes, the OPC would note that the corresponding reductions to purchased power and chemical are \$585 and \$505, respectively.

Issue 5 – ROE and Overall Cost of Capital and Schedule No. 2

First, the OPC would note that the per Utility capital component amounts in Schedule No. 2 of the Staff Report do not tie or match to the per Utility capital component amounts reflected on

Exhibit 2 of the Commission Staff Audit Report dated January 3, 2025.¹ Also, there is no reconciliation in the Staff Report under staff analysis section for Issue 5 that explains the differences between them. The table below illustrates the unexplained differences.

<u>Capital Components</u>	<u>Per Utility Amounts Audit Exhibit 2</u>	<u>Per Utility Amounts Staff Report Sch. No. 2</u>
Long-Term Debt	\$27,043	\$15,275
Paid-in-Capital	8,298	-
Retained Earnings	(77,197)	-
Common Equity	-	28,009
Customer Deposits	=	<u>1,644</u>
Total Capital	<u>(\$41,856)</u>	<u>\$44,928</u>

Second, the Commission’s practice to set a utility’s negative common equity to zero. Common equity includes common stock, retained earnings and additional paid-in capital. For Audit Finding 3, the staff auditors do not adequately explain the deviation from practice and why only the retained earnings component of common equity to zero. According to the Audit Report, the Utility has paid-in-capital of \$8,298 and a negative retained earnings amount of \$77,197 which equates to a *negative* common equity balance of \$68,899. This entire common equity balance should be reset to \$0.

Given the material amount of the negative retained earnings portion of common equity, the OPC believes the Utility’s common equity including all applicable common stock, retained earnings, and additional paid-in capital would equate to a negative balance not the positive per Utility balance of \$28,009 nor the Staff balance of \$51,128 portrayed in Schedule No. 2 of the Staff Report. The Commission does not have an established policy or practice of giving a utility a return on non-existent equity (the components of which include all the aforementioned accounts).

Based on the above and without further justification or support for the resulting positive common equity balance for capital structure purposes in the Staff Report, the 8.20% recommended overall cost of capital is significantly overstated because the common equity was not set to zero. The result equates to an excess of 228 basis points in the weighted cost of capital (WACC). The

¹ Also, the OPC would note that not all of the per Utility NOI component amounts in Schedule No. 3 tie or match the per Utility NOI component amounts reflected on Exhibit 3 of the Commission Staff Audit Report dated January 3, 2025. However, the OPC would that the per Utility rate base component amounts in Schedule No. 1 of the Staff Report do tie or match to the per Utility rate component amounts reflected on Exhibit 1 of the Commission Staff Audit Report.

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effect of the EUW O&M reductions and a corrected WACC would lower the recommended revenue increase from \$12,585 or 31.46% to \$9,654 or 24.14%.

Respectfully submitted,

Bart Fletcher

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Legislative Analyst