

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: April 24, 2025

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Bruce, Bethea, Hudson, Richards)
Division of Accounting and Finance (Higgins) *ALM*
Office of the General Counsel (Sparks, Harper) *ACH*

JD

RE: Docket No. 20220185-WS – Application for limited alternative rate increase in Hardee, Manatee, Marion, Polk, and Pasco Counties, by Charlie Creek Utilities, LLC, Crestridge Utilities, LLC, East Marion Utilities, LLC, Heather Hills Utilities, LLC, Holiday Gardens Utilities, LLC, Lake Yale Utilities, LLC, McLeod Gardens Utilities, LLC, Orange Land Utilities, LLC, Sunny Shores Utilities, LLC, Sunrise Water, LLC and West Lakeland Wastewater, LLC.

AGENDA: 05/06/25 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: La Rosa

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On November 4, 2022, Florida Utility Services 1, LLC (FUS1) filed an application for a limited alternative rate increase (LARI) pursuant to Rule 25-30.457, Florida Administrative Code (F.A.C.) for the following systems: Charlie Creek Utilities, LLC (Charlie Creek); Crestridge Utilities, LLC (Crestridge); East Marion, LLC (East Marion); Heather Hills Utilities, LLC (Heather Hills); Holiday Gardens Utilities, LLC (Holiday Gardens); Lake Yale Utilities, LLC (Lake Yale); McLeod Gardens, LLC (McLeod Gardens); Orange Land Utilities, LLC (Orange

Land); Sunny Shores Utilities, LLC (Sunny Shores); Sunrise Water, LLC (Sunrise); and West Lakeland Wastewater, LLC (West Lakeland).

By Order No. PSC-2023-0192-PAA-WS, issued June 30, 2023, the Commission approved a limited alternative rate increase for the above-referenced systems. Each utility was required to hold any revenue increase granted subject to refund with interest in accordance with Rule 25-30.360(4), F.A.C. In order to ensure overearnings did not occur with the implementation of the rate increases, staff conducted an earnings review of the 12-month period following the implementation of the revenue increases. At the end of the 12-month period, each utility had 90 days to complete and file Form PSC 1025 (03/20), titled: "Limited Alternative Rate Increase Earnings Review." On August 22, 2024, by email, FUS1 indicated that for all systems, except Heather Hills and Sunny Shores, the earnings review period would be from September 2023 to August 2024 because the LARI rates were billed starting with the September 2023 usage. Because Heather Hills and Sunny Shores bill quarterly, the LARI rates were billed starting with the October 2023 usage, and as a result, the earnings review period would be October 2023 to September 2024.¹ The forms for each of the utilities were submitted on December 2, 2024.

Pursuant to Rule 25-30.457, F.A.C., if the earning reviews demonstrate that the utility exceeded the range of its last authorized rate of return on equity, such overearnings, up to the amount held subject to refund, with interest, shall be disposed of for the benefit of the customers. If staff determines that the utility did not exceed the range of its last authorized return on equity, the revenue increase will no longer be held subject to refund. Based on review of the earnings review form, three of the systems reported overearnings.

On April 9, 2025, East Marion and the Office of Public Counsel (OPC) filed an agreement in regards to the disposition of the overearnings for its system.² Both East Marion and OPC agreed that the overearnings associated with East Marion system should be booked to CIAC due to the expense of making such a small refund exceeding the amount of the refund.

This recommendation addresses the earnings review. The Commission has jurisdiction pursuant to Section 367.0814(9) and 367.121(1), Florida Statutes (F.S.).

¹ Document No. 09361-2024, filed on October 4, 2024.

² Document No. 02721-2025, filed on April 9, 2025.

Discussion of Issues

Issue 1: Are any systems that were granted a Limited Alternative Rate Increase overearning, and if so, what are the appropriate revenue requirements going forward?

Recommendation: Three of the fourteen systems included in FUS1 LARI docket were found to be overearning. Those three systems are Crestridge, the water system for East Marion, and the wastewater system for Lake Yale. The appropriate revenue requirement should be \$251,161 for Crestridge; \$50,519 for East Marion’s water system; and \$98,961 for Lake Yale’s wastewater system. (Richards)

Staff Analysis: Pursuant to Rule 25-30.457(8), F.A.C., FUS1 filed its earnings review of the fourteen systems included in the LARI on December 2, 2024.³ After discussion with OPC in a telephone conference on February 28, 2025, FUS1 filed revisions to its Schedule No. 2 for each system.⁴ Three of those systems were found to be overearning as shown below in Table 1-1.

**Table 1-1
 Results of Earnings Review⁵**

<u>Utility</u>	<u>System</u>	<u>Allowed</u>	<u>Earned</u>
Charlie Creek Utilities	Water	10.00%	9.85%
Crestridge Utilities **	Water	10.77%	43.17%
East Marion Utilities**	Water	10.00%	10.52%
East Marion Utilities	Wastewater	10.00%	-3.15%
Heather Hills Utilities	Water	12.00%	11.19%
Heather Hills Utilities	Wastewater	12.00%	6.51%
Holiday Gardens Utilities	Water	8.24%	1.77%
Lake Yale Utilities	Water	7.04%	5.80%
Lake Yale Utilities **	Wastewater	12.00%	44.01%
McLeod Gardens	Water	12.00%	11.54%
Orange Land Utilities	Water	8.93%	-19.87%
Sunny Shores Utilities	Water	12.00%	4.99%
Sunrise Utilities	Water	10.00%	-1.36%
West Lakeland Wastewater	Wastewater	12.00%	1.41%

Sources: Prior Commission Orders and Document Nos. 10075-2024, 00421-2025, 01340-2025.

Crestridge Utilities, LLC.

In its earnings review, Crestridge reported a rate base of \$117,631, a net operating income of \$50,781 and annual revenues of \$289,273. This resulted in earnings of 43.17 percent ($\$50,781 \div \$117,631$). In Crestridge’s previous rate case, the Commission approved a return on equity (ROE) of 11.16 percent with a range of 10.16 percent to 12.16 percent.⁶ Based on Crestridge’s

³Document No. 10075-2024, filed December 2, 2024.

⁴Document No. 01340-2025, filed March 5, 2025.

⁵**Denotes system that is overearning.

⁶Order No. PSC-2017-0042-PAA-WU, issued February 1, 2017, in Docket No. 20140175-WU; *In re: Application for staff-assisted rate case in Pasco County by Crestridge Utilities, LLC.*

updated Schedule No. 2, filed on March 5, 2025, Crestridge had an allowed rate of return of 10.77 percent. This resulted in overearnings of approximately \$38,112, or 13.18 percent ($\$38,112 \div \$289,273$) for the 12-month period ended August 31, 2024. As such, staff recommends an adjusted revenue requirement for Crestridge of \$251,161 ($\$289,273 - \$38,112$).

East Marion Utilities, LLC.

In its earnings review, the water system for East Marion recorded a net operating income of \$4,061; annual revenues of \$50,720; and an adjusted operations and maintenance (O&M) expense of \$38,598. Pursuant to Section 367.081(4)(b)(1)(e), F.S., staff removed the rate case expense of \$499 from the overall O&M expense of \$39,097. This resulted in earnings of 10.52 percent ($\$4,061 \div \$38,598$).

Using the operating ratio methodology approved at the time, the Commission approved an operating margin of 10.00 percent in East Marion's prior rate case.⁷ This resulted in overearnings of approximately \$201, or 0.40 percent ($\$201 \div \$50,720$) for the 12-month period ended August 31, 2024. As such, staff recommends an adjusted revenue requirement for East Marion's water system of \$50,519 ($\$50,720 - \201). No adjustment to the revenue requirement for the East Marion wastewater system is necessary.

Lake Yale Utilities, LLC.

In its earnings review, the wastewater system for Lake Yale recorded net operating income of \$34,639; annual revenues of \$124,155; and an adjusted O&M expense of \$78,711. Pursuant to Section 367.081(4)(b)(1)(e), F.S., staff removed the rate case expense of \$188 from the overall O&M expense of \$78,899. There was no purchased wastewater expense for the Lake Yale wastewater system. This resulted in earnings of 44.01 percent ($\$34,639 \div \$78,711$).

Using the operating ratio methodology approved at the time, the Commission approved an operating margin of 12.00 percent in Lake Yale's prior rate case.⁸ This resulted in overearnings of approximately \$25,194, or 20.29 percent ($\$25,194 \div \$124,155$) for the 12-month period ended August 31, 2024. As such, staff recommends an adjusted revenue requirement for Lake Yale's wastewater system of \$98,961 ($\$124,155 - \$25,194$). No adjustment to the revenue requirement for the Lake Yale water system is necessary.

Conclusion

Based on the above, three of the fourteen systems included in the FUS1 LARI docket were found to be overearning. Those three systems are Crestridge, the water system for East Marion, and the wastewater system for Lake Yale. The appropriate revenue requirements should be \$251,161 for Crestridge; \$50,519 for East Marion's water system; and \$98,961 for Lake Yale's wastewater system.

⁷Order No. PSC-2017-0107-PAA-WS, issued March 24, 2017, in Docket No. 20150257-WS; *In re: Application for staff-assisted rate case in Marion County, by East Marion Utilities, LLC.*

⁸Order No. PSC-2021-0106-PAA-WS, issued March 17, 2021, in Docket No. 20200169-WS; *In re: Application for staff-assisted rate case in Lake County, and request for interim rate increased, by Lake Yale Utilities, LLC.*

Issue 2: What are the appropriate monthly service rates for the three systems that are overearning?

Recommendation: The appropriate service rates are shown on Schedule No. 1. Crestridge and Lake Yale should file tariff sheets and proposed customer notices to reflect the Commission-approved rates. East Marion’s rates should remain unchanged. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. Crestridge and Lake Yale should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bethea, Hudson)

Staff Analysis: Crestridge and Lake Yale had price index rate increases effective June 1, 2024, during their earnings review period. In order to determine the appropriate percentage reduction to the rates for removal of overearnings, revenues should be annualized and compared to the adjusted revenue requirements in Issue 1. For East Marion, due to the less than one percent reduction to rates, staff recommends that the rates remain unchanged. The existing service rates for Crestridge and Lake Yale should be decreased by its respective percentage shown in Table 2-1.

**Table 2-1
 Staff Recommended Percentage Rate Decrease**

Utility	(1) Annualized Revenues	(2) Adjusted Revenue Requirement	(3) (2) – (1) Annual Overearning	(4) (3)/(1) % Rate Decrease
Crestridge	\$290,885	\$251,161	-\$39,724	-13.66%
Lake Yale (wastewater)	\$127,429	\$98,961	-\$28,468	-22.34%

Source: Staff’s calculations

Staff calculated rates by applying the percentage rate decreases across-the-board to the existing rates for each utility. Further, Lake Yale wastewater rates include amortized rate case expense that expired on April 17, 2025. The rates which implemented the rate case amortization were effective April 17, 2021. However, they were first billed with the May 2021 usage. Typically, the removal of rate case expense is processed administratively by staff based on reductions approved by the Commission. However, due to the timing of reducing the rates for the overearnings, staff believes it is appropriate to remove the rate case expense from the staff’s recommended decreased rates in order to avoid two rate changes in a short time frame and any confusion it may create on the customers. As a result, the staff recommended decreased rates due to the overearnings should be also reduced by the rate case expense reductions approved in Order No. PSC-2021-0106-PAA-WS.⁹

In addition, staff acknowledges that FUS1 provided reduced rates to remove the overearnings for staff’s review.¹⁰ Upon review, staff determined that the proposed rates created an underearning

⁹ Id. page 43

¹⁰ Document No. 00422-2025, filed January 24, 2025.

of staff's recommended adjusted revenue requirement. Therefore, staff believes FUS1's proposed rates were inappropriate.

Conclusion

The appropriate staff recommended service rates are shown on Schedule No. 1. Crestridge and Lake Yale should file tariff sheets and proposed customer notices to reflect the Commission-approved rates. East Marion's rates should remain unchanged. The utility should file tariff sheets and proposed customer notices to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notices. The utilities should provide proof of the date notice was given no less than 10 days after the date of the notice.

Issue 3: What is the appropriate disposition of the overearnings?

Recommendation: For Crestridge and Lake Yale, the customers should be provided a refund pursuant to Rule 25-30.360(4), F.A.C. For East Marion, the refund should be recorded as contributions-in-aid-of-construction (CIAC) pursuant to the agreement with OPC. In determining the appropriate refund, for the refund period, the revenues calculated using the reduced rates should be subtracted from the revenues collected. Staff should be given administrative authority to approve the refund amount based on the aforementioned calculation prior to the commencement of the refund. The refunds should be made with interest in accordance with Rule 25-30.360(4) F.A.C. Pursuant to Rule 25-30.360(7), the refund should be made within 90 days of the Commission's order. During the process of the refund, monthly reports on the status of the refund should be made by the 20th of the following month. (Bethea, Hudson)

Staff Analysis: Pursuant to Rule 25-30.457(8)(c), F.A.C., if staff's earnings review demonstrates that the utility exceeded the range of its last authorized rate of return on equity, the amount held subject to refund, with interest, shall be disposed of for the benefit of the customers. In determining the appropriate refund for East Marion and Lake Yale, for the refund period of July 1, 2023, to the implementation of the reduced rates, the revenues calculated using the reduced rates should be subtracted from the revenues collected. For Lake Yale, the rates prior to removing the rate case expense should be used to calculate the refund. The refund for Crestridge and Lake Yale should be conducted pursuant to Rule 25-30.360, F.A.C. For East Marion, the refund should be recorded as CIAC pursuant to the agreement with OPC.

Conclusion

Based on the above, for Crestridge and Lake Yale, the customers should be provided a refund pursuant to Rule 25-30.360(4), F.A.C. For East Marion, the refund should be recorded as CIAC pursuant to the agreement with OPC. In determining the appropriate refund, for the refund period, the revenues calculated using the reduced rates from removing the overearnings should be subtract from the revenues collected. Staff should be given administrative authority to approve the refund amount based on the aforementioned calculation prior to the commencing of the refund. The refunds should be made with interest in accordance with Rule 25-30.360(4) F.A.C. Pursuant to Rule 25-30.360(7), the refund should be made within 90 days of the Commission's order. During the process of the refund, monthly reports on the status of the refund should be made by the 20th of the following month.

Issue 4: Should this docket be closed?

Recommendation: No. If no person whose substantial interest are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the refunds have been completed and the revised tariff sheets and customer notice filed for approval by staff. Once these actions are complete, this docket should be closed administratively. (Sparks)

Staff Analysis: If no person whose substantial interest are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the refunds have been completed and the revised tariff sheets and customer notice filed for approval by staff. Once these actions are complete, this docket should be closed administratively.

Crestridge Utilities, LLC		Schedule No. 1	
Earnings Review Period Ended August 31, 2024		Docket No. 20220185-WS	
Monthly Water Rates		Page 1 of 2	
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED OVEREARNINGS REDUCED RATES	
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$16.70	\$14.42	
3/4"	\$25.05	\$21.63	
1"	\$41.75	\$36.05	
1-1/2"	\$83.50	\$72.10	
2"	\$133.60	\$115.36	
3"	\$267.20	\$230.72	
4"	\$417.50	\$360.50	
6"	\$835.00	\$721.00	
Charge per 1,000 gallons - Residential			
0-3,000 Gallons	\$5.49	\$4.74	
Over 3,000 Gallons	\$10.90	\$9.41	
Charge per 1,000 gallons - General Service			
	\$6.96	\$6.01	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$27.68	\$23.90	
6,000 Gallons	\$65.87	\$56.87	
8,000 Gallons	\$87.67	\$75.69	

Lake Yale Utilities, LLC				Schedule No. 1	
Earnings Review Period Ended August 31, 2024				Docket No. 20220185 - WS	
Monthly Wastewater Rates				Page 2 of 2	
	UTILITY'S EXISTING RATES	OVEREARNINGS REDUCED RATES	4 YEAR RATE REDUCTION	STAFF RECOMMENDED RATES	
<u>Residential Service</u>					
All Meter Sizes	\$18.39	\$14.28	\$0.04	\$14.24	
Charge per 1,000 gallons - Residential 6,000 gallonage cap	\$10.77	\$8.36	\$0.02	\$8.34	
<u>General Service</u>					
Base Facility Charge by Meter Size					
5/8" x 3/4"	\$18.39	\$14.28	\$0.04	\$14.24	
3/4"	\$27.59	\$21.42	\$0.06	\$21.36	
1"	\$45.98	\$35.70	\$0.10	\$35.60	
1-1/2"	\$91.95	\$71.40	\$0.20	\$71.20	
2"	\$147.12	\$114.24	\$0.32	\$113.92	
3"	\$294.24	\$228.48	\$0.64	\$227.84	
4"	\$459.75	\$357.00	\$1.00	\$356.00	
6"	\$919.50	\$714.00	\$2.00	\$712.00	
8"	\$1,471.20	\$1,142.40	\$3.20	\$1,139.20	
Charge per 1,000 gallons - General Service	\$12.92	\$10.03	\$0.03	\$10.00	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>					
2,000 Gallons	\$39.93	\$31.00		\$30.92	
6,000 Gallons	\$83.01	\$64.44		\$64.28	
8,000 Gallons	\$83.01	\$64.44		\$64.28	