

Table of Contents
 Commission Conference Agenda
 December 6, 2016

1**	Consent Agenda	1
2**	Docket No. 160121-GU – Proposed adoption of Rules 25-6.0346, 25-12.005, 25-12.008, 25-12.022, 25-12.027, 25-12.040, and 25-12.085, F.A.C.....	2
3**	Docket No. 160223-WS – Proposed amendments for Rules 25-30.425 and 25-30.455, F.A.C.....	3
4**PAA	Docket No. 160153-GU – Petition for approval of final true-up of environmental surcharge by Florida Division of Chesapeake Utilities Corporation.	4
5**	Docket No. 160005-WS – Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.	5
6**PAA	Docket No. 160105-EI – Petition for approval of 2016-2018 storm hardening plan, pursuant to Rule 25-6.0342, F.A.C., by Tampa Electric Company. Docket No. 160106-EI – Petition for approval of 2016-2018 storm hardening plan, pursuant to Rule 25-6.0342, F.A.C., by Florida Public Utilities Company. Docket No. 160107-EI – Petition for approval of 2016-2018 storm hardening plan, pursuant to Rule 25-6.0342, F.A.C., by Duke Energy Florida, LLC. Docket No. 160108-EI – Petition for approval of 2016-2018 storm hardening plan, pursuant to Rule 25-6.0342, F.A.C., by Gulf Power Company.	6
7**	Docket No. 160186-EI – Petition for rate increase by Gulf Power Company. Docket No. 160170-EI – Petition for approval of 2016 depreciation and dismantlement studies, approval of proposed depreciation rates and annual dismantlement accruals and Plant Smith Units 1 and 2 regulatory asset amortization, by Gulf Power Company.	8
8**PAA	Docket No. 150010-WS – Application for staff-assisted rate case in Brevard County by Aquarina Utilities, Inc.	9
9**PAA	Docket No. 160174-GU – Request for approval of 2016 depreciation study by Sebring Gas System, Inc.	14
10**	Docket No. 160175-GU – Petition for review and determination on the project construction and gas transportation agreement between NUI Utilities, Inc. d/b/a City Gas Company of Florida and Florida Crystals Corporation, and approval of an interim service arrangement.	15
11**	Docket No. 160199-GU – Joint petition for approval of gas reliability infrastructure program cost recovery factors by Florida Public Utilities Company, Florida Public Utilities Company-Fort Meade, and the Florida Division of Chesapeake Utilities Corporation.	17

Table of Contents
Commission Conference Agenda
December 6, 2016

12**PAA **Docket No. 110200-WU** – Application for increase in water rates in Franklin
County by Water Management Services, Inc. 18

Item 1

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: November 22, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Archer, Buys, Cicchetti) *ALM*
Office of the General Counsel (Taylor) *WPT*

RE: Docket No. 160227-GU – Application for authority to issue debt security during calendar year 2017, pursuant to Section 366.04, F.S., and Chapter 25-8, F.A.C., by Florida City Gas.

AGENDA: 12/06/16 – Consent Agenda – Final Action - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Please place the following securities application on the consent agenda for approval.

Docket No. 160227-GU – Application for authority to issue debt security during calendar year 2017, pursuant to Section 366.04, F.S., and Chapter 25-8, F.A.C., by Florida City Gas.

Florida City Gas (Company) seeks authority to finance its on-going cash requirements through its participation and borrowings from, and investments in, Southern Gas Company's (formerly AGL Resources Inc.'s) Utility Money Pool during 2017. Florida City Gas is a division of Pivotal Utility Holdings, Inc., which is a wholly-owned subsidiary of Southern Gas Company. The maximum aggregate short-term borrowings by Pivotal Utility Holdings, Inc.'s three utilities (Elizabethtown Gas, Elkton Gas, and Florida City Gas) from the Utility Money Pool during 2017 will not exceed \$800 million. Florida City Gas states that its share of these borrowings will not exceed \$250 million.

In connection with this application, Florida City Gas confirms that the capital raised pursuant to this application will be used in connection with the regulated natural gas operations of Florida City Gas and not the unregulated activities of the utility or its affiliates.

Staff has reviewed the Company's projected capital expenditures. The amount requested by the Company exceeds its expected capital expenditures. The additional amount requested exceeding the projected capital expenditures allows for financial flexibility for the purposes enumerated in the Company's petition as well as unexpected events such as hurricanes, financial market disruptions, and other unforeseen circumstances. Staff believes the requested amounts are appropriate. Staff recommends the Company's petition to issue securities be approved.

For monitoring purposes, this docket should remain open until April 26, 2018, to allow the Company time to file the required Consummation Report.

Item 2

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: November 22, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Office of the General Counsel (Harper) *FILED*
Division of Economics (Rome) *OR SMC*
Division of Engineering (Matthews, Moses) *tu PoE 13*

RE: Docket No. 160121-GU – Proposed adoption of Rules 25-6.0346, 25-12.005, 25-12.008, 25-12.022, 25-12.027, 25-12.040, and 25-12.085, F.A.C.

AGENDA: 12/06/16 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

RULE STATUS: Proposal May Be Deferred

SPECIAL INSTRUCTIONS: None

Case Background

Rules 25-6.0346, Quarterly Reports of Work Orders and Safety Compliance, 25-12.005, Codes and Standards Adopted, 25-12.008, New, Reconstructed or Converted Facilities, 25-12.022, Requirements for Distribution System Valves, 25-12.027, Welder Qualification, 25-12.040, Leak Surveys, Procedures and Classification, and 25-12.085, Written Annual Reports Required, Florida Administrative Code (F.A.C.), implement federal and state gas and electric safety rules. The purpose of this rulemaking is to update, clarify, and streamline the Commission rules. The rules implement Sections 366.04(2)(f)(6), 368.05(1) and (2), 368.03, and 368.05, Florida Statutes, (F.S.).

The Commission's Notice of Development of Rulemaking was published in the Florida Administrative Register (F.A.R.), on April 20, 2016, in Volume 42, Number 77. Comments were received from Tampa Electric Company (TECO), Florida Natural Gas Association, and

Docket No. 160121-GU
Date: November 22, 2016

Florida Electric Cooperatives Association. No rulemaking workshop was requested, and no workshop was held.

This recommendation addresses whether the Commission should approve staff's proposed amendments of electric and gas safety Rules 25-6.0346, 25-12.005, 25-12.008, 25-12.022, 25-12.027, 25-12.040, and 25-12.085, F.A.C. The Commission has jurisdiction pursuant to Sections 120.54 and 366.06(1), F.S.

Discussion of Issues

Issue 1: Should the Commission propose the amendment of Rules 25-6.0346, 25-12.005, 25-12.008, 25-12.022, 25-12.027, 25-12.040, and 25-12.085, F.A.C.?

Recommendation: Yes. The Commission should propose the amendment of Rules 25-6.0346, 25-12.005, 25-12.008, 25-12.022, 25-12.027, 25-12.040, and 25-12.085, F.A.C., as set forth in Attachment A. (Harper, Matthews, Moses, Rome)

Staff Analysis: The purpose of this rulemaking is to update, clarify, and streamline the Commission gas and electric safety rules. Staff is recommending that the Commission propose the amendment of the rules, as set forth in Attachment A. Below is a more detailed explanation of the rule amendments staff is recommending.

Electric Utilities

Rule 25-6.0346, F.A.C., Quarterly Reports of Work Orders and Safety Compliance

Rule 25-6.0436, F.A.C., specifies that required quarterly work order lists be sent directly to Commission staff via e-mail, without requiring a specific form that must be used, as long as there is sufficient information provided. Proposed language has been added to the rule to clarify the types of information required to be provided including utility name, contact name, quarter and year, work order number, location of construction, county of construction, estimated costs and a brief description of the work. The recommended revisions to the rule also include a hyperlink to an existing Commission form which can be used as an example format that would meet the reporting requirements of the rule.

Gas Utilities

Rule 25-12.005, Codes and Standards Adopted

Rule 25-12.005, F.A.C. implements the Minimum Federal Safety Standards and reporting requirements for pipeline facilities and transportation of gas as prescribed by Pipeline and Hazardous Materials Safety Administration (PHMSA) found in 49 C.F.R. Parts 191, 192, and 199. Rule 25-12.005, F.A.C., is amended to adopt the latest version of the federal standards 49 C.F.R. Parts 191, 192, and 199 that pertain to reporting requirements, safety standards, and drug and alcohol employee reporting standards and requirements for employees of gas pipeline operators and emergency response persons under the direct authority or control of a gas utility or gas pipeline operator.

Rule 25-12.008, New, Reconstructed or Converted Facilities

Rule 25-12.008, F.A.C., pertains to inspection of new, reconstructed, or converted pipeline facilities. Rule 25-12.008, F.A.C., is amended to adopt the latest version of 49 C.F.R. Part 192 and to clarify that there is no requirement of visual inspection of underground facilities if construction and testing records have been maintained, and to clarify that active corrosion procedures are required by Subpart I of 49 C.F.R. Part 192.

Rule 25-12.022, Requirements for Distribution System Valves

Rule 25-12.022, F.A.C., provides the requirements for gas distribution system valves. Staff recommends amendments to Rule 25-12.022, F.A.C., to include the use of the word

“emergency” in conjunction with the word “sectionalizing” in subsections (3) and (5) of the rule. The intent of the recommended amendments is to clarify those valves used to close off system sections in an emergency. Additional modifications to Rule 25-12.022, F.A.C. are recommended in paragraph (3)(b), which would provide clarification that valve identification must be marked on permanent material inside the valve box.

Rule 25-12.027, Welder Qualification

Rule 25-12.027, F.A.C., provides the standards for welder qualification. The amendments to Rule 25-12.027, F.A.C., would correct a scrivener’s error in the current rule and clarify the appropriate American Petroleum Institute standards for welder qualification. The rule also would be updated to adopt the latest version of the federal standard 49 C.F.R. Part 192 as it pertains to welder qualification.

Rule 25-12.040, Leak Surveys, Procedures and Classification

Rule 25-12.040, F.A.C., provides the requirements for gas leak surveys, procedures, and classification. The amendments to Rule 25-12.040(1)(b), F.A.C., would provide clarification regarding the intervals within which leak detection surveys are required. Staff recommends additional amendments to Rule 25-12.040, F.A.C., include new subsection (4). Under current Commission rules, gas utilities are required to perform follow-up inspections of leak repairs no later than one month for Grade 1 leaks and no later than six months for Grade 2 leaks. New language included in subsection (4) would require that if residual gas is detected on the follow-up inspection, continued monthly monitoring and inspections shall be done until gas is no longer detected.

Rule 25-12.085, Written Annual Reports Required

Rule 25-12.085, F.A.C., provides the requirement for annual written reports by gas distribution operators pursuant to PHMSA Forms 7100.1-1 and 7100.2-1. The recommended amendments to subsections (1) and (3) of Rule 25-12.085, F.A.C., would incorporate the most recent versions of the appropriate PHMSA forms. The most recent versions of the forms are included in Attachment A for reference. Subsection (2) of Rule 25-12.085, F.A.C., is recommended for deletion as redundant.

Statement of Estimated Regulatory Costs

Pursuant to Section 120.54, F.S., agencies are encouraged to prepare a statement of estimated regulatory costs (SERC) before the adoption, amendment, or repeal of any rule. The SERC is appended as Attachment B to this recommendation. The SERC analysis also includes whether the rule amendment is likely to have an adverse impact on growth, private sector job creation or employment, or private sector investment in excess of \$1 million in the aggregate within five years after implementation.

The SERC concludes that the rule amendments will not likely directly or indirectly increase regulatory costs in excess of \$200,000 in the aggregate in Florida within one year after implementation. Further, the SERC concludes that the rule amendments will not likely have an adverse impact on economic growth, private-sector job creation or employment, private sector investment, business competitiveness, productivity, or innovation in excess of \$1 million in the aggregate within five years of implementation. Thus, the rule amendments do not require legislative ratification pursuant to Section 120.541(3), F.S.

In addition, the SERC states that the rule amendments will not have an adverse impact on small business and will have no impact on small cities or small counties. No regulatory alternatives were submitted pursuant to paragraph 120.541(1)(a), F.S. None of the impact/cost criteria established in paragraph 120.541(2)(a), F.S., will be exceeded as a result of the recommended revisions.

Conclusion

Based on the foregoing, staff recommends the amendment of Rules 25-6.0346, 25-12.005, 25-12.008, 25-12.022, 25-12.027, 25-12.040, and 25-12.085, F.A.C.

Issue 2: Should this docket be closed?

Recommendation: Yes. If no requests for hearing or comments are filed, the rules may be filed with the Department of State, and this docket should be closed. (Harper, Matthews, Moses, Rome)

Staff Analysis: If no requests for hearing or comments are filed, the rules may be filed with the Department of State, and this docket should be closed.

1 **25-6.0346 Quarterly Reports of Work Orders and Safety Compliance.**
2 (1) Each investor-owned electric utility, rural electric cooperative and municipal electric
3 utility shall provide a work order list ~~report all completed electric work orders~~, relating to the
4 construction and/or maintenance of transmission and distribution facilities, ~~whether that is~~
5 completed by the utility or one of its contractors, ~~at the end of each quarter of the year~~. The
6 ~~report~~ work order list shall contain the utility name, contact name, quarter and year, work
7 order number, location of construction, county of construction, estimated costs, and brief
8 description of the work (overhead and underground), and shall be sent via e-mail to
9 ~~electronically filed with the~~ Electric-QTR-Reports@psc.state.fl.us ~~Commission Clerk~~ no later
10 than the 30th working day after the last day of the reporting quarter, ~~using~~ Form PSC/ENG
11 157 (12/12), “PSC Quarterly Report of Completed Work Orders,” which is available at
12 <http://www.flrules.org/Gateway/reference.asp?No=Ref-02040>, ~~is an example work order list~~
13 that may be completed and filed to meet the reporting requirement for this rule. This form is
14 incorporated into this rule by reference and may also be obtained from the Commission’s
15 Division of Administrative and Information Technology Services.

16 (2) In its quarterly report, each utility shall certify to the Commission that all work
17 described in the completed work orders listed in the quarterly report meets or exceeds the
18 applicable standards. Compliance inspections by the Commission shall be made on a random
19 basis or as appropriate.

20 *Rulemaking Authority 350.127(2), 366.05(1) FS. Law Implemented 366.04(2)(f), (6),*
21 *366.05(1) FS. History—New 12-16-12, Amended, _____.*
22
23
24
25

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

1 **25-12.005 Codes and Standards Adopted.**
2 The Minimum Federal Safety Standards and reporting requirements for pipeline facilities and
3 transportation of gas prescribed by the Pipeline and Hazardous Materials Safety
4 Administration in 49 C.F.R. 191 and 192 (2016) ~~(2011)~~, are adopted and incorporated by
5 reference as part of these rules. 49 C.F.R. 191 (2016) ~~(2011)~~ may be accessed at [Dept. of
6 State hyperlink] <http://www.flrules.org/Gateway/reference.asp?No=Ref-01534>. 49 C.F.R. 192
7 (2016) ~~(2011)~~ may be accessed at [Dept. of State hyperlink]
8 <http://www.flrules.org/Gateway/reference.asp?No=Ref-01535>. 49 C.F.R. 199 (2016) ~~(2011)~~,
9 “Drug and Alcohol Testing,” is adopted and incorporated by reference to control drug use, by
10 setting standards and requirements to apply to the testing and use of all emergency response
11 personnel under the direct authority or control of a gas utility or pipeline operator, as well as
12 all employees directly or indirectly employed by gas pipeline operators for the purpose of
13 operation and maintenance and all employees directly or indirectly employed by intrastate gas
14 distribution utilities for on-site construction of natural gas transporting pipeline facilities 49
15 C.F.R. 199 (2016) ~~(2011)~~ may be accessed at [Dept. of State hyperlink]
16 <http://www.flrules.org/Gateway/reference.asp?No=Ref-01537>. Part 199 also is adopted to
17 prescribe standards for use of employees who do not meet the requirements of the regulations.
18 *Rulemaking Authority 368.03, 368.05(2), 350.127(2) FS. Law Implemented 368.03, 368.05*
19 *FS. History—New 11-14-70, Amended 9-24-71, 9-21-74, 10-7-75, 11-30-82, 10-2-84, Formerly*
20 *25-12.05, Amended 8-8-89, 1-7-92, 5-13-99, 4-26-01, 12-15-09, 10-11-12, _____.*
21
22
23
24
25

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

1 **25-12.008 New, Reconstructed or Converted Facilities.**

2 (1) No new or reconstructed system or portion thereof may be:

3 (a) Constructed, until written construction specifications complying with these rules are
4 developed.

5 (b) Placed in service until the pipeline facilities have been inspected and found to comply
6 with the construction specifications and Operating and Maintenance Plans.

7 (2) Before a piping system can be converted to a regulated gas, the operator must:

8 (a) Have a general conversion procedure as a part of its operation and maintenance plan.

9 (b) File a conversion plan with the Commission for the specific system at least 15 days
10 prior to start of conversion. This plan need not be filed for minor conversions which are
11 scheduled to be completed in one day and where sectionalizing of the system to be converted
12 is not planned.

13 (c) Have ~~sufficient~~ inspections performed of the pipeline to assure that it was constructed
14 in accordance with standards applicable at the time of installation. Visual inspection of the
15 underground facilities ~~may~~ will not be required if ~~adequate~~ construction and testing records
16 have been maintained.

17 (d) Review the operating and maintenance history of the system to be converted. Any
18 areas showing abnormal maintenance requirements shall be replaced, reconditioned or
19 otherwise made safe prior to conversion.

20 (e) Establish the maximum allowable operating pressure no greater than the highest
21 sustained operating pressure during the 5 years prior to conversion unless it was tested or
22 uprated after July 1, 1970 in accordance with the Subparts J or K of 49 C.F.R. 192 (2016)
23 ~~(2011)~~ as adopted in Rule 25-12.005, F.A.C.

24 (f) Make a leak survey over the entire converted system concurrent with the conversion.

25 (g) Determine areas of active corrosion as required by Subpart I of 49 C.F.R. 192 (2016)

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

1 ~~(2011)~~ and these rules. Required cathodic protection must be accomplished within 1 year after
2 the date of conversion except that buried steel tubing must be protected prior to placing the
3 system into operation.

4 *Rulemaking Authority 350.127(2), 368.03, 368.05(2) FS. Law Implemented 368.03, 368.05(2)*
5 *FS. History—New 11-14-70, Amended 9-21-74, 10-7-75, 10-2-84, Formerly 25-12.08,*
6 *Amended 12-15-09, 10-11-12, _____.*

7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

1 **25-12.022 Requirements for Distribution System Valves.**

2 (1) Valves ahead of regulator stations – A valve shall be installed upstream of each
3 regulator station for use in an emergency to stop the flow of gas. These valves are to be
4 installed at a safe distance from the station, but no more than 500 feet from the regulator
5 station. The distance for the valve location can be greater than 500 feet if physically
6 impractical to install closer.

7 (2) Sectionalizing valves – Valves shall be spaced within each distribution system to
8 reduce the time to shut-down a segment of the system in an emergency. In determining the
9 spacing of these valves, the following factors shall be evaluated:

10 (a) Volume and pressure of gas between valves.

11 (b) Size of area and population density between valves required to isolate the area and as
12 ~~well as~~ the accessibility of the required valves.

13 (c) The minimum number of personnel required to shutdown and restore the area.

14 (d) Other means and availability of required equipment to control the flow of gas in the
15 event of an emergency.

16 (e) The number and type of customers, such as hospitals, schools, commercial, and
17 industrial loads, ~~etc.~~, that will be affected.

18 (3) Identification – Emergency or sSectionalizing and other critical valves shall be
19 designated on appropriate records, drawings or maps used by the operator and shall be
20 referenced to “permanent” aboveground structures or other field ties so the valves can be
21 readily located. The centerline of the road or highway, property line, or right-of-way may be
22 used as one of the referenced structures. The valve installation and all records showing these
23 valves must be marked for prompt identification using any logical designating system. The
24 valve marking must be accomplished using a durable tag or other equivalent means located as
25 follows:

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

1 (a) For aboveground valves or valves located in vaults which have to be operated from
2 within the vault, the marking shall appear on the valve body or hand wheel.

3 (b) For buried valves or valves operated by a key wrench, the marking shall be legible and
4 may be on any type of permanent material placed ~~appear~~ in a visible location ~~on the~~ inside of
5 the curb box or standpipe where the cover will not abrade the marking. Marking the cover
6 only is not acceptable.

7 (4) Blowdown valve requirements – Where blowdown valves are used to aid the
8 evacuation of gas from segments of mains between isolation valves, these valves must:

9 (a) Be protected against tampering and mechanical damage from outside forces.

10 (b) Be designed for safe venting giving consideration to the direction of flow, electric
11 facility locations, proximity of people, etc.

12 (c) Be readily accessible in the event of an emergency.

13 (5) All the sectionalizing or emergency valves which may be necessary for the safe
14 operation of the system must be inspected and maintenance performed to assure location,
15 access and operating ability at intervals not exceeding 15 months but at least each calendar
16 year.

17 *Rulemaking Authority 368.05(2) FS. Law Implemented 368.05(2) FS. History–New 9-21-74,*
18 *Amended 10-7-75, 10-2-84, Formerly 25-12.22, Amended 12-15-09,_____.*

19
20
21
22
23
24
25

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

25-12.027 Welder Qualification.

(1) No welder shall make any pipeline weld unless the welder has qualified in accordance with Section ~~63~~, or section 12 for automatic welding, of American Petroleum Institute Standard 1104, Welding of Pipelines and Related Facilities, ~~21st~~ 20th edition, September 2013 October 2005 including Errata/Addendum July 2007 and Errata 2 (2008), incorporated by reference herein, or Appendix C of 49 C.F.R. 192 (2016) ~~(2014)~~ as adopted in Rule 25-12.005, F.A.C., within the preceding 15 months, but at least once each calendar year. A copy of API 1104 may be obtained from <http://www.api.org/Standards/>.

(2) No welder shall weld with a particular welding process unless the welder has engaged in welding with that process within the preceding six calendar months. A welder who has not engaged in welding with that process within the preceding six calendar months must requalify for that process as set forth in subsection (1) of this rule ~~herein~~.

Rulemaking Authority 350.127(2), 368.03, 368.05(2) FS. Law Implemented 368.03, 368.05 FS. History—New 1-7-92, Amended 12-15-09, 10-11-12, _____.

1 **25-12.040 Leak Surveys, Procedures and Classification.**

2 (1) Each operator shall perform periodic leakage surveys in accordance with the following
3 schedule ~~as a minimum~~:

4 (a) A gas detector instrument survey shall be conducted at intervals not exceeding 15
5 months but at least once each calendar year in those portions of an operator's service area,
6 including:

7 1. Principal business districts, master meter systems, and places where the public is known
8 to congregate frequently.

9 2. Where pipeline facilities, including service lines, are located under surfaces of such
10 construction that little opportunity is afforded for a leak to vent safely.

11 (b) A gas detector instrument survey to locate leaks throughout areas not included in
12 subsection (a) above shall be conducted at intervals not exceeding ~~three (3)~~ calendar years at
13 intervals not exceeding 39 months on bare metallic, galvanized steel, coated tubing pipelines,
14 and ~~five (5)~~ calendar years at intervals not exceeding 63 months on the remaining pipeline
15 system, or more frequently if experience indicates.

16 (2) The following leak classification system shall be used on all leak records and reports:

17 (a) "Grade 1 Leak" – a leak of gas that represents an existing or probable hazard to persons
18 or buildings. In order ~~Prompt action~~ to protect life and property, these leaks shall be repaired
19 immediately and continuous action shall be taken until conditions are no longer hazardous is
20 required.

21 (b) "Grade 2 Leak" – a leak that is not a threat to persons or property at the time of
22 detection, but justifies scheduled repair based on potential future hazard. These leaks shall be
23 repaired within 90 days from the date the leak was originally located, unless due to resurvey
24 the leak was determined to be Grade 3 as defined in subsection (c) below. In determining the
25 time period for repair, the following criteria should be taken into consideration:

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

- 1 1. Amount and migration of gas;
- 2 2. Proximity of gas to buildings and subsurface structures;
- 3 3. Extent of pavement;
- 4 4. Soil type and conditions, such as moisture and natural venting.

5 (c) "Grade 3 Leak" – a leak that is not a threat to persons and property and is not expected
6 to become so. Above ground grade 3 leaks shall be repaired within 90 days from the date the
7 leak was originally located unless the leak is upgraded or does not produce a positive leak
8 indication when a soap and water solution, or its equivalent, is applied on suspected locations
9 at operating pressure. Grade 3 leaks that are underground shall be reevaluated at least once
10 every 6 months until repaired. The frequency of reevaluation shall be determined by the
11 location and magnitude of the leak.

12 (3) ~~The adequacy of~~ All the repairs of leaks shall be checked by appropriate methods
13 immediately after the repairs are completed. Where there is residual gas in the ground, a
14 follow-up inspection using a gas detector instrument must be made as soon as the gas has had
15 an opportunity to dissipate, but no later than one month for Grade 1 leaks and 6 months for
16 Grade 2 leaks. The date and status of recheck shall be recorded on the leak repair records.

17 (4) If residual gas is detected on the follow-up inspection, continued monthly monitoring,
18 not to exceed 45 days, and inspections shall be done until gas is no longer detected.

19 *Rulemaking Authority 368.05(2) FS. Law Implemented 368.05(2) FS. History—New 9-21-74,*
20 *Repromulgated 10-7-75, Amended 10-2-84, Formerly 25-12.40, Amended 1-7-92, 12-15-09,*

21 _____.

22

23

24

25

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

1 **25-12.085 Written Annual Reports Required.**

2 (1) Each operator of a distribution system shall submit an annual report on Pipeline and
3 Hazardous Materials Safety Administration Form PHMSA F 7100.1-1 (2015) ~~(12-05)~~, entitled
4 “Annual Report for Calendar Year 20____ Gas Distribution System,” which is incorporated
5 by reference into this rule and is available at [Department of State hyperlink] for each
6 distribution system. In the case of an operator who has more than one distribution system, a
7 combined annual report must be submitted which includes all facilities operated within the
8 State of Florida subject to the Commission’s jurisdiction.

9 ~~(2) Each operator of a distribution system shall, for facilities that operate at 20 percent or~~
10 ~~more of the specified minimum yield strength, or that are used to convey gas into or out of~~
11 ~~storage, submit an annual reports for those facilities on Pipeline and Hazardous Materials~~
12 ~~Safety Administration Form PHMSA F 7100.2-1 (12-05), entitled “Annual Report for~~
13 ~~Calendar Year 20____ Gas Transmission & Gathering Systems.”~~

14 (2)(3) Each operator of a transmission system shall submit an annual report on Pipeline
15 and Hazardous Materials Safety Administration Form PHMSA F 7100.2-1 (2014) ~~(12-05)~~,
16 entitled “Annual Report for Calendar Year 20____ Natural and Other Gas Transmission and
17 Gathering Pipeline Systems,” which is incorporated by reference into this rule and is available
18 at [Department of State hyperlink].

19 All the above reports must be submitted for the preceding calendar year so as to be received
20 by the Commission no later than March 15th of each year.


21 *Rulemaking Authority 350.127(2), 368.05(2) FS. Law Implemented 368.03, 368.05(2) FS.*
22 *History—New 11-14-70, Amended 9-21-74, Repromulgated 10-7-75, Amended 10-2-84,*
23 *Formerly 25-12.85, Amended 12-15-09, _____.*

24
25

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

NOTICE: This report is required by 49 CFR Part 191. Failure to report may result in a civil penalty not to exceed \$100,000 for each violation for each day the violation continues up to a maximum of \$1,000,000 as provided in 49 USC 60122.

OMB No. 2137-0629
 Expiration Date 5/31/2018

 U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration	ANNUAL REPORT FOR CALENDAR YEAR 20__ GAS DISTRIBUTION SYSTEM	DOT USE ONLY Initial Date Submitted Report Submission Type Date Submitted
<p>A federal agency may not conduct or sponsor, and a person is not required to respond to, nor shall a person be subject to a penalty for failure to comply with a collection of information subject to the requirements of the Paperwork Reduction Act unless that collection of information displays a current valid OMB Control Number. The OMB Control Number for this information collection is . Public reporting for this collection of information is estimated to be approximately 16 hours per submission, including the time for reviewing instructions, gathering the data needed, and completing and reviewing the collection of information. All responses to this collection of information are mandatory. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Information Collection Clearance Officer, PHMSA, Office of Pipeline Safety (PHP-30) 1200 New Jersey Avenue, SE, Washington, D.C. 20590.</p> <p><i>Important:</i> Please read the separate instructions for completing this form before you begin. They clarify the information requested and provide specific examples. If you do not have a copy of the instructions, you can obtain one from the PHMSA Pipeline Safety Community Web Page at http://www.phmsa.dot.gov/pipeline/library/forms.</p>		
PART A - OPERATOR INFORMATION	DOT USE ONLY	
1. NAME OF OPERATOR _____ 2. LOCATION OF OFFICE WHERE ADDITIONAL INFORMATION MAY BE OBTAINED _____ Number and Street _____ City and County _____ State and Zip Code _____	3. OPERATOR'S 5 DIGIT IDENTIFICATION NUMBER / / / / / 4. HEADQUARTERS NAME & ADDRESS, IF DIFFERENT _____ Number and Street _____ City and County _____ State and Zip Code _____	
5. STATE IN WHICH SYSTEM OPERATES: / / / / (provide a separate report for each state in which system operates)		
6. THIS REPORT PERTAINS TO THE FOLLOWING COMMODITY GROUP (Select Commodity Group based on the predominant gas carried and complete the report for that Commodity Group. File a separate report for each Commodity Group included in this OPID.) <input type="checkbox"/> Natural Gas <input type="checkbox"/> Synthetic Gas <input type="checkbox"/> Hydrogen Gas <input type="checkbox"/> Propane Gas <input type="checkbox"/> Landfill Gas <input type="checkbox"/> Other Gas → Name of Other Gas:		
7. THIS REPORT PERTAINS TO THE FOLLOWING TYPE OF OPERATOR (Select Type of Operator based on the structure of the company included in this OPID for which this report is being submitted.): <input type="checkbox"/> Investor Owned <input type="checkbox"/> Municipally Owned <input type="checkbox"/> Privately Owned <input type="checkbox"/> Cooperative <input type="checkbox"/> Other Ownership specify:		

PART B - SYSTEM DESCRIPTION					Report miles of main and number of services in system at end of year.						
1. GENERAL											
	STEEL				PLASTIC	CAST/ WROUGHT IRON	DUCTILE IRON	COPPER	OTHER	Reconditioned Cast Iron	SYSTEM TOTAL
	UNPROTECTED		CATHODICALLY PROTECTED								
	BARE	COATED	BARE	COATED							
MILES OF MAIN					Calc	Calc	Calc	Calc	Calc	Calc	Calc
NO. OF SERVICES					Calc	Calc	Calc	Calc	Calc	Calc	Calc

2. MILES OF MAINS IN SYSTEM AT END OF YEAR							
MATERIAL	UNKNOWN	2" OR LESS	OVER 2" THRU 4"	OVER 4" THRU 8"	OVER 8" THRU 12"	OVER 12"	SYSTEM TOTALS
STEEL							Calc
DUCTILE IRON							Calc
COPPER							Calc
CAST/WROUGHT IRON							Calc
PLASTIC 1. PVC							Calc
2. PE							Calc
3. ABS							Calc
4. OTHER PLASTIC							Calc
OTHER							Calc
Reconditioned Cast Iron							Calc
SYSTEM TOTALS	Calc	Calc	Calc	Calc	Calc	Calc	Calc

Describe Other Material: _____

3. NUMBER OF SERVICES IN SYSTEM AT END OF YEAR					AVERAGE SERVICE LENGTH _____ FEET		
MATERIAL	UNKNOWN	1" OR LESS	OVER 1" THRU 2"	OVER 2" THRU 4"	OVER 4" THRU 8"	OVER 8"	TOTAL
STEEL							Calc
DUCTILE IRON							Calc
COPPER							Calc
CAST/WROUGHT IRON							Calc
PLASTIC 1. PVC							Calc
2. PE							Calc
3. ABS							Calc
4. OTHER PLASTIC							Calc
OTHER							Calc
Reconditioned Cast Iron							Calc
SYSTEM TOTALS	Calc	Calc	Calc	Calc	Calc	Calc	Calc

Describe Other Material: _____

4. MILES OF MAIN AND NUMBER OF SERVICES BY DECADE OF INSTALLATION											
	UN-KNOWN	PRE-1940	1940-1949	1950-1959	1960-1969	1970-1979	1980-1989	1990-1999	2000-2009	2010-2019	TOTAL
MILES OF MAIN											Calc
NUMBER OF SERVICES											Calc

PART C - TOTAL LEAKS AND HAZARDOUS LEAKS ELIMINATED/REPAIRED DURING YEAR				
CAUSE OF LEAK	Mains		Services	
	Total	Hazardous	Total	Hazardous
	CORROSION FAILURE			
NATURAL FORCE DAMAGE				
EXCAVATION DAMAGE				
OTHER OUTSIDE FORCE DAMAGE				
PIPE, WELD, OR JOINT FAILURE				
EQUIPMENT FAILURE				
INCORRECT OPERATION				
OTHER CAUSE				

NUMBER OF KNOWN SYSTEM LEAKS AT END OF YEAR SCHEDULED FOR REPAIR _____

PART D - EXCAVATION DAMAGE	PART E - EXCESS FLOW VALVE (EFV) DATA
1. Total Number of Excavation Damages by Apparent Root Cause <u>Calc</u> a. One-Call Notification Practices Not Sufficient: _____ b. Locating Practices Not Sufficient: _____ c. Excavation Practices Not Sufficient: _____ d. Other: _____ 2. Number of Excavation Tickets _____	Total Number Of EFVs on Single-family Residential Services Installed During Year _____ Estimated Number of EFVs In the System At End Of Year _____

PART F - TOTAL NUMBER OF LEAKS ON FEDERAL LAND REPAIRED OR SCHEDULED FOR REPAIR	PART G - PERCENT OF UNACCOUNTED FOR GAS
_____	Unaccounted for gas as a percent of total input for the 12 months ending June 30 of the reporting year. [(Purchased gas + produced gas) minus (customer use + company use + appropriate adjustments)] divided by (purchased gas + produced gas) equals percent unaccounted for. Input for year ending 6/30 _____ %.

PART H - ADDITIONAL INFORMATION	
--	--

PART I - PREPARER	
_____ Preparer's Name and Title	_____ Area Code and Telephone Number
_____ Preparer's email address	_____ Area Code and Facsimile Number
_____ Name and Title of Person Signing	_____ Area Code and Telephone Number

Notice: This report is required by 49 CFR Part 191. Failure to report may result in a civil penalty not to exceed \$100,000 for each violation for each day the violation continues up to a maximum of \$1,000,000 as provided in 49 USC 60122.

Form Approved
 OMB No. 2137-0522
 Expires: 10/31/2017

 U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration	ANNUAL REPORT FOR CALENDAR YEAR 20__ NATURAL AND OTHER GAS TRANSMISSION AND GATHERING PIPELINE SYSTEMS	DOT USE ONLY	
		Initial Date Submitted	
		Report Submission Type	
		Date Submitted	
<p>A federal agency may not conduct or sponsor, and a person is not required to respond to, nor shall a person be subject to a penalty for failure to comply with a collection of information subject to the requirements of the Paperwork Reduction Act unless that collection of information displays a current valid OMB Control Number. The OMB Control Number for this information collection is 2137-0522. Public reporting for this collection of information is estimated to be approximately 42 hours per response, including the time for reviewing instructions, gathering the data needed, and completing and reviewing the collection of information. All responses to this collection of information are mandatory. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Information Collection Clearance Officer, PHMSA, Office of Pipeline Safety (PHP-30) 1200 New Jersey Avenue, SE, Washington, D.C. 20590.</p> <p>Important: Please read the separate instructions for completing this form before you begin. They clarify the information requested and provide specific examples. If you do not have a copy of the instructions, you can obtain one from the PHMSA Pipeline Safety Community Web Page at http://www.phmsa.dot.gov/pipeline/library/forms.</p>			
PART A - OPERATOR INFORMATION		DOT USE ONLY	
1. OPERATOR'S 5 DIGIT IDENTIFICATION NUMBER (OPID) / / / / /	2. NAME OF OPERATOR: _____		
3. RESERVED	4. HEADQUARTERS ADDRESS: _____ Street Address State: / / / Zip Code: / / / / - / / / /		
5. THIS REPORT PERTAINS TO THE FOLLOWING COMMODITY GROUP: <i>(Select Commodity Group based on the predominant gas carried and complete the report for that Commodity Group. File a separate report for each Commodity Group included in this OPID.)</i>			
<input type="checkbox"/> Natural Gas <input type="checkbox"/> Synthetic Gas <input type="checkbox"/> Hydrogen Gas <input type="checkbox"/> Propane Gas <input type="checkbox"/> Landfill Gas <input type="checkbox"/> Other Gas → Name of Other Gas _____			
6. RESERVED			
7. FOR THE DESIGNATED "COMMODITY GROUP", THE PIPELINES AND/OR PIPELINE FACILITIES INCLUDED WITHIN THIS OPID ARE: <i>(Select one or both)</i>			
<input type="checkbox"/> INTERstate pipeline → List all of the States and OCS portions in which INTERstate pipelines and/or pipeline facilities included under this OPID exist: __ __ __ __ __, etc. <input type="checkbox"/> INTRAsate pipeline → List all of the States in which INTRAsate pipelines and/or pipeline facilities included under this OPID exist: __ __ __ __ __, etc.			

Notice: This report is required by 49 CFR Part 191. Failure to report may result in a civil penalty not to exceed \$100,000 for each violation for each day the violation continues up to a maximum of \$1,000,000 as provided in 49 USC 60122.

Form Approved
 OMB No. 2137-0522
 Expires: 10/31/2017

8. RESERVED

For the designated Commodity Group, PARTs B and D will be calculated based on the data entered in Parts L and P respectively. Complete Part C one time for all pipelines and/or pipeline facilities – both INTERstate and INTRAsate - included within this OPID.

PART B – TRANSMISSION PIPELINE HCA MILES	
	Number of HCA Miles
Onshore	<i>Calc</i>
Offshore	<i>Calc</i>
Total Miles	<i>Calc</i>

PART C - VOLUME TRANSPORTED IN TRANSMISSION PIPELINES (ONLY) IN MILLION SCF PER YEAR (excludes Transmission lines of Gas Distribution systems)	<input type="checkbox"/> Check this box and do not complete PART C if this report only includes gathering pipelines or transmission lines of gas distribution systems.	
	Onshore	Offshore
Natural Gas		
Propane Gas		
Synthetic Gas		
Hydrogen Gas		
Landfill Gas		
Other Gas → Name: _____		

PART D - MILES OF PIPE BY MATERIAL AND CORROSION PREVENTION STATUS										
	Steel cathodically protected		Steel cathodically unprotected		Cast Iron	Wrought Iron	Plastic	Composite ¹	Other	Total Miles
	Bare	Coated	Bare	Coated						
Transmission										
Onshore	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>
Offshore	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>
Subtotal Transmission	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>
Gathering										
Onshore Type A	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>
Onshore Type B	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>
Offshore	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>
Subtotal Gathering	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>
Total Miles	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>

¹ Use of Composite pipe requires a PHMSA Special Permit or waiver from a State

PART E - RESERVED

Notice: This report is required by 49 CFR Part 191. Failure to report may result in a civil penalty not to exceed \$100,000 for each violation for each day the violation continues up to a maximum of \$1,000,000 as provided in 49 USC 60122.

Form Approved
 OMB No. 2137-0522
 Expires: 10/31/2017

For the designated Commodity Group, complete PARTs F and G one time for all INTERstate pipeline facilities included within this OPID and multiple times as needed for the designated Commodity Group for each State in which INTRAsate pipeline facilities included within this OPID exist. Part F "WITHIN AN HCA SEGMENT" data and Part G may be completed only if HCA Miles in Part L is greater than zero.

PARTs F and G	
The data reported in these PARTs applies to: <i>(select only one)</i>	
<input type="checkbox"/> Interstate pipelines/pipeline facilities	
<input type="checkbox"/> Intrastate pipelines/pipeline facilities in the State of <u> </u> / <u> </u> / <u> </u> <i>(complete for each State)</i>	

PART F - INTEGRITY INSPECTIONS CONDUCTED AND ACTIONS TAKEN BASED ON INSPECTION	
1. MILEAGE INSPECTED IN CALENDAR YEAR USING THE FOLLOWING IN-LINE INSPECTION (ILI) TOOLS	
a. Corrosion or metal loss tools	
b. Dent or deformation tools	
c. Crack or long seam defect detection tools	
d. Any other internal inspection tools, specify other tools:	
e. Total tool mileage inspected in calendar year using in-line inspection tools. (Lines a + b + c + d)	<i>Calc</i>
2. ACTIONS TAKEN IN CALENDAR YEAR BASED ON IN-LINE INSPECTIONS	
a. Based on ILI data, total number of anomalies excavated in calendar year because they met the operator's criteria for excavation.	
b. Total number of anomalies repaired in calendar year that were identified by ILI based on the operator's criteria, both within an HCA Segment and outside of an HCA Segment.	
c. Total number of conditions repaired WITHIN AN HCA SEGMENT meeting the definition of:	<i>Calc</i>
1. "Immediate repair conditions" [192.933(d)(1)]	
2. "One-year conditions" [192.933(d)(2)]	
3. "Monitored conditions" [192.933(d)(3)]	
4. Other "Scheduled conditions" [192.933(c)]	
3. MILEAGE INSPECTED AND ACTIONS TAKEN IN CALENDAR YEAR BASED ON PRESSURE TESTING	
a. Total mileage inspected by pressure testing in calendar year.	
b. Total number of pressure test failures (ruptures and leaks) repaired in calendar year, both within an HCA Segment and outside of an HCA Segment.	
c. Total number of pressure test ruptures (complete failure of pipe wall) repaired in calendar year WITHIN AN HCA SEGMENT.	
d. Total number of pressure test leaks (less than complete wall failure but including escape of test medium) repaired in calendar year WITHIN AN HCA SEGMENT.	

Notice: This report is required by 49 CFR Part 191. Failure to report may result in a civil penalty not to exceed \$100,000 for each violation for each day the violation continues up to a maximum of \$1,000,000 as provided in 49 USC 60122.

Form Approved
 OMB No. 2137-0522
 Expires: 10/31/2017

(PART F continued)

4. MILEAGE INSPECTED AND ACTIONS TAKEN IN CALENDAR YEAR BASED ON DA (Direct Assessment methods)	
a. Total mileage inspected by each DA method in calendar year.	Calc
1. ECDA	
2. ICDA	
3. SCCDA	
b. Total number of anomalies identified by each DA method and repaired in calendar year based on the operator's criteria, both within an HCA Segment and outside of an HCA Segment.	Calc
1. ECDA	
2. ICDA	
3. SCCDA	
c. Total number of conditions repaired in calendar year WITHIN AN HCA SEGMENT meeting the definition of:	Calc
1. "Immediate repair conditions" [192.933(d)(1)]	
2. "One-year conditions" [192.933(d)(2)]	
3. "Monitored conditions" [192.933(d)(3)]	
4. Other "Scheduled conditions" [192.933(c)]	
5. MILEAGE INSPECTED AND ACTIONS TAKEN IN CALENDAR YEAR BASED ON OTHER INSPECTION TECHNIQUES	
a. Total mileage inspected by inspection techniques other than those listed above in calendar year. Specify other inspection technique(s):	
b. Total number of anomalies identified by other inspection techniques and repaired in calendar year based on the operator's criteria, both within an HCA Segment and outside of an HCA Segment.	
c. Total number of conditions repaired in calendar year WITHIN AN HCA SEGMENT meeting the definition of:	Calc
1. "Immediate repair conditions" [192.933(d)(1)]	
2. "One-year conditions" [192.933(d)(2)]	
3. "Monitored conditions" [192.933(d)(3)]	
4. Other "Scheduled conditions" [192.933(c)]	
6. TOTAL MILEAGE INSPECTED (ALL METHODS) AND ACTIONS TAKEN IN CALENDAR YEAR	
a. Total mileage inspected in calendar year. (Lines 1.e + 3.a + 4.a.1 + 4.a.2 + 4.a.3 + 5.a)	Calc
b. Total number of anomalies repaired in calendar year both within an HCA Segment and outside of an HCA Segment. (Lines 2.b + 3.b + 4.b.1 + 4.b.2 + 4.b.3 + 5.b)	Calc
c. Total number of conditions repaired in calendar year WITHIN AN HCA SEGMENT. (Lines 2.c.1 + 2.c.2 + 2.c.3 + 2.c.4 + 3.c + 3.d + 4.c.1 + 4.c.2 + 4.c.3 + 4.c.4 + 5.c.1 + 5.c.2 + 5.c.3 + 5.c.4)	Calc
d. Total number of actionable anomalies eliminated by pipe replacement in calendar year WITHIN AN HCA SEGMENT:	
e. Total number of actionable anomalies eliminated by pipe abandonment in calendar year WITHIN AN HCA SEGMENT:	

PART G- MILES OF BASELINE ASSESSMENTS AND REASSESSMENTS COMPLETED IN CALENDAR YEAR (HCA Segment miles ONLY)	
a. Baseline assessment miles completed during the calendar year.	
b. Reassessment miles completed during the calendar year.	
c. Total assessment and reassessment miles completed during the calendar year.	Calc

Notice: This report is required by 49 CFR Part 191. Failure to report may result in a civil penalty not to exceed \$100,000 for each violation for each day the violation continues up to a maximum of \$1,000,000 as provided in 49 USC 60122.

Form Approved
 OMB No. 2137-0522
 Expires: 10/31/2017

For the designated Commodity Group, complete PARTs H, I, J, K, L, M, P, Q, and R covering INTERstate pipeline facilities for each State in which INTERstate systems exist within this OPID and again covering INTRAsate pipeline facilities for each State in which INTRAsate systems exist within this OPID.

PARTs H, I, J, K, L, M, P, Q, and R
The data reported in these PARTs applies to: <i>(select only one)</i> <input type="checkbox"/> Interstate pipelines/pipeline facilities in the State of <u> </u> / <u> </u> / <u> </u> <i>(complete for each State)</i> <input type="checkbox"/> Intrastate Pipelines/pipeline facilities in the State of <u> </u> / <u> </u> / <u> </u> <i>(complete for each State)</i>

PART H - MILES OF TRANSMISSION PIPE BY NOMINAL PIPE SIZE (NPS)										
Onshore	NPS 4 or less	6	8	10	12	14	16	18	20	
	22	24	26	28	30	32	34	36	38	
	40	42	44	46	48	52	56	58 and over		
	Other Pipe Sizes Not Listed									
	Size: <u> </u> Miles: <u> </u> <i>Add Sizes as needed</i>									
<i>Calc</i>	Total Miles of Onshore Pipe - Transmission									
Offshore	NPS 4 or less	6	8	10	12	14	16	18	20	
	22	24	26	28	30	32	34	36	38	
	40	42	44	46	48	52	56	58 and over		
	Other Pipe Sizes Not Listed									
	Size: <u> </u> Miles: <u> </u> <i>Add Sizes as needed</i>									
<i>Calc</i>	Total Miles of Offshore Pipe - Transmission									

Notice: This report is required by 49 CFR Part 191. Failure to report may result in a civil penalty not to exceed \$100,000 for each violation for each day the violation continues up to a maximum of \$1,000,000 as provided in 49 USC 60122.

Form Approved
 OMB No. 2137-0522
 Expires: 10/31/2017

PART I - MILES OF GATHERING PIPE BY NOMINAL PIPE SIZE (NPS)									
Onshore Type A	NPS 4 or less	6	8	10	12	14	16	18	20
	22	24	26	28	30	32	34	36	38
	40	42	44	46	48	52	56	58 and over	
	Other Pipe Sizes Not Listed								
	Size: __ Miles: _____ Add Sizes as needed								
<i>Calc</i>	Total Miles of Onshore Type A Pipe - Gathering								
Onshore Type B	NPS 4 or less	6	8	10	12	14	16	18	20
	22	24	26	28	30	32	34	36	38
	40	42	44	46	48	52	56	58 and over	
	Other Pipe Sizes Not Listed								
	Size: __ Miles: _____ Add Sizes as needed								
<i>Calc</i>	Total Miles of Onshore Type B Pipe - Gathering								
Offshore	NPS 4 or less	6	8	10	12	14	16	18	20
	22	24	26	28	30	32	34	36	38
	40	42	44	46	48	52	56	58 and over	
	Other Pipe Sizes Not Listed								
	Size: __ Miles: _____ Add Sizes as needed								
<i>Calc</i>	Total Miles of Offshore - Gathering								

Notice: This report is required by 49 CFR Part 191. Failure to report may result in a civil penalty not to exceed \$100,000 for each violation for each day the violation continues up to a maximum of \$1,000,000 as provided in 49 USC 60122.

Form Approved
 OMB No. 2137-0522
 Expires: 10/31/2017

PART J – MILES OF PIPE BY DECADE INSTALLED

Decade Pipe Installed	Unknown	Pre-1940	1940 - 1949	1950 - 1959	1960 - 1969	1970 - 1979	1980 - 1989
Transmission							
Onshore							
Offshore							
Subtotal Transmission	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>
Gathering							
Onshore Type A							
Onshore Type B							
Offshore							
Subtotal Gathering	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>
Total Miles	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>

Decade Pipe Installed	1990 - 1999	2000 - 2009	2010 - 2019	Total Miles
Transmission				
Onshore				<i>Calc</i>
Offshore				<i>Calc</i>
Subtotal Transmission	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>
Gathering				
Onshore Type A				<i>Calc</i>
Onshore Type B				<i>Calc</i>
Offshore				<i>Calc</i>
Subtotal Gathering	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>
Total Miles	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>

Notice: This report is required by 49 CFR Part 191. Failure to report may result in a civil penalty not to exceed \$100,000 for each violation for each day the violation continues up to a maximum of \$1,000,000 as provided in 49 USC 60122.

Form Approved
 OMB No. 2137-0522
 Expires: 10/31/2017

PART K- MILES OF TRANSMISSION PIPE BY SPECIFIED MINIMUM YIELD STRENGTH					
ONSHORE	CLASS LOCATION				Total Miles
	Class 1	Class 2	Class 3	Class 4	
Steel pipe Less than 20% SMYS					Calc
Steel pipe Greater than or equal to 20% SMYS but less than 30% SMYS					Calc
Steel pipe Greater than or equal to 30% SMYS but less than or equal to 40% SMYS					Calc
Steel pipe Greater than 40% SMYS but less than or equal to 50% SMYS					Calc
Steel pipe Greater than 50% SMYS but less than or equal to 60% SMYS					Calc
Steel pipe Greater than 60% SMYS but less than or equal to 72% SMYS					Calc
Steel pipe Greater than 72% SMYS but less than or equal to 80% SMYS					Calc
Steel pipe Greater than 80% SMYS					Calc
Steel pipe Unknown percent of SMYS					Calc
All Non-Steel pipe					Calc
Onshore Totals	Calc	Calc	Calc	Calc	Calc
OFFSHORE	Class 1				
Steel pipe Less than or equal to 50% SMYS					
Steel pipe Greater than 50% SMYS but less than or equal to 72% SMYS					
Steel pipe Greater than 72% SMYS					
Steel pipe Unknown percent of SMYS					
All non-steel pipe					
Offshore Total	Calc				
Total Miles	Calc	Calc	Calc	Calc	Calc

Notice: This report is required by 49 CFR Part 191. Failure to report may result in a civil penalty not to exceed \$100,000 for each violation for each day the violation continues up to a maximum of \$1,000,000 as provided in 49 USC 60122.

Form Approved
 OMB No. 2137-0522
 Expires: 10/31/2017

PART L - MILES OF PIPE BY CLASS LOCATION						
	Class Location				Total Class Location Miles	HCA Miles
	Class 1	Class 2	Class 3	Class 4		
Transmission						
Onshore	<i>Calc from Part K</i>	<i>Calc from Part K</i>	<i>Calc from Part K</i>	<i>Calc from Part K</i>	<i>Calc</i>	
Offshore	<i>Calc from Part K</i>				<i>Calc</i>	
Subtotal Transmission	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>
Gathering						
Onshore Type A					<i>Calc</i>	
Onshore Type B					<i>Calc</i>	
Offshore					<i>Calc</i>	
Subtotal Gathering	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	
Total Miles	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>

Notice: This report is required by 49 CFR Part 191. Failure to report may result in a civil penalty not to exceed \$100,000 for each violation for each day the violation continues up to a maximum of \$1,000,000 as provided in 49 USC 60122.

Form Approved
 OMB No. 2137-0522
 Expires: 10/31/2017

PART M – FAILURES, LEAKS, AND REPAIRS									
PART M1 – ALL LEAKS ELIMINATED/REPAIRED IN CALENDAR YEAR; FAILURES IN HCA SEGMENTS IN CALENDAR YEAR									
Cause	Transmission Leaks and Failures					Failures in HCA Segments	Gathering Leaks		
	Leaks				Onshore Leaks		Offshore Leaks		
	Onshore Leaks		Offshore Leaks						
	HCA	Non-HCA	HCA	Non-HCA				Type A	Type B
External Corrosion									
Internal Corrosion									
Stress Corrosion Cracking									
Manufacturing									
Construction									
Equipment									
Incorrect Operations									
Third Party Damage/Mechanical Damage									
Excavation Damage									
Previous Damage (due to Excavation Activity)									
Vandalism (includes all Intentional Damage)									
Weather Related/Other Outside Force									
Natural Force Damage (all)									
Other Outside Force Damage (excluding Vandalism and all Intentional Damage)									
Other									
Total		Calc	Calc	Calc	Calc	Calc	Calc	Calc	Calc
PART M2 – KNOWN SYSTEM LEAKS AT END OF YEAR SCHEDULED FOR REPAIR									
Transmission					Gathering				
PART M3 – LEAKS ON FEDERAL LAND OR OCS REPAIRED OR SCHEDULED FOR REPAIR									
Transmission					Gathering				
Onshore					Onshore Type A				
					Onshore Type B				
OCS					OCS				
Subtotal Transmission		Calc		Subtotal Gathering		Calc			
Total		Calc							

Notice: This report is required by 49 CFR Part 191. Failure to report may result in a civil penalty not to exceed \$100,000 for each violation for each day the violation continues up to a maximum of \$1,000,000 as provided in 49 USC 60122.

Form Approved
 OMB No. 2137-0522
 Expires: 10/31/2017

PART P - MILES OF PIPE BY MATERIAL AND CORROSION PREVENTION STATUS										
	Steel cathodically protected		Steel cathodically unprotected		Cast Iron	Wrought Iron	Plastic	Composite ¹	Other ²	Total Miles
	Bare	Coated	Bare	Coated						
Transmission										
Onshore										Calc
Offshore										Calc
Subtotal Transmission	Calc	Calc	Calc	Calc	Calc	Calc	Calc	Calc	Calc	Calc
Gathering										
Onshore Type A										Calc
Onshore Type B										Calc
Offshore										Calc
Subtotal Gathering	Calc	Calc	Calc	Calc	Calc	Calc	Calc	Calc	Calc	Calc
Total Miles	Calc	Calc	Calc	Calc	Calc	Calc	Calc	Calc	Calc	Calc

¹ Use of Composite pipe requires a PHMSA Special Permit or waiver from a State

² specify Other material(s):

Part Q - Gas Transmission Miles by §192.619 MAOP Determination Method

	(a)(1) Total	(a)(1) Incomplete Records	(a)(2) Total	(a)(2) Incomplete Records	(a)(3) Total	(a)(3) Incomplete Records	(a)(4) Total	(a)(4) Incomplete Records	(c) Total	(c) Incomplete Records	(d) Total	(d) Incomplete Records	Other ¹ Total	Other Incomplete Records	
Class 1 (in HCA)															
Class 1 (not in HCA)															
Class 2 (in HCA)															
Class 2 (not in HCA)															
Class 3 (in HCA)															
Class 3 (not in HCA)															
Class 4 (in HCA)															
Class 4 (not in HCA)															
Total	Calc	Calc	Calc	Calc	Calc	Calc	Calc	Calc	Calc	Calc	Calc	Calc	Calc	Calc	
Grand Total								Calc							
Sum of Total row for all "Incomplete Records" columns							Calc								

¹ Specify Other method(s): _____

Notice: This report is required by 49 CFR Part 191. Failure to report may result in a civil penalty not to exceed \$100,000 for each violation for each day the violation continues up to a maximum of \$1,000,000 as provided in 49 USC 60122.

Form Approved
 OMB No. 2137-0522
 Expires: 10/31/2017

Part R – Gas Transmission Miles by Pressure Test (PT) Range and Internal Inspection						
Location	PT ≥ 1.25 MAOP		1.25 MAOP > PT ≥ 1.1 MAOP		PT < 1.1 or No PT	
	Miles Internal Inspection ABLE	Miles Internal Inspection NOT ABLE	Miles Internal Inspection ABLE	Miles Internal Inspection NOT ABLE	Miles Internal Inspection ABLE	Miles Internal Inspection NOT ABLE
Class 1 in HCA						
Class 2 in HCA						
Class 3 in HCA						
Class 4 in HCA						
in HCA subTotal	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>
Class 1 not in HCA						
Class 2 not in HCA						
Class 3 not in HCA						
Class 4 not in HCA						
not in HCA subTotal	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>
Total	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>	<i>Calc</i>
PT ≥ 1.25 MAOP Total	<i>Calc</i>	Total Miles Internal Inspection ABLE			<i>Calc</i>	
1.25 MAOP > PT ≥ 1.1	<i>Calc</i>	Total Miles Internal Inspection NOT ABLE			<i>Calc</i>	
PT < 1.1 or No PT Total	<i>Calc</i>	Grand Total			<i>Calc</i>	
Grand Total	<i>Calc</i>					

Notice: This report is required by 49 CFR Part 191. Failure to report may result in a civil penalty not to exceed \$100,000 for each violation for each day the violation continues up to a maximum of \$1,000,000 as provided in 49 USC 60122.

Form Approved
OMB No. 2137-0522
Expires: 10/31/2017

For the designated Commodity Group, complete PART N one time for all of the pipelines and/or pipeline facilities included within this OPID, and then also PART O if any gas transmission pipeline facilities included within this OPID have Part L HCA mile value greater than zero.

PART N - PREPARER SIGNATURE	
Preparer's Name(type or print)	Telephone Number
Preparer's Title	
Preparer's E-mail Address	

PART O - CERTIFYING SIGNATURE (applicable to PARTs B, F, G, and M1)	
Senior Executive Officer's name certifying the information in PARTs B, F, G, and M as required by 49 U.S.C. 60109(f)	Telephone Number
Senior Executive Officer's title certifying the information in PARTs B, F, G, and M as required by 49 U.S.C. 60109(f)	
Senior Executive Officer's E-mail Address	

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: October 17, 2016
TO: Adria E. Harper, Senior Attorney, Office of the General Counsel
FROM: Clyde D. Rome, Public Utility Analyst II, Division of Economics *CDR*
RE: Statement of Estimated Regulatory Costs (SERC) for Recommended Revisions to Chapter 25-6 (Electric Service by Electric Public Utilities), and Chapter 25-12 (Safety of Gas Transportation by Pipeline), Florida Administrative Code (F.A.C.)

The purpose of this rulemaking initiative is to update, clarify, and streamline certain safety-related Commission rules applicable to gas and electric utilities. Specifically, staff is recommending the amendment of Rules 25-6.0346 (Quarterly Reports of Work Orders and Safety Compliance), 25-12.005 (Codes and Standards Adopted), 25-12.008 (New, Reconstructed or Converted Facilities), 25-12.022 (Requirements for Distribution System Valves), 25-12.027 (Welder Qualification), 25-12.040 (Leak Surveys, Procedures and Classification), and 25-12.085 (Written Annual Reports Required), F.A.C. As noted in the attached SERC, 51 gas utilities and 58 electric utilities would be affected by the recommended revisions.

The recommended amendments to Rule 25-6.0346, F.A.C., would specify that required quarterly work order lists be sent directly to staff, without requiring a specific form that must be used, as long as there is sufficient information provided. Proposed language has been added to the rule to clarify the types of information required to be provided. The recommended revisions to the rule also include a hyperlink to an existing Commission form which can be used as an example format that would meet the reporting requirements of the rule.

Revisions are recommended to Rules 25-12.005 and 25-12.008, F.A.C., to adopt the latest version of the federal standards 49 C.F.R. Parts 191, 192, and 199 that pertain to the regulation of natural gas. Adoption of the current federal codes is required under the certification agreement between the federal Department of Transportation – Pipeline and Hazardous Materials Safety Administration (PHMSA) and the Commission pursuant to 49 U.S. Code Section 60105 (State pipeline safety program certifications).

The recommended changes to Rule 25-12.022, F.A.C., include the use of the word “emergency” in conjunction with the word “sectionalizing” in subsections (3) and (5) of the rule. The intent of the recommended modifications is to clarify those valves used to close off system sections in an emergency. Additional modifications to Rule 25-12.022, F.A.C. are recommended in paragraph (3)(b), which would provide clarification that valve identification must be marked on permanent material inside the valve box.

The recommended amendments to Rule 25-12.027, F.A.C., would correct a scrivener's error in the current rule and clarify the appropriate American Petroleum Institute standards for welder qualification. The rule also would be updated to adopt the latest version of the federal standard 49 C.F.R. Part 192 as it pertains to the regulation of natural gas.

The recommended revisions to paragraph 25-12.040(1)(b), F.A.C., would provide clarification regarding the intervals within which leak detection surveys are required. Additional modifications to Rule 25-12.040, F.A.C., include new subsection (4). Under current Commission rules, gas utilities are required to perform follow-up inspections of leak repairs no later than one month for Grade 1 leaks and no later than six months for Grade 2 leaks. New language included in subsection (4) would require that if residual gas is detected on the follow-up inspection, continued monthly monitoring and inspections shall be done until gas is no longer detected.

The recommended modifications to subsections (1) and (3) of Rule 25-12.085, F.A.C., would incorporate the most recent versions of the appropriate PHMSA forms. Subsection (2) of Rule 25-12.085, F.A.C., is recommended for deletion as redundant.

The attached SERC addresses the considerations required pursuant to Section 120.541, Florida Statutes (F.S.). No workshop was requested in conjunction with the recommended rule revisions. No regulatory alternatives were submitted pursuant to paragraph 120.541(1)(a), F.S. None of the impact/cost criteria established in paragraph 120.541(2)(a), F.S., will be exceeded as a result of the recommended revisions.

cc: (Draper, Daniel, Shafer, Moses, Cibula, SERC file)

**Florida Public Service Commission
Statement of Estimated Regulatory Costs
Rules 25-12.005, .008, .022, .027, .040, .085; and 25-6.0346, F.A.C.**

1. Will the proposed rule have an adverse impact on small business?
[120.541(1)(b), F.S.] (See Section E., below, for definition of small business.)

Yes

No

For clarification, please see comments in Sections A(3) and E(1), below.

2. Is the proposed rule likely to directly or indirectly increase regulatory costs in excess of \$200,000 in the aggregate in this state within 1 year after implementation of the rule? [120.541(1)(b), F.S.]

Yes

No

If the answer to either question above is "yes", a Statement of Estimated Regulatory Costs (SERC) must be prepared. The SERC shall include an economic analysis showing:

A. Whether the rule directly or indirectly:

(1) Is likely to have an adverse impact on any of the following in excess of \$1 million in the aggregate within 5 years after implementation of the rule?
[120.541(2)(a)1, F.S.]

Economic growth

Yes No

Private-sector job creation or employment

Yes No

Private-sector investment

Yes No

(2) Is likely to have an adverse impact on any of the following in excess of \$1 million in the aggregate within 5 years after implementation of the rule?
[120.541(2)(a)2, F.S.]

Business competitiveness (including the ability of persons doing business in the state to compete with persons doing business in other states or domestic markets)

Yes No

Productivity

Yes No

Innovation

Yes No

(3) Is likely to increase regulatory costs, including any transactional costs, in excess of \$1 million in the aggregate within 5 years after the implementation of the rule? [120.541(2)(a)3, F.S.]

Yes

No

Economic Analysis:

A summary of the key rule changes is included in the attached memorandum to counsel. Specific elements of the associated economic analysis are identified below in Sections B through F of this SERC.

49 U.S. Code Section 60105, State pipeline safety program certifications, sets forth the standards that state authorities administering safety standards and practices for intrastate pipeline facilities or intrastate pipeline transportation must comply with in required annual certifications submitted to the federal Secretary of Transportation (Secretary). The Secretary is empowered to monitor states' safety programs to ensure that programs comply with their certification. If the Secretary determines that a state authority is not enforcing applicable safety standards satisfactorily, the Secretary may reject a state's certification and take appropriate action to achieve adequate enforcement, including the assertion of federal jurisdiction.

A certification in effect under Section 60105 does not apply to federal safety standards adopted after the date of certification. Subsection (d) of Section 60105 requires states to adopt the standards and submit the appropriate information in an annual certification as required in Section 60105, subsection (a). In the current rulemaking initiative, the Commission is recommending revisions to Rules 25-12.005, 25-12.008, and 25-12.027, F.A.C., to adopt the latest version of the federal standards 49 C.F.R. Parts 191, 192, and 199 that pertain to the regulation of natural gas. Also, the Commission is recommending modifications to Rule 25-12.085, F.A.C., to incorporate the most recent versions of certain Pipeline and Hazardous Materials Safety Administration (PHMSA) forms. Recommended amendments to these Commission rules are not more restrictive than the changes to the related federal rules. Therefore, any economic impacts that might be incurred by affected entities would be a result of changes to federal rules promulgated under 49 C.F.R. Parts 191, 192, and 199 and not caused by staff's recommended changes to relevant Commission rules.

As discussed in Section D., below, other amendments to Commission rules being recommended at this time are not anticipated to result in significant additional transactional costs. Therefore, none of the rule impact/cost criteria established in paragraph 120.541(2)(a), F.S., will be exceeded as a result of the recommended rule revisions.

B. A good faith estimate of: [120.541(2)(b), F.S.]

(1) The number of individuals and entities likely to be required to comply with the rule.

Potentially affected entities include 51 natural gas utilities and 58 electric utilities. Utilities which come under the jurisdiction of the Commission in the future also would be required to comply.

(2) A general description of the types of individuals likely to be affected by the rule.

Florida's 51 natural gas utilities are comprised of 8 investor-owned utilities, 27 municipally-owned gas utilities, 4 special gas districts, 7 transmission entities, and 5 master meters. Florida's 58 electric utilities are comprised of 5 investor-owned utilities, 34 municipally-owned electric utilities, 16 rural electric cooperatives, and 3 independent wholesale power generation and distribution companies. Florida's 5 investor-owned electric utilities serve approximately 7.57 million customers. Florida's 8 investor-owned natural gas utilities serve approximately 535,000 customers.

[Sources: (1) Master Commission Directory, PSC - June 2016; (2) Facts and Figures of the Florida Utility Industry, PSC - March 2016]

C. A good faith estimate of: [120.541(2)(c), F.S.]

(1) The cost to the Commission to implement and enforce the rule.

- None. To be done with the current workload and existing staff.
- Minimal. Provide a brief explanation.
- Other. Provide an explanation for estimate and methodology used.

(2) The cost to any other state and local government entity to implement and enforce the rule.

- None. The rule will only affect the Commission.
- Minimal. Provide a brief explanation.
- Other. Provide an explanation for estimate and methodology used.

(3) Any anticipated effect on state or local revenues.

- None.
- Minimal. Provide a brief explanation.
- Other. Provide an explanation for estimate and methodology used.

D. A good faith estimate of the transactional costs likely to be incurred by individuals and entities (including local government entities) required to comply with the requirements of the rule. "Transactional costs" include filing fees, the cost of obtaining a license, the cost of equipment required to be installed or used, procedures required to be employed in complying with the rule, additional operating costs incurred, the cost of monitoring or reporting, and any other costs necessary to comply with the rule. [120.541(2)(d), F.S.]

- None. The rule will only affect the Commission.
- Minimal. Provide a brief explanation.
- Other. Provide an explanation for estimate and methodology used.

Any economic impacts that might be incurred by affected entities resulting from changes to federal rules promulgated under 49 C.F.R. Parts 191, 192, and 199 would not be caused by staff's recommended changes to Commission Rules 25-12.005, 25-12.008, and 25-12.027, F.A.C. Staff's recommended clarification and/or streamlining measures pertaining to Rules 25-6.0346, 25-12.022, 25-12.027, 25-12.040, and 25-12.085, F.A.C., are not anticipated to result in additional transactional costs. Other recommended rule changes which potentially might result in additional transactional costs are discussed below.

Additional recommended modifications to Rule 25-12.040, F.A.C., include new subsection (4). Under current Commission rules, gas utilities are required to perform follow-up inspections of leak repairs no later than one month for Grade 1 leaks and no later than six months for Grade 2 leaks. New language included in subsection (4) would require that if residual gas is detected on the follow-up inspection, continued monthly (not to exceed 45 days) monitoring and inspections shall be done until gas is no longer detected.

To identify potential additional transactional costs that might be incurred by gas utilities, staff sent a data request to the eight investor-owned gas utilities under the jurisdiction of the Commission. Utilities were asked to estimate the costs of performing a typical follow-up inspection and the number of additional

inspections that would be required to be performed in a typical year under the new rules. Two responses were received. Information included in respondents' comments is combined in the following discussion.

Respondents' estimates of the cost to perform an additional inspection ranged from approximately \$70 to \$308 on average, depending upon the degree to which there are impediments (e.g., overlying pavement) to accessing the repaired area for inspection. These estimates include labor costs for travel time and performing the residual gas recheck (1.75 – 3.5 hours) as well as the associated vehicle and equipment costs. Based on respondents' comments, staff believes that the large majority of the residual gas rechecks would fall in the lower half of the cost range and that complex re-inspections in areas where wall-to-wall overlying asphalt or concrete exists do not occur frequently. Respondents also indicated that the cost of a complex residual gas recheck can be mitigated if there are existing drill holes through the concrete or asphalt that were drilled during the initial repair and/or follow-up investigation.

Respondents also identified other costs that potentially might be associated with the need to perform additional inspections, such as: (a) updates to compliance tracking systems to trigger the prospective re-inspection interval, and (b) restoration work when a complex re-inspection necessitates drilling through overlying pavement. However, respondents stated that they did not believe these potential additional costs would be significant.

With regard to the possibility of additional re-inspections that might be required under the prospective rules, respondents indicated that based on current standard work practices, leak rechecks are performed whenever residual gas is present following a Grade 1 or Grade 2 leak repair. If upon recheck, residual gas continues to be present, additional rechecks are performed of the area where residual gas was present until such time as gas is no longer detected. One respondent stated that for all Grade 1 leaks repaired during a recent 12-month period, residual gas was detected in or around the area of repair in 1 percent of the cases. Leak rechecks were performed at these sites and in all cases, on the first recheck, no residual gas remained. The other respondent did not expect increased numbers of re-inspections for Grade 1 leaks as rechecks for these leaks currently are being performed on a monthly basis.

For Grade 2 leaks, staff notes that utilities potentially could be affected if conditions warranted performance of the leak rechecks in a more compressed time frame (i.e., monthly – not to exceed 45 days) rather than what currently would occur under normal industry practices pursuant to current Commission rules. In a hypothetical worst-case scenario, five additional follow-up inspections potentially might be necessary during a 12-month period for Grade 2 leaks; however, staff believes that such worst-case scenarios would be rare.

For Grade 2 leaks repaired during a recent 12-month period, respondents indicated that residual gas was detected in or around the area of repair in 7 to 8 percent of the cases. In many instances, it is common for no residual gas to be detected on the first recheck. In most other circumstances, it is anticipated that residual gas problems associated with Grade 2 leaks typically would be resolved

within approximately two leak rechecks after the initial required inspection. Therefore, based on respondents' comments, staff does not anticipate that the recommended changes to this rule would result in a significant increase in the number of follow-up inspections performed after leak repairs.

E. An analysis of the impact on small businesses, and small counties and small cities:
[120.541(2)(e), F.S.]

(1) "Small business" is defined by Section 288.703, F.S., as an independently owned and operated business concern that employs 200 or fewer permanent full-time employees and that, together with its affiliates, has a net worth of not more than \$5 million or any firm based in this state which has a Small Business Administration 8(a) certification. As to sole proprietorships, the \$5 million net worth requirement shall include both personal and business investments.

No adverse impact on small business. [See clarification below.]

Minimal. Provide a brief explanation.

Other. Provide an explanation for estimate and methodology used.

Based on a review of investor-owned electric and gas utility annual reports, it is estimated that two investor-owned gas utilities potentially might meet the definition of "small business" as defined in Section 288.703, F.S. However, as noted in Section D above, any economic impacts that might be incurred by affected entities resulting from changes to federal rules promulgated under 49 C.F.R. Parts 191, 192, and 199 would not be caused by staff's recommended changes to relevant Commission rules. Additional transactional costs, if any, that potentially might result from other recommended rule changes are discussed in Section D above.

(2) A "Small City" is defined by Section 120.52, F.S., as any municipality that has an unincarcerated population of 10,000 or less according to the most recent decennial census. A "small county" is defined by Section 120.52, F.S., as any county that has an unincarcerated population of 75,000 or less according to the most recent decennial census.

No impact on small cities or small counties.

Minimal. Provide a brief explanation.

Other. Provide an explanation for estimate and methodology used.

Based on a review of the "Florida Estimates of Population" published by the Bureau of Economic and Business Research (2015), it is estimated that 14

municipally-owned electric utilities and 18 municipally-owned gas utilities potentially might meet the definition of "small city" as defined in Section 120.52, F.S. However, as noted in Section D above, any economic impacts that might be incurred by affected entities resulting from changes to federal rules promulgated under 49 C.F.R. Parts 191, 192, and 199 would not be caused by staff's recommended changes to relevant Commission rules. Additional transactional costs, if any, that potentially might result from other recommended rule changes are discussed in Section D above.

F. Any additional information that the Commission determines may be useful.
[120.541(2)(f), F.S.]

None.

Additional Information:

G. A description of any regulatory alternatives submitted and a statement adopting the alternative or a statement of the reasons for rejecting the alternative in favor of the proposed rule. [120.541(2)(g), F.S.]

No regulatory alternatives were submitted.

A regulatory alternative was received from

Adopted in its entirety.

Rejected. Describe what alternative was rejected and provide a statement of the reason for rejecting that alternative.

Item 3

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: November 22, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Office of the General Counsel (Harper) *S.M.L.*
Division of Accounting and Finance (Golden) *ALM*
Division of Economics (Rome) *ORR* *ESD* *GB*

RE: Docket No. 160223-WS – Proposed amendments for Rules 25-30.425 and 25-30.455, F.A.C.

AGENDA: 12/06/16 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Graham

RULE STATUS: Proposal May Not Be Deferred

SPECIAL INSTRUCTIONS: None

Case Background

During the 2016 Legislative Session, the Florida Legislature enacted House Bill 491, which was incorporated into Chapter 2016-226, Laws of Florida. The legislation modified two subsections of the Florida Statutes (F.S.): Subsections 367.081(4) and 367.0814(3), F.S. To implement the new laws, staff is recommending revisions to Rule 25-30.425, F.A.C., Pass Through Rate Adjustment, and Rule 25-30.455, F.A.C., Staff Assistance in Rate Cases. Staff is recommending the rule changes so that the Commission rules will be consistent with the requirements of the 2016 legislation. Pursuant to the 2016 legislative amendments to Section 367.0814, F.S., the Commission must propose rules to administer Section 367.0814, F.S., by December 31, 2016.

The Commission's Notice of Development of Rulemaking was published in the Florida Administrative Register (F.A.R.), on September 20, 2016, in Volume 42, Number 183. Written comments were received from the Office of Public Counsel (OPC). In addition, staff received

Docket No. 160223-WS
Date: November 22, 2016

questions and suggestions from representatives of Florida Utility Services 1, LLC, Florida Rural Water Association, Friedman & Friedman, P.A., Marion Utilities, Inc., Sundstrom & Mindlin, LLP, U.S. Water Services Corporation, and Utilities Inc. of Florida. A rulemaking workshop was held on November 4, 2016.

This recommendation addresses whether the Commission should approve staff's proposed amendments of Rules 25-30.425 and 25-30.455, F.A.C. The Commission has jurisdiction pursuant to Sections 120.54, 350.127(2), and 367.121, F.S.

Discussion of Issues

Issue 1: Should the Commission propose the amendment of Rules 25-30.425 and 25-30.455, F.A.C.?

Recommendation: Yes. The Commission should propose the amendment of Rules 25-30.425 and 25-30.455, F.A.C., as set forth in Attachment A. (Harper, Golden, Rome)

Staff Analysis: The purpose of this rulemaking is to update, clarify, and streamline Commission Rules 25-30.425 and 25-30.455, F.A.C., consistent with the Florida Legislature's 2016 legislation. Staff is recommending that the Commission propose the amendment of the rules, as set forth in Attachment A. Below is a more detailed explanation of the rule amendments staff is recommending.

Rule 25-30.425, F.A.C., Pass Through Rate Adjustment

Rule 25-30.425, F.A.C., implements Section 367.081(4)(b), F.S., which allows for water and wastewater utilities regulated by the Commission to use pass-through provisions to obtain rate increases or decreases without the requirements for a rate proceeding. Prior to the 2016 legislation, Section 367.081(4)(b), F.S., allowed a utility to use the pass-through provisions to adjust its rates to reflect changes in the following specified expenses: (a) purchased water or wastewater service, (b) costs of electric power, (c) ad valorem taxes, (d) Commission Regulatory Assessment Fees, (e) Department of Environmental Protection (DEP) fees for the National Pollutant Discharge Elimination System (NPDES) Program, and (f) water quality or wastewater quality testing required by DEP.

The 2016 legislation modified subsection 367.081(4)(b), F.S., to expand the types of specified expenses that are eligible for a pass-through adjustment to include: (a) fees charged for wastewater biosolids disposal, (b) costs incurred for a tank inspection required by DEP or a local governmental authority, (c) treatment plant operator and water distribution system license fees required by DEP or a local governmental authority, (d) water or wastewater operating permit fees charged by DEP or a local governmental authority, and (e) consumptive or water use permit fees charged by a water management district.

Accordingly, staff is recommending language to amend sections (2), (3), and (4) of Rule 25-30.425, F.A.C., to assist applicants by clarifying the documentation that the Commission requires from utilities to evaluate the utilities' submissions for recovery of pass-through costs. Staff is also recommending additional amendments to subsection 25-30.425(2), F.A.C., to clarify how applicants may provide certain documentation to allow for the filing of concurrent pass-through and price index applications more efficiently.

In addition, the 2016 legislation allows the Commission to establish by rule additional expense items that are outside the control of the utility and have been imposed upon the utility by a federal, state, or local law, rule, order, or notice. Staff did not receive any requests to add any additional specified expenses at this time.

Staff received comments from OPC requesting better access to the pass-through petitions and filings, which are currently undocketed and processed administratively. Staff is reviewing possible options for improving public access to this information and will address this concern outside of the rulemaking process.

Staff believes the amendments to Rule 25-30.425, F.A.C., are consistent with the 2016 legislation, address the interested persons' comments, and will reduce the number of data requests that would be necessary to acquire the information from the utilities during the pass-through application process, thereby streamlining the process for both staff and the applicants.

Rule 25-30.455, F.A.C., Staff Assistance in Rate Cases

Rule 25-30.455, F.A.C., implements Section 367.0814(3), F.S., which was amended by the 2016 legislative session to specify that the Commission may not award rate case expenses to recover attorney fees or fees of other outside consultants who are engaged for the purpose of preparing or filing the case if a utility receives staff assistance in changing rates and charges pursuant to this section, unless the Office of Public Counsel or interested parties have intervened. The statute as amended provides that the Commission may award rate case expenses for attorney fees or fees of other outside consultants if such fees are incurred for the purpose of providing consulting or legal services to the utility after the initial staff report is made available to customers and the utility. The amended statute also provides that if there is a protest or appeal by a party other than the utility, the Commission may award rate case expenses to the utility for attorney fees or fees of other outside consultants for costs incurred after the protest or appeal. Thus, Rule 25-30.455, F.A.C., was amended to reflect the amendments to Section 367.0814(3), F.S., made in the 2016 legislation.

Statement of Estimated Regulatory Costs

Pursuant to Section 120.54, F.S., agencies are encouraged to prepare a statement of estimated regulatory costs (SERC) before the adoption, amendment, or repeal of any rule. The SERC is appended as Attachment B to this recommendation. The SERC analysis also includes whether the rule amendment is likely to have an adverse impact on growth, private sector job creation or employment, or private sector investment in excess of \$1 million in the aggregate within five years after implementation.

The SERC concludes that any economic impacts that might be incurred by affected entities would be a result of statutory changes to Sections 367.081 and 367.0814, F.S., made by the 2016 legislation and will not be the result of staff's recommended amendments to the Commission rules. Staff believes that the rule amendments will not likely directly or indirectly increase regulatory costs in excess of \$200,000 in the aggregate in Florida within one year after implementation.

Further, the SERC concludes that the rule amendments will not likely have an adverse impact on economic growth, private-sector job creation or employment, private sector investment, business competitiveness, productivity, or innovation in excess of \$1 million in the aggregate within five years of implementation. Thus, the rule amendments do not require legislative ratification pursuant to Section 120.541(3), F.S.

In addition, the SERC states that the rule amendments will not have an adverse impact on small business and will have no impact on small cities or small counties. No regulatory alternatives were submitted pursuant to paragraph 120.541(1)(a), F.S. None of the impact/cost criteria established in paragraph 120.541(2)(a), F.S., will be exceeded as a result of the recommended revisions.

Conclusion

Based on the foregoing, staff recommends the amendment of Rules 25-30.425 and 25-30.455, F.A.C.

Issue 2: Should this docket be closed?

Recommendation: Yes. If no requests for hearing or comments are filed, the rules may be filed with the Department of State, and this docket should be closed. (Harper)

Staff Analysis: If no requests for hearing or comments are filed, the rules may be filed with the Department of State, and this docket should be closed.

1 25-30.425 Pass Through Rate Adjustment.

2 ~~The verified notice to the Commission of an adjustment of rates under the provisions of~~
3 ~~Section 367.081(4)(b), F.S., shall be made in the following manner:~~

4 (1) This rule applies ~~Prior to any regulated water or wastewater utility that adjusts its an~~
5 ~~adjustment in rates pursuant to Section 367.081(4)(b), F.S., to reflect because of an increase or~~
6 ~~decrease in the rates, fees, or costs for the following specified expenses~~ purchased utility
7 ~~service, the utility shall file:~~

8 (a) ~~A certified copy of the order, ordinance or other evidence whereby the rates for~~ Water
9 ~~or wastewater utility service purchased from a are increased or decreased by the governmental~~
10 ~~authority agency or other by a water or wastewater utility regulated by the Commission; along~~
11 ~~with evidence of the utility service rates of that governmental agency or water or wastewater~~
12 ~~utility in effect on January 1 of each of the three preceding years.~~

13 (b) Purchased electric power; ~~A statement setting out by month the charges for utility~~
14 ~~services purchased from the governmental agency or regulated utility for the most recent 12-~~
15 ~~month period.~~

16 (c) Ad valorem taxes; ~~1. A statement setting out by month the gallons of water or~~
17 ~~wastewater treatment purchased from the governmental agency or regulated utility for the~~
18 ~~most recent 12-month period. If wastewater treatment service is not based on a metered flow,~~
19 ~~the number of units by which the service is measured shall be stated.~~

20 ~~2. A statement setting out by month gallons of water and units of wastewater service sold~~
21 ~~by the utility for the most recent 12-month period.~~

22 (d) National Pollutant Discharge Elimination System (NPDES) Permit Program fees
23 ~~charged by the Florida Department of Environmental Protection; A statement setting out by~~
24 ~~month the gallons of water or wastewater treatment purchased from any other government~~
25 ~~entity or utility company.~~

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

- 1 (e) Regulatory Assessment Fees imposed ~~A statement setting out by the Commission;~~
2 ~~month the gallons of water pumped or wastewater treated by the utility filing the verified~~
3 ~~notice.~~
- 4 (f) ~~If the total~~ W~~water or wastewater quality testing required by the Department of~~
5 Environmental Protection (DEP); available for sale is in excess of 110% of the water sold, a
6 statement explaining the unaccounted for water.
- 7 (g) Wastewater biosolids disposal fees;
- 8 (h) Tank inspection required by the DEP or a local governmental authority;
- 9 (i) Treatment plant operator and water distribution system operator license fees required
10 by the DEP or a local governmental authority;
- 11 (j) Water or wastewater operating permit fees charged by the DEP or a local governmental
12 authority; or
- 13 (k) Consumptive or water use permit fees charged by a water management district.
- 14 (2) ~~Prior to an adjustment in rates pursuant to Section 367.081(4)(b), F.S., because of an~~
15 ~~increase or decrease in the charge for electric power the utility shall file its verified notice and~~
16 supporting documents with the Commission's Division of Accounting and Finance at least 45
17 days prior to the effective date of its pass through rate adjustment, or at least 60 days prior to
18 the effective date of its combined or simultaneously filed price index and pass through rate
19 adjustments if the utility requests an exception to the 45 day effective date, as referenced in
20 paragraph (2)(h), to allow the price index and pass through rate adjustments to be
21 implemented as one rate adjustment pursuant to Section 367.081(4)(e), F.S. Each verified
22 notice of a pass through rate adjustment shall include the following supporting documents. If
23 the same information or supporting document is required for both the price index and pass
24 through rate adjustments, such as revised tariff sheets, annualized revenue calculations, return
25 on equity affirmations, and customer notices, the applicant may file a combined supporting

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

1 document to be used for both applications:

2 (a) Revised tariff sheets reflecting the increased or decreased rates; A certified copy of the
3 order, ordinance or other evidence which establishes that the rates for electric power have
4 been increased or decreased by the supplier, along with evidence of the electric power rates of
5 the supplier in effect on January 1 of each of the three preceding years.

6 (b) A schedule showing, ~~by month,~~ the calculation of charges for electric power and
7 consumption for the proposed rates, including most recent 12-month period, the following
8 information. If the pass through rate adjustment is combined with a price index rate
9 adjustment, a combined schedule that shows the calculation of both the price index and pass
10 through rate adjustments may be provided: charges that would have resulted had the new
11 electric rates been applied, and the difference between the charges under the old rates and the
12 charges under the new rates.

13 1. The calculation of the recurring annual or amortized annual amount of the new expense
14 or incremental change calculated as referenced in subsection (3);

15 2. The utility's actual annual revenue or calculation of the annualized revenue for the most
16 recent 12-month period, or 12-month test year if combined or simultaneously filed with a price
17 index application. If there were any Commission-approved changes to the utility's rates during
18 the 12-month period or test year, the revenue should be annualized to reflect the revenue that
19 would have resulted if the rate change had been in effect the entire 12 months. The annualized
20 revenue calculation should reflect the annual number of bills broken down by customer class
21 and meter size, and the annual gallons of water or wastewater service sold broken down by
22 customer class. Annualized revenues should be calculated separately if the utility provides
23 both water and wastewater service;

24 3. If the pass through of an increase or decrease in purchased water or wastewater utility
25 service, purchased power, or wastewater biosolids disposal is applied only to the gallonage

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

1 charge in the rate adjustment calculation, provide a schedule showing the gallons of water or
2 wastewater service sold during each month of the most recent 12-month period or test year,
3 broken down by customer class and meter size, if not shown in the revenue calculation
4 previously provided in subparagraph (2)(b)2. above; and

5 4. The calculation of the proposed rates that shows the current rates, dollar amount of the
6 pass through increase or decrease, and proposed adjusted rates. The percentage increase or
7 decrease resulting from the pass through adjustment for any specified expense may be applied
8 to all rates equally or allocated between the base facility charge and gallonage charge based on
9 the following guidelines:

10 i. The percentage increase or decrease in purchased water or wastewater utility service,
11 purchased power, or wastewater biosolids disposal may be applied solely to the gallonage
12 charge;

13 ii. The percentage increase or decrease in ad valorem taxes may be applied solely to the
14 base facility charge;

15 iii. The percentage increase or decrease in any specified expense that was adjusted using a
16 specific allocation methodology in the utility's last rate proceeding or in a prior pass through
17 adjustment may be applied using that same methodology; and

18 iv. The percentage increase or decrease in any specified expense that reflects a single
19 assessment to the water and wastewater systems combined may be allocated between the
20 water and wastewater rates based on the equivalent residential connection ratio of water and
21 wastewater customers;

22 (c) A copy of ~~statement outlining~~ the current invoice, proof of payment, or other
23 documentation that demonstrates that ~~measures taken by~~ the specified expense has been
24 adjusted or is a new requirement. If the specified expense is an existing expense that was not
25 previously included in the utility's rates, also provide a statement confirming that the specified

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

1 expense has never been included in the utility's rates; utility to conserve electricity.

2 (d) A copy of the invoice(s) or other documentation that supports the utility's calculation
3 of the recurring annual or amortized annual increase or decrease in the specified expense
4 referenced in subparagraph (2)(b)1., as follows:

5 1. For a frequently recurring specified expense, such as purchased power, provide a copy
6 of all invoices received for the most recent 12-month period or test year;

7 2. For a specified expense that occurs on an annual basis, such as ad valorem taxes,
8 provide a copy of the invoice received for the prior year;

9 3. For a specified expense that occurs less than annually, such as NPDES permit program
10 fees, provide a copy of the invoice received the last time the expense occurred; or

11 4. For the pass through of an incremental increase or decrease in regulatory assessment
12 fees that were previously included in the utility's rates by another governmental entity prior to
13 the Commission's regulation of the utility, provide documentation that shows the percentage
14 or amount of regulatory assessment fees that were previously included in the utility's rates,
15 such as a copy of an order, ordinance, rate calculation, or other available information that can
16 be used to determine and verify the percentage of regulatory assessment fees that were
17 previously included in the utility's rates.

18 (e) The utility's DEP Public Water System identification number and Wastewater
19 Treatment Plant Operating Permit number;

20 (f) The affirmation required by Section 367.081(4)(c), F.S., including the rate of return on
21 equity that the utility is affirming it will not exceed with this rate adjustment;

22 (g) A copy of the notice to customers required by subsection (6); and,

23 (h) If applicable, a statement that the utility requests an exception to the 45 day effective
24 date provided by Section 367.081(4)(b), F.S., to allow combined or simultaneously filed price
25 index and pass through rate adjustments to be implemented together as one rate adjustment

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

1 pursuant to Section 367.081(4)(e), F.S., with an effective date 60 days after the official filing
2 date of the utility's notice of intention to increase rates through a price index rate adjustment
3 filed pursuant to Section 367.081(4)(a) and Rule 25-30.420(2), F.A.C.

4 (3) The recurring annual or amortized annual amount ~~Prior to an adjustment in rates~~
5 ~~because of an increase or decrease in ad valorem taxes the~~ new expense or incremental change
6 utility shall be calculated as follows ~~file with the Commission:~~

7 (a) The change in a ~~A~~ frequently recurring specified expense, such as purchased power,
8 ~~copy of the ad valorem tax bills which increased or decreased~~ shall be calculated as an annual
9 ~~and copies of the previous three years' bills; if copies have been submitted previously, a~~
10 ~~schedule showing the tax total, broken down by month for the most recent 12-month period or~~
11 for the 12-month test year if combined or simultaneously filed with a price index rate
12 adjustment. The calculation shall reflect the following information: ~~only is acceptable; and~~

13 1. All charges or fees included in the total specified expense, such as the purchased water
14 or wastewater base facility charge, gallonage charge, any applicable billing or service fees,
15 and taxes, even if some of the rates or fees did not change;

16 2. The actual or annualized charges for the specified expense. If the rates or charges for the
17 specified expense changed during the 12-month period or test year, the actual charges should
18 be annualized to reflect the charges that would have resulted if the prior rates or charges had
19 been in effect the entire 12 months;

20 3. The annualized charges that would have resulted if the new rates had been in effect the
21 entire 12 months;

22 4. The difference between the charges at the prior and new rates; and

23 5. If the utility's most recent rate proceeding included adjustments for excessive
24 unaccounted for water (EUW) or excessive inflow and infiltration (I&I), the calculation of an
25 increase or decrease in purchased water or wastewater utility service or purchased electric

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

1 power shall also include the same percentage EUW or I&I adjustments. If the utility has taken
2 steps to reduce EUW or I&I since its most recent rate proceeding, the utility may, but is not
3 required to, provide additional information to demonstrate that the EUW or I&I percentages
4 have been reduced. Any proposed revision to the EUW or I&I percentages should be
5 calculated as referenced in subsection (4);

6 (b) The change in aA specified expense calculation of the amount of the ad valorem taxes
7 related to that occurs on an annual basis, such as ad valorem taxes, shall be calculated as an
8 annual total based on a comparison of the prior expense and new expense. If applicable, the
9 calculation of the increase or decrease portion of the water or wastewater plant not used and
10 useful in ad valorem taxes shall only include the following additional adjustments: in
11 providing utility service.

12 1. If any ad valorem tax bills reflect a single assessment for combined water and
13 wastewater property, the calculation shall also include the utility's calculation of the
14 equivalent residential connection ratio of water and wastewater customers used to allocate the
15 combined tax assessment between the utility's water and wastewater rates; and

16 2. If the utility's last rate proceeding included adjustments for non-used and useful plant,
17 the calculation shall also include an adjustment to remove the portion of the ad valorem taxes
18 related to the water or wastewater plant that is not used and useful in providing utility service;

19 (c) The change in a specified expense that occurs less than annually, such as NPDES
20 permit program fees, shall be calculated as an annual amortized amount based on a
21 comparison of the prior and new expense. The expense shall be amortized as a non-recurring
22 expense in accordance with Rule 25-30.433(8), F.A.C., and the calculation shall include an
23 explanation if the expense that is amortized for a period other than five years.

24 (4) Prior to an adjustment in rates because of an increase or decrease in Tthe pass through
25 costs of changes water quality or wastewater quality testing required by the Department of
CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from
existing law.

1 ~~Environmental Protection (DEP), or because of an increase or decrease in purchased water or~~
2 ~~wastewater utility service or purchased electric power shall be adjusted for EUW or I&I~~
3 ~~consistent with adjustments approved by the fees charged by DEP in connection with the~~
4 ~~National Pollutant Discharge Elimination System Program, the utility shall file with the~~
5 ~~Commission in the utility's most recent rate proceeding, if applicable. If the utility has taken~~
6 ~~steps to reduce the EUW and I&I percentages since its most recent rate proceeding, the utility~~
7 ~~may, but is not required, to provide the following information to demonstrate that the EUW~~
8 ~~and I&I percentages have been reduced and that the previously approved EUW and I&I~~
9 ~~percentages should either be reduced or eliminated from the pass through rate adjustment~~
10 ~~calculation:~~

11 (a) ~~A description~~ copy of any steps taken by the utility to reduce the EUW or I&I since the
12 utility's last rate proceeding invoice for testing; and,

13 (b) ~~A schedule showing the updated c~~Calculation of EUW or I&I broken down by month
14 for the most recent 12-month period or test year including: ~~amortized amount.~~

15 1. The gallons of water or wastewater treatment purchased from the governmental
16 authority or regulated utility that has increased or decreased its rates. If wastewater treatment
17 service is not based on a metered flow, describe how the wastewater flows are determined and
18 include the number of units by which the service is measured;

19 2. If the utility purchases water or wastewater service from more than one governmental
20 authority or regulated utility, include the gallons of water or wastewater treatment purchased
21 from any other governmental authority or regulated utility not reflected in subparagraph
22 (4)(b)1. above. If wastewater treatment service is not based on a metered flow, describe how
23 the wastewater flows are determined and include the number of units by which the service is
24 measured;

25 3. The gallons of water pumped or wastewater treated by the utility, if applicable;

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

- 1 4. The gallons of water or wastewater service sold by the utility;
2 5. The total unaccounted for water or inflow and infiltration; and
3 6. A statement explaining the EUW or I&I if the total water available for sale or total
4 wastewater treatment purchased is still in excess of 110 percent of the water or wastewater
5 service sold.
- 6 (5) The amount administratively approved for a pass through rate adjustment ~~In addition to~~
7 ~~subsections (1), (2), (3) and (4) above, the utility shall not exceed the actual cost incurred.~~
8 Foregone pass through decreases shall not be used to adjust a pass through increase below the
9 actual cost incurred. also file:
- 10 ~~(a) A schedule of proposed rates which will pass the increased or decreased costs on to the~~
11 ~~customers in a fair and nondiscriminatory manner and on the basis of current customers, and a~~
12 ~~calculation showing how the rates were determined;~~
- 13 ~~(b) A statement, by class of customer and meter size, setting out by month the gallons of~~
14 ~~water and units of wastewater service sold by the utility for the most recent 12-month period.~~
15 ~~This statement shall not be required in filings for the pass-through of increased regulatory~~
16 ~~assessment fees or ad-valorem taxes;~~
- 17 ~~(c) The affirmation reflecting the authorized rate of return on equity required by Section~~
18 ~~367.081(4)(c), F.S.;~~
- 19 ~~(d) A copy of the notice to customers required by subsection (7) of this rule;~~
- 20 ~~(e) Revised tariff sheets reflecting the increased rates;~~
- 21 ~~(f) The rate of return on equity that the utility is affirming it will not exceed pursuant to~~
22 ~~Section 367.081(4)(c), F.S.; and~~
- 23 ~~(g) The utility's DEP Public Water System identification number and Wastewater~~
24 ~~Treatment Plant Operating Permit number;~~
- 25 (6) The utility shall provide each customer with written notice of the administratively

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

1 approved rate adjustment, including the effective date and an explanation of the reasons for
2 the increase or decrease, prior to the time each customer will begin consumption at the
3 adjusted rates. If the pass through rate adjustment is combined or simultaneously filed with a
4 price index rate adjustment, the utility may provide the information for both rate adjustments
5 in a combined customer notice ~~amount authorized for pass through rate adjustments shall not~~
6 ~~exceed the actual cost incurred and shall not exceed the incremental increase or decrease for~~
7 ~~the 12 month period. Foregone pass through decreases shall not be used to adjust a pass~~
8 ~~through increase below the actual cost incurred.~~

9 (7) ~~In order for the Commission to determine whether a utility which had adjusted its rates~~
10 ~~pursuant to Section 367.081(4)(b), F.S., has thereby exceeded the range of its last authorized~~
11 ~~rate of return, the Commission may require a utility to file the information required in Rule~~
12 ~~25-30.437, F.A.C., for the test year specified.~~

13 (8) ~~Prior to the time a customer begins consumption at the adjusted rates, the utility shall~~
14 ~~notify each customer of the increase authorized and explain the reasons for the increase.~~

15 (9) ~~The utility shall file an original and five copies of the verified notice and supporting~~
16 ~~documents with the Commission Clerk. The rates shall become effective 45 days after the~~
17 ~~official date of filing. The official date of filing for the verified notice to the Commission of~~
18 ~~adjustment in rates shall be at least 45 days before the new rates are implemented.~~

19 *Rulemaking Authority 350.127(2), 367.081, 367.121(1)(c), (f) FS. Law Implemented*
20 *367.081(4), 367.121(1)(c), (g) FS. History—New 6-10-75, Amended 4-5-79, 4-5-81, 10-21-82,*
21 *Formerly 25-10.179, Amended 11-10-86, 6-5-91, 4-18-99, _____.*

22
23
24
25

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

1 25-30.455 Staff Assistance in Rate Cases.

2 (1) Water and wastewater utilities whose total gross annual operating revenues are
3 \$275,000 or less for water service or \$275,000 or less for wastewater service, or \$550,000 or
4 less on a combined basis, may petition the Commission for staff assistance in rate applications
5 by submitting a completed staff assisted rate case application. ~~If a utility that chooses to utilize~~
6 ~~the staff assistance option employs outside experts to assist in developing information for staff~~
7 ~~or to assist in evaluating staff's schedules and conclusions, the~~ Reasonable and prudent rate
8 case expense shall ~~will~~ be eligible for recovery recoverable through the rates developed by
9 staff. Recovery of attorney fees and outside consultant fees related to the rate case shall be
10 determined based on the requirements set forth in Section 367.0814(3), F.S. A utility that
11 chooses not to exercise the option of staff assistance may file for a rate increase under the
12 provisions of Rule 25-30.443, F.A.C.

13 (2) The appropriate application form, Commission Form PSC/AFD 2-W (11/86) (Rev.
14 06/14), entitled "Application for a Staff Assisted Rate Case," is incorporated into this rule by
15 reference and is available at: <http://www.flrules.org/Gateway/reference.asp?No=Ref-04415>.
16 The form may also be obtained from the Commission's Division of Accounting and Finance,
17 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850.

18 (3) Upon completion of the form, the applicant shall file it with the Office of Commission
19 Clerk, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee,
20 Florida 32399-0870.

21 (4) Within 30 days of receipt of the completed application, the Committee will evaluate
22 the application and determine the applicant's eligibility for staff assistance.

23 (a) If the Commission has received four or more applications in the previous 30 days; or, if
24 the Commission has 20 or more docketed staff assisted rate cases in active status on the date
25 the application is received, the Commission will deny initial evaluation of an application for
CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from
existing law.

1 staff assistance and close the docket. When an application is denied under the provisions of
2 this paragraph, the Commission will notify the applicant of the date on which the application
3 may be resubmitted.

4 (b) Initially, determinations of eligibility will be conditional, pending an examination of
5 the condition of the applicant's books and records.

6 (5) Upon making its final determination of eligibility, the Commission will notify the
7 applicant in writing as to whether the application is officially accepted or denied. If the
8 application is accepted, a staff assisted rate case will be initiated. If the application is denied,
9 the notification of application denial will state the deficiencies in the application with
10 reference to the criteria set out in subsection (7) of this rule.

11 (6) The official date of filing will be 30 days after the date of the written notification to the
12 applicant of the Commission's official acceptance of the application.

13 (7) In determining whether to grant or deny the application, the Commission will consider
14 the following criteria:

15 (a) Whether the applicant qualifies for staff assistance pursuant to subsection (1) of this
16 rule;

17 (b) Whether the applicant's books and records are organized consistent with Rule 25-
18 30.110, F.A.C., so as to allow Commission personnel to verify costs and other relevant factors
19 within the 30-day time frame set out in this rule;

20 (c) Whether the applicant has filed annual reports;

21 (d) Whether the applicant has paid applicable regulatory assessment fees;

22 (e) Whether the applicant has at least one year of experience in utility operation;

23 (f) Whether the applicant has filed additional relevant information in support of eligibility,
24 together with reasons why the information should be considered; and

25 (g) Whether the utility was granted a rate case increase within the 2-year period prior to
CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from
existing law.

1 the receipt of the application under review.

2 (8) The Commission will deny the application if the utility does not remit the filing fee, as
3 provided by paragraph 25-30.020(2)(f), F.A.C., within 30 days after official acceptance.

4 (9) An aggrieved applicant may request reconsideration of the application denial, which
5 will be decided by the full Commission.

6 (10) A substantially affected person may file a petition to protest the Commission's
7 proposed agency action in a staff assisted rate case within 21 days of issuance of the Notice of
8 Proposed Agency Action Order, as set forth in Rule 28-106.111, F.A.C.

9 (11) A petition to protest the Commission's proposed agency action shall conform to Rule
10 28-106.201, F.A.C.

11 (12) In the event of a protest of the Commission's Notice of Proposed Agency Action
12 Order in a staff assisted rate case, the utility shall:

13 (a) Provide prefiled direct testimony in accordance with the Order Establishing Procedure
14 issued in the case. At a minimum, that testimony shall adopt the Commission's Proposed
15 Agency Action Order;

16 (b) Sponsor a witness to support source documentation provided to the Commission staff
17 in its preparation of the staff audit, the staff engineering and accounting report and the staff
18 proposed agency action recommendation in the case;

19 (c) Include in its testimony the necessary factual information to support its position on any
20 issue that it chooses to take a position different than that contained in the Commission's
21 Proposed Agency Action Order; and

22 (d) Meet all other requirements of the Order Establishing Procedure.

23 (13) Failure to comply with the dates established in the Order Establishing Procedure, or to
24 timely file a request for extension of time for good cause shown, may result in dismissal of the
25 staff assisted rate case and closure of the docket.

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

- 1 (14) In the event of a protest of the Commission's Proposed Agency Action Order in a
2 staff assisted rate case, the Commission staff shall:
- 3 (a) File prefiled direct testimony to explain its analysis in the staff proposed agency action
4 recommendation. In the event the staff wishes to alter its position on any issue, it shall provide
5 factual testimony to support its changed position;
- 6 (b) Meet all other requirements of the Order Establishing Procedure; and
- 7 (c) Provide to the utility materials to assist the utility in the preparation of its testimony
8 and exhibits. This material shall consist of an example of testimony filed by a utility in another
9 case, an example of testimony that would support the Proposed Agency Action Order in this
10 case, an example of an exhibit filed in another case, and examples of prehearing statements
11 and briefs filed in other cases.

12 *Rulemaking Authority 350.127(2), 367.0814, 367.121 FS. Law Implemented 367.0814 FS.*
13 *History—New 12-8-80, Formerly 25-10.180, Amended 11-10-86, 8-26-91, 11-30-93, 1-31-00,*
14 *12-16-08, 8-10-14, _____.*

15
16
17
18
19
20
21
22
23
24
25

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

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: November 9, 2016
TO: Adria Harper, Senior Attorney, Office of the General Counsel
FROM: C. Donald Rome, Jr., Public Utility Analyst II, Division of Economics *CDR*
RE: Statement of Estimated Regulatory Costs (SERC) for Proposed Amendments to Rules 25-30.425 and 25-30.455, Florida Administrative Code (F.A.C.).

During the 2016 session, the Florida Legislature enacted House Bill 491 which was incorporated into Chapter 2016-226, Laws of Florida. Among other things, the legislation modified two subsections of the Florida Statutes (F.S.): Subsection 367.081(4) and Subsection 367.0814(3), F.S. These laws became effective on July 1, 2016. To implement the new laws, staff is recommending revisions to Rule 25-30.425, F.A.C., Pass Through Rate Adjustment, and Rule 25-30.455, F.A.C., Staff Assistance in Rate Cases. Staff is recommending these rule changes so that Commission rules will continue to be consistent with the requirements of the empowering statutes as revised during the 2016 legislative session. Therefore, any economic impacts that might be incurred by affected entities would be a result of statutory changes promulgated under subsections 367.081(4) and 367.0814(3), F.S., and not caused by staff's recommended changes to Commission rules. Key changes that are discussed in the attached SERC are summarized below.

Staff's draft amendments to Rule 25-30.425, F.A.C., are being recommended to implement the new provisions of subsection 367.081(4), F.S. Prior to the 2016 legislative action, water and wastewater utilities regulated by the Commission were limited to passing through the following specified expense items without the requirement of a Commission rate proceeding: (a) purchased water or wastewater service, (b) costs of electric power, (c) ad valorem taxes, (d) Commission Regulatory Assessment Fees, (e) Department of Environmental Protection (DEP) fees for the National Pollutant Discharge Elimination System (NPDES) Program, and (f) water quality or wastewater quality testing required by DEP.¹ The 2016 legislation modified subsection 367.081(4), F.S., to expand the types of specified expense items that are eligible for pass-through treatment: (a) fees charged for wastewater biosolids disposal, (b) costs incurred for a tank inspection required by DEP or a local governmental authority, (c) treatment plant operator and water distribution system license fees required by DEP or a local governmental authority, (d) water or wastewater operating permit fees charged by DEP or a local governmental authority, and (e) consumptive or water use permit fees charged by a water management district.²

¹ Florida House Bill Analysis and Fiscal Impact Statement, April 15, 2016; page 5.

² Id., p. 10.

Staff's recommended revisions to subsections (2), (3), and (4) of Rule 25-30.425, F.A.C., provide clarification to prospective applicants regarding the documentation required for staff to evaluate an applicant's submission for recovery of pass-through costs. Staff believes that placing this additional clarification in the rule will help to reduce the number of data requests that would be necessary during the pass-through application process and, therefore, assist in streamlining the process for both staff and applicants. Staff recommends additional amendments to subsection 25-30.425(2), F.A.C., to enable applicants to file concurrent pass-through and price index applications more efficiently.

Staff's draft amendments to subsection (1) of Rule 25-30.455, F.A.C., are being recommended to implement the new provisions of subsection 367.0814(3), F.S. The new statutory language prohibits the Commission from approving a utility's expenses associated with services of outside experts in a staff assisted rate case proceeding unless another party has intervened in the case. However, subsection 367.0814(3), F.S., provides two exceptions where a utility's recovery of rate case expense may be authorized by the Commission as follows: (a) if the fees are incurred to provide consulting or legal services to the utility after the initial Commission staff report is issued to customers and the utility, or (b) if the fees are incurred after any protest or appeal of the Commission's decision by a party other than the utility.³

The attached SERC addresses the considerations required pursuant to Section 120.541, F.S. A workshop to solicit input on the recommended rules was conducted by Commission staff on November 4, 2016. Several comments that either were received during the workshop or were otherwise provided during the rulemaking process were incorporated into the draft rules to provide additional clarification. No regulatory alternatives were submitted pursuant to paragraph 120.541(1)(a), F.S. None of the impact/cost criteria established in paragraph 120.541(2)(a), F.S., will be exceeded as a result of the recommended revisions.

cc: (Draper, Daniel, Shafer, Golden, Cibula, SERC file)

³ Id., p. 11.

FLORIDA PUBLIC SERVICE COMMISSION
STATEMENT OF ESTIMATED REGULATORY COSTS
Rules 25-30.425 and 25-30.455, F.A.C.

1. Will the proposed rule have an adverse impact on small business?
[120.541(1)(b), F.S.] (See Section E., below, for definition of small business.)

Yes No

For clarification, please see comments in Sections A(3) and E(1), below.

2. Is the proposed rule likely to directly or indirectly increase regulatory costs in excess of \$200,000 in the aggregate in this state within 1 year after implementation of the rule? [120.541(1)(b), F.S.]

Yes No

If the answer to either question above is "yes", a Statement of Estimated Regulatory Costs (SERC) must be prepared. The SERC shall include an economic analysis showing:

A. Whether the rule directly or indirectly:

(1) Is likely to have an adverse impact on any of the following in excess of \$1 million in the aggregate within 5 years after implementation of the rule?
[120.541(2)(a)1, F.S.]

Economic growth Yes No

Private-sector job creation or employment Yes No

Private-sector investment Yes No

(2) Is likely to have an adverse impact on any of the following in excess of \$1 million in the aggregate within 5 years after implementation of the rule?
[120.541(2)(a)2, F.S.]

Business competitiveness (including the ability of persons doing business in the state to compete with persons doing business in other states or domestic markets) Yes No

Productivity Yes No

Innovation Yes No

(3) Is likely to increase regulatory costs, including any transactional costs, in excess of \$1 million in the aggregate within 5 years after the implementation of the rule? [120.541(2)(a)3, F.S.]

Yes

No

Economic Analysis:

A summary of the recommended rule revisions is included in the attached memorandum to Counsel. Specific elements of the associated economic analysis are discussed below in Sections B through F of this SERC.

During the 2016 session, the Florida Legislature enacted House Bill 491 which was incorporated into Chapter 2016-226, Laws of Florida. Among other things, the legislation modified two subsections of the Florida Statutes (F.S.): Subsection 367.081(4) and Subsection 367.0814(3), F.S. These laws took effect on July 1, 2016.

To implement the new laws, staff is recommending revisions to Rules 25-30.425 and 25-30.455, Florida Administrative Code (F.A.C.). Staff is recommending these rule changes so that agency rules will continue to be consistent with the requirements of empowering statutes as revised during the 2016 legislative session.

Therefore, any economic impacts that might be incurred by affected entities would be a result of statutory changes promulgated under subsections 367.081(4) and 367.0814(3), F.S., and not caused by staff's recommended changes to Commission rules. Staff believes that none of the impact/cost criteria established in paragraph 120.541(2)(a), F.S., will be exceeded as a result of the recommended rule revisions.

B. A good faith estimate of: [120.541(2)(b), F.S.]

(1) The number of individuals and entities likely to be required to comply with the rule.

The amendments to Rule 25-30.425, F.A.C., would affect 145 investor-owned water and wastewater utilities that serve approximately 175,000 Florida customers. The amendments to Rule 25-30.455, F.A.C., would affect the 116 investor-owned water and wastewater utilities that fall below the revenue thresholds stated in subsection (1) of the rule; these utilities serve approximately 30,000 Florida customers. Utilities which come under the jurisdiction of the Commission in the future also would be required to comply.

(2) A general description of the types of individuals likely to be affected by the rule.

The 145 investor-owned water and wastewater utilities are located in 37 counties.

C. A good faith estimate of: [120.541(2)(c), F.S.]

(1) The cost to the Commission to implement and enforce the rule.

- None. To be done with the current workload and existing staff.
- Minimal. Provide a brief explanation.
- Other. Provide an explanation for estimate and methodology used.

(2) The cost to any other state and local government entity to implement and enforce the rule.

- None. The rule will only affect the Commission.
- Minimal. Provide a brief explanation.
- Other. Provide an explanation for estimate and methodology used.

(3) Any anticipated effect on state or local revenues.

- None
- Minimal. Provide a brief explanation.
- Other. Provide an explanation for estimate and methodology used.

D. A good faith estimate of the transactional costs likely to be incurred by individuals and entities (including local government entities) required to comply with the requirements of the rule. "Transactional costs" include filing fees, the cost of obtaining a license, the cost of equipment required to be installed or used, procedures required to be employed in complying with the rule, additional operating costs incurred, the cost of monitoring or reporting, and any other costs necessary to comply with the rule. [120.541(2)(d), F.S.]

- None. The rule will only affect the Commission
- Minimal. Provide a brief explanation.
- Other. Provide an explanation for estimate and methodology used.

Staff's suggested amendments to Rules 25-30.425 and 25-30.455, F.A.C., are being recommended to implement the new provisions of subsections 367.081(4) and 367.0814(3), F.S., respectively. As noted in Section A above, any economic

impacts that might be incurred by affected entities [e.g., utilities, customers] would be a result of statutory changes promulgated under subsections 367.081(4) and 367.0814(3), F.S., and not caused by staff's recommended changes to Commission rules. Key elements of staff's recommended rule revisions are discussed below.

(1) Recommended amendments to Rule 25-30.425, F.A.C.

As summarized in the attached memorandum to Counsel, statutory changes to subsection 367.081(4), F.S., added five additional specified expense items for which water and wastewater utilities regulated by the Commission can use the referenced rule's pass-through provisions without the requirement for a rate proceeding. Staff's suggested clarifications to the rule should assist applicants regarding the documentation required for staff to evaluate submissions for recovery of pass-through costs. Staff believes this should help to reduce the number of data requests that would be necessary during the pass-through application process, thereby streamlining the process for both staff and applicants. Staff is recommending additional amendments to subsection 25-30.425(2), F.A.C., to enable applicants to file concurrent pass-through and price index applications more efficiently.

Regulated utilities should benefit from the recommended rule revisions associated with the statutory changes that expanded the types of expenses which are eligible for recovery through a pass-through adjustment. Utilities will have more opportunities to avoid the time and expenses associated with full rate case proceedings and should be able to begin recovering the additional expenses in a more timely manner, thereby reducing potential revenue losses for under-recovery of prudent expenses. Utility ratepayers also should benefit from being able to receive smaller incremental rate increases that address specific expense charges that would otherwise require recovery through a full rate case proceeding at a higher cost and potentially higher rate increase.

Staff anticipates that additional transactional costs, if any, to affected entities would be de minimis, particularly when compared to the costs that would otherwise be incurred to recover those same expenses in a full rate proceeding. In addition, as noted in Section A above, any economic impacts that might be incurred by affected entities would be a result of statutory changes promulgated under subsection 367.081(4), F.S., and not caused by staff's recommended changes to Commission rules.

(2) Recommended amendments to Rule 25-30.455, F.A.C.

Staff's suggested changes to subsection (1) of the referenced rule are being recommended to implement the new provisions of subsection 367.0814(3), F.S. The new statutory language prohibits the Commission from approving a utility's expenses associated with services of outside experts in a staff assisted rate case unless another party has intervened in the case.

It is possible that the new statutory requirements and the associated prospective rule revisions potentially may result in additional transactional costs to utilities.

The potential impact would be to reduce the amount of rate case expense that utilities may recover by disallowing recovery of fees for attorneys or outside consultants who are engaged for the purpose of preparing and filing a staff assisted rate case. Henceforth, utilities would only be allowed to recover attorney or consultants' fees that are incurred for advisory work that is performed after the Staff Report is issued. The Staff Report is a preliminary recommendation issued in staff assisted rate cases that serves to advise the utility and its customers about the expected level of increase in that particular rate case.

Although not specifically prohibited in the statute, the amended statutory language also has the effect of disallowing recovery of any attorney or consultants' fees incurred for other work related to the rate case that occurs before the Staff Report is issued, such as assisting in the preparation of responses to Commission staff data requests. For example, it is not uncommon for a utility to request that the contractual plant operator assist with answering Commission engineering staff's data requests that are issued early in the rate case. The contractual plant operator will typically charge additional fees for this type of work, as it is not part of the operator's regularly scheduled contractual duties. Under the new statutes and amended rules, those fees would no longer be eligible to be recovered through rate case expense because the outside consultant fees would be incurred by the utility for work performed before the Staff Report is issued. However, as noted in Section A above, any economic impacts that might be incurred by affected entities would be a result of statutory changes promulgated under subsection 367.0814(3), F.S., and not caused by staff's recommended changes to Commission rules.

Utility ratepayers potentially may benefit from the rule revisions being recommended to implement the statutory changes. Benefits may accrue from limiting the type of rate case expense that may be recovered in a staff assisted rate case, thereby resulting in less of a rate increase than would otherwise be necessary.

E. An analysis of the impact on small businesses, and small counties and small cities:
[120.541(2)(e), F.S.]

(1) "Small business" is defined by Section 288.703, F.S., as an independently owned and operated business concern that employs 200 or fewer permanent full-time employees and that, together with its affiliates, has a net worth of not more than \$5 million or any firm based in this state which has a Small Business Administration 8(a) certification. As to sole proprietorships, the \$5 million net worth requirement shall include both personal and business investments.

- No adverse impact on small business. *[See clarification below.]*
- Minimal. Provide a brief explanation.
- Other. Provide an explanation for estimate and methodology used.

While it is difficult to estimate the number of affected entities that would meet the definition of "Small Business" as defined in Section 288.703, F.S., it is reasonable to assume that many of the affected entities would meet the statutory definition and, therefore, potentially could incur additional transactional costs as discussed in Section D, above. However, as noted in Section A above, any economic impacts that might be incurred by affected entities would be a result of statutory changes promulgated under subsections 367.081(4) and 367.0814(3), F.S., and not caused by staff's recommended changes to Commission rules.

(2) A "Small City" is defined by Section 120.52, F.S., as any municipality that has an unincarcerated population of 10,000 or less according to the most recent decennial census. A "small county" is defined by Section 120.52, F.S., as any county that has an unincarcerated population of 75,000 or less according to the most recent decennial census.

- No impact on small cities or small counties
- Minimal. Provide a brief explanation.
- Other. Provide an explanation for estimate and methodology used.

F. Any additional information that the Commission determines may be useful.
[120.541(2)(f), F.S.]

- None.

Additional Information:

A workshop to solicit input on the recommended rules was conducted by Commission staff on November 4, 2016. Several comments that either were received during the workshop or were otherwise provided during the rulemaking process were incorporated into the draft rules to provide additional clarification.

G. A description of any regulatory alternatives submitted and a statement adopting the alternative or a statement of the reasons for rejecting the alternative in favor of the proposed rule. [120.541(2)(g), F.S.]

- No regulatory alternatives were submitted.
- A regulatory alternative was received from
 - Adopted in its entirety.
 - Rejected. Describe what alternative was rejected and provide a statement of the reason for rejecting that alternative.

Item 4

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: November 22, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Passett, Mouring) *ALM*
Office of the General Counsel (Leathers) *CRIBB*

RE: Docket No. 160153-GU – Petition for approval of final true-up of environmental surcharge by Florida Division of Chesapeake Utilities Corporation.

AGENDA: 12/06/16 – Regular Agenda – Proposed Agency Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

The Florida Division of Chesapeake Utilities Corporation (Chesapeake or Company) is a natural gas utility and its principal offices are located in Fernandina Beach, Florida. The Company also owns property in Winter Haven, Florida upon which a former site of a manufactured gas plant (MGP) was located.

In 1990, Chesapeake executed a Consent Order with the Florida Department of Environmental Protection (DEP) that required the Company to remediate all environmental impacts associated with the former MGP site. On May 19, 2001, DEP approved the Company's proposal to implement air spurge/soil vapor extraction as a remedy for addressing the contaminants present in areas of the site. In 2008, the Company performed excavation and removal of petroleum-tainted soil. On June 10, 2009, Polk County notified the Company that additional sampling had to be performed to complete the remediation monitoring requirements.

In its 2009 rate case, the Company addressed the increasing costs for remediation of the site and sought Commission approval of a surcharge to allow Chesapeake to recover its environmental costs associated with the project.¹ On January 14, 2010, the Commission approved a 4-year fixed surcharge of \$0.62 on a typical residential customer's monthly bill.

On January 27, 2014, the Commission approved an extension of the Company's Environmental Surcharge.² This extended the fixed surcharge by 20 months and allowed Chesapeake to recover an additional \$380,781 related to remediation activities of the Company's former MGP site in Winter Haven, Florida.

On June 17, 2016, the Company filed a petition with the Commission, seeking approval to establish a regulatory liability related to the Environmental Surcharge to address the Company's expected future remediation costs. The Company also filed an affidavit from Michele Ruth, a licensed Professional Engineer engaged by Chesapeake to manage and oversee the remediation operations, and Company witness testimony of Michelle Napier in support of its request.

This recommendation addresses Chesapeake's petition for approval to establish a regulatory liability related to funds collected through the Environmental Surcharge. The Commission has jurisdiction pursuant to Sections 366.04(3), 366.041, and 366.06, Florida Statutes (F.S.).

¹ Order No. PSC-10-0029-PAA-GU, pp. 21-24, issued January 14, 2010, in Docket No. 090125-GU, *In re: Petition for increase in rates by Florida Division of Chesapeake Utilities Corporation.*

² Order No. PSC-14-0052-PAA-GU, issued January 27, 2014, in Docket No. 130273-GU, *In re: Petition for approval to extend environmental surcharge by Florida Division of Chesapeake Utilities Corporation.*

Discussion of Issues

Issue 1: Should the Commission approve Chesapeake's petition to establish a regulatory liability related to funds collected through the Environmental Surcharge in order to address the expected future remediation costs?

Recommendation: Yes. The Commission should approve Chesapeake's petition to retain the over-collected balance as a regulatory liability in Account 254 for purposes of addressing the future expected remediation costs. The status of the remediation efforts and costs should be subject to review in the Company's next rate case. (Passett)

Staff Analysis: When Chesapeake's Environmental Surcharge was established in its 2009 rate case, an under-collected balance of \$268,257 was established for related environmental remediation costs.³ From January 1, 2009 through December 31, 2013, the Company recovered \$1,027,621 and incurred \$642,949 in remediation expenses. When its surcharge was set to expire, the Company had an over-collected balance of \$116,415 (\$1,027,621 - \$268,257 - \$642,949).

At the end of the surcharge period (December 31, 2013), Chesapeake forecasted to incur an additional \$443,000 in related environmental remediation. A 20-month extension of the Environmental Surcharge was approved on January 27, 2014,⁴ to allow the Company to recover remediation costs. During the surcharge extension period, the Company recovered \$419,554 and incurred \$144,199 in remediation expenses, which created an incremental over-collected balance of \$275,355 (\$419,554 - \$144,199). The total over-collected balance, from the original surcharge through the end of the surcharge extension, is \$391,770 (\$116,415 + \$275,355).

Chesapeake's most recent forecast reflected that it will incur \$425,000 in related environmental remediation costs over the next four to five years.⁵ As of July 27, 2016, the Company stated that it incurred approximately \$78,340⁶ in remediation costs since the surcharge extension's expiration date (August 31, 2015), leaving an approximate over-collected balance of \$313,430 (\$391,770 - \$78,340). Staff would note that both the under-collections and over-collections appear to be due to timing issues with forecasted remediation expenses.

The funds collected from the original surcharge and the surcharge extension, along with all costs incurred and the cumulative over/(under) collected funds are detailed below in Table 1-1.

³ Order No. PSC-10-0029-PAA-GU, pp. 21-24, issued January 14, 2010, in Docket No. 090125-GU, *In re: Petition for increase in rates by Florida Division of Chesapeake Utilities Corporation*.

⁴ The surcharge extension period spanned from January 1, 2014 through August 31, 2015.

⁵ Document No. 05629-16, filed July 27, 2016, Response to Request No. 3.

⁶ Document No. 05629-16, filed July 27, 2016, Attachment A, in Response to Request No. 5.

**Table 1-1
 Chesapeake Surcharge Summation
 July 27, 2016**

Year		Amount Collected	Costs Incurred	Cumulative Over/(Under) Collected
	Per Order PSC-10-0029-PAA-GU			
12/31/2008	Beginning Balance		\$ 268,257	\$ (268,257)
2009		\$ 71,114	\$ 157,020	\$ (354,163)
2010		\$ 227,646	\$ 173,263	\$ (299,780)
2011		\$ 237,578	\$ 103,494	\$ (165,696)
2012		\$ 243,074	\$ 84,782	\$ (7,404)
2013		\$ 248,209	\$ 124,390	\$ 116,415
	Total for Surcharge	\$ 1,027,621	\$ 911,206	\$ 116,415
	Per Order PSC-14-0052-PA-GU			
2014		\$ 261,930	\$ 106,462	\$ 155,468
01/01/2015 - 08/31/2015		\$ 157,624	\$ 37,737	\$ 275,355
	Total for Surcharge Extension	\$ 419,554	\$ 144,199	\$ 275,355
	Post Surcharge Extension			
09/01/2015-12/31/2015		\$ -	\$ 19,289	\$ (19,289)
01/01/2016-06/30/2016		\$ -	\$ 59,050	\$ (59,050)
	Total for Post Surcharge Extension	\$ -	\$ 78,340	\$ (78,340)
	Total	\$ 1,447,175	\$ 1,133,745	\$ 313,430

Sources: Direct Testimony of Michelle D. Napier, June 17, 2016, Docket No. 160153-GU, In re: Petition for approval of final true-up of environmental Surcharge by Florida Division of Chesapeake Utilities Corporation and FPSC Document No. 05629-16, Attachment A, in Response to Request No. 5

Chesapeake proposed that it retain the over-collected balance in Account 254 as a regulatory liability, in order to address future expected remediation costs. Pursuant to the Uniform System of Accounts for Natural Gas Companies as found in the Code of Federal Regulations, Title 18, Subchapter F, Part 201, Account 254, other regulatory liabilities, shall include amounts that must be established by credits that would have been included in net income or accumulated other comprehensive income but for it being probable that: such items will be included in a different period for purposes of developing the Company's authorized rates; or customer refunds, not

provided for in other accounts. Staff agrees with Chesapeake that the Company's over-collected balance meets the criteria required to qualify as a regulatory liability in Account 254, as this balance is not includible in other accounts and would have been included in net income, if it were not subject to customer refund.

Chesapeake stated that it has no ongoing mechanism to recover the additional costs related to the environmental remediation, and without a mechanism in place to collect funds for the upcoming expenses, the Company asserted that refunding the over-collected balance would cause it certain financial harm. In contrast, the Company stated that if it were allowed to retain the over-collected funds, it would be able to recover the remediation expenses, and the status of the remediation efforts and amount held to address such efforts would still be subject to review in the next rate proceeding.

Chesapeake asserted that retaining the over-collected balance would ensure that the Company is well positioned to address additional remediation costs consistent with the Commission's intent set forth in the orders establishing and extending the Environmental Surcharge. In approving and extending the Environmental Surcharge in previous orders, the Commission allowed Chesapeake to raise the funds necessary to cover these forecasted environmental expenses, as the Company was not recovering the costs in base rates necessary to recover its expected costs. Staff agrees with Chesapeake that if the Commission were to require the Company to issue a refund, it would cause financial harm when the forecasted costs that the surcharge was meant to recover are incurred. Staff believes that allowing Chesapeake to retain the over-collected funds in order to cover the forecasted environmental remediation expenses would prevent the Company from facing unnecessary financial harm. With Chesapeake incurring approximately \$78,340 of related expenses between September 2015 and June 2016, and the remediation process forecasted to last another four to five years, staff believes that this is a timing issue and it would be appropriate for the Company to retain the over-collected balance in order to address future anticipated remediation costs. Therefore, staff recommends that the Commission approve Chesapeake's petition to retain the over-collected balance as a regulatory liability in Account 254 for purposes of addressing the future expected remediation costs with the status of the remediation efforts and remainder amounts, if any, being subject to review in the Company's next rate proceeding.

Issue 2: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (Leathers)

Staff Analysis: At the conclusion of the protest period, if no protest is filed this docket should be closed upon the issuance of a consummating order.

Item 5

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: November 22, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Sewards, Norris)
Office of the General Counsel (Taylor)

Handwritten signatures and initials: "Boj" in blue, "ALM" in blue, "CROSS" in purple, and "WST" in purple.

RE: Docket No. 160005-WS – Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.

AGENDA: 12/06/16 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 3/31/16 (Statutory Reestablishment Deadline)

SPECIAL INSTRUCTIONS: None

Case Background

Since March 31, 1981, pursuant to the guidelines established by Section 367.081(4)(a), Florida Statutes (F.S.), and Rule 25-30.420, Florida Administrative Code (F.A.C.), the Commission has established a price index increase or decrease for major categories of operating costs on or before March 31 of each year. This process allows water and wastewater utilities to adjust rates based on current specific expenses without applying for a rate case.

Staff has calculated its proposed 2017 price index by comparing the Gross Domestic Product Implicit Price Deflator Index for the fiscal year ended September 30, 2015, to the same index, for the fiscal year ended September 30, 2016. This same procedure has been used each year since 1995 to calculate the price index. The U.S. Department of Commerce, Bureau of Economic Analysis, released its most recent third quarter figures on October 28, 2016.

Docket No. 160005-WS
Date: November 22, 2016

During the same Commission Conference in Docket No. 160223-WS, the Commission will consider the proposed rule revision to Rule 25-30.425, F.A.C., to capture the expansion of eligible pass through costs permitted by the recent statutory change in Section 367.081(4)(b), F.S.

Since March 31, 1981, the Commission has received and processed approximately 3,554 index applications. The Commission has jurisdiction over this matter pursuant to Section 367.081, F.S.

Discussion of Issues

Issue 1: Which index should be used to determine price level adjustments?

Recommendation: The Gross Domestic Product Implicit Price Deflator Index is recommended for use in calculating price level adjustments. Staff recommends calculating the 2017 price index by using a fiscal year, four quarter comparison of the Implicit Price Deflator Index ending with the third quarter of 2016. (Sewards)

Staff Analysis: In 1993, the Gross Domestic Product Implicit Price Deflator Index (GDP) was established as the appropriate measure for determining the water and wastewater price index. At this same time, the convention of using a four quarter fiscal year comparison was also established and this practice has been used every year since then.¹ The GDP is prepared by the U.S. Department of Commerce. Prior to that time, the Gross National Product Implicit Price Deflator Index (GNP) was used as the indexing factor for water and wastewater utilities. The Department of Commerce switched its emphasis from the GNP to the GDP as the primary measure of U.S. production.

Pursuant to Section 367.081(4)(a), F.S., the Commission, by order, shall establish a price increase or decrease index for major categories of operating costs incurred by utilities subject to its jurisdiction reflecting the percentage of increase or decrease in such costs from the most recent 12-month historical data available. Since 1995, the price index was determined by using a four quarter comparison, ending September 30, of the Implicit Price Deflator Index in order to meet the statutory deadline. The current price index was determined by comparing the change in the GDP using the four quarter fiscal year comparison ending September 30. This method has been used consistently since 1995 to determine the price index.²

In Order No. PSC-15-0566-PAA-WS, issued December 15, 2015, in Docket No. 150005-WS, the Commission, in keeping with the practice started in 1993, reiterated the alternatives which could be used to calculate the indexing of utility revenues. Past concerns expressed by utilities, as summarized from utility input in previous hearings, are:

- 1) Inflation should be a major factor in determining the index;
- 2) Nationally published indices should be vital to this determination;
- 3) Major categories of expenses are labor, chemicals, sludge-hauling, materials and supplies, maintenance, transportation, and treatment expense;
- 4) An area wage survey, Dodge Building Cost Index, Consumer Price Index, and the GDP should be considered;

¹ Order No. PSC-93-0195-FOF-WS, issued February 9, 1993, in Docket No. 930005-WS, *In re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.*

² Order No. PSC-95-0202-FOF-WS, issued February 10, 1995, in Docket No. 950005-WS, *In re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.*

- 5) A broad measure index should be used; and
- 6) The index procedure should be easy to administer.

Based upon these concerns, the Commission has previously explored the following alternatives:

- 1) Survey of Regulated Water and Wastewater Utilities;
- 2) Consumer Price Index;
- 3) Florida Price Level Index;
- 4) Producer Price Index - previously the Wholesale Price Index; and
- 5) GDP (replacing the GNP).

Over the past years, the Commission found that the Survey of Regulated Water and Wastewater Utilities should be rejected because using the results of a survey would allow utilities to pass on to customers all cost increases, thereby reducing the incentives of promoting efficiency and productivity. The Commission has also found that the Consumer Price Index and the Florida Price Level Index should be rejected because of their limited degree of applicability to the water and wastewater industry. Both of these price indices are based upon comparing the advance in prices of a limited number of general goods and, therefore, appear to have limited application to water and wastewater utilities.

The Commission further found that the Producer Price Index (PPI) is a family of indices that measures the average change over time in selling prices received by domestic producers of goods and services. PPI measures price change from the perspective of the seller, not the purchaser, and therefore should be rejected. Because the bases for these indices have not changed, staff believes that the conclusions reached in Order No. PSC-15-0566-PAA-WS should continue to apply in this case. Since 1993, the Commission has found that the GDP has a greater degree of applicability to the water and wastewater industry. Therefore, staff recommends that the Commission continue to use the GDP to calculate water and wastewater price level adjustments.

The following information provides a historical perspective of the annual price index:

**Table 1-1
 Historical Analysis of the Annual Price Index for Water and Wastewater Utilities**

Year	Commission Approved Index	Year	Commission Approved Index
2005	2.17%	2011	1.18%
2006	2.74%	2012	2.41%
2007	3.09%	2013	1.63%
2008	2.39%	2014	1.41%
2009	2.55%	2015	1.57%
2010	0.56%	2016	1.29%

The table below shows the historical participation in the Index and/or Pass-Through programs:

**Table 1-2
 Percentage of Jurisdictional Water and Wastewater Utilities Filing for Indexes and
 Pass-Throughs**

Year	Percentage	Year	Percentage
2005	33%	2011	43%
2006	32%	2012	30%
2007	47%	2013	41%
2008	42%	2014	39%
2009	53%	2015	49%
2010	29%	2016	38%

Issue 2: What rate should be used by water and wastewater utilities for the 2017 Price Index?

Recommendation: The 2017 Price Index for water and wastewater utilities should be 1.51 percent. (Sewards)

Staff Analysis: The U.S. Department of Commerce, Bureau of Economic Analysis, released the most recent third quarter 2015 figures on October 28, 2016. Consistent with the Commission's establishment of the 2016 Price Index last year, staff is using the October 2016 release to recommend the 2017 Price Index. The reason for this is to allow time for a hearing if there is a protest, in order for the Commission to establish the 2017 Price Index by March 31, 2017, in accordance with Section 367.081(4)(a), F.S. The percentage change in the GDP using the fiscal year comparison ending with the third quarter is 1.51 percent. This number was calculated as follows.

GDP Index for the fiscal year ended 9/30/16	111.670
GDP Index for the fiscal year ended 9/30/15	<u>110.007</u>
Difference	1.66
Divided by 9/30/15 GDP Index	<u>110.007</u>
2017 Price Index	<u>1.51%</u>

Issue 3: How should the utilities be informed of the indexing requirements?

Recommendation: Pursuant to Rule 25-30.420(1), F.A.C., the Office of Commission Clerk, after the expiration of the Proposed Agency Action (PAA) protest period, should mail each regulated water and wastewater utility a copy of the PAA order establishing the index containing the information presented in Form PSC/ECR 15 (4/99) and Appendix A (Attachment 1). A cover letter from the Director of the Division of Accounting and Finance should be included with the mailing of the order (Attachment 2). The entire package will also be made available on the Commission's website. (Sewards)

Staff Analysis: Staff designed a package (Form PSC/ECR 15 (4/99) and Appendix A), attached hereto as Attachment 1, that details the requirements of the Commission's Index and Pass-Through programs. This package has significantly reduced the number of questions regarding what the index and pass-through rate adjustments are, how to apply for an adjustment, and what needs to be filed to meet the filing requirements.

Staff recommends that the package presented in Form PSC/ECR 15 (4/99) and Appendix A (Attachment 1) be mailed to every regulated water and wastewater utility after the expiration of the PAA protest period, along with a copy of the PAA order that has become final. The entire package will also be made available on the Commission's website.

In an effort to increase the number of water and wastewater utilities taking advantage of the annual price index and pass-through programs, staff is recommending that the attached cover letter (Attachment 2) from the Director of the Division of Accounting and Finance be included with the mailing of the PAA Order in order to explain the purpose of the index and pass-through applications and to communicate that Commission staff is available to assist them.

Issue 4: Should this docket be closed?

Recommendation: No. Upon expiration of the 14-day protest period, if a timely protest is not received, the decision should become final and effective upon the issuance of a Consummating Order. Any party filing a protest should be required to prefile testimony with the protest. However, this docket should remain open through the end of the year and be closed upon the establishment of the new docket on January 3, 2017. (Taylor, Sowards)

Staff Analysis: Uniform Rule 25-22.029(1), F.A.C., contains an exception to the procedural requirements set forth in Uniform Rule 28-106.111, F.A.C., providing that “[t]he time for requesting a Section 120.569 or 120.57 hearing shall be 14 days from issuance of the notice for PAA orders establishing a price index pursuant to Section 367.081(4)(a), F.S.” Therefore, staff recommends that the Commission require any protest to the PAA Order in this docket be filed within 14 days of the issuance of the PAA Order, and that any party filing the protest should be required to prefile testimony with the protest. Upon expiration of the protest period, if a timely protest is not received, the decision should become final and effective upon the issuance of a Consummating Order. However, this docket should remain open through the end of the year and be closed upon the establishment of the new docket on January 3, 2017.

FLORIDA PUBLIC SERVICE COMMISSION
 2017 PRICE INDEX APPLICATION
 TEST YEAR ENDED DECEMBER 31, 2016

DEP PWS ID NO. _____ DEP WWTP ID NO. _____	WATER	WASTEWATER
*2016 Operation and Maintenance Expenses	\$	\$
LESS:		
(a) Pass-through Items:		
(1) Purchased Power		
(2) Purchased Water		
** (3) Purchased Wastewater Treatment		
*** (4) New DEP Required Water Testing		
*** (5) New DEP Required Wastewater Testing		
(6) NPDES Fees		
(b) Rate Case Expense Included in 2016 Expenses		
(c) Adjustments to O & M Expenses from last rate case, if applicable:		
(1)	_____	_____
(2)		
Costs to be Indexed	\$	\$
Multiply by change in GDP Implicit Price Deflator Index	_____ .0151	_____ .0151
Indexed Costs	\$	\$
**** Add Change in Pass-Through Items:		
(1)		
(2)		
Divide Index and Pass-Through Sum by Expansion Factor for Regulatory Assessment Fees	_____ .955	_____ .955
Increase in Revenue	\$	\$
***** Divide by 2016 Revenue	_____	_____
Percentage Increase in Rates	% =====	% =====

EXPLANATORY NOTES APPEAR ON THE FOLLOWING PAGE
 PSC/ECR 15 (04/99)

PAGE 1 NOTES

- * This amount must match 2016 annual report.
- ** This may include government-mandated disposal fees.
- *** Daily, weekly, or monthly testing required by the Department of Environmental Protection (DEP) not currently included in the utility's rates. Or additional tests required by the DEP during the 12-month period prior to filing by the utility and/or changes to the frequency of existing test(s) required by the DEP during the 12-month period prior to filing by the utility.
- **** This may include an increase in purchased power, purchased water, purchased wastewater treatment, required DEP testing, and ad valorem taxes, providing that those increases have been incurred within the 12-month period prior to the submission of the pass-through application. Pass-through NPDES fees and increases in regulatory assessment fees are eligible as pass-through costs but not subject to the twelve month rule. DEP water and wastewater testing pass-throughs require invoices. See Rule 25-30.425, F.A.C. for more information.
- ***** If rates changed after January 1, 2016, the book revenues must be adjusted to show the changes and an explanation of the calculation should be attached to this form. See Annualized Revenue Worksheet for instructions and a sample format

ANNUALIZED REVENUE WORKSHEET

Have the rates charged for customer services changed since January 1, 2016?

- () If no, the utility should use actual revenues. This form may be disregarded.
- () If yes, the utility must annualize its revenues. Read the remainder of this form.

Annualizing calculates the revenues the utility would have earned based upon 2016 customer consumption at the most current rates in effect. To complete this calculation, the utility will need consumption data for 2016 to apply to the existing rate schedule. Below is a sample format which may be used.

CALCULATION OF ANNUALIZED REVENUES*
 Consumption Data for 2016

	Number of Bill/Gal. Sold	X	Current Rates	Annualized Revenues
Residential Service:				
Bills:				
5/8"x3/4" meters
1" meters
1 1/2" meters
2" meters
Gallons Sold
General Service:				
Bills:				
5/8"x3/4" meters
1" meters
1 1/2" meters
2" meters
3" meters
4" meters
6" meters
Gallons Sold
Total Annualized Revenues for 2016				\$

* Annualized revenues must be calculated separately if the utility consists of both a water system and a wastewater system. This form is designed specifically for utilities using a base facility charge rate structure. If annualized revenues must be calculated and further assistance is needed, contact the Commission Staff at (850) 413-6900

Appendix A

PRICE INDEX ADJUSTMENTS IN RATES

Section 367.081(4)(a), (c), (d), (e), and (f) Florida Statutes
Rule 25-30.420, Florida Administrative Code
Sample Affirmation Affidavit
Notice to Customers

Sections 367.081(4)(a), (c), (d), (e), and (f), Florida Statutes

(4)(a) On or before March 31 of each year, the commission by order shall establish a price increase or decrease index for major categories of operating costs incurred by utilities subject to its jurisdiction reflecting the percentage of increase or decrease in such costs from the most recent 12-month historical data available. The commission by rule shall establish the procedure to be used in determining such indices and a procedure by which a utility, without further action by the commission, or the commission on its own motion, may implement an increase or decrease in its rates based upon the application of the indices to the amount of the major categories of operating costs incurred by the utility during the immediately preceding calendar year, except to the extent of any disallowances or adjustments for those expenses of that utility in its most recent rate proceeding before the commission. The rules shall provide that, upon a finding of good cause, including inadequate service, the commission may order a utility to refrain from implementing a rate increase hereunder unless implemented under a bond or corporate undertaking in the same manner as interim rates may be implemented under s. 367.082. A utility may not use this procedure between the official filing date of the rate proceeding and 1 year thereafter, unless the case is completed or terminated at an earlier date. A utility may not use this procedure to increase any operating cost for which an adjustment has been or could be made under paragraph (b), or to increase its rates by application of a price index other than the most recent price index authorized by the commission at the time of filing.

(c) Before implementing a change in rates under this subsection, the utility shall file an affirmation under oath as to the accuracy of the figures and calculations upon which the change in rates is based, stating that the change will not cause the utility to exceed the range of its last authorized rate of return on equity. Whoever makes a false statement in the affirmation required hereunder, which statement he or she does not believe to be true in regard to any material matter, is guilty of a felony of the third degree, punishable as provided in s. 775.082, s. 775.083, or s. 775.084.

(d) If, within 15 months after the filing of a utility's annual report required by s. 367.121, the commission finds that the utility exceeded the range of its last authorized rate of return on equity after an adjustment in rates as authorized by this subsection was implemented within the year for which the report was filed or was implemented in the preceding year, the commission may order the utility to refund, with interest, the difference to the ratepayers and adjust rates accordingly. This provision shall not be construed to require a bond or corporate undertaking not otherwise required.

(e) Notwithstanding anything herein to the contrary, a utility may not adjust its rates under this subsection more than two times in any 12-month period. For the purpose of this paragraph, a combined application or simultaneously filed applications that were filed under the provisions of paragraphs (a) and (b) shall be considered one rate adjustment.

(f) The commission may regularly, not less often than once each year, establish by order a leverage formula or formulae that reasonably reflect the range of returns on common equity for an average water or wastewater utility and which, for purposes of this section, shall be used to calculate the last authorized rate of return on equity for any utility which otherwise would have no established rate of return on equity. In any other proceeding in which an authorized rate of return on equity is to be established, a utility, in lieu of presenting evidence on its rate of return on common equity, may move the commission to adopt the range of rates of return on common equity that has been established under this paragraph.

25-30.420 Establishment of Price Index, Adjustment of Rates; Requirement of Bond; Filings After Adjustment; Notice to Customers.

(1) The Commission shall, on or before March 31 of each year, establish a price increase or decrease index as required by section 367.081(4)(a), F.S. The Division of the Commission Clerk and Administrative Services shall mail each regulated water and wastewater utility a copy of the proposed agency action order establishing the index for the year and a copy of the application. Form PSC/ECR 15 (04/99), entitled "Index Application", is incorporated into this rule by reference and may be obtained from the Commission's Division of Economic Regulation. Applications for the newly established price index will be accepted from April 1 of the year the index is established through March 31 of the following year.

(a) The index shall be applied to all operation and maintenance expenses, except for amortization of rate case expense, costs subject to pass-through adjustments pursuant to section 367.081(4)(b), F.S., and adjustments or disallowances made in a utility's most recent rate proceeding.

(b) In establishing the price index, the Commission will consider cost statistics compiled by government agencies or bodies, cost data supplied by utility companies or other interested parties, and applicable wage and price guidelines.

(2) Any utility seeking to increase or decrease its rates based upon the application of the index established pursuant to subsection (1) and as authorized by section 367.081(4)(a), F.S., shall file an original and five copies of a notice of intention and the materials listed in (a) through (i) below with the Commission's Division of Economic Regulation at least 60 days prior to the effective date of the increase or decrease. The adjustment in rates shall take effect on the date specified in the notice of intention unless the Commission finds that the notice of intention or accompanying materials do not comply with the law, or the rules or orders of the Commission. The notice shall be accompanied by:

(a) Revised tariff sheets;

(b) A computation schedule showing the increase or decrease in annual revenue that will result when the index is applied;

(c) The affirmation required by section 367.081(4)(c), F.S.;

(d) A copy of the notice to customers required by subsection (6);

(e) The rate of return on equity that the utility is affirming it will not exceed pursuant to section 367.081(4)(c), F.S.;

(f) An annualized revenue figure for the test year used in the index calculation reflecting the rate change, along with an explanation of the calculation, if there has been any change in the utility's rates during or subsequent to the test year;

(g) The utility's Department of Environmental Protection Public Water System identification number and Wastewater Treatment Plant Operating Permit number.

(h) A statement that the utility does not have any active written complaints, corrective orders, consent orders, or outstanding citations with the Department of Environmental Protection (DEP) or the County Health Department(s) or that the utility does have active written complaints, corrective orders, consent orders, or outstanding citations with the DEP or the County Health Department(s).

(i) A copy of any active written complaints, corrective orders, consent orders, or outstanding citations with the Department of Environmental Protection (DEP) or the County Health Department(s).

(3) If the Commission, upon its own motion, implements an increase or decrease in the rates of a utility based upon the application of the index established pursuant to subsection (1) and as authorized by section 367.081(4)(a), F.S., the Commission will require a utility to file the information required in subsection (2).

- (4) Upon a finding of good cause, the Commission may require that a rate increase pursuant to section 367.081(4)(a), F.S., be implemented under a bond or corporate undertaking in the same manner as interim rates. For purposes of this subsection, "good cause" shall include:
- (a) Inadequate service by the utility;
 - (b) Inadequate record-keeping by the utility such that the Commission is unable to determine whether the utility is entitled to implement the rate increase or decrease under this rule.
- (5) Prior to the time a customer begins consumption at the rates established by application of the index, the utility shall notify each customer of the increase or decrease authorized and explain the reasons therefore.
- (6) No utility shall file a notice of intention pursuant to this rule unless the utility has on file with the Commission an annual report as required by Rule 25-30.110(3), F.A.C., for the test year specified in the order establishing the index for the year.
- (7) No utility shall implement a rate increase pursuant to this rule within one year of the official date that it filed a rate proceeding, unless the rate proceeding has been completed or terminated.

Specific Authority: 350.127(2), 367.081(4)(a), 367.121(1)(c), 367.121(1)(f), F.S. Law Implemented: 367.081(4), 367.121(1)(c), 367.121(1)(g), F.S. History: New 04/05/81, Amended 09/16/82, Formerly 25-10.185, Amended 11/10/86, 06/05/91, 04/18/99, 12/12/03.

AFFIRMATION

I, _____, hereby affirm that the figures and calculations upon which the change in rates is based are accurate and that the change will not cause _____ to exceed the range of its last
(Utility Name)
authorized rate of return on equity, which is _____.

I, the undersigned/officer of the above-named utility, have read the foregoing and declare that, to the best of my knowledge and belief, the information contained in this application is true and correct.

This affirmation is made pursuant to my request for a 2017 price index and/or pass-through rate increase, in conformance with Section 367.081(4)(c), Florida Statutes.

Further, I am aware that pursuant to Section 837.06, Florida Statutes, whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree.

Signature: _____
Title: _____
Telephone Number: _____
Fax Number: _____

Sworn to and subscribed before me this _____ day of _____, 20__.

My Commission expires:

(SEAL)

Notary Public
State of Florida

STATEMENT OF QUALITY OF SERVICE

Pursuant to Rule 25-30.420(2)(h) and (i), Florida Administrative Code,

(Utility Name)

[] does not have any active written complaints, corrective orders, consent orders, or outstanding citations with the Department of Environmental Protection (DEP) or the County Health Departments.

[] does have the attached active written complaint(s), corrective order(s), consent order(s), or outstanding citation(s) with the DEP or the County Health Department(s). The attachment(s) includes the specific system(s) involved with DEP permit number and the nature of the active complaint, corrective order, consent order, or outstanding citation.

This statement is intended such that the Florida Public Service Commission can make a determination of quality of service pursuant to Section 367.081(4)(a), Florida Statutes, and Rule 25-30.420(4)(a), Florida Administrative Code.

Name: _____
Title: _____
Telephone Number: _____
Fax Number: _____
Date: _____

NOTICE TO CUSTOMERS

Pursuant to Section 367.081(4)(a), Florida Statutes, water and wastewater utilities are permitted to adjust the rates and charges to its customers without those customers bearing the additional expense of a public hearing. These adjustments in rates would depend on increases or decreases in noncontrollable expenses subject to inflationary pressures such as chemicals, and other general operation and maintenance costs.

On _____, _____
(date) (name of company)

filed its notice of intention with the Florida Public Service Commission to increase water and wastewater rates in _____ County pursuant to this Statute. The filing is subject to review by the Commission Staff for accuracy and completeness. Water rates will increase by approximately _____% and wastewater rates by _____%. These rates should be reflected for service rendered on or after _____.(date)

PASS-THROUGH RATE ADJUSTMENTS IN RATES

Section 367.081(4)(b), Florida Statutes
Rule 25-30.425, Florida Administrative Code
Waiver Form
Sample Affirmation Affidavit
Notice to Customers

Section 367.081(4)(b), Florida Statutes

(b) The approved rates of any utility shall be automatically increased or decreased without hearing, upon verified notice to the commission 45 days prior to its implementation of the increase or decrease that the utility's costs for any specified expense item have changed.

1. The new rates authorized shall reflect, on an amortized or annual basis, as appropriate, the cost of or the amount of change in the cost of the specified expense item. The new rates, however, shall not reflect the costs of any specified expense item already included in a utility's rates. Specified expense items that are eligible for automatic increase or decrease of a utility's rates include, but are not limited to:

- a. The rates charged by a governmental authority or other water or wastewater utility regulated by the commission which provides utility service to the utility.
- b. The rates or fees that the utility is charged for electric power.
- c. The amount of ad valorem taxes assessed against the utility's used and useful property.
- d. The fees charged by the Department of Environmental Protection in connection with the National Pollutant Discharge Elimination System Program.
- e. The regulatory assessment fees imposed upon the utility by the commission.
- f. Costs incurred for water quality or wastewater quality testing required by the Department of Environmental Protection.
- g. The fees charged for wastewater biosolids disposal.
- h. Costs incurred for any tank inspection required by the Department of Environmental Protection or a local governmental authority.
- i. Treatment plant operator and water distribution system operator license fees required by the Department of Environmental Protection or a local governmental authority.
- j. Water or wastewater operating permit fees charged by the Department of Environmental Protection or a local governmental authority.
- k. Consumptive or water use permit fees charged by a water management district.

2. A utility may not use this procedure to increase its rates as a result of an increase in a specific expense item which occurred more than 12 months before the filing by the utility.

3. The commission may establish by rule additional specific expense items that are outside the control of the utility and have been imposed upon the utility by a federal, state, or local law, rule, order, or notice. If the commission establishes such a rule, the commission shall review the rule at least once every 5 years and determine if each expense item should continue to be cause for an automatic increase or decrease and whether additional items should be included.

4. This subsection does not prevent a utility from seeking a change in rates pursuant to subsection (2).

25-30.425 Pass Through Rate Adjustment.

The verified notice to the Commission of an adjustment of rates under the provisions of Section 367.081(4)(b), F.S., shall be made in the following manner:

(1) Prior to an adjustment in rates because of an increase or decrease in purchased utility service, the utility shall file:

(a) A certified copy of the order, ordinance or other evidence whereby the rates for utility service are increased or decreased by the governmental agency or by a water or wastewater utility regulated by the Commission, along with evidence of the utility service rates of that governmental agency or water or wastewater utility in effect on January 1 of each of the three preceding years.

(b) A statement setting out by month the charges for utility services purchased from the governmental agency or regulated utility for the most recent 12-month period.

(c) 1. A statement setting out by month the gallons of water or wastewater treatment purchased from the governmental agency or regulated utility for the most recent 12-month period. If wastewater treatment service is not based on a metered flow, the number of units by which the service is measured shall be stated.

2. A statement setting out by month gallons of water and units of wastewater service sold by the utility for the most recent 12-month period.

(d) A statement setting out by month the gallons of water or wastewater treatment purchased from any other government entity or utility company.

(e) A statement setting out by month the gallons of water pumped or wastewater treated by the utility filing the verified notice.

(f) If the total water available for sale is in excess of 110% of the water sold, a statement explaining the unaccounted for water.

(2) Prior to an adjustment in rates because of an increase or decrease in the charge for electric power the utility shall file with the Commission:

(a) A certified copy of the order, ordinance or other evidence which establishes that the rates for electric power have been increased or decreased by the supplier, along with evidence of the electric power rates of the supplier in effect on January 1 of each of the three preceding years.

(b) A schedule showing, by month, the charges for electric power and consumption for the most recent 12 month period, the charges that would have resulted had the new electric rates been applied, and the difference between the charges under the old rates and the charges under the new rates.

(c) A statement outlining the measures taken by the utility to conserve electricity.

(3) Prior to an adjustment in rates because of an increase or decrease in ad valorem taxes the utility shall file with the Commission:

(a) A copy of the ad valorem tax bills which increased or decreased and copies of the previous three years' bills; if copies have been submitted previously, a schedule showing the tax total only is acceptable; and

(b) A calculation of the amount of the ad valorem taxes related to that portion of the water or wastewater plant not used and useful in providing utility service.

(4) Prior to an adjustment in rates because of an increase or decrease in the costs of water quality or wastewater quality testing required by the Department of Environmental Protection (DEP), or because of an increase or decrease in the fees charged by DEP in connection with the National Pollutant Discharge Elimination System Program, the utility shall file with the Commission:

(a) A copy of the invoice for testing;

(b) Calculation of the amortized amount.

(5) In addition to subsections (1), (2), (3) and (4) above, the utility shall also file:

(a) A schedule of proposed rates which will pass the increased or decreased costs on to the customers in a fair and nondiscriminatory manner and on the basis of current customers, and a calculation showing

how the rates were determined;

(b) A statement, by class of customer and meter size, setting out by month the gallons of water and units of wastewater service sold by the utility for the most recent 12 month period. This statement shall not be required in filings for the pass-through of increased regulatory assessment fees or ad valorem taxes;

(c) The affirmation reflecting the authorized rate of return on equity required by Section 367.081(4)(c), F.S.;

(d) A copy of the notice to customers required by subsection (7) of this rule;

(e) Revised tariff sheets reflecting the increased rates;

(f) The rate of return on equity that the utility is affirming it will not exceed pursuant to Section 367.081(4)(c), F.S.; and

(g) The utility's DEP Public Water System identification number and Wastewater Treatment Plant Operating Permit number;

(6) The amount authorized for pass through rate adjustments shall not exceed the actual cost incurred and shall not exceed the incremental increase or decrease for the 12-month period. Foregone pass through decreases shall not be used to adjust a pass through increase below the actual cost incurred.

(7) In order for the Commission to determine whether a utility which had adjusted its rates pursuant to Section 367.081(4)(b), F.S., has thereby exceeded the range of its last authorized rate of return, the Commission may require a utility to file the information required in Rule 25-30.437, F.A.C., for the test year specified.

(8) Prior to the time a customer begins consumption at the adjusted rates, the utility shall notify each customer of the increase authorized and explain the reasons for the increase.

(9) The utility shall file an original and five copies of the verified notice and supporting documents with the Commission Clerk. The rates shall become effective 45 days after the official date of filing. The official date of filing for the verified notice to the Commission of adjustment in rates shall be at least 45 days before the new rates are implemented.

Rulemaking Authority 350.127(2), 367.121(1)(c), (f) FS. Law Implemented 367.081(4), 367.121(1)(c), (g) FS. History—New 6-10-75, Amended 4-5-79, 4-5-81, 10-21-82, Formerly 25-10.179, Amended 11-10-86, 6-5-91, 4-18-99

Exception

_____ hereby waives the right to implement a pass-through rate increase within 45 days of filing, as provided by Section 367.081(4)(b), Florida Statutes, in order that the pass-through and index rate increase may both be implemented together 60 days after the official filing date of this notice of intention.

Signature: _____

Title: _____

(To be used if an index and pass-through rate increase are requested jointly.)

AFFIRMATION

I, _____, hereby affirm that the figures and calculations upon which the change in rates is based are accurate and that the change will not cause _____ to exceed the range of its last
(Utility Name)
authorized rate of return on equity, which is _____.

I, the undersigned/officer of the above-named utility, have read the foregoing and declare that, to the best of my knowledge and belief, the information contained in this application is true and correct.

This affirmation is made pursuant to my request for a 2017 price index and/or pass-through rate increase, in conformance with Section 367.081(4)(c), Florida Statutes.

Further, I am aware that pursuant to Section 837.06, Florida Statutes, whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree.

Signature: _____
Title: _____
Telephone Number: _____
Fax Number: _____

Sworn to and subscribed before me this _____ day of _____, 20__.

My Commission expires:

(SEAL)

Notary Public
State of Florida

NOTICE TO CUSTOMERS

Pursuant to Section 367.081(4)(b), Florida Statutes, water and wastewater utilities are permitted to pass through, without a public hearing, a change in rates resulting from: an increase or decrease in rates charged for utility services received from a governmental agency or another regulated utility and which services were redistributed by the utility to its customers; an increase or decrease in the rates that it is charged for electric power, the amount of ad valorem taxes assessed against its used and useful property, the fees charged by the Department of Environmental Protection in connection with the National Pollutant Discharge Elimination System Program, or the regulatory assessment fees imposed upon it by the Commission; costs incurred for water quality or wastewater quality testing required by the Department of Environmental Protection; the fees charged for wastewater biosolids disposal; costs incurred for any tank inspection required by the Department of Environmental Protection or a local governmental authority; treatment plant and water distribution system operator license fees required by the Department of Environmental Protection or a local governmental authority; water or wastewater operating permit fees charged by the Department of Environmental Protection or a local governmental authority; and consumptive or water use permit fees charged by a water management district.

On _____, _____
(date) (name of company)

filed its notice of intention with the Florida Public Service Commission to increase water and wastewater rates in _____ County pursuant to this Statute. The filing is subject to review by the Commission Staff for accuracy and completeness. Water rates will increase by approximately _____% and wastewater rates by _____%. These rates should be reflected on your bill for service rendered on or after _____.(date)

If you should have any questions, please contact your local utility office. Be sure to have your account number handy for quick reference.

COMMISSIONERS:
JULIE I. BROWN, CHAIRMAN
LISA POLAK EDGAR
ART GRAHAM
RONALD A. BRISÉ
JIMMY PATRONIS

STATE OF FLORIDA



DIVISION OF
ACCOUNTING AND FINANCE
ANDREW L. MAUREY
DIRECTOR
(850) 413-6900

Public Service Commission

Month Day, 2017

All Florida Public Service Commission
Regulated Water & Wastewater Utilities

Re: Docket No. 160005-WS - 2017 Price Index

Dear Utility Owner:

Since March 31, 1981, pursuant to the guidelines established by Section 367.081(4)(a), Florida Statutes (F.S.), and Rule 25-30.420, Florida Administrative Code (F.A.C.), the Commission has established a price index increase or decrease for major categories of operating costs. The intent of this rule is to insure that inflationary pressures are not detrimental to utility owners, and that any possible deflationary pressures are not adverse to rate payers. By keeping up with index and pass-through adjustments, utility operations can be maintained at a level sufficient to insure quality of service for the rate payers.

Pursuant to Rule 25-30.420(1)(a), F.A.C., all operation and maintenance expenses shall be indexed with the exception of:

- a) Pass-through items pursuant to Section 367.081(4)(b), F.S.;
- b) Any amortization of rate case expense; and
- c) Disallowances or adjustments made in an applicant's most recent rate proceeding.

Upon the filing of a request for an index and/or pass-through increase, staff will review the application and modify existing rates accordingly. If for no other reason than to keep up with escalating costs, utilities throughout Florida should file for this rate relief on an annual basis. Utilities may apply for a 2017 Price Index anytime between April 1, 2017, through March 31, 2018. The attached package will answer questions regarding what the index and pass-through rate adjustments are, how to apply for an adjustment, and what needs to be filed in order to meet the filing requirements. While this increase for any given year may be minor, (see chart below), the long-run effect of keeping current with rising costs can be substantial.

All Florida Public Service Commission
Regulated Water & Wastewater Utilities
Page 2
Month Day, 2017

Year	Annual Commission Approved Index	Year	Annual Commission Approved Index
1992	3.63%	2005	2.17%
1993	3.33%	2006	2.74%
1994	2.56%	2007	3.09%
1995	1.95%	2008	2.39%
1996	2.49%	2009	2.55%
1997	2.13%	2010	0.56%
1998	2.10%	2011	1.18%
1999	1.21%	2012	2.41%
2000	1.36%	2013	1.63%
2001	2.50%	2014	1.41%
2002	2.33%	2015	1.57%
2003	1.31%	2016	1.29%
2004	1.60%	2017	1.51%

Please be aware that pursuant to Section 837.06, F.S., whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his or her official duty shall be guilty of a misdemeanor of the second degree.

Our staff is available at (850) 413-6900 should you need assistance with your filing. If you have any questions, please do not hesitate to call.

Sincerely,

Andrew L. Maurey
Director

Enclosures

Item 6

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: November 22, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Buys, Graves) *PDB*
Office of the General Counsel (Leathers) *MLC* *TJS*

RE: Docket No. 160105-EI – Petition for approval of 2016-2018 storm hardening plan, pursuant to Rule 25-6.0342, F.A.C., by Tampa Electric Company.

Docket No. 160106-EI – Petition for approval of 2016-2018 storm hardening plan, pursuant to Rule 25-6.0342, F.A.C., by Florida Public Utilities Company.

Docket No. 160107-EI – Petition for approval of 2016-2018 storm hardening plan, pursuant to Rule 25-6.0342, F.A.C., by Duke Energy Florida, LLC.

Docket No. 160108-EI – Petition for approval of 2016-2018 storm hardening plan, pursuant to Rule 25-6.0342, F.A.C., by Gulf Power Company.

AGENDA: 12/06/16 – Regular Agenda – Proposed Agency Action - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

The hurricanes of 2004 and 2005 that made landfall in Florida resulted in extensive storm restoration costs and lengthy electric service interruptions for millions of electric investor-owned

utility (IOU) customers. On January 23, 2006, the Florida Public Service Commission (Commission) staff conducted a workshop to discuss the damage to electric utility facilities resulting from these hurricanes and to explore ways of minimizing future storm damages and customer outages. State and local government officials, independent technical experts, and Florida's electric utilities participated in the workshop.

On February 27, 2006, the Commission issued Order No. PSC-06-0144-PAA-EI, in Docket No. 060078-EI, requiring that the IOUs begin implementing an eight-year inspection cycle of their respective wooden poles.¹ In that Order, the Commission noted:

The severe hurricane seasons of 2004 and 2005 have underscored the importance of system maintenance activities of Florida's electric IOUs. These efforts to maintain system components can reduce the impact of hurricanes and tropical storms upon utilities' transmission and distribution systems. An obvious key component in electric infrastructure is the transmission and distribution poles. If a pole fails, there is a high chance that the equipment on the pole will be damaged, and failure of one pole often causes other poles to fail. Thus, wooden poles must be maintained or replaced over time because they are prone to deterioration. Deteriorated poles have lost some or most of their original strength and are more prone to fail under certain environmental conditions such as high winds or ice loadings. The only way to know for sure which poles...must be replaced is through periodic inspections. (p. 2)

On April 25, 2006, the Commission issued Order No. PSC-06-0351-PAA-EI, in Docket No. 060198-EI, requiring all IOUs to file plans and estimated implementation costs for ten ongoing storm preparedness initiatives (Ten Initiatives) on or before June 1, 2006.² The Ten Initiatives are:

1. A Three-Year Vegetation Management Cycle for Distribution Circuits
2. An Audit of Joint-Use Attachment Agreements
3. A Six-Year Transmission Structure Inspection Program
4. Hardening of Existing Transmission Structures
5. A Transmission and Distribution Geographic Information System
6. Post-Storm Data Collection and Forensic Analysis
7. Collection of Detailed Outage Data Differentiating Between the Reliability Performance of Overhead and Underground Systems
8. Increased Utility Coordination with Local Governments
9. Collaborative Research on Effects of Hurricane Winds and Storm Surge
10. A Natural Disaster Preparedness and Recovery Program

¹Docket No. 060078-EI, *In re: Proposal to require investor-owned electric utilities to implement ten-year wood pole inspection program.*

²Docket No. 060198-EI, *In re: Requirement for investor-owned electric utilities to file ongoing storm preparedness plans and implementation cost estimates.*

These Ten Initiatives were not intended to encompass all reasonable ongoing storm preparedness activities. Rather, the Commission viewed these initiatives as a starting point of an ongoing process.³ By Order Nos. PSC-06-0781-PAA-EI (addressing Tampa Electric Company, and Florida Public Utilities Company), PSC-06-0947-PAA-EI (addressing Progress Energy Florida, Inc., and Gulf Power Company), and PSC-07-0468-FOF-EI (addressing Florida Power & Light Company), the Commission addressed the adequacy of the IOU's plans for implementing the Ten Initiatives.

The Commission also pursued rulemaking to address the adoption of distribution construction standards more stringent than the minimum safety requirements of the National Electric Safety Code (NESC) and the identification of areas and circumstances where distribution facilities should be required to be constructed underground.⁴ Rule 25-6.0342, Florida Administrative Code (F.A.C.), was ultimately adopted.⁵

Rule 25-6.0342, F.A.C., requires each IOU to file an Electric Infrastructure Storm Hardening Plan for review and approval by the Commission which includes a description of construction standards, policies, practices, and procedures to enhance the reliability of overhead and underground electrical transmission and distribution facilities. The Rule calls for, at a minimum, each IOU's plan to address the following items.

- a. Compliance with the NESC
- b. Extreme Wind Loading (EWL) standards for:
 - i. New construction
 - ii. Major planned work, including expansion, rebuild, or relocation of existing facilities
 - iii. Critical infrastructure facilities and along major thoroughfares
- c. Mitigation of damage due to flooding and storm surges
- d. Placement of facilities to facilitate safe and efficient access for installation and maintenance
- e. A deployment strategy that includes:
 - i. The facilities affected
 - ii. Technical design specifications, construction standards, and construction methodologies

³Order No. PSC-06-09351-PAA-EI, p.2, issued April 25, 2006, in Docket No. 060198-EI, *In re: Requirement for investor-owned electric utilities to file ongoing storm preparedness plans and implementation costs estimates.*

⁴Order No. PSC-06-0556-NOR-EU, issued June 28, 2006, in Docket No. 060172-EU, *In re: Proposed rules governing placement of new electric distribution facilities underground, and conversion of existing overhead distribution facilities to underground facilities, to address effects of extreme weather events; and Docket No. 060173-EU, In re: Proposed amendments to rules regarding overhead electric facilities to allow more stringent construction standards than required by National Electric Safety Code.*

⁵Order No. PSC-07-0043A-FOF-EU, issued January 17, 2007, in Docket No. 060172-EU, *In re: Proposed rules governing placement of new electric distribution facilities underground, and conversion of existing overhead distribution facilities to underground facilities, to address effects of extreme weather events; and Docket No. 060173-EU, In re: Proposed amendments to rules regarding overhead electric facilities to allow more stringent construction standards than required by National Electric Safety Code.*

- iii. The communities and areas where the electric infrastructure improvements are to be made
 - iv. The impact on joint-use facilities on which third party attachments exist
 - v. An estimate of the costs and benefits to the utility of making the electric infrastructure improvements
 - vi. An estimate of the costs and benefits to third party attachers affected by the electric infrastructure improvements
- f. The inclusion of Attachment Standards and Procedures for Third Party Attachers

On May 3, 2013, the five IOU's filed 2013-2015 storm hardening plan updates. The Commission approved the storm hardening plans for Duke Energy Florida, LLC (DEF), Florida Public Utilities Company (FPUC), Florida Power and Light Company (FPL), Tampa Electric Company (TECO), and Gulf Power Company (Gulf), at the November 14, 2013 Commission Conference.⁶ On May 2 and 3, 2016, four IOU's filed 2016-2018 storm hardening plan updates as required. Docket Nos. 160105-EI (TECO), 160106-EI (FPUC), 160107-EI (DEF) and 160108-EI (Gulf) were opened. FPL filed its 2016-2018 storm hardening plan updates on March 15, 2016, and Docket No. 160061-EI was opened. That docket was consolidated with Docket No. 160021-EI, Petition for rate increase by Florida Power & Light Company. Staff did not conduct a workshop for these updated storm hardening plans as data request responses were sufficient in understanding the updated plans.

This recommendation addresses TECO, FPUC, DEF and Gulf's plan updates as required by Rule 25-6.0342, F.A.C. For each utility, staff's recommendation addresses:

- I. Wooden Pole Inspection Program
- II. Ten Initiatives
- III. National Electric Safety Code (NESC) Compliance
- IV. Extreme Wind Loading (EWL) Standards
- V. Mitigation of Flooding and Storm Surge Damage
- VI. Facility Placement
- VII. Deployment Strategies
- VIII. Attachment Standards and Procedures for Third Party Attachers

⁶Order No. PSC-13-0637-PAA-EI, issued December 3, 2013, in Docket No: 130129-EI, *In re: Petition for approval of 2013-2015 storm hardening plan, pursuant to Rule 25-6.0342, F.A.C., by Duke Energy Florida, Inc.*; Order No. PSC-13-0638-PAA-EI, issued December 3, 2013, in Docket No: 130131-EI, *In re: Petition for approval of 2013-2015 storm hardening plan, pursuant to Rule 25-6.0342, F.A.C., by Florida Public Utilities Company*; Order No. PSC-13-0639-PAA-EI, issued December 3, 2013, in Docket No: 130132-EI, *In re: Petition for approval of 2013-2015 storm hardening plan, pursuant to Rule 25-6.0342, F.A.C., by Florida Power and Light Company*; Order No. PSC-13-0640-PAA-EI, issued December 3, 2013, In Docket No: 130138-EI, *In re: Petition for approval of 2013-2015 storm hardening plan, pursuant to Rule 25-6.0342, F.A.C., by Tampa Electric Company*; Order No. PSC-13-0641-PAA-EI, issued December 3, 2013, in Docket No: 130139-EI, *In re: Petition for approval of 2013-2015 storm hardening plan, pursuant to Rule 25-6.0342, F.A.C., by Gulf Power Company*.

Docket Nos. 160105-EI, 160106-EI, 160107-EI, 160108-EI
Date: November 22, 2016

Attachment A describes the storm hardening requirements of the wooden pole inspection program and the Ten Initiatives for each IOU. Attachments B through E contain a comparison of TECO, FPUC, DEF, and Gulf's provisions of the 2013-2015 approved and updated 2016-2018 wooden pole inspection programs and Ten Initiatives, and the cost of implementing the approved and updated programs and initiatives.

The Commission has jurisdiction over this matter pursuant to Sections 366.04 and 366.05, Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Should the Commission approve Tampa Electric Company's 2016-2018 storm hardening plan filed in Docket No. 160105-EI?

Recommendation: Yes. Tampa Electric Company's (TECO) updated plan is largely a continuation of its current Commission-approved plan. A review of TECO's plan shows that it has the information required by Commission's Rule and Orders. Staff notes that approval of TECO's plan does not mean approval for cost recovery. TECO should consider the rate impact before taking proactive steps to improve its system to withstand severe weather events. (P. Buys)

Staff Analysis: On Attachment B, staff provided a summary of TECO's current wooden pole inspection program and Ten Initiatives and the proposed changes. In addition, where available, staff has shown the costs associated with the wooden pole inspection program and Ten Initiatives for 2013-2015 and 2016-2018. Components of TECO's updated plan are summarized below.

Wooden Pole Inspection Program

TECO is continuing its eight-year wooden pole inspection.^{7,8} The program identifies poles that require repair, reinforcement or replacement. Currently, TECO is in its sixth year of its second eight-year cycle. TECO will continue to file the results of these inspections in TECO's Annual Electric Utility Distribution Reliability Report. The estimated cost for 2016-2018 related to the eight-year wooden pole inspection is \$112,300,000 as compared to \$126,100,000 spent for 2013-2015.

Ten Initiatives

Initiative One – Three-Year Vegetation Management Cycle for Distribution Circuits

TECO proposes no changes to its previously approved trim cycle.⁹ Currently, both feeder and lateral circuits are trimmed, on average, every four years. TECO reported that its plan allows for the flexibility to change the prioritization of the feeders and laterals depending on growth, reconfiguration or equipment additions to the distribution system. The estimated cost for 2016-2018 for Initiative One is \$28,900,000 as compared to \$30,500,000 spent for 2013-2015.

Initiative Two – Audits of Joint-Use Attachment Agreements

There are no proposed changes to this initiative. TECO will conduct an audit of all pole attachments on an eight-year cycle at a minimum.¹⁰ TECO conducts a comprehensive loading analysis on the joint-use poles to ensure the poles are not overloaded and meet the NESC or TECO's standards, whichever is more stringent. Once TECO receives an application for permission to attach to its poles, an engineering assessment, which includes a comprehensive

⁷Order No. PSC-06-0144-PAA-EI, issued February 27, 2006, in Docket No. 060078-EI, *In re: Proposal to require investor-owned electric utilities to implement ten-year wood pole inspection program.*

⁸Order No. PSC-07-0078-PAA-EU, issued January 29, 2007, in Docket No. 060531-EU, *In re: Review of all electric utility wooden pole inspection programs.*

⁹Order No. PSC-12-0303-PAA-EI, issued June 12, 2012, in Docket No. 120038-EI, *In re: Petition to modify vegetation management plan by Tampa Electric Company.*

¹⁰Order No. PSC-06-0351-PAA-EI, issued April 25, 2006, in Docket No. 060198-EI, *In re: Requirement for investor-owned electric utilities to file ongoing storm preparedness plans and implementation cost estimates.*

loading analysis, is performed. The estimated cost for 2016-2018 is \$0, as the requesting third party attacher pays for the comprehensive pole loading analyses. The costs for 2013-2015 were \$1,000,000.

Initiative Three- Six-Year Transmission Structure Inspection Program

TECO has a proposed change for this initiative as discussed below. TECO's transmission structure inspection program is a multi-pronged approach with different types of inspections performs on different cycles. Below is a list of the type of inspections:

1. One-year cycle:
 - (i) Ground patrol
 - (ii) Aerial infrared patrol
 - (iii) Substation inspection.
2. Eight-year cycle:
 - (i) Above ground inspection
 - (ii) Ground line inspection

The above ground inspection cycle was shifted from a six-year cycle to an eight-year cycle starting in 2015.¹¹ TECO will continue the one-year cycle inspections of the transmission structures. TECO will also continue to monitor and evaluate the appropriateness of the inspection program to ensure cost-effective storm hardening or reliability opportunities are taken advantage of. The estimated 2016-2018 cost for this initiative is \$3,200,000 as compared to \$4,400,000 spent for 2013-2015.

Initiative Four – Hardening of Existing Transmission Structures

There is no change in the plan for this initiative. TECO will continue to replace existing wood transmission structures with non-wood structures by utilizing the inspection and maintenance programs. All new transmission line construction projects, system rebuilds and line relocations will be engineered with non-wood structures. TECO will continue to replace insulators that have deteriorated with polymer insulators. TECO reports that 32 percent of its transmission structures remain to be hardened. The costs for 2016-2018 are estimated to be \$2,400,000 as compared to \$2,300,000 spent for 2013-2015.

Initiative Five – Transmission and Distribution Geographic Information System (GIS)

TECO is proposing no change for this initiative. TECO implemented its GIS in 2010. The GIS database contains all facility data for transmission, substation, and distribution system. The system will help with post-storm damage assessment, forensic analysis, joint-use administration, and the evaluation of construction standards and potential hardening projects. TECO will continue the development of its GIS to improve the functionality and ease of use. There are no incremental costs associated with this initiative.

¹¹Order No. PSC-14-0684-PAA-EI, issued December 10, 2014, in Docket No. 140122-EI, *In re: Petition to modify transmission structure inspection cycle, by Tampa Electric Company.*

Initiative Six – Post-Storm Data Collection and Forensic Analysis

There is no change to this initiative. TECO hired a third party to collect the following data in the event a major storm causes damage to its service area.

- Pole/Structure:
 - Type of damage
 - Size and type of pole
 - Likely cause of damage
- Conductor:
 - Type of damage
 - Conductor type and size
 - Likely cause of damage
- Equipment:
 - Type of damage
 - Overhead or underground
 - Size
 - Likely cause of damage
- Hardware:
 - Type of damage
 - Size
 - Likely cause of damage

The third party personnel will perform the forensic analysis on the data to evaluate the root cause of failure and assess future preventive measures where possible and practical. TECO reported the incremental cost is estimated to be approximately \$113,000 per storm, and will depend on the severity of the storm and the extent of its system damage.

Initiative Seven – Collection of Detailed Outage Data Differentiating Between the Reliability Performance of Overhead and Underground Systems

TECO is proposing no changes to this initiative. TECO's overhead and underground facilities are tracked through its database called Distribution Outage Database (DOD). The DOD is programmed to distinguish between overhead and underground systems when tracking outage data. TECO has also established a process for collecting post-storm data and performing forensic analysis to ensure the performance of overhead and underground systems are correctly assessed. TECO reported the incremental cost of this initiative is estimated to be \$100,000 per storm.

Initiative Eight – Increased Coordination with Local Governments

There is no change in the plan for this initiative. TECO will continue to participate with local and municipal government agencies within its service area in planning and facilitating joint storm exercises. TECO will also continue to maintain governmental contacts and participate in disaster recovery committees. Participating in the committees will help with collaboration in planning, protection, response, recovery and mitigation efforts during disaster recovery efforts. There is no estimated cost for this initiative.

Initiative Nine – Collaborative Research on Effects of Hurricane Winds and Storm Surge

There is no change to this initiative. TECO will continue to participate in the collaborative research effort with the other Florida's IOUs, municipals, and cooperatives. The collaborative research is facilitated by the Public Utility Research Center (PURC) at the University of Florida and focuses on 1) undergrounding of electric utility infrastructure, 2) hurricane wind effects, and 3) public outreach. TECO has signed an extension of the memorandum of understanding with PURC, which extends the research through December 31, 2018. TECO reported that the incremental cost of this initiative would be determined by the research projects. TECO spent \$21,300,000 in 2013-2015 for this initiative.

Initiative Ten – Natural Disaster Preparedness and Recovery Program

TECO will continue to refine this initiative. TECO's Emergency Management Plan addresses all hazards, including extreme weather events. The plan is reviewed annually. TECO continues to use the policy labeled Emergency Management and Business Continuity, which delineates the responsibility at employee, company, and community levels. TECO will also continue to participate in internal and external preparedness exercises, collaborating with government emergency management agencies, at local, state, and federal levels. TECO has a full time position to work with other utilities and utility trade association committees to bring new technology and best practices to TECO, and guide the implementation and integration into TECO's emergency response plan. TECO will implement a Damage Assessment system software tool, which will automate input, tracking, reporting and dispatching of restoration work by June 2017. TECO estimates that the cost for this initiative will be \$600,000 for 2016-2018 as compared to \$500,000 spent in 2013-2015.

National Electric Safety Code Compliance

TECO's updated plan addresses how the Utility complies with the National Electric Safety Code (NESC) pursuant to Rule 25-6.0345, F.A.C. In most cases, TECO's distribution facilities exceed the minimum requirements of the NESC. TECO's transmission structures also comply with the NESC. More details are provided in the following sections.

Extreme Wind Loading (EWL) Standards

TECO explains that the pole loading requirements of the NESC are divided into three loading districts: Heavy, Medium, and Light. TECO's service area is located in the light loading district, which assumes no ice build up and a wind pressure rating of nine pounds per square foot or 60 miles per hour (mph). Another part of the NESC requires safety loading factors to be applied to the calculated wind forces to provide a conservative margin of safety when selecting appropriate pole size. Applying the safety loading factor to Grade B construction will result in a effective wind speed of approximately 116 mph. TECO's service area is divided into two wind regions, 120 mph and 110 mph. TECO ensures that poles used meet the strength and loading requirements up to 116 mph for facilities 60 feet in height and below and 120 mph for facilities exceeding 60 feet. TECO reported that the safety factors considered in the NESC construction Grade B criteria are approximately 87 percent stronger than the NESC construction Grade C. The NESC requires distribution poles to be designed at least to construction Grade C. Staff notes that while Rule 25-6.0342, F.A.C., requires that a utility's plan address the extent to which EWL

standards are adopted for various types of facilities, it does not require a utility adopt a particular standard.

New Construction

TECO proposes to continue its practice for distribution and transmission facilities based on the NESC Grade B construction. TECO's transmission structures are designed to withstand 120 mph wind for all 69 kV structures and 133 mph wind for all 138 kV and 230 kV structures.

Major Planned Work

TECO proposes to continue building to Grade B construction for all major planned expansions, rebuilds, or relocations of distribution facilities. TECO reports using the two different wind loads for new construction and replacements is the most cost-effective and reliable standard for its service area.

Critical Infrastructure

Critical infrastructure (CIF) are circuits feeding loads to critical community facilities such as hospitals, emergency shelters, master pumping stations, wastewater plants, major communications facilities, electric and gas utilities, Emergency Operation Centers, and police and fire stations. TECO's downtown network is also considered CIF due to the high concentration of business and governmental buildings in the area. TECO has hardened several CIFs to EWL standards and will continue to evaluate the remaining CIF for opportunities to harden. TECO proposes to test approximately eight network protectors per year in the 12 low-lying vaults downtown. In addition, a restoration plan for the downtown network has been developed to ensure that an efficient network distribution system recovery takes place in the event of total power loss. TECO has developed a plan to storm harden Tampa General Hospital located on Davis Island.

Mitigation of Flooding and Storm Surge Damage

TECO proposes to continue its current standard for all new and maintenance replacement of underground distribution facilities located in Flood Zone 1. TECO will focus on elevation and water resistance of control cabinets and related equipment. TECO reported that it began using submersible padmount switchgear to harden its underground system in 2015. The switchgear will be specifically used for CIF where storm surge is expected. TECO has deployed the switchgear in locations serving the Tampa International Airport and the Downtown Network. TECO plans to install the switchgear at Tampa General Hospital.

Facility Placement

TECO proposes to continue placement of all new distribution facilities in the public right-of-way. TECO's policy is new residential lines shall be front lot and truck accessible, while commercial lines may be rear lot but must be truck accessible. In addition, TECO proposes to continue evaluating community and customer requests to relocate overhead facilities from rear lot locations to the front of a customer's property on a case-by-case basis.

Deployment Strategies

TECO's updated plan contains a detailed three-year deployment strategy, which is a continuation of inspection programs, technical design specification, construction standards and methodologies.

Facilities Affected, Including Specifications and Standards

All of TECO's facilities are affected by the deployment strategy plan. For all new transmission, distribution and substation facilities, TECO will implement its enhanced construction standards. TECO reported that the majority of new distribution facilities are placed underground; however, it has approximately 67 miles of new overhead distribution construction, which included reconductoring, line extensions and new circuits/feeders. TECO plans to construct, rerate or rebuild approximately 90 miles of overhead transmission. TECO's maintenance programs will strengthen and upgrade its system, along with its storm hardening initiatives as addressed above. TECO will continue its construction programs piloting the EWL standard for distribution facilities serving CIF, also addressed above.

Areas of Infrastructure Improvements

TECO's updated plan provides a detailed description of areas where electric infrastructure improvements will be made. Below is a list of projects and a brief description.

- **Downtown Network:** As discussed earlier, the Downtown Network is a CIF. TECO will inspect and test eight low-lying vaults per year and if leaks are found, all pertinent gaskets will be replaced.
- **Overhead to Underground Conversion of Interstate Highway Crossings:** A fallen distribution line over an interstate highway can block traffic and the repairs can be lengthy. To help first responders and others during emergencies, all new distribution line interstate crossings will be underground. TECO has converted 16 interstate highway crossings with 15 remaining left to be converted.
- **Submersible Padmount Switchgear:** As discussed earlier, TECO is using submersible padmount switchgear designed to withstand intrusion from water while remaining in service. TECO's deployment strategy plan is to deploy the submersible gear for all new CIF and to retrofit switchgears serving CIF loads.
- **Tampa General Hospital:** Tampa General Hospital is a CIF and is located on Davis Island. TECO will replace three existing switchgears with submersible switchgears and relocate the primary feeds attached to the bridge. The primary feeds will be placed under the channel adjacent to the hospital.

Joint-Use Facilities

TECO plans to perform a pole loading analysis as part of the pole inspection program on any joint use pole with an attachment of one-half inch in diameter cable or greater. If a pole fails the preliminary stress test, a comprehensive pole loading analysis will be conducted to determine if the pole is in fact overloaded. TECO will continue conducting its pole attachment audit to identify the location of each pole, the facilities attached, and to obtain verification of current joint use agreements.

Utility Cost/Benefit Estimates

TECO's updated plan includes estimates of costs to be incurred in connection with its updated plan for 2016 through 2018. This includes pole replacements, inspections of distribution and transmission facilities, vegetation management, and other projects. TECO spent a total of \$168,340,000 on its storm hardening plan for 2013-2015. In 2016-2018, TECO estimates it will

spend approximately \$163,020,000. TECO has not quantified the benefits of storm hardening due to a lack of forensic data. As more projects are completed, the incremental benefits will likely be reduced. Therefore, TECO should consider the rate impact before taking proactive steps to improve its system to withstand severe weather events. Attachment B shows a comparison of cost associated with implementation of TECO's current and updated wooden pole inspections and Ten Initiatives.

Attachers Cost/Benefit Estimates

TECO's updated plan provided Attachment Standards and Procedures that will benefit, at minimal cost, third party attachers. The Utility did report that the largest impact would come from the increased pole inspections, which includes a pole loading analysis. In addition, TECO will conduct a joint-use audit to determine if any unauthorized attachments are found. The cost of this audit will be shared by all attaching entities. If an unauthorized attacher is found, the attachment owner will be responsible to pay for a complete engineering study and corrective actions required to meet the NESC standards. TECO worked with its attachers prior to making the modification to streamline the process for unauthorized attachments and unpermitted service drops.

Attachment Standards and Procedures

TECO's updated plan includes Attachment Standards and Procedures addressing safety, reliability, and pole loading capacity. The updated plan also addresses engineering standards and procedures for attachments by others to the Utility's transmission and distribution poles that meet or exceed the NESC (ANSI C-2) pursuant to Rule 25-6.034, F.A.C.

Conclusion

TECO's updated plan is largely a continuation of its current Commission-approved plan. Based on the review above, it indicates that TECO's plan has the information required by Commission's Rule and Orders and staff recommends it should be approved. Staff notes that approval of TECO's plan does not mean approval for cost recovery. TECO should consider the rate impact before taking proactive steps to improve its system to withstand severe weather events.

Issue 2: Should the Commission approve Florida Public Utilities Company's 2016-2018 storm hardening plan filed in Docket No. 160106-EI?

Recommendation: Yes. Florida Public Utilities Company's (FPUC) updated plan is largely a continuation of its current Commission-approved plan. A review of FPUC's plan shows that it has the information required by Commission's Rule and Orders. Staff notes that approval of FPUC's plan does not mean approval for cost recovery. FPUC should consider the rate impact before taking proactive steps to improve its system to withstand severe weather events. (P. Buys)

Staff Analysis: On Attachment C, staff provided a summary of FPUC's current wooden pole inspection program and Ten Initiatives and the proposed changes. In addition, where available, staff has shown the costs associated with the wooden pole inspections programs and Ten Initiatives for 2013-2015 and 2016-2018. Components of FPUC's updated plan are summarized below.

Wooden Pole Inspection Program

FPUC is continuing its eight-year wooden pole inspection.^{12,13} The program identifies poles that require repair, reinforcement or replacement. An outside contractor, Osmose Utilities Services, Inc., performs all wooden pole inspections, including strength and loading tests. Currently, FPUC is in its first year of its second eight-year cycle. FPUC will continue to file the results of these inspections in its Annual Electric Utility Distribution Reliability Report. The estimated cost for 2016-2018 related to the eight-year wooden pole inspection program is \$405,000 as compared to \$268,000 spent for 2013-2015.

Ten Initiatives

Initiative One – Three-Year Vegetation Management Cycle for Distribution Circuits

FPUC proposes no changes to its previously approved trim cycle. Currently, its feeder and lateral circuits are trimmed, on average, every three years and six years, respectively.¹⁴ FPUC reported that it has 139.63 miles of feeders and 570.87 miles of laterals. FPUC will continue to communicate with customers and local governments to address vegetation management. The estimated cost for 2016-2018 for Initiative One is \$2,940,000 as compared to \$2,718,143 spent for 2013-2015.

Initiative Two – Audits of Joint-Use Attachment Agreements

There are no proposed changes to this initiative. FPUC has joint use agreements with multiple third party attachers and although the agreements allow a joint use audit, audits have not been conducted since 2000. FPUC initiated an audit in 2016 to identify the total number of attachments and any violations that may exist. FPUC does not perform strength and loading assessments during the joint use audits as these tests are performed during the wooden pole inspections. The audits include:

¹²Order No. PSC-06-0144-PAA-EI, issued February 27, 2006, in Docket No. 060078-EI, *In re: Proposal to require investor-owned electric utilities to implement ten-year wood pole inspection program.*

¹³Order No. PSC-07-0078-PAA-EU, issued January 29, 2007, in Docket No. 060531-EU, *In re: Review of all electric utility wooden pole inspection programs.*

¹⁴Docket No. 100264-EI, *In re: Review of 2010 Electric Infrastructure Storm Hardening Plan filed pursuant to Rule 25-6.0342, F.A.C., submitted by Florida Public Utilities Company.*

- Pole Locations
- Owner of the pole
- City and county location
- Pole type, height, class and treatment
- Pole date manufactured, inspected, and retreated
- Joint use attacher name and type (telecommunication, cable)
- Violations
- Miscellaneous comments

Data collected from the audit will be analyzed to determine the number of poles found to be overloaded, number of unauthorized attachers and customer outages related to these situations. The estimated cost for 2016-2018 is \$0, which is what was spent in 2013-2015.

Initiative Three- Six-Year Transmission Structure Inspection Program

FPUC is proposing no change for this initiative. FPUC's transmission structure inspection program includes a climbing patrol of its 138 kV and 69 kV transmission lines on a six-year cycle and transmission substations on an annual cycle. The program includes inspecting transmission towers and transmission supporting equipment such as insulators, guying, grounding, conductor splicing, cross-braces, cross-arms, and bolts. The program also includes inspecting all structures, buss work, insulators, grounding, bracing and bolts at the transmission substations. The estimated cost for this initiative for 2016-2018 is \$87,000. FPUC did not track the operation and maintenance cost for this initiative for 2013-2015.

Initiative Four – Hardening of Existing Transmission Structures

There is no change in the plan for this initiative. FPUC's 138 kV transmission system is constructed using concrete and steel structures. The 69 kV transmission system consists of 221 poles, 98 of them are concrete. FPUC will continue to replace the wooden poles when it is necessary due to construction requirements or concerns with the integrity of the pole. FPUC reports that by the end of 2016, there will be 49 percent of its transmission structures left to be hardened. The costs for 2016-2018 are estimated to be \$750,000 as compared to \$2,392,000 spent in 2013-2015. FPUC explained that its current plan is to replace four poles per year, however, this could vary depending on the transmission inspection findings and new projects.

Initiative Five – Transmission and Distribution Geographic Information System

There is no proposed change for this initiative. FPUC implemented its GIS in 2008. The GIS identifies the distribution and transmission facilities on a land base map. This allows FPUC the ability to record data on all physical assets. The system communicates with FPUC's Customer Information System and functions as an Outage Management System (OMS) that allows collection of data used in determining reliability. FPUC's GIS also collects information regarding joint use attachments, which provide additional information in conducting the joint use audits. The costs for 2016-2018 are estimated to be \$62,100 as compared to \$60,000 spent in 2013-2015.

Initiative Six – Post-Storm Data Collection and Forensic Analysis

There is no change to this initiative. FPUC has a forensics team to coordinate communications, schedule data collection, and to report the findings. FPUC utilizes a contractor to collect, analyze and report on field data collected, which is entered into FPUC's OMS. The contractor will perform a forensic investigation at damage locations. The criteria for damage locations include, but are not limited to, poles, wires, crossarms, insulators, transformers, reclosers, capacitor banks, cutouts, and any other equipment that is damaged or has caused a customer outage. Data will also be collected on damaged facilities as defined as broken poles, leaning poles, broken or downed wires, damaged line equipment, and any other incident that has caused a customer outage.

Initiative Seven – Collection of Detailed Outage Data Differentiating Between the Reliability Performance of Overhead and Underground Systems

FPUC is proposing no change for this initiative. FPUC will continue to collect outage data for overhead and underground systems in order to evaluate the reliability associated with the two systems. The forensic team report form allows for both overhead and underground damage to be entered. The data will be entered separately for each incident.

Initiative Eight – Increased Coordination with Local Governments

There is no change in the plan for this initiative. FPUC reports that it actively participates with local governments in planning for emergency situations. This includes establishing the necessary communications for these situations. FPUC will have personnel located at the county EOCs on a 24-hour basis during emergencies. FPUC reported that this allows for improved updating of outage information as storm restoration occurs. FPUC will continue discussing undergrounding and tree trimming issues with local governments. FPUC reported that involvement and discussion on these issues allowed for additional communication and education for both FPUC and the local governments.

Initiative Nine – Collaborative Research on Effects of Hurricane Winds and Storm Surge

There is no change to this initiative. FPUC will continue to participate in the collaborative research effort with the other Florida's IOUs, municipals and cooperatives. The collaborative research is facilitated by PURC at the University of Florida and focuses on 1) undergrounding of electric utility infrastructure, 2) hurricane wind effects, and 3) public outreach. FPUC will continue to support PURC's effort but does not intend to conduct other type of research at this time.

Initiative Ten – Natural Disaster Preparedness and Recovery Program

FPUC will continue to refine this initiative. FPUC's Disaster Preparedness and Recovery Plan provides guidelines under which the Utility will operate in emergency conditions. In order to ensure orderly and efficient service restoration, the guidelines address the following objectives:

- Safety of employees, contractors, and the general public
- Early damage assessment
- Request additional manpower
- Provide for orderly restoration activities

- Provide all logistical needs for employees and contractors
- Provide ongoing preparation of FPUC's employees, buildings, and equipment
- Provide support and additional resources for FPUC's employees and families

FPUC will utilize the plan to prepare for storms annually. The plan will also ensure that all employees are aware of their responsibilities during the storms. FPUC's plan is updated annually and the updates for 2015 and 2016 were: updated logos, removed a table, clarified roles and responsibilities of certain employees, updated the organization chart to reflect employee changes, updated emergency numbers, and updated logistic vendor information.

National Electric Safety Code Compliance

FPUC's updated plan addresses how the Utility complies with the NESC pursuant to Rule 25-6.0345, F.A.C. FPUC's distribution, transmission, and substations facilities have been installed in accordance with the NESC. FPUC increased the normal primary distribution pole size from Class 3 or 4 to Class 1 and FPUC is using EWL software to determine if these larger poles are sufficient. When necessary, FPUC will replace a wooden transmission pole with a concrete pole that meets the NESC, by withstanding higher wind loadings and meeting the NESC for conductor sagging, pole grounding, phase-to-phase spacing and phase-to-ground clearances. FPUC's substations meet the NESC for EWL criteria, buss spacing, phase-to-ground clearances and grounding.

Extreme Wind Loading Standards

FPUC incorporated EWL standards as specified in Rule 250C and in Figure 25-2(d) of the NESC. As discussed above, FPUC's distribution, transmission, and substations meet or exceed the NESC. For example, the current NESC code requires structures in Fernandina Beach to be designed to sustain wind loading of 120 mph. FPUC requires all new transmission pole structures in Fernandina Beach to withstand 130 mph winds. FPUC has also increased the primary distribution pole size from Class 3 or 4 to Class 1. FPUC reports that the upgrade to the Class 1 poles comply with EWL requirements. All poles in FPUC's system are constructed using Grade B construction. The NESC requires distribution poles to be designed at least to Grade C construction.

New Construction/Major Planned Work

FPUC reports that all future installations are designed to meet the NESC and EWL. As discussed above, FPUC designs its system to Grade B construction. In addition, FPUC increased the pole sizes. Therefore, FPUC's new construction and major planned projects are designed to meet EWL and the NESC.

Critical Infrastructure

Critical infrastructure (CIF) are circuits feeding loads to critical community facilities such as, hospitals, water plants, and wastewater plants. FPUC has hardened several CIFs to EWL standards and will continue to evaluate the remaining CIF for opportunities to harden. FPUC has four feeder projects in process for 2016. FPUC has two feeder projects planned for 2017 and two feeder projects for 2018.

Mitigation of Flooding and Storm Surge Damage

FPUC's transmission facilities are located in its Northeast Florida Division. The transmission lines are constructed near and across coastal waterways. The facilities were originally designed to meet the NESC. Foundations and castings were used to stabilize the structures due to the soil conditions. Overhead distribution lines are located in both divisions and are subject to storm surges and flooding. If needed, additional supporting mechanisms, such as storm guys or pole bracing, will be installed. Reclosers, capacitors, and regulators that require electronic controls will be mounted above the maximum surge or flood levels. FPUC's underground distribution lines that are subject to storm surges and flooding are located in the Northeast Florida Division. FPUC installs pads that are placed approximately two feet into the ground to provide additional stability to the installation of underground lines. Underground distribution lines are placed in conduits. For future installations, FPUC will evaluate the location for storm surges or flooding. If the possibility exists for storm surges, the underground lines will be encased in concrete ducts.

Facility Placement

FPUC's facilities are located in areas that are easily accessible. The facilities will be placed along public right-of-ways or located on private easements that are readily accessible from public streets. FPUC reports that these requirements are necessary to efficiently and safely perform installation and maintenance on the facilities. FPUC notes that placing facilities along rear lot lines will only be constructed as a "last resort."

Deployment Strategies

FPUC's plan contains its deployment of storm hardening strategy that will have an impact on future storm restoration activities.

Facilities Affected, Including Specifications and Standards

The significant areas of implementation from the deployment of FPUC storm hardening strategy are:

- Wooden poles will be inspected at least every eight years
- Vegetation management activities will ensure that feeders are trimmed every three years and laterals are trimmed every six years
- Joint use audits will be conducted every five years to identify pole loading issues
- Detailed climbing inspections on all transmission facilities will be conducted every six years
- FPUC will continue to replace wood transmission structures with concrete
- FPUC will continue to rebuild its CIF to EWL
- FPUC will use techniques to mitigate damage from storm surges and floods
- FPUC will continue to place facilities on public right-of-ways

Areas of Infrastructure Improvements

Most of the items listed above will affect all areas of FPUC service territory. The transmission inspection and replacement of transmission structures will only affect the Northeast Florida Division. The Northwest Florida Division does not have any transmission facilities. The rebuilding of CIF to EWL will equally benefit both divisions.

Joint-Use Facilities

FPUC plans to begin the upgrades on joint use facilities in 2016 through 2018 as a result of its joint use audit. A significant amount of pole upgrades will have one or more joint use attachments and EWL will be applied to all poles upgraded. Current contract language for joint use attachers will be used as a guide for the rebuilding process.

Utility Cost/Benefit Estimates

FPUC's updated plan includes estimates of costs to be incurred in connection with its updated plan for 2016 through 2018. This includes pole replacements, inspections of distribution and transmission facilities, vegetation management, and other projects. For 2013 through 2015, FPUC spent a total of \$5,976,771 on its storm hardening plan. FPUC estimates it will spend approximately \$4,846,500 for 2016 through 2018. FPUC is indicating a decrease in hardening of transmission structures in next the three years. FPUC has not quantified the benefits of storm hardening due to a lack of forensic data. As more projects are completed, the incremental benefits will likely be reduced. Therefore, FPUC should consider the rate impact before taking proactive steps to improve its system to withstand severe weather events. Attachment C shows a comparison of cost associated with implementation of FPUC's current and updated wooden pole inspection program and Ten Initiatives.

Attachers Cost/Benefit Estimates

FPUC's updated plan provides that it anticipates up to 190 joint use poles will be identified for replacement annually. During its wooden pole inspections, FPUC will inspect its owned poles, while all third party poles will be inspected by the owner of the pole. FPUC ensures that the poles will be evaluated for structural soundness and strength and load testing will be performed. Documentation will be developed on the poles that do not meet the requirements. FPUC has elected to replace all poles failing inspection and as this occurs, with joint use attachers' input, procedures for the replacement and transfer of necessary attachments will be developed. In accordance with FPUC's joint use agreements, all joint use attachers will be included in the joint use audit to determine attachment amounts and to identify possible loading issues that need to be addressed.

Attachment Standards and Procedures

FPUC's updated plan includes the current Joint Use Attachment Specifications addressing safety, reliability, and pole loading capacity. The current contracts with third party attachers are being renegotiated. The updated contracts will continue to govern attachment standards and procedures and when additional specifications are developed, third party attachers will have the ability to provide input into the new specifications.

Conclusion

FPUC's updated plan is largely a continuation of its current Commission-approved plan. Based on the review above, it indicates that FPUC's plan has the information required by Commission's Rule and Orders and staff recommends it should be approved. Staff notes that approval of FPUC's plan does not mean approval for cost recovery. FPUC should consider the rate impact before taking proactive steps to improve its system to withstand severe weather events.

Issue 3: Should the Commission approve Duke Energy Florida, LLC's 2016-2018 storm hardening plan filed in Docket No. 160107-EI?

Recommendation: Yes. Duke Energy Florida, LLC's (DEF) updated plan is largely a continuation of its current Commission-approved plan. A review of DEF's plan shows that it has the information required by Commission's Rule and Orders. Staff notes that approval of DEF's plan does not mean approval for cost recovery. DEF should consider the rate impact before taking proactive steps to improve its system to withstand severe weather events. (P. Buys)

Staff Analysis: On Attachment D, staff provided a summary of DEF's current wooden pole inspection program and Ten Initiatives and the proposed changes. In addition, where available, staff has shown the costs associated with the wooden pole inspection programs and Ten Initiatives for 2013-2015 and 2016-2018. Components of DEF's updated plan are summarized below.

Wooden Pole Inspection Program

DEF is continuing its eight-year wooden pole inspection.¹⁵ The program includes inspection of DEF's transmission, distribution, and joint-use wooden poles. Poles are identified that require repair, reinforcement or replacement. Currently, DEF is in its second year of its second eight-year cycle. DEF will continue to file the results of these inspections in its Annual Electric Utility Distribution Reliability Report. The estimated cost for 2016-2018 related to the eight-year wooden pole inspection is \$9,700,000. DEF reported that it maintains approximately 800,000 wood poles in the highest decay zone. DEF plans to increase its spending on the wooden pole inspection program by approximately \$160,000 each year.

Ten Initiatives

Initiative One – Three-Year Vegetation Management Cycle for Distribution Circuits

DEF proposes no changes to its previously approved trim cycle. Currently, its feeder and lateral circuits are trimmed, on average, every three years and five years, respectively.¹⁶ DEF reported that annual variations for projected miles to be trimmed are expected as the Utility manages its resources and unit cost factors associated with its vegetation management. The estimated cost for 2016-2018 for Initiative One is \$104,700,000 as compared to \$100,600,000 spent in 2013-2015.

Initiative Two – Audits of Joint-Use Attachment Agreements

There is no change to this initiative. DEF will conduct an audit of all pole attachments on an eight-year cycle at a minimum.¹⁷ DEF conducts partial audits of its pole attachments throughout the year. The Utility performs a full Joint-Use Pole Loading Analysis on an eight-year cycle. DEF reported that when it discovers unauthorized attachments on its poles, DEF follows up with the unauthorized attacher. DEF explained that for each group of poles in a tangent line, the pole that had the most visible loading, line angle, and longest or uneven span length was selected for

¹⁵Order No. PSC-06-0144-PAA-EI, issued February 27, 2006, in Docket No. 060078-EI, *In re: Proposal to require investor-owned electric utilities to implement ten-year wood pole inspection program.*

¹⁶Order No. PSC-06-0947-PAA-EI, issued November 13, 2006, in Docket No. 060198-EI, *In re: Requirement for investor-owner electric utilities to file ongoing storm preparedness plans and implementation cost estimates.*

¹⁷Order No. PSC-06-0351-PAA-EI, issued April 25, 2006, in Docket No. 060198-EI, *In re: Requirement for investor-owned electric utilities to file ongoing storm preparedness plans and implementation cost estimates.*

wind loading analysis. If that pole failed, the next worst-case pole would be analyzed as well. The estimated cost for 2016-2018 is \$1,370,000 as compared to \$1,380,000 spent in 2013-2015.

Initiative Three- Six-Year Transmission Structure Inspection Program

DEF is proposing no change for this initiative. DEF's transmission structure inspection program is on a five-year cycle. DEF inspects transmission circuits, substations, tower structures and poles. DEF performs ground patrol of transmission line structures, associated hardware, and conductors on a routine basis to identify potential problems. DEF reported that the estimated and actual amounts for the transmission inspections include the inspections, emergency response, preventative maintenance, and training. The estimated cost for this initiative for 2016-2018 is \$68,360,000 as compared to \$62,560,000 spent in 2013-2015.

Initiative Four – Hardening of Existing Transmission Structures

There is no change in the plan for this initiative. DEF will continue to harden its transmission structures, which includes maintenance pole change-outs, insulator replacements, Department of Transportation/customer relocations, line rebuilds, and system planning additions. DEF notes that the transmission structures are designed to withstand the current NESC requirements and are built utilizing steel or concrete structures. DEF reports that there is 45 percent of its transmission structures left to be hardened. The costs for 2016-2018 are estimated to be \$315,700,000 as compared to \$417,400,000 spent in 2013-2015. DEF is reporting that there will be a decrease in governmental (projects requested by the Department of Transportation), rebuild (projects which will include a complete replacement of transmission line structures, conductors, and all supporting equipment) and line (projects which replace a portion or specific equipment) projects for the next three years.

Initiative Five – Transmission and Distribution Geographic Information System

This initiative has no changes. DEF implemented its new GIS in 2008. The new GIS database is an asset-based GIS instead of a location-based GIS. DEF's Facilities Management Data Repository and Compliance Tracking System facilitate the compliance tracking, maintenance, planning, and risk management of the major distribution assets. DEF has created and enhanced key performance indicators that are used to measure and monitor the quality of its GIS and Outage Management System (OMS) data. DEF reports that the consistency, accuracy, and dependability of these systems have led to improvements in the reliability and performance of its system, and it has also contributed to the safety of DEF's field employees. The estimated costs for 2016-2018 are \$810,000, which is the same that was spent in 2013-2015.

Initiative Six – Post-Storm Data Collection and Forensic Analysis

DEF is proposing no change for this initiative. DEF has established forensic teams that collect information regarding poles damaged during storm events and data at failure sites to determine the nature and causes of failure. DEF also collects available performance information on overhead and underground facilities as part of its storm restoration process. In collaboration with University of Florida's PURC, DEF and the other IOUs developed a common format to collect and track data related to damage discovered during forensic investigations. In addition, weather stations were installed across Florida as part of the collaboration with PURC and the other IOUs.

As a result, DEF is now able to correlate experienced outages with nearby wind speeds. This type of information is augmented with on-site forensic data following a major storm event.

Initiative Seven – Collection of Detailed Outage Data Differentiating Between the Reliability Performance of Overhead and Underground Systems

There is no change for this initiative. As referenced above, DEF collects available performance information on overhead and underground facilities as part of its storm restoration process. DEF uses its OMS, Customer Service System, and GIS to help analyze the percentage of storm caused outages on overhead and underground systems. One hundred percent of the overhead and underground distribution and transmission systems are in the GIS.

Initiative Eight – Increased Coordination with Local Governments

No change is being proposed for this initiative. DEF's storm planning and response program is operational year-round with approximately 40 employees assigned full-time to coordinate with local governments on issues such as emergency planning, vegetation management, undergrounding, and service related issues. DEF will continue to visit the different EOCs to review storm procedures and participate in several different storm drills. DEF will also continue to hold forums for commercial, industrial, and governmental customers and "Live Line" demonstration sessions across its service territory.

Initiative Nine – Collaborative Research on Effects of Hurricane Winds and Storm Surge

There is no change for this initiative. DEF will continue to participate in the collaborative research effort with the other Florida's IOUs, municipals and cooperatives. The collaborative research is facilitated by PURC at the University of Florida and focuses on 1) undergrounding of electric utility infrastructure, 2) hurricane wind effects, and 3) public outreach. DEF has signed an extension of the memorandum of understanding with PURC, which extends the research through December 31, 2018. In addition to DEF's involvement with PURC, DEF actively engages as both participant and presenter with different organizations. These organization, such as, Southeastern Electric Exchange, Edison Electric Institute, and Institute of Electrical and Electronics Engineers, review and assess hardening alternatives.

Initiative Ten – Natural Disaster Preparedness and Recovery Program

DEF will continue to refine this initiative. DEF's Storm Recovery Plan is reviewed and updated annually based on lessons learned from the previous storm season and organizational needs. The Distribution System Storm Operational Plan and the Transmission Storm Plan incorporates organizational redesign at DEF, internal feedback, suggestions, and customer survey responses. DEF uses the EWL standards in accordance with the NESC in all planning of transmission upgrades, rebuilds and expansions of existing facilities.

National Electric Safety Code Compliance

All standards, practices, policies, and procedures in DEF's manuals and plan are designed to meet or exceed the requirements of the NESC. Theses standards, practices, policies, and procedures are followed on all new construction and all rebuilding and relocations of existing facilities.

Extreme Wind Loading Standards

DEF explains that it has extensive experience with Grade C and Grade B construction standards as defined by the NESC, properly constructed and maintained distribution lines meeting all provisions of the NESC perform satisfactorily and provide a prudent and responsible balance between cost and performance. DEF reports that its design standards can be summarized as:

- 1) Quality construction in adherence with the current NESC requirements,
- 2) Well defined and consistently executed maintenance plan, and
- 3) Prudent end-of-life equipment replacement programs.

New Construction

DEF reports that all new transmission poles are constructed with either steel or concrete pole material. Since virtually all transmission structures exceed a height of 60 feet above ground, they are constructed using the NESC EWL criteria. DEF explained that it has not adopted EWL standards for all new distribution construction because of the following:

- 1) Section 250C of the 2012 version of the NESC does not call for EWL standard for distribution poles under 60 feet. DEF's distribution poles are less than 60 feet.
- 2) All credible research, which includes studies by the NESC rules committee, demonstrates that applying EWL standards would not benefit distribution poles.
- 3) Utility experience from around the country further indicates that trees, tree limbs, and other flying debris damage electrical distribution structures less than 60 feet. DEF reports that applying the EWL standards to distribution poles would result in large increases in cost and design complexity without a commensurate benefit.
- 4) DEF reported that its experience found that vegetation and flying debris were the main causes of distribution pole damage. DEF believes the EWL standard will not address this condition. DEF further states that in 2004, 96 percent of DEF's pole failures were attributable to flying debris and/or super extreme wind events such as tornadoes and microbursts.

Staff notes that while Rule 25-6.0342, F.A.C., requires that a utility's plan address the extent to which EWL standards are adopted for various types of facilities, it does not require a utility to adopt a particular standard.

Major Planned Work

Consistent with the NESC, DEF uses the EWL for all major planned transmission work, which includes expansions, rebuilds, and relocations of existing facilities. DEF has not adopted the EWL standard for major planned distribution work, as discussed above.

Critical Infrastructure (CIF)

CIF are circuits feeding loads to critical community facilities such as hospitals, emergency shelters, master pumping stations, wastewater plants, major communications facilities, electric and gas utilities, EOCs, and police and fire stations. DEF's transmission facilities are constructed to the EWL standards irrespective of whether it can be classified as "critical" or "major." As discussed above, DEF's distribution facilities are not constructed to the EWL standards. DEF is

using its prioritization model for implementation of EWL projects in selected locations throughout the service territory. Projects are submitted for possible construction on an annual basis for implementation of DEF's prioritization model. DEF has constructed several pilot projects using EWL standards since 2007. However, to date, DEF reported there has not been a significant weather event that allowed the Utility to assess the performance of these projects. DEF will continue to study the performance of the EWL standards at the various sites when a weather event allows for such analysis.

Mitigation of Flooding and Storm Surge Damage

In areas where underground equipment may be exposed to storm surge and/or flooding, DEF utilizes its prioritization model. The model identifies areas where certain projects will be put into place to test whether flood mitigation techniques and devices can be used to protect the equipment. One area where DEF has employed its submersible underground strategy is St. George Island in Franklin County. DEF retrofitted its existing facilities using the submersible standards of stainless steel equipment, submersible connectors, raised mounting boxes, cold shrink sealing tubes, and submersible secondary blocks. However, there have not been any weather events of significant enough scale to test the equipment on St. George Island. DEF will continue to monitor this installation to collect and analyze data to determine how the equipment performs with respect to outage prevention, reduced maintenance, and reduced restoration times. In addition, during major storm events, DEF will place sandbags in strategic areas around substations that are in forecasted flood zones. In the event that water intrusion causes extensive damage requiring prolonged repairs, DEF will employ mobile substations to affected areas in order to restore power.

Facility Placement

DEF reported that it will continue to use frontlot construction for all new distribution facilities and all replacement distribution facilities unless specific operational, safety, or other site-specific reasons exist. As specified in DEF's Distribution Engineering Manual, lines outside of a residential development should be located to allow for truck access and reduced tree exposure and trimming on one side of the line when possible.

Deployment Strategies

DEF engaged Davies Consulting (DCI) to develop a comprehensive prioritization model. DEF uses the model to help identify potential hardening projects, procedures, and strategies. DEF reported that the model has been improved and enhanced to better reflect the changes in its overall storm hardening strategy throughout the years. DEF will continue to adjust its prioritization model as appropriate. The prioritization model is set up to analyze the following hardening alternatives for DEF:

- Overhead to underground conversions
- Small wire upgrade
- Backlot to frontlot conversion
- Submersible underground facilities
- Alternative NESC construction standards

- Feeder ties

The prioritization model compiles a list of desired projects and is evaluated based on the following criteria:

- Major storm outage reduction impact
- Community storm impact
- Third party impact
- Overall reliability
- Financial cost

The prioritization model is based on a structured methodology for evaluating the benefits associated with various hardening options. DEF reported that it is using its prioritization model to ensure a systematic and analytical approach to deploying storm hardening options within the service territory.

Facilities Affected, Including Specifications and Standards/ Areas of Infrastructure Improvements

All of DEF's facilities are affected by its standards, policies, procedures, practices, and applications discussed in its Storm Hardening Plan. Specific facility types are addressed within the plan (e.g., upgrading all transmission poles to concrete and steel, using frontlot construction for all new distribution lines were possible). As a result, all areas of DEF's service territory are impacted by its storm hardening efforts. Below is a brief list of the distribution projects.

- Saint Petersburg – one feeder tie project
- Highlands – three feeder tie projects
- Buena Vista – one feeder tie project
- Lake Wales – one feeder tie project, one small wire upgrade project
- Clermont – one small wire upgrade project
- Winter Garden – two feeder tie projects
- Longwood – one overhead to underground conversion project
- Jamestown – one small wire upgrade project
- Apopka – two feeder tie projects
- Deland – one feeder tie project
- Monticello – two feeder tie projects, one alternative NESC construction standards (EWL) project
- Ocala – two feeder tie projects, one alternative NESC construction standards (EWL), five small wire upgrade projects

- Inverness – one feeder tie project
- Clearwater – two small wire upgrades, one submersible underground facilities project

DEF's approach in deciding the storm hardening projects is to consider the unique circumstances of each potential location. Below are the variables DEF considers:

- Operating history and environment
- Community impact and customer input
- Exposure to storm surge and flooding
- Equipment condition
- Historical and forecast storm experience
- Potential impacts on third parties

DEF believes this approach leads to the best solution for each discrete segment of its system. As discussed in Initiative 4, DEF is planning to continue to replace transmission poles with either concrete or steel poles. Most projects are identified during the transmission pole inspections. For the North Florida area, DEF listed 72 new, rebuilds or relocation projects for its transmission system. The projects are planned over the three-year period 2016 through 2018. For the South Florida area, DEF listed 48 transmission projects for the same time period.

Joint-Use Facilities

DEF provided information to third parties who would be affected by the storm hardening projects. DEF notifies the third parties at the time of the pole change out that transfers are needed. DEF completed its joint use attachment audit in 2013 and is currently in the third year of the second round of wooden pole inspections.

Utility Cost/Benefit Estimates

DEF's updated plan includes estimates of costs to be incurred in connection with its updated plan for 2016 through 2018. This includes pole replacements, inspections of distribution and transmission facilities, vegetation management, and other projects. For 2013 through 2015, DEF spent a total of \$610,730,000 on its storm hardening plan. DEF estimates it will spend approximately \$520,440,000 for 2016 through 2018. DEF is proposing a decrease in transmission facilities hardening projects, small wire upgrade feeder projects, backlot to frontlot conversion feeder projects, and overhead to underground conversation feeder projects in next three years. DEF has not quantified the benefits of storm hardening due to a lack of forensic data. As more projects are completed, the incremental benefits will likely be reduced. Therefore, DEF should consider the rate impact before taking proactive steps to improve its system to withstand severe weather events. Attachment D shows a comparison of cost associated with implementation of DEF's current and updated wooden pole inspection program and Ten Initiatives.

Attachers Cost/Benefit Estimates

DEF believes that any entity jointly attached to its equipment would benefit, as DEF would, from the proposed storm hardening projects. DEF provided available cost/benefit information to the third party attachers.

Attachment Standards and Procedures

DEF's updated plan includes Joint Use Pole Guidelines addressing its joint use process, construction standards, timelines, financial responsibilities, and key company contacts responsible for the completing permit requests. DEF reports that all newly proposed joint use attachments are field checked and designed using generally accepted engineering practices to assure that the new attachments do not overload the poles. Additionally, DEF performs annual and full-system audits on joint use attachments.

Conclusion

DEF's updated plan is largely a continuation of its current Commission-approved plan. Based on the review above, it indicates that DEF's plan has the information required by Commission's Rule and Orders and staff recommends it should be approved. Staff notes that approval of DEF's plan does not mean approval for cost recovery. DEF should consider the rate impact before taking proactive steps to improve its system to withstand severe weather events.

Issue 4: Should the Commission approve Gulf Power Company's 2016-2018 storm hardening plan filed in Docket No. 160108-EI?

Recommendation: Yes. Gulf Power Company's (Gulf) updated plan is largely a continuation of its current Commission approved plan. A review of Gulf's plan shows that it has the information required by Commission's Rule and Orders. Staff notes that approval of Gulf's plan does not mean approval for the cost recovery. Gulf should consider the rate impact before taking proactive steps to improve its system to withstand severe weather events. (P. Buys)

Staff Analysis: On Attachment E, staff provided a summary of Gulf's current wooden pole inspection program and Ten Initiatives and the proposed changes. In addition, where available, staff has shown the costs associated with the wooden pole inspection program and Ten Initiatives for 2013-2015 and 2016-2018. Components of Gulf's updated plan are summarized below.

Wooden Pole Inspection Program

Gulf is continuing its eight-year wooden pole inspection.¹⁸ Gulf utilizes an inspection matrix that ensures that all poles receive a visual inspection with sounding, boring, and excavation as appropriate. The program identifies poles that require repair, reinforcement or replacement. Currently, Gulf is in its third year of its second eight-year cycle. Gulf will continue to file the results of these inspections in its Annual Electric Utility Distribution Reliability Report. The estimated cost for 2016-2018 related to the eight-year wooden pole inspection program is \$7,047,000 as compared to \$6,236,000 spent in 2013-2015. Gulf's costs for 2016-2018 reflect anticipated increases in contract labor and equipment rates.

Ten Initiatives

Initiative One –Three-Year Vegetation Management Cycle for Distribution Circuits

Gulf proposes no changes to its previously approved trim cycle.¹⁹ Currently, the feeders are trimmed on a three-year cycle and laterals circuits are trimmed on a four-year cycle. Gulf's vegetation management plan includes annual inspection and corrective action plan on the remaining two-thirds of the main feeders, not part of the trim cycle that year. Lateral distribution lines are managed on a reliability-based program to achieve a four-year average cycle. The estimated cost for 2016-2018 for Initiative One is \$17,847,000 as compared to \$16,794,000 spent in 2013-2015. As discussed above, Gulf anticipates increases in contract labor and equipment rates.

Initiative Two – Audits of Joint-Use Attachment Agreements

There is no change to this initiative. Gulf performs field audits of joint-use poles every five years, which is outlined in contractual agreements with third party attachers. Both utility owned poles with third party attachers and non-utility poles where Gulf is the third party attacher, are

¹⁸Order No. PSC-07-0078-PAA-EU, issued January 29, 2007, in Docket No. 060531-EU, *In re: Review of all electric utility wooden pole inspection programs*.

¹⁹Order No. PSC-10-0688-PAA-EI, issued November 15, 2010, in Docket No. 100265-EI, *In re: Review of 2010 Electric Infrastructure Storm hardening Plan filed pursuant to Rule 25-6.0342, F.A.C., submitted by Gulf Power Company*.

included in the audit. Information collected during the last audit, which was conducted in 2011 was the following:

- GPS pole location
- Pole owner
- Pole type
- Pole treatment
- Pole height and class
- Manufacture date
- Attachment information
- Pole identification numbers

Gulf reported that any dangerous situations identified during the audits are immediately reported to the pole owner. Dangerous conditions may include buckling, splitting or broken poles, or low hanging conductors or cables. Gulf anticipates similar data will be collected and/or verified in the next field audit scheduled for 2016. The estimated cost for 2016-2018 is \$300,000 while no cost were incurred for 2013-2015. The \$300,000 is the cost of the audit.

Initiative Three- Six-Year Transmission Structure Inspection Program

There are no proposed changes to this initiative. Gulf's transmission line inspections include a ground line treatment inspection, a comprehensive walking inspection, and aerial inspections. The transmission inspections are based on two alternating 12-year cycles, which results in structures being inspected at least once every six years. Gulf inspects all of its substations at least once annually. The inspections include visual inspections of all structures. The estimated cost for this initiative for 2016-2018 is \$726,000 as compared to \$663,000 spent in 2013-2015. Gulf is budgeting for increased cost in labor and equipment rates.

Initiative Four – Hardening of Existing Transmission Structures

There is no change in the plan for this initiative. Gulf will continue the design and construction of its new facilities based on the NESC and EWL. The standard for all new transmission lines used by Gulf is Grade B construction. Gulf's main objective is to design a structure that has a capacity greater than the maximum expected load. Gulf plans to continue the replacement of wooden H-frame cross-arms with steel cross-arms on transmission facilities. Cross-arms are mounted horizontally and distribute the load between the two poles. If the wooden cross-arms have small pockets of rot, the strength of the structure could be reduced. Gulf has 355 cross-arm replacements remaining and plans to complete this initiative by 2017. The cost for 2016-2018 is estimated to be \$29,933,000 as compared to \$26,139,000 spent in 2013-2015.

Initiative Five – Transmission and Distribution Geographic Information System

There is no change to this initiative. Gulf reported that its GIS uses database information that is continuously maintained and updated with transmission, distribution and land information across its service area. Gulf completed its distribution facilities mapping transition to its Distribution

GIS in 2009. The transmission system has been completely captured in the Transmission GIS database. The Distribution GIS and Transmission GIS are continually updated with any additions and changes as the associated work orders for maintenance, system improvements, and new business are completed. This ongoing process provides Gulf sufficient information to use with collected forensic data to assess performance of its overhead and underground systems in the event of a major storm. There are no incremental costs associated with this initiative.

Initiative Six – Post-Storm Data Collection and Forensic Analysis

Gulf is not proposing a change to this initiative. Contractors will aid Gulf in the collection of field data after a major storm. In addition, data will be collected on pre-determined projects constructed to EWL criteria and in other designated overhead and underground areas. The information collected by Gulf's contractor will be utilized to perform a forensic analysis. Gulf reported that this "fact finding" assessment of existing facilities would help in the evaluation of its construction standards going forward.

Initiative Seven – Collection of Detailed Outage Data Differentiating Between the Reliability Performance of Overhead and Underground Systems

There is no change for this initiative. Gulf will continue its record keeping and analysis of data associated with overhead and underground outages. Gulf collects data on outages as they occur, for the following situations:

- If underground cables are:
 - Direct buried
 - Direct buried with injection treatment
 - In a conduit
- Whether the pole type is:
 - Concrete
 - Wood
 - Steel

Initiative Eight – Increased Coordination with Local Governments

No change is being proposed to this initiative. Gulf meets with governmental entities for all major projects, as appropriate, to discuss the scope of the project and coordinate activities involved with project implementation. Gulf maintains year-round contact with city and county officials to ensure cooperation in planning, good communication, and coordination of activities. Gulf assigns employees to county EOCs throughout Northwest Florida to assist during emergencies. Gulf also conducts a storm drill each year. There is no estimated cost for this initiative.

Initiative Nine – Collaborative Research on Effects of Hurricane Winds and Storm Surge

There is no change to this initiative. Gulf will continue to participate in the collaborative research effort with other Florida IOUs, municipals, and cooperatives. The collaborative research is facilitated by PURC at the University of Florida and focuses on 1) undergrounding of electric utility infrastructure, 2) hurricane wind effects, and 3) public outreach. Gulf has signed an

extension of the memorandum of understanding with PURC, which extends the research through December 31, 2018. Gulf estimated the cost for 2016-2018 for this initiative would be \$96,000 as compared to \$92,177 spent in 2013-2015.

Initiative Ten – Natural Disaster Preparedness and Recovery Program

Gulf will continue to refine this initiative. Gulf uses the strategy described in its Storm Restoration Procedures Manual to respond to any natural disaster that may occur. Annually, Gulf develops and refines its planning and preparations for the possibility of a natural disaster. Gulf's restoration procedures establish a plan of action to be utilized for the operation and restoration of generation, transmission, and distribution facilities during disasters. Gulf continues to provide annual refresher training in the area of storm preparedness for various storm roles at minimal cost. Mock hurricane drills are held annually.

National Electric Safety Code Compliance

Gulf's distribution system complies with all applicable sections of the NESC and exceeds the NESC with the transition to Grade B construction on all new construction, major projects and maintenance work. In addition, Gulf's transmission system complies with all applicable sections of the NESC in effect at the time of initial construction. For Gulf's substations, the Utility uses ASCE 7 EWL criteria for structure design and selection.

Extreme Wind Loading Standards

Gulf's plan exceeds the NESC standards by using Grade B construction on all new distribution construction, major projects and maintenance work. Gulf's EWL pilot projects included:

- Interstate Crossings – Installed extra down guys to existing wooden poles to bring them to EWL standards.
- Feeders service Critical Loads – Depending on the feeder locations, Gulf piloted E-truss installations to existing poles, replaced wood poles with concrete poles and added extra down guys. These installations brought the CIF up to EWL standards.
- Multi-feeder Pole Lines – In coastal areas serving critical loads, existing wooden poles were replaced with Grade B concrete poles.

Gulf reports that it lacks the data, at the time of this filing, to support the benefits associated with the upgrades due to a lack of major storms.

New Construction/Major Planned Work

Gulf proposed to continue focusing on upgrading all new construction and major planned work to Grade B construction standards. Gulf reported that if a district service area encompasses two different wind zones as defined by the NESC, then that district would have multiple construction standards. Each specific pole would be constructed to the wind zone rating for that location.

Critical Infrastructure

Critical infrastructure (CIF) are circuits feeding loads to critical community facilities such as hospitals, emergency shelters, master pumping stations, wastewater plants, major communications facilities, electric and gas utilities, EOCs, and police and fire stations. Gulf

proposes to continue to use Grade B construction of all maintenance work, including any work performed on CIF.

Mitigation of Flooding and Storm Surge Damage

Gulf has developed distribution overhead and underground storm hardening specifications to minimize damage in areas subject to flooding and storm surges. The specifications will continue to evolve as Gulf seeks out the best practices and learns from the review of its forensic data. Gulf reported that new underground installations and conversion of overhead facilities to underground facilities is customer driven. Gulf utilizes overload and strength factors greater than or equal to those required in Section 25 and 26 of the NESC for its transmission facilities. Gulf's loading criteria for new line design is derived from Section 25 of the NESC and at this time, Gulf is not designing transmission for any type of storm surge or flooding damage. Gulf's future underground transmission projects, located within a possible storm surge area, will be engineered to consider the impact of flooding or storm surge.

Facility Placement

Gulf proposes to continue placement of all new distribution facilities in the public right-of-way. Gulf reported that it would continue to promote replacement of facilities adjacent to public roads; to use easements, public streets, roads, and highways; to obtain easements for underground facilities; and to use road right-of-ways for conversions of overhead to underground facilities.

Deployment Strategies

Gulf's updated plan contains a detailed three-year deployment strategy, which is a continuation of inspection programs, technical design specification, construction standards and methodologies.

Facilities Affected, Including Specifications and Standards

Gulf will continue to develop overhead and underground storm hardening specifications for its distribution system. Gulf reported that these specifications would continue to evolve as the Utility seeks out best practices and learns from the review of gathered forensic data. As discussed, Gulf will continue transitioning to Grade B construction on all new construction, major projects and maintenance work. Gulf proposes to target CIF by focusing on sections of feeder pole lines that due to their geographic locations, have a higher exposure to possible storm damage and convert them to Grade B construction. Gulf will continue to utilize overload and strength factors greater than or equal to those required in the NESC for its transmission system. These design criteria are used on all new installation and completed rebuild projects throughout Gulf's service area. Gulf performed a risk assessment on all its substations. The risk assessment was completed based on information provided by a National Oceanic and Atmospheric Administration's (NOAA) Sea, Lake and Overland Surges from Hurricanes (SLOSH) model. The results from the risk assessment indicated that hardening measures are not required for Gulf's substations. Gulf's Emergency Response Plan has been established for all substations.

Areas of Infrastructure Improvements

Gulf's updated plan provides a detailed description of the electric infrastructure improvements that will be made. All three regions (Central, Eastern, and Western) of Gulf's service territory will be impacted. Below is a brief description of its important projects.

- Feeder Patrols: Gulf reports annually, by June 1, all of its critical lines would be inspected up to the first protective device for loose down guys, slack primary and leaning poles. Gulf will correct all problems found during the inspection.
- Infrared Patrols: Also, annually, by June 1, Gulf will perform infrared inspections of critical equipment on main line three phase feeders. The devices with problems, such as feeder switches, capacitors, regulators and automatic over-current protective devices will be repaired.
- Wind Monitors: Gulf believes a key part of forensic data gathering is obtaining “granular” storm wind speeds at strategic locations. The data will be systematically obtained through meteorological data resources such as existing wind stations and commercial weather reporting sources.
- Distribution Automation: Gulf proposes to continue the installation of additional distribution automation devices to further segment the feeders for outage restoration. The devices will protect its customers by limiting the affected of temporary faults and sustained outages. The devices will be either controlled by Gulf’s Distribution Supervisory Control and Data Acquisition (DSCADA) system and/or function as part of automated restoration schemes.
- Strategic Installation of Automated overhead Faulted Circuit Indicators: Gulf explained that Faulted Circuit Indicators (FCI) are devices designed to indicate the passage of fault current. The FCI will reduce customer outage time by expediting the location of outage causes, thereby aiding in the isolation of the problem. This will help to restore service to some customers while Gulf is correcting the problem.

Joint-Use Facilities

Gulf evaluated third party attachments through the following means:

- Pole Strength and Loading Engineering: Calculations are performed before attachment to any pole, tower or structure and before any existing cables are upgraded or over lashed. This is to determine if the increase in pole loading would necessitate pole modifications.
- Pre-notification Process: Gulf ensures that attachers comply with its pre-notification process, which is deigned to inform Gulf of plans to attach, upgrade, or over lash cables to any of its poles, towers, or structures. The process includes a field pre-inspection with pole measurements, strength and loading calculations, work order preparation, if necessary, and a post inspection of all the work. The requesting attacher is responsible for post inspections costs and any corrective actions if needed.
- Specification Plates: Gulf reported that specification plates reflect storm hardening initiatives such as additional guying standards and the use of pole foam in potential flood prone or storm surge areas.
- Agreement with Florida Cable Telecommunication Association (FCTA): Gulf has provisions in its agreement with FTCA to place identification tags on their facilities for ease of contacting the third party attachers. The tags will help with contacting the proper attacher when supporting poles or facilities are damaged and the attacher is needed to help remove, clear the right-of-way, or transfer their cables to a new pole in emergencies.

- Not to Box or Bracket Poles, Towers, or Structures: Gulf ensures that every effort is made by all pole attachers not to box or bracket a pole, tower, or structure on both sides. Gulf explains that this practice ensures that the attachment will not encumber the climbing space or impede the ability to straighten a leaning pole in timely manner.

Gulf's third party attacher contracts have details on notification protocol for new attachment permits and over lashing projects and any associated construction coordination. Gulf uses the national Joint Use Notification System for joint-use notifications and coordination of construction activities with affected parties.

Utility Cost/Benefit Estimates

Gulf's updated plan includes estimates of costs to be incurred in connection with its updated plan for 2016 through 2018. These cost include, continuation of its transition and implementation of Grade B construction, CIF improvements, feeder patrols, and other projects. For 2013 through 2015, Gulf spent a total of \$49,602,000 on its storm hardening plan. Gulf estimates it will spend approximately \$51,643,000 for 2016 through 2018. Gulf is proposing an increase in its transmission wooden crossarm replacement project, which is scheduled to be completed in 2017. Gulf also estimated costs for anticipated increases in contract labor and equipment rates. Gulf has not quantified the benefits of storm hardening due to a lack of forensic data. As more projects are completed, the incremental benefits will likely be reduced. Therefore, Gulf should consider the rate impact before taking proactive steps to improve its system to withstand severe weather events. Attachment E shows a comparison of cost associated with implementation of Gulf's current and updated wooden pole inspections and Ten Initiatives.

Attachers Cost/Benefit Estimates

Gulf continues to seek input from third party attachers in the development of its Storm Hardening Plan. Gulf provided 20 attachers a draft copy of its plan. No cost and benefit data was received from third party attachers prior to the published date of Gulf's plan. Gulf reported that it would continue to coordinate face-to-face semi-annual meetings with interested third party attachers to discuss major company and customer construction projects, construction standards, inspect programs, and operational issues.

Attachment Standards and Procedures

Gulf's updated plan includes EWL standards as specified by Figure 250-2(d) of the NESC. Also included in its plan are engineering standards for overhead and underground storm hardening that meet or exceed the NESC pursuant to Rule 25-6.034, F.A.C., and procedures for attachments by others to the Utility's systems.

Conclusion

Gulf's updated plan is largely a continuation of its current Commission-approved plan. Based on the review above, it indicates that Gulf's plan has the information required by Commission's Rule and Orders and staff recommends it should be approved. Staff notes that approval of Gulf's plan does not mean approval for cost recovery. Gulf should consider the rate impact before taking proactive steps to improve its system to withstand severe weather events.

Issue 5: Should these dockets be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the orders, these dockets should be closed upon the issuance of the consummating orders. A protest by an affected person in a docket will not preclude the non-protested dockets from closing. (Leathers)

Staff Analysis: At the conclusion of the protest period, if no protest is filed these dockets should be closed upon the issuance of the consummating orders. Separate orders will be issued for each docket to reflect the Commission's vote. For each such order, if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the respective docket's order, each docket should be closed upon issuance of a separate consummating order. A protest by an affected person in a docket will not preclude the non-protested dockets from closing.

Storm Hardening Requirements: Wooden Pole Inspection Program & Ten Initiatives

Eight-Year Wooden Pole Inspection Program
--

- | |
|--|
| 1. Implement an eight-year wooden pole inspection cycle by Order Nos. PSC-06-0144-PAA-EI and PSC-07-0078-PAA-EU. |
| 2. File an annual report with the Commission. |
| 3. Provide cost estimates. |

Initiative 1 – A Three-Year Vegetation Management Cycle for Distribution Circuits
--

- | |
|--|
| 1. Three-year tree trim cycle for primary feeders (minimum). |
| 2. Three-year cycle for laterals as well, if not cost-prohibitive. |
| 3. Provide cost estimate. |

Initiative 2 – Audit of Joint-Use Attachment Agreements
--

- | |
|---|
| 1. (a) Each investor-owned electric utility shall develop a plan for auditing joint-use agreements that includes pole strength assessments. |
| (b) These audits shall include both poles owned by the electric utility poles owned by other utilities to which the electric utility has attached its electrical equipment. |
| 2. The location of each pole, the type and ownership of the facilities attached, and the age of the pole and the attachments to it should be identified. |
| 3. Each investor-owned utility shall verify that such attachments have been made pursuant to a current joint-use agreement. |
| 4. Stress calculations shall be made to ensure that each joint-use pole is not overloaded or approaching overloading for instances not already addressed by Order No. PSC-06-0144-PAA-EI. |
| 5. Provide compliance cost estimate and cost estimate for alternative action, if any. |

Initiative 3 – Six-Year Transmission Inspection Program
--

- | |
|---|
| 1. Develop a plan to fully inspect all transmission towers and other transmission supporting equipment (such as insulators, guying, grounding, splices, cross-braces, bolts, etc.). |
| 2. Develop a plan to fully inspect all substations (including relay, capacitor, and switching stations). |
| 3. Provide compliance cost estimate and cost estimate for alternative actions, if any. |

Initiative 4 – Hardening of Existing Transmission Structures

- | |
|--|
| 1. Develop a plan to upgrade and replace existing transmission structures. Provide a scope of activity, limiting factors, and criteria for selecting structure to upgrade and replace. |
| 2. Provide a timeline for implementation. |
| 3. Provide compliance cost estimate and cost estimate for alternative actions, if any. |

Initiative 5 – Transmission and Distribution Geographic Information System

1. To conduct forensic review.
2. To assess the performance of underground systems relative to overhead systems.
3. To determine whether appropriate maintenance has been performed.
4. To evaluate storm hardening options.
5. Provide a timeline for implementation.

The utilities have the flexibility to propose a methodology that is efficient and cost-effective.

Initiative 6 – Post-Storm Data Collection and Forensic Analysis

1. Develop a program that collects post-storm information for performing forensic analyses.
2. Provide a timeline for implementation.

The utilities have the flexibility to propose a methodology that is efficient and cost-effective.

Initiative 7 – Collection of Detailed Outage Data Differentiating between the Reliability Performance of Overhead and Underground Systems

1. Collect specific storm performance data that differentiates between overhead and underground systems, to determine the percentage of storm-caused outages that occur on overhead and underground systems, and to assess the performance and failure mode of competing technologies, such as direct bury cable versus cable-in-conduit, concrete poles versus wooden poles, location factors such as front-lot versus back-lot, and pad-mounted versus vault.
2. Provide a timeline for implementation.

The utilities have the flexibility to propose a methodology that is efficient and cost-effective.

Initiative 8 – Increased Coordination with Local Governments

1. Each utility should actively work with local communities year-round to identify and address issues of common concern, including the period following a severe storm like a hurricane and also ongoing, multi-hazard infrastructure issues such as flood zones, area prone to wind damage, development trends in land use and coastal development, joint-use of public right-of-way, undergrounding facilities, tree trimming, and long-range planning and coordination.
2. Incremental plan costs.

Initiative 9 – Collaborative Research

1. Must establish a plan that increases collaborative research.
2. Must identify collaborative research objective.
3. Must solicit municipals, cooperatives, educational and research institutions.
4. Must establish a timeline for implementation.
5. Must identify the incremental costs necessary to fund the organization and perform the research.

Initiative 10 – A Natural Disaster Preparedness and Recovery Program

1. Develop a formal Natural Disaster Preparedness and Recovery Plan that outlines the utility's disaster recovery procedures if the utility does not already have one.

Tampa Electric Company

Eight-Year Wooden Pole Inspection Program	
Current Plan	Updated Plan
1. Implement an eight-year wooden pole inspection cycle for distribution poles.	1. No change
2. File the progress of this inspection in the Annual Reliability Report.	2. No change
3. Costs for 2013-2015 were \$126,100,000.	3. Costs for 2016-2018 are estimated to be \$112,300,000.

Initiative 1 – A Three-Year Vegetation Management Cycle for Distribution Circuits	
Current Plan	Updated Plan
1. Average four-year trim cycle for feeders.	1. No change
2. Average four-year trim cycle for laterals. Targeted trimming is also achieved through its “mid-cycle” program that addresses critical circuits.	2. No change
3. Costs for 2013-2015 were \$30,500,000.	3. Costs for 2016-2018 are estimated to be \$28,900,000.

Initiative 2 – Audit of Joint-Use Attachment Agreements	
Current Plan	Updated Plan
1. (a) Perform pole strength assessment during eight-year wooden pole inspection cycle.	1. (a) No change
(b) Audit all TECO-owned poles and third party poles per Joint-Use contract agreements on an eight-year cycle.	(b) No change
2. All required data will be collected during eight-year wooden pole inspection cycle and stored in GIS database.	2. No change
3. Verify attachments have been made pursuant to current joint-use agreements during the eight-year wooden pole inspection cycle.	3. No change
4. Stress calculations will be performed during eight-year wooden pole inspection cycle.	4. No change
5. Costs for 2013-2015 were \$1,000,000.	5. Costs for 2016-2018 are estimated to be \$0 due to paying the requesting third party attacher for the analysis.

Initiative 3 – Six-Year transmission Inspection Program	
Current Plan	Updated Plan
1. Wooden pole inspection activities (PSC-06-0144-PAA-EI, Docket No. 060078-EI). Structures on a six-year cycle, all other portions of the system inspected annually.	1. Per Order No. PSC-14-0684-PAA-EI, Docket No. 140122-EI, the inspection cycle was shifted from a six-year cycle to an eight-year cycle starting in 2015.
2. Substations inspected annually.	2. No change
3. Costs for 2013-2015 were \$4,400,000.	3. Costs for 2016-2018 are estimated to be \$3,200,000.

Initiative 4 – Hardening of Existing Transmission Structures	
Current Plan	Updated Plan
1. Incremental phase out of wooden transmission structures during all new construction, relocations, and other maintenance.	1. No change
2. Plan is ongoing with no completion date.	2. No change
3. Costs for 2013-2015 were \$2,300,000.	3. Costs for 2016-2018 are estimated to be \$2,400,000.

Initiative 5 – Transmission and Distribution Geographic Information System	
Current Plan	Updated Plan
1. Forensic reviews on statistical sampled basis.	1. No change
2. Forensic review with respect to types of materials and construction, and location.	2. No change
3. Plan includes determination of appropriate maintenance.	3. No change
4. Access future preventive measures where possible.	4. No change
5. Implementation began in 2010.	5. No change

Initiative 6 – Post-Storm Data Collection and Forensic Analysis	
Current Plan	Updated Plan
1. Hire consultant to perform forensic analyses.	1. No change
2. Implementation is dependent on the severity of the weather event.	2. No change

Initiative 7 – Collection of Detailed Outage Data Differentiating between the Reliability Performance of Overhead and Underground Systems	
Current Plan	Updated Plan
1. Measures are in place should it experience a major storm.	1. No change
2. Implementation will begin when TECO experiences major storm activity.	2. No change

Initiative 8 – Increased Coordination with Local Governments	
Current Plan	Updated Plan
1. TECO’s Plan calls for building on past community involvement by including local government, fire, police and water officials in storm preparation workshops, including local government in local Emergency Operations Centers, increased vegetation management including government and consumer education, undergrounding planning and education, and damage reporting prior, during, and after storms.	1. No change
2. Costs for 2013-2015 were \$0.	2. Costs for 2016-2018 are estimated to be \$0.

Initiative 9 – Collaborative Research	
Current Plan	Updated Plan
1. Collaborative research efforts, led by PURC, which began in 2007.	1. No change
2. Research vegetation management during storm and non-storm times, wind during storm and non-storm events, hurricane and damage modeling towards further understanding the costs and benefits of undergrounding.	2. No change
3. TECO will solicit participation from other utilities and organizations.	3. No change
4. Implementation is ongoing	4. TECO has entered into a Memorandum of Understanding with the University of Florida’s PURC, which extends research through December 31, 2018.
5. Costs for 2013-2015 were \$21,300,000.	5. Costs would be determined by the research projects.

Initiative 10 – A Natural Disaster Preparedness and Recovery Program	
Current Plan	Updated Plan
1. Disaster Preparedness/Recovery Plan has been developed and filed.	1. Continue to refine.
2. Costs for 2013-2015 were \$500,000.	2. Costs for 2016-2018 are estimated to be \$600,000.

Florida Public Utilities Company

Eight-Year Wooden Pole Inspection Program	
Current Plan	Updated Plan
1. Implement an eight-year wooden pole inspection cycle for distribution poles.	1. No change
2. File the progress of this inspection in the Annual Reliability Report.	2. No change
3. Costs for 2013-2015 were \$268,000.	3. Costs for 2016-2018 are estimated to be \$405,000.

Initiative 1 – A Three-Year Vegetation Management Cycle for Distribution Circuits	
Current Plan	Updated Plan
1. All feeders are on a three-year trim cycle.	1. No change
2. Laterals are on a six-year trim cycle.	2. No change
3. Costs for 2013-2015 were \$2,718,000.	3. Costs for 2016-2018 are estimated to be \$2,940,000.

Initiative 2 – Audit of Joint-Use Attachment Agreements	
Current Plan	Updated Plan
1. (a) Perform pole strength assessment during the eight-year wooden pole inspection cycle	1. (a) No change
(b) FPUC conducts a thorough joint-use audit once every five years in addition to the eight-year pole inspection.	(b) No change
2. All required data collected during inspections and stored in a database.	2. No change
3. Verify attachments have been made pursuant to current joint-use agreements during the eight-year wooden pole inspection cycle.	3. No change
4. Stress calculations performed on select poles during eight-year wooden pole inspection cycle.	4. No change
5. Costs for 2013-2015 were \$0.	5. Costs for 2016-2018 are estimated to be \$0.

Initiative 3 – Six-Year transmission Inspection Program	
Current Plan	Updated Plan
1. Develop procedures for climbing inspections of Company-owned 69 and 138 kV structures.	1. No change
2. Substations are fully inspected at least once a year.	2. No change
3. Costs for 2013-2015 were not tracked.	3. Costs for 2016-2018 are estimated to be \$87,000.

Initiative 4 – Hardening of Existing Transmission Structures	
Current Plan	Updated Plan
1. Continue to replace wooden poles on 69 kV lines.	1. No change
2. Plan is ongoing with no completion date.	2. No change
3. Costs for 2013-2015 were \$2,392,000.	3. Costs for 2016-2018 are estimated to be \$750,000.

Initiative 5 – Transmission and Distribution Geographic Information System	
Current Plan	Updated Plan
1. FPUC’s plan includes forensic reviews.	1. No change
2. FPUC’s plan includes underground versus overhead.	2. No change
3. Plan includes determination of appropriate maintenance.	3. No change
4. Plan includes evaluation of storm hardening options.	4. No change
5. Currently being implemented.	5. No change
6. Costs for 2013-2015 were \$60,000	6. Costs for 2016-2018 are estimated to be \$62,100.

Initiative 6 – Post-Storm Data Collection and Forensic Analysis	
Current Plan	Updated Plan
1. FPUC has procedures developed to track all specific hurricane outages, post-storm data collection, and forensic analysis.	1. No change
2. Data is dependent upon storm events in FPUC’s service area.	2. No change

Initiative 7 – Collection of Detailed Outage Data Differentiating between the Reliability Performance of Overhead and Underground Systems	
Current Plan	Updated Plan
1. Collect outage data of overhead and underground facilities to evaluate reliability indices.	1. No change
2. Implementation is ongoing.	2. No change

Initiative 8 – Increased Coordination with Local Governments	
Current Plan	Updated Plan
1. Coordinate with local and county emergency service agencies within its service area. In addition, to provide personnel at county EOC's, during emergencies.	1. No change
2. Costs for 2013-2015 were \$0.	2. Costs for 2016-2018 are estimated to be \$0.

Initiative 9 – Collaborative Research	
Current Plan	Updated Plan
1. Collaborative research efforts, led by PURC, which began in 2007.	1. No change
2. Research vegetation management during storm and non-storm times, wind during storm and non-storm events, hurricane and damage modeling towards further understanding the costs and benefits of undergrounding.	2. No change
3. FPUC will solicit participation from other utilities and organizations.	3. No change
4. Implementation is ongoing	4. FPUC has entered into a Memorandum of Understanding with the University of Florida's PURC, which extends research through December 31, 2018.
5. Costs for 2013-2015 were \$3,000.	5. Costs for 2016-2018 are estimated to be \$3,000.

Initiative 10 – A Natural Disaster Preparedness and Recovery Program	
Current Plan	Updated Plan
Disaster Preparedness/Recovery Plan has been developed and filed.	Continue to refine.

Duke Energy Florida, LLC

Eight-Year Wooden Pole Inspection Program	
Current Plan	Updated Plan
1. Implement an eight-year wooden pole inspection cycle for distribution poles.	1. No change
2. File the progress of this inspection in the Annual Reliability Report.	2. No change
3. Costs for 2013-2015 were \$7,380,000.	3. Costs for 2016-2018 are estimated to be \$9,700,000.

Initiative 1 – A Three-Year Vegetation Management Cycle for Distribution Circuits	
Current Plan	Updated Plan
1. Implement a three-year average trim cycle for feeders with targeted feeder trims based on prioritization.	1. No change
2. Implement an average five-year trim cycle for laterals.	2. No change
3. Costs for 2013-2015 were \$100,600,000.	3. Costs for 2016-2018 are estimated to be \$104,700,000.

Initiative 2 – Audit of Joint-Use Attachment Agreements	
Current Plan	Updated Plan
1. (a) Perform a Comprehensive Loading Analysis and annual partial system audits.	1. (a) No change
(b) Audit all DEF-owned and joint-use poles during eight-year wooden pole inspection cycle.	(b) No change
2. All required data collected on select poles and stored in electronic format.	2. No change
3. Verify attachments have been made pursuant to current joint-use agreements.	3. No change
4. Stress calculations performed on select poles during eight-year wooden pole inspection cycle.	4. No change
5. Cost for 2013-2015 were \$1,380,000	5. Costs for 2016-2018 are estimated to be \$1,370,000.

Initiative 3 – Six-Year transmission Inspection Program	
Current Plan	Updated Plan
1. Inspection program is multi-pronged approach with inspection cycles of one, six, or eight years depending on the goals or requirements of the individual inspection activity.	1. No change
2. Annual substation inspections.	2. No change
3. Costs for 2013-2015 were \$62,560,000.	3. Costs for 2016-2018 are estimated to be \$68,360,000.

Initiative 4 – Hardening of Existing Transmission Structures	
Current Plan	Updated Plan
1. Incremental upgrades during relocations, replacement of existing wooden transmission pole, and other maintenance.	1. No change
2. Plan completed in 10 or more years starting in 2007.	2. No change
3. Costs for 2013-2015 were \$417,400,000.	3. Costs for 2016-2018 are estimated to be \$315,700,000.

Initiative 5 – Transmission and Distribution Geographic Information System	
Current Plan	Updated Plan
1. Plan includes forensic review.	1. No change
2. Plan includes underground system relative to overhead.	2. No change
3. Plan includes determination of appropriate maintenance.	3. No change
4. Plan includes evaluation of storm hardening options.	4. No change
5. Continue use of G-electric system	5. No change
6. Costs for 2013-2015 were \$810,000.	6. Costs for 2016-2018 are estimated to be \$810,000.

Initiative 6 – Post-Storm Data Collection and Forensic Analysis	
Current Plan	Updated Plan
1. DEF has forensic teams in place and will collect and analyze samples.	1. No change
2. Plan continues to be implemented as severe weather events occur.	2. No change

Initiative 7 – Collection of Detailed Outage Data Differentiating between the Reliability Performance of Overhead and Underground Systems	
Current Plan	Updated Plan
1. DEF’s Storm Preparedness Plan has been initiated.	1. No change
2. Implement in 2007. Storm performance results are obtained from DEF’s GIS.	2. No change

Initiative 8 – Increased Coordination with Local Governments	
Current Plan	Updated Plan
1. DEF focuses on year-round communication with local governments. In addition, DEF implements meetings to discuss city and county projects.	1. No change
2. Costs for 2013-2015 were \$0.	2. Costs for 2016-2018 are estimated to be \$0.

Initiative 9 – Collaborative Research	
Current Plan	Updated Plan
1. Collaborative research efforts, led by PURC, which began in 2007.	1. No change
2. Research vegetation management during storm and non-storm times, wind during storm and non-storm events, hurricane and damage modeling towards further understanding the costs and benefits of undergrounding.	2. No change
3. DEF will solicit participation from other utilities and organizations.	3. No change
4. Implementation is ongoing	4. DEF has entered into a Memorandum of Understanding with the University of Florida’s PURC, which extends research through December 31, 2018.
5. Costs for 2013-2015 were \$0	5. Costs for 2016-2018 are estimated to be \$0.

Initiative 10 – A Natural Disaster Preparedness and Recovery Program	
Current Plan	Updated Plan
Disaster Preparedness/Recovery Plan has been developed and filed.	Continue to refine.

Gulf Power Company

Eight-Year Wooden Pole Inspection Program	
Current Plan	Updated Plan
1. Implement an eight-year wooden pole inspection cycle for distribution poles.	1. No change
2. File the progress of this inspection in the Annual Reliability Report.	2. No change
3. Costs for 2013-2015 were \$6,236,000.	3. Costs for 2016-2018 are estimated to be \$7,044,000.

Initiative 1 – A Three-Year Vegetation Management Cycle for Distribution Circuits	
Current Plan	Updated Plan
1. Implement a three-year trim cycle on all main line feeders.	1. No change
2. Shorten the trim-cycle length on lateral lines to four years and reduce the emphasis on danger tree removal in residential areas.	2. No change
3. Costs for 2013-2015 were \$16,794,000.	3. Costs for 2016-2018 are estimated to be \$17,846,000.

Initiative 2 – Audit of Joint-Use Attachment Agreements	
Current Plan	Updated Plan
1. (a) Discontinue the pole strength assessment on 5% random sample.	1. (a) No change
(b) Audit all Gulf-owned poles and third party poles per Joint-Use contract agreements on a five-year cycle.	(b) No change
2. All required data will be collected and stored during the five-year inspection cycle.	2. No change
3. Verify attachments have been made pursuant to current joint-use agreements through a five-year cycle.	3. No change
4. Discontinue the 5% random sample due to low failure rates over the three-year pilot project.	4. No change
5. Cost for 2013-2015 were \$0	5. Costs for 2016-2018 are estimated to be \$300,000.

Initiative 3 – Six-Year transmission Inspection Program	
Current Plan	Updated Plan
1. Wooden pole inspection activities (PSC-06-0144-PAA-EI, Docket No. 060078-EI). All other portions of the system: Gulf does not hold itself to a rigid number of annual inspections. Period of 12 years will show that on average a six-year cycle is achieved.	1. No change
2. Substations inspected at least annually. Structures inside new substations built to withstand wind speed in excess of 150 MPH.	2. No change
3. Costs for 2013-2015 were \$663,000.	3. Costs for 2016-2018 are estimated to be \$726,000.

Initiative 4 – Hardening of Existing Transmission Structures	
Current Plan	Updated Plan
1. Install storm guy H-Frames. Replace wooden cross-arms with steel cross-arms and other activities.	1. No change (installation of storm guy on H-frame structures was completed in 2012).
2. Adhere to current design and construction standards using generally accepted engineering practices, in conjunction with the recommended six-year structure inspection program.	2. No change
3. Costs for 2013-2015 were \$26,139,000.	3. Costs for 2016-2018 are estimated to be \$29,933,000.

Initiative 5 – Transmission and Distribution Geographic Information System	
Current Plan	Updated Plan
1. Gulf's plan includes forensic reviews.	1. No change
2. Gulf's plan includes underground versus overhead.	2. No change
3. Plan includes determination of appropriate maintenance.	3. No change
4. Plan includes evaluation of storm hardening options.	4. No change
5. Data is currently being captured.	5. No change

Initiative 6 – Post-Storm Data Collection and Forensic Analysis	
Current Plan	Updated Plan
1. Distribution & Transmission: Concurrent with storm restoration, crews of contractors to survey a sample of lines affected by the storm. Inland and coastal areas to be surveyed.	1. No change
2. Costs for 2013-2015 were \$0.	2. Costs for 2016-2018 are estimated to be \$0.
Initiative 7 – Collection of Detailed Outage Data Differentiating between the Reliability Performance of Overhead and Underground Systems	
Current Plan	Updated Plan
1. Record number of overhead and underground customers and calculate SAIDI and SAIFI for each outage. As outages occur, collect data by type of buried cable and type of pole.	1. No change
2. Implementation is ongoing.	2. No change
Initiative 8 – Increased Coordination with Local Governments	
Current Plan	Updated Plan
1. Gulf plan builds on existing programs of years round activities like workshops with community leaders, pre-hurricane planning with participation in all local government hurricane preparedness drills, exercises, information fairs by line clearing specialists, and a standing Emergency Operations Center staffed 24 hours a day.	1. No change
2. Costs for 2013-2015 were \$0.	2. Costs for 2016-2018 were estimated to be \$0.

Initiative 9 – Collaborative Research	
Current Plan	Updated Plan
1. Collaborative research efforts, led by PURC, which began in 2007.	1. No change
2. Research vegetation management during storm and non-storm times, wind during storm and non-storm events hurricane and damage modeling towards further understanding the costs and benefits of undergrounding.	2. No change
3. Gulf will solicit participation from other utilities and organizations.	3. No change
4. Implementation is ongoing	4. Gulf has entered into a Memorandum of Understanding with the University of Florida’s PURC, which extends research through December 31, 2018.
5. Costs for 2013-2015 were \$92,177.	5. Costs for 2016-2018 are estimated to be \$96,000.

Initiative 10 – A Natural Disaster Preparedness and Recovery Program	
Current Plan	Updated Plan
Disaster Preparedness/Recovery Plan has been developed and filed.	Continue to refine.

Item 7

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: November 22, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (King) *W*
Office of the General Counsel (Tan, Corbari, Cuello, Lherisson) *WFC* *one* *Bz* *WCF* *MT*

RE: Docket No. 160186-EI – Petition for rate increase by Gulf Power Company.

Docket No. 160170-EI-Petition for approval of 2016 depreciation and dismantlement studies, approval of proposed depreciation rates and annual dismantlement accruals and Plant Smith Units 1 and 2 regulatory asset amortization, by Gulf Power Company.

AGENDA: 12/06/16 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Patronis

CRITICAL DATES: 12/12/16 (60-Day Suspension Date)

SPECIAL INSTRUCTIONS: None

Case Background

In Gulf's most recent base rate proceeding in Docket No.130140-EI, the Commission approved a settlement agreement which authorized revenue increases of \$35 million in January 2014 and an additional \$20 million in 2015, for a total increase of \$55 million.¹ The settlement covers a term of 42 months that began with the first billing cycle of January 2014 and ends on the last billing cycle of June 2017.

¹ Order No. PSC-13-0670-S-EI, issued December 19, 2013, in Docket No. 130140-EI, *In re: Petition for rate increase by Gulf Power Company.*

Docket Nos. 160186-EI, 160170-EI
Date: November 22, 2016

This proceeding commenced on October 12, 2016, with the filing of a petition for a permanent rate increase and motion to consolidate dockets by Gulf Power Company (Gulf).² Gulf provides electric service to approximately 450,000 retail customers in all or parts of eight Florida counties. Gulf requested an increase in its retail rates and charges to generate approximately \$106.8 million in additional gross annual revenues, effective July 1, 2017. Gulf also requested approval of an authorized return on equity (ROE) of 11.0 percent, with a range of plus or minus 100 basis points. The hearing is scheduled for March 20-24, 2017. Gulf did not request any interim rate relief.

On October 14, 2016, the Commission acknowledged the Office of Public Counsel's notice of intervention in this proceeding.³ Also, petitions for intervention were recently filed by the Federal Executive Agencies and the Southern Alliance for Clean Energy.

This recommendation addresses the suspension of the requested permanent rate increase. The Commission has jurisdiction pursuant to Sections 366.06(2), (3), and (4), Florida Statutes.

² Gulf's motion to consolidate dockets was approved by Order No. PSC-16-0511-PCO-EI, issued November 9, 2016, in Docket No. 160170-EI, *In re: Petition for approval of 2016 depreciation and dismantlement studies, approval of proposed depreciation rates and annual dismantlement accruals and Plant Smith Units 1 and 2 regulatory asset amortization*, by Gulf Power Company and Docket No. 160186-EI, *In re: Petition for rate increase by Gulf Power Company*

³ Order No. PSC-16-0466-PCO-EI, issued October 14, 2016, in Docket No. 160186-EI, *In re: Petition for rate increase by Gulf Power Company*.

Discussion of Issues

Issue 1: Should Gulf's request for a \$106,782,000 permanent base rate increase and the associated tariff revisions be suspended pending a final decision in this docket?

Recommendation: Yes. The \$106,782,000 permanent base rate increase and its associated tariff revisions requested by Gulf should be suspended in order to allow staff and any intervenors sufficient time to adequately and thoroughly examine whether the request for permanent rate relief is appropriate. (King)

Staff Analysis: Gulf filed its petition, testimony, and minimum filing requirements on October 12, 2016. Gulf has requested a total permanent base rate increase of \$106,782,000 based on a projected test year ending December 31, 2017.

The suspension of the rate increase is authorized by Section 366.06(3), Florida Statutes, which provides:

Pending a final order by the commission in any rate proceeding under this section, the commission may withhold consent to the operation of all or any portion of the new rate schedules, delivering to the utility requesting such increase, within 60 days, a reason or written statement of good cause for withholding its consent.

Staff recommends that the Commission suspend Gulf's request for a \$106,782,000 permanent base rate increase and the associated tariff revisions in order to allow staff and any intervenors sufficient time to adequately and thoroughly examine whether the request for permanent rate relief is appropriate.

Issue 2: Should this docket be closed?

Recommendation: No. This docket should remain open to process Gulf's revenue increase request. (Tan, Corbari, Cuello, Lherisson)

Staff Analysis: This docket should remain open to process Gulf's revenue increase request.

Item 8

State of Florida



FILED NOV 22, 2016
DOCUMENT NO. 08944-16
FPSC - COMMISSION CLERK

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: November 22, 2016
TO: Docket No. 150010-WS
FROM: Carlotta S. Stauffer, *CS* Commission Clerk, Office of Commission Clerk
RE: Deferred Commission Conference Agenda Item

Staff's memorandum assigned DN 08364-16 was filed on October 20, 2016, for the November 1, 2016 Commission Conference. As the November 1, 2016 vote sheet reflects, issues 1-9 of this item were decided and issues 10-19 were deferred to the December 6, 2016 Commission Conference. Therefore, issues 10-19 of this item have been placed on the December 6, 2016 Commission Conference Agenda.

Staff's memorandum assigned DN 08942-16, filed in this docket on November 22, 2016, provides a supplemental analysis to Staff's October 20, 2016 recommendation, for issues 10-19.

Both of the aforementioned staff memoranda are attached .

/css

Attachments

RECEIVED-FPSC
2016 NOV 22 PM 12:36
COMMISSION
CLERK

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: November 22, 2016

TO: Chairman Julie I. Brown
Commissioner Lisa Polak Edgar
Commissioner Art Graham
Commissioner Ronald A. Brisé
Commissioner Jimmy Patronis

FROM: Division of Engineering (Ballinger)
Division of Economics (Shafer)

RE: Docket No. 150010-WS – Application for staff-assisted rate case in Brevard County by Aquarina Utilities, Inc.
Supplemental analysis to Staff's October 20, 2016 recommendation, Issues 10 through 19.

RECEIVED-FPSC
2016 NOV 22 PM 12:09
COMMISSION
CLERK

Handwritten initials, possibly "JTB", in blue ink.

Introduction

At the November 1, 2016 Commission Conference, the Commission voted on Issues 1 – 9 of Staff's October 20, 2016 recommendation. The Commission found that the overall quality of service for Aquarina Utilities, Inc. (Aquinara or Utility) is marginal and that Commission staff should commence a management audit of the Utility. The Commission also approved overall Phase I revenue requirements for all water and wastewater services. The Utility customers in attendance, as well as the Utility, expressed concern about the level and structure of the irrigation (non-potable water) rates and the resulting risk of losing the largest irrigation customer, Aquarina Beach and Country Club (Country Club). The Commission directed staff to work with the Utility and the customers, including the Country Club, to reallocate revenue requirements to address the concerns expressed by the Utility and the customers. This memo provides alternative rates and rate structures for the Commission to consider in conjunction with the October 20, 2016 staff recommendations for Issues 10 – 19.

Staff Analysis

At the November 1, 2016 Commission Conference, several customers and the Utility expressed concern over the amount of the increase in staff's recommended non-potable water rates. The comments placed emphasis on the impact the rate increase would have on the largest non-potable water customer, the Country Club. Customers were concerned that if the Country Club was forced out of business it could affect property values in the community. The customers and the Utility also noted that all customers benefit from the non-potable water system because it provides fire flow.

Prior to the November 1, 2016 Commission Conference, the Utility proposed the increase to the non-potable gallonage rate be limited to 10 percent or \$0.86 and the remaining non-potable revenue increase collected from potable water service. Based on the Utility's proposal, staff had prepared and distributed several different rate structure scenarios to address the Utility's concern about the risk of losing the Country Club. None of the scenarios presented at that time were deemed suitable to the customers who were present. The Commission deferred consideration of Issues 10 - 19 and directed staff to develop additional rate structure alternatives based on the comments of the customers and the Utility. Staff has developed two additional alternative rate structures shown on Attachment 1.

Alternative 1 is a variation of the Utility's proposal to limit the increase to the existing non-potable gallonage charge to 10 percent resulting in a proposed gallonage charge of \$0.86 per thousand gallons. This alternative has no associated Base Facility Charge for non-potable water service and evenly distributes the residual non-potable revenue requirement between potable water service and wastewater service. Alternative 2 splits the non-potable revenue requirement equally between the three services: potable water, non-potable water, and wastewater. Alternative 2 includes a Base Facility Charge for all meter sizes for non-potable water service. In both Alternatives 1 and 2, the wastewater only flat rate does not include any allocation from the non-potable system.

Staff provided Alternatives 1 and 2 to the Utility, representatives of several customer groups, and the Office of Public Counsel via email on November 14. A meeting of the Aquarina Community Services Association (ACSA) was held on November 15 to consider the alternative rates structures. ACSA is a master association over multiple HOAs within the Utility's service area. Only the Sunnyland development, whose customers are wastewater only and not affected, and the St. Andrews development are not represented by the ACSA. Staff provided the new alternatives to the St. Andrews HOA president via email on November 18, 2016, and received the HOA response on November 21, 2016. The St. Andrews HOA response is that it prefers staff's recommended rates over either alternative and is not in favor of subsidizing the non-potable water rates to the benefit of the Country Club. Staff has received email confirmation from the Country Club that it prefers Alternative 1 and the Utility has also confirmed that it prefers Alternative 1.

Should the Commission determine in Issue 10 that Alternative 1 is the appropriate rate structure, Issue 11 (four year rate case expense reduction) and Issue 16 (Phase II rates) are affected. Attachment 2 includes Schedules Nos. 4-A, 4-B, 8-A, and 8-B reflecting Alternative 1 and 2 rates and the four year rate reductions as well as Phase II rates. Staff's initial recommendation did not include a change to the customer deposits, however, Alternative 1 and 2 rates would result in a change in the initial customer deposits. A recalculated initial customer deposit amount which corresponds to Alternative 1 and 2 is also included in Attachment 2.

cc: Braulio Baez
Keith Hetrick
Mark Futrell
Carlotta Stauffer
Charles Murphy

Aquarina Utilities, Inc.
Docket No. 150010-WS

	Staff Recommended	Alternative 1	Alternative 2
	Phase I Rates	Company's proposed 10% Increase Non-potable revenue increase shift to potable and wastewater	Three-way split of non-potable revenue increase shift to water, wastewater, and non-potable
Water			
Base Facility Charge	\$19.16	\$26.26	\$23.95
Charge Per 1,000 gallons - Residential and General Service	\$6.95		\$8.30
Charge per 1,000 gallons - Residential Service			
0-3,000 gallons		\$9.10	
Over 3,000 gallons		\$9.90	
Charge per 1,000 gallons - General Service		\$9.27	
Non-Potable Irrigation			
Base Facility Charge	\$13.86	\$0.00	\$9.37
Charge per 1,000 gallons - Irrigation Service	\$1.38	\$0.86	\$0.78
Wastewater			
Base Facility Charge	\$22.83	\$28.74	\$26.35
Charge per 1,000 gallons - Residential 8,000 gallon cap	\$4.94	\$9.60	\$8.80
Charge per 1,000 gallons - General Service	\$5.94	\$11.52	\$10.56
Flat Rate Service	\$35.78	\$35.02	\$35.02
Bill @ 2,000 gallons			
Water	\$33.06	\$44.46	\$40.55
Irrigation	\$16.62	\$1.72	\$10.93
Wastewater	\$32.71	\$47.94	\$43.95
Bill @ 6,000 gallons			
Water	\$60.86	\$83.26	\$73.75
Irrigation	\$22.14	\$5.16	\$14.05
Wastewater	\$52.47	\$86.34	\$79.15
Golf Course			
BFC	\$1,108.80	\$0.00	\$749.60
Gallonage (3,841,135 gallons)	\$5,300.77	\$3,303.38	\$2,996.09
Total Bill	\$6,409.57	\$3,303.38	\$3,745.69

AQUARINA UTILITIES, INC.		SCHEDULE NO. 4-A	
TEST YEAR ENDED SEPTEMBER 30, 2014		DOCKET NO. 150010-WS	
MONTHLY WATER RATES (Alternative 1- Phase I)			
	RATES AT TIME OF FILING	ALTERNATIVE I PHASE I RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$19.16	\$26.26	\$0.10
3/4"	\$28.74	\$39.39	\$0.14
1"	\$47.90	\$65.65	\$0.24
1-1/2"	\$95.79	\$131.30	\$0.48
2"	\$153.27	\$210.08	\$0.76
3"	\$306.55	\$420.16	\$1.52
4"	\$478.96	\$656.50	\$2.38
6"	\$957.93	\$1,313.00	\$4.76
Charge per 1,000 gallons - Residential and General Service	\$6.95		
Charge per 1,000 gallons - Residential Service			
0-3,000 gallons		\$9.10	\$0.03
Over 3,000 gallons		\$9.90	\$0.04
Charge per 1,000 gallons - General Service		\$9.27	\$0.03
<u>Irrigation Service - Non-Potable</u>			
Charge per 1,000 gallons	\$0.78	\$0.86	\$0.01
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$33.06	\$44.46	
6,000 Gallons	\$60.86	\$83.26	
8,000 Gallons	\$74.76	\$103.06	

AQUARINA UTILITIES, INC.		SCHEDULE NO. 4-B	
TEST YEAR ENDED SEPTEMBER 30, 2014		DOCKET NO. 150010-WS	
MONTHLY WASTEWATER RATES (Alternative 1 –Phase I)			
	RATES AT TIME OF FILING	ALTERNATIVE 1 PHASE I RATES	4 YEAR RATE REDUCTION
<u>Residential</u>			
Base Facility Charge - All Meter Sizes			
Charge Per 1,000 gallons	\$22.13	\$28.74	\$0.09
8,000 gallon cap	\$4.79	\$9.60	\$0.03
Flat Rate Service	\$34.69	\$35.02	\$0.12
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$22.13	\$28.74	\$0.09
3/4"	\$33.16	\$43.11	\$0.14
1"	\$55.28	\$71.85	\$0.24
1-1/2"	\$110.56	\$143.70	\$0.47
2"	\$176.90	\$229.92	\$0.76
3"	\$353.81	\$459.84	\$1.51
4"	\$552.83	\$718.50	\$2.36
6"	\$1,105.67	\$1,437.00	\$4.72
Charge per 1,000 gallons	\$5.76	\$11.52	\$0.04
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$31.71	\$47.94	
6,000 Gallons	\$50.87	\$86.34	
8,000 Gallons	\$60.45	\$105.54	

AQUARINA UTILITIES, INC.		SCHEDULE NO. 8-A	
TEST YEAR ENDED SEPTEMBER 30, 2014		DOCKET NO. 150010-WS	
MONTHLY WATER RATES (Alternative 1 – Phase II)			
	ALTERNATIVE 1 PHASE I RATES	ALTERNATIVE 1 PHASE II RATES	
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$26.26	\$27.79	
3/4"	\$39.39	\$41.69	
1"	\$65.65	\$69.48	
1-1/2"	\$131.30	\$138.95	
2"	\$210.08	\$222.32	
3"	\$420.16	\$444.64	
4"	\$656.50	\$694.75	
6"	\$1,313.00	\$1,389.50	
Charge per 1,000 gallons - Residential Service			
0-3,000 gallons	\$9.10	\$9.63	
Over 3,000 gallons	\$9.90	\$10.48	
Charge per 1,000 gallons - General Service			
	\$9.27	\$9.81	
<u>Irrigation Service - Non-Potable</u>			
Charge per 1,000 gallons	\$0.86	\$0.90	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$44.46	\$47.05	
6,000 Gallons	\$83.26	\$88.12	
8,000 Gallons	\$105.54	\$109.08	

AQUARINA UTILITIES, INC.		SCHEDULE NO. 8-B	
TEST YEAR ENDED SEPTEMBER 30, 2014		DOCKET NO. 150010-WS	
MONTHLY WASTEWATER RATES (Alternative 1 – Phase II)			
	ALTERNATIVE 1 PHASE I RATES	ALTERNATIVE 1 PHASE II RATES	
<u>Residential</u>			
Base Facility Charge - All Meter Sizes			
Charge Per 1,000 gallons	\$28.74	\$29.43	
8,000 gallon cap	\$9.60	\$9.83	
Flat Rate Service	\$35.02	\$35.86	
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$28.74	\$29.43	
3/4"	\$43.11	\$44.15	
1"	\$71.85	\$73.58	
1-1/2"	\$143.70	\$147.15	
2"	\$229.92	\$235.44	
3"	\$459.84	\$470.88	
4"	\$718.50	\$735.75	
6"	\$1,437.00	\$1,471.50	
Charge per 1,000 gallons	\$11.52	\$11.80	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$47.94	\$49.09	
6,000 Gallons	\$86.34	\$88.41	
8,000 Gallons	\$105.54	\$108.07	

Initial Customer Deposits - Alternative 1

<u>Meter Size</u>	<u>Residential</u>	<u>General Service</u>
5/8" x 3/4"	\$91.65	\$98.95
All Over 5/8" X 3/4"	2 x Average Bill	2 x Average Bill

AQUARINA UTILITIES, INC.		SCHEDULE NO. 4-A	
TEST YEAR ENDED SEPTEMBER 30, 2014		DOCKET NO. 150010-WS	
MONTHLY WATER RATES (Alternative 2 - Phase I)			
	RATES AT TIME OF FILING	ALTERNATIVE 2 PHASE I RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$19.16	\$23.95	\$0.10
3/4"	\$28.74	\$35.93	\$0.14
1"	\$47.90	\$59.88	\$0.24
1-1/2"	\$95.79	\$119.75	\$0.48
2"	\$153.27	\$191.60	\$0.76
3"	\$306.55	\$383.20	\$1.52
4"	\$478.96	\$598.75	\$2.38
6"	\$957.93	\$1,197.50	\$4.76
Charge per 1,000 gallons	\$6.95	\$8.30	\$0.03
<u>Irrigation Service - Non-Potable</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"		\$9.37	\$0.05
3/4"		\$14.06	\$0.08
1"		\$23.43	\$0.13
1-1/2"		\$46.85	\$0.26
2"		\$74.96	\$0.42
3"		\$149.92	\$0.83
4"		\$234.25	\$1.30
6"		\$468.50	\$2.59
8"		\$749.60	\$4.15
Charge per 1,000 gallons	\$0.78	\$0.78	\$0.00
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$33.06	\$40.55	
6,000 Gallons	\$60.86	\$73.75	
8,000 Gallons	\$74.76	\$90.35	

AQUARINA UTILITIES, INC.		SCHEDULE NO. 4-B	
TEST YEAR ENDED SEPTEMBER 30, 2014		DOCKET NO. 150010-WS	
MONTHLY WASTEWATER RATES (Alternative 2 – Phase I)			
	RATES AT TIME OF FILING	ALTERNATIVE 2 PHASE I RATES	4 YEAR RATE REDUCTION
<u>Residential</u>			
Base Facility Charge - All Meter Sizes			
Charge Per 1,000 gallons	\$22.13	\$26.35	\$0.09
8,000 gallon cap	\$4.79	\$8.80	
Flat Rate Service	\$34.69	\$35.02	\$0.12
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$22.13	\$26.35	\$0.09
3/4"	\$33.16	\$39.53	\$0.14
1"	\$55.28	\$65.88	\$0.24
1-1/2"	\$110.56	\$131.75	\$0.47
2"	\$176.90	\$210.80	\$0.75
3"	\$353.81	\$421.60	\$1.50
4"	\$552.83	\$658.75	\$2.35
6"	\$1,105.67	\$1,317.50	\$4.70
Charge per 1,000 gallons	\$5.76	\$10.56	\$0.04
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$31.71	\$43.95	
6,000 Gallons	\$50.87	\$79.15	
8,000 Gallons	\$60.45	\$96.75	

AQUARINA UTILITIES, INC.		SCHEDULE NO. 8-A	
TEST YEAR ENDED SEPTEMBER 30, 2014		DOCKET NO. 150010-WS	
MONTHLY WATER RATES (Alternative 2 - Phase II)			
	ALTERNATIVE 2 PHASE I RATES	ALTERNATIVE 2 PHASE II RATES	
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$23.95	\$24.83	
3/4"	\$35.93	\$37.25	
1"	\$59.88	\$62.08	
1-1/2"	\$119.75	\$124.15	
2"	\$191.60	\$198.64	
3"	\$383.20	\$397.28	
4"	\$598.75	\$620.75	
6"	\$1,197.50	\$1,862.50	
Charge per 1,000 gallons	\$8.30	\$8.60	
<u>Irrigation Service - Non-Potable</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$9.37	\$9.71	
3/4"	\$14.06	\$14.57	
1"	\$23.43	\$24.28	
1-1/2"	\$46.85	\$48.55	
2"	\$74.96	\$77.68	
3"	\$149.92	\$155.36	
4"	\$234.25	\$242.75	
6"	\$468.50	\$485.50	
8"	\$749.60	\$776.80	
Charge per 1,000 gallons	\$0.78	\$0.81	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$40.55	\$42.03	
6,000 Gallons	\$73.75	\$76.43	
8,000 Gallons	\$90.35	\$93.63	

AQUARINA UTILITIES, INC.		SCHEDULE NO. 8-B	
TEST YEAR ENDED SEPTEMBER 30, 2014		DOCKET NO. 150010-WS	
MONTHLY WASTEWATER RATES (Alternative 2 – Phase II)			
	ALTERNATIVE 2 PHASE I RATES	ALTERNATIVE 2 PHASE II RATES	
<u>Residential</u>			
Base Facility Charge - All Meter Sizes			
Charge Per 1,000 gallons	\$26.35	\$27.66	
8,000 gallon cap	\$8.80	\$9.24	
Flat Rate Service	\$35.02	\$36.76	
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$26.35	\$27.66	
3/4"	\$39.53	\$41.49	
1"	\$65.88	\$69.15	
1-1/2"	\$131.75	\$138.30	
2"	\$210.80	\$221.28	
3"	\$421.60	\$442.56	
4"	\$658.75	\$691.50	
6"	\$1,317.50	\$1,383.00	
Charge per 1,000 gallons	\$10.56	\$11.09	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$43.95	\$46.14	
6,000 Gallons	\$79.15	\$83.10	
8,000 Gallons	\$96.75	\$101.58	

Initial Customer Deposits - Alternative 2

<u>Meter Size</u>	<u>Residential</u>	<u>General Service</u>
5/8" x 3/4"	\$83.59	\$90.72
All Over 5/8" X 3/4"	2 x Average Bill	2 x Average Bill

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: October 18, 2016

TO: Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk

FROM: Thomas E. Ballinger, Director, Division of Engineering 

RE: Docket No. 150010-WS - Application for staff-assisted rate case in Brevard County by Aquarina Utilities, Inc.

Attached for filing is the revised recommendation in the above-named docket. Staff filed its original recommendation on September 29, 2016. The revised recommendation is necessary to correct two scrivener's errors. The first correction is to Table 12-5, p. 41 of the recommendation, which now shows the correct Initial Connection Charge as discussed on pp. 38 and 39 of the recommendation. The second correction is to Schedule 4-B on p. 69 of the recommendation. The note at the bottom of the Schedule has been deleted. Neither of these corrections alter the staff's overall recommendation in the docket.

EXE Approval _____

A handwritten signature in blue ink, consisting of several loops and a trailing line.

TB/pz

Attachment

-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: October 20, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Lewis, King)
Division of Accounting and Finance (Fletcher, Mouring, Smith II)
Division of Economics (Bruce)
Office of the General Counsel (Murphy)

Handwritten initials and signatures: 24, B, CKL, TB, CR, ALM, Zm, 10/20/16, JS#

RE: Docket No. 150010-WS – Application for staff-assisted rate case in Brevard County by Aquarina Utilities, Inc.

AGENDA: 11/01/16 – Proposed Agency Action – Except for Issue Nos. 11, 17, and 18 - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: Waived (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

Table of Contents

Case Background	2
Issue 1 Quality of Service	3
Issue 2 Used and Useful.....	7
Issue 3 Average Test Year Rate Base	12
Issue 4 Rate of Return.....	18
Issue 5 Test Year Revenues	19
Issue 6 Operating Expenses	20
Issue 7 Potable and Non-Potable Water Revenue Requirement	28
Issue 8 Operating Ratio Method	30
Issue 9 Wastewater Revenue Requirement.....	33
Issue 10 Appropriate Rates and Rate Structure	34
Issue 11 Four-Year Rate Reduction	37
Issue 12 Miscellaneous Service Charges	38
Issue 13 Maintenance Charges.....	43
Issue 14 Non-Sufficient Funds (NSF) Charges.....	44
Issue 15 Service Availability Charges	45
Issue 16 Increase for Pro Forma Items.....	47
Issue 17 Temporary Rates.....	50
Issue 18 Proof of Adjustments.....	52
Issue 19 Close Docket.....	53
Schedule No. 1-A Potable Water Rate Base Phase I	54
Schedule No. 1-B Non-Potable Water Rate Base Phase I	55
Schedule No. 1-C Wastewater Rate Base Phase I	56
Schedule No. 1-D Adjustments To Rate Base Phase I	57
Schedule No. 2 Capital Structure-Phase I.....	58
Schedule No. 3-A Water Operating Income Phase I	59
Schedule No. 3-B Non - Potable Water Operating Income Phase I.....	60
Schedule No. 3-C Wastewater Operating Income Phase I.....	61
Schedule No. 3-D Adjustments of Operating Income Phase I.....	63
Schedule No. 3-E Analysis of Potable Water Operation and Maintenance Expense Phase I.....	65
Schedule No. 3-F Analysis of Non Potable Water Operation & Maintenance Expense Phase I.....	66
Schedule No. 3-G Analysis of Wastewater Operating& Maintenance Expense Phase I.....	67
Schedule No. 4-A Monthly Water Rates Phase I.....	68
Schedule No. 4-B Monthly Wasterwater Rates Phase I.....	69
Schedule No. 5-A Water Rate Base Phase II.....	70
Schedule No. 5-B Non-Potable Water Rate Base-Phase II.....	71
Schedule No. 5-C Wastewater Rate Base Phase II	72
Schedule No. 5-D Adjustments to Rate Base	73
Schedule No. 6 Capital Structure-Phase II.....	74
Schedule No. 7-A Water Operating Income Phase II	75
Schedule No. 7-B Non-Potable Water Operating Income Phase II	76
Schedule No. 7-C Wastewater Operating Income Phase II	77
Schedule No. 7-D Adjustments to Operating Income.....	78
Schedule No. 8-A Monthly Water Rates Phase II.....	79
Schedule No. 8-B Monthly Wasterwater Rates Phase II.....	80
Attachment A – Cost Allocation.....	81

Case Background

Aquarina Utilities, Inc., (Aquarina or Utility) is a Class B utility providing service to approximately 296 water and 311 wastewater customers in Brevard County. Aquarina also provides non-potable water for irrigation to approximately 107 customers. The Utility began providing service in 1984 when it was known as Aquarina Developments, Inc. In 1989, the Commission granted the Utility water and wastewater certificate numbers 517-W and 450-S, respectively. Water and wastewater rates were last established for the Utility in 2003, when it was known as Service Management Systems, Inc.¹ The Utility was transferred to Aquarina in 2012.²

On January 2, 2015, Aquarina filed an application for a Staff Assisted Rate Case (SARC). Staff selected the test year ending December 31, 2014, for the instant case. According to Aquarina's 2014 Annual Report, its total operating revenues for water and wastewater were \$269,405 and \$161,736, respectively. The Utility reported a net loss of \$45,050 for the water service and net income of \$5,320 for the wastewater service.³ On July 14, 2015, Aquarina submitted additional pro forma request for consideration in which staff received the final quotes on October 19, 2015. On January 19, 2016, the Utility requested consideration of additional well expenses.⁴

A customer meeting was held on March 10, 2016, at the Aquarina Community Center to receive customer questions and comments concerning the Utility's rate case and quality of service. The Commission has jurisdiction in this case pursuant to Section 367.0814, Florida Statutes, (F.S.).

¹Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, *In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.*

²Order No. PSC-12-0614-CO-WS, issued November 16, 2012, in Docket No. 110061-WS, *In re: Application for authority to transfer assets and Certificate Nos. 517-W and 450-S of Service Management Systems, Inc. to Aquarina Utilities, Inc., in Brevard County.*

³Aquarina Utilities, Inc. 2014 Annual Report filed March 13, 2015, with the Commission.

<http://www.floridapsc.com/library/financials/WS949-DOCS/ANNUAL-REPORTS/WS949-14-AR.PDF>

⁴ See Document 00369-16

Discussion of Issues

Issue 1: Should the quality of service provided by Aquarina be considered satisfactory?

Recommendation: Yes. The overall quality of service provided by Aquarina should be considered satisfactory. (Lewis)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water and wastewater rate cases, the Commission shall determine the overall quality of service provided by the utility. This is derived from an evaluation of three separate components of the Utility's operations. These components are: (1) the quality of the utility's product; (2) the operating conditions of the utility's plant and facilities; and (3) the utility's attempt to address customer satisfaction. The Rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered. Additionally, Section 367.0812(1)(c), F.S., requires the Commission to consider the extent to which the utility provides water service that meets secondary water quality standards as established by the DEP.

Quality of Utility's Product

Staff's evaluation of Aquarina's water quality consisted of a review of the Utility's compliance with DEP primary and secondary drinking water standards, county health department standards, as well as customer complaints. Primary standards protect public health while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water.

Staff reviewed chemical analyses of samples dated July 29, 2012, and September 23, 2015. All results were in compliance with the DEP primary and secondary water quality standards. These chemical analyses are performed every three years; therefore, the next scheduled analysis should be in 2018.

At the customer meeting, two customers complained that the water provided by the Utility was discoloring their in-home filters and they had to replace their filters more frequently than in the past. One of these complaints was also filed with the Commission. The Utility responded to one customer by email and stated that the customer could set up an appointment to have the filters examined. Complaints regarding the quality of the Utility's product have been minimal since 2010.

Jurisdiction of Aquarina's wastewater facilities is under the DEP. The Utility's wastewater treatment plant (WWTP) permit was renewed on March 24, 2013, and expires on March 23, 2018. Currently, the DEP has no violations or corrective orders pending against the Utility concerning the treatment and disposal of Aquarina's domestic wastewater.

In addition to being a water and wastewater service provider, the Utility also provides irrigation and fire-flow to its customer base through an isolated non-potable system. The Consumptive Use Permit (CUP) issued by the St. Johns River Water Management District (SJWMD) on November 7, 2011, allows the Utility to withdraw up to 0.12 million gallons per day (mgd) for household and commercial/industrial use. The CUP also allows up to 0.24 mgd for urban irrigation and

Date: October 20, 2016

another 0.23 mgd for golf course irrigation. The Utility appears to be operating within the parameters of its CUP. All other regulation of the irrigation and fire-flow system is under the jurisdiction of the Office of the Brevard County Fire Rescue. Staff has not received any information from the Brevard County Fire Department indicating concerns about the pressure of the fire flow system.

Operating Condition of the Utility's Plant and Facilities

Aquarina provides finished potable water obtained from two wells, which draw ground water from the aquifer. The raw water is treated by a Reverse Osmosis (RO) system which filters impurities from the raw water. The potable water is then directed into a 3,000-gallon hydropneumatic tank and a 150,000 ground storage tank and then pumped into the water distribution system. The distribution system is composed of PVC pipe.

Sanitary surveys of water treatment plants are conducted triennially. On March 7, 2011, the DEP conducted a Sanitary Survey of Aquarina's water treatment plant and deemed it in compliance on April 25, 2011. On January 14, 2014, the DEP conducted another Sanitary Survey of Aquarina's water treatment plant. The DEP identified the following deficiencies:

- 1) The north well #1 (AAC2808) was noted leaking from the packing seals. Failure to maintain public water system components.
- 2) Failure to provide a smooth-nosed tap for sampling raw well water for well #1 (AAC2808).
- 3) Failure to conduct monitoring for Nitrate/Nitrite annually. The sample collected on December 30, 2013 was invalid due to holding exceedances.

Aquarina's wastewater treatment plant utilizes an extended aeration process. The facility is authorized to accept reject water from the existing RO water treatment plant. Flows (including RO reject water) to the plant are limited to 50,000 gpd which is the permitted capacity of the existing disposal system. A Wastewater Compliance Inspection Report was conducted on January 14, 2014, by the DEP and noted the following deficiencies:

- 1) Not completely filling out its monthly Discharge Monitoring Reports.
- 2) Not having required dual cylinders with automatic switchover or suitable scales for gas chlorination.
- 3) Due to excessive leaking, the sludge seals are in need of repair.

On January 27, 2014, the Utility reported to the DEP that all deficiencies with the water and wastewater treatment plants had been corrected. Subsequently, the DEP deemed the Utility in compliance on February 28, 2014. Staff's review of DEP compliance records indicates that Aquarina had no infractions from 2014 through 2015 for either the water or wastewater systems.

In its previous rate case, the Utility's non-potable water system was not considered satisfactory. At that time, the Utility was deemed to have violated National Fire Protection Association codes concerning the maintenance of the pumping system, maintenance of the distribution system, adequate system pressure, sufficient records of fire hydrant care and testing, etc. Based on discussions with the Brevard County Fire Rescue, the Utility is now in compliance with relevant codes.

The Utility's Attempt to Address Customer Satisfaction

The final component of the overall quality of service that must be assessed is the Utility's attempt to address customer satisfaction. As part of staff's evaluation of customer satisfaction, staff held a customer meeting on March 10, 2016, to receive customer comments concerning Aquarina's quality of service.

Approximately 45 customers attended the customer meeting in which 14 spoke about their experiences and concerns with the Utility's service. Eight of the customers who spoke at the customer meeting objected to the Utility's current rates or the magnitude of the proposed rate increase. As previously discussed in this issue, two customers reported problems associated with in-home filters.

One customer voiced issues with billing, particularly on the matter of incorrect meter readings that occurred in 2014. When contacted by the customer the Utility stated the high bill was due to a possible leak on the customer's property. The customer conducted an investigation of their pool and lanai however no leak was found. A credit was issued to the customer's bill. The customer filed a complaint with the Commission about the matter on March 7, 2016, prior to the customer meeting. The complaint was closed on March 14, 2016, since the matter was resolved in 2014.

Two customers discussed incidents involving the Utility's repair of water lines which caused water mixed with sand and debris to enter the home. The water line was crushed by the weight of an Oak tree. The Utility stated it advised the affected residence to flush their lines via the outside faucets for 15 minutes to clear the lines.

Finally, there were three accounts of the Utility failing to report service interruptions. The Utility stated it placed Boil Water notices on the doors of each residence and placed copies in the lobby of each of the condominium buildings. It also provided notifications via the development's property management office. The Utility has worked with the property manager to obtain emergency contact information for each of the sub-home owners associations in the community in an effort to better facilitate notification of Boil Water notices.

Staff also requested copies of complaints filed with the Utility during the test year and four years prior to the test year.⁵ The Utility responded that three customer complaints were received, all in 2011, all dealt with meter accuracy. A complaint was taken over the telephone; however, the Utility did not record the instance as a complaint. A refund also was provided to the customer.

Staff reviewed the Commission's complaint records from January 1, 2010, through July 13, 2016, and found six complaints, which include the three received by utility and all have been closed. Staff also requested complaints against the Utility filed with DEP for the 2014 test year and four years prior. DEP indicated that it has not received any complaints against the Utility during the requested time frame. Responses to subsequent requests to DEP indicate no complaints were received as of July 13, 2016.

⁵Document No. 01539-15 filed March 19, 2015.

Subsequent to the test year, Commission staff has received two complaints. The first was filed in March 2016 concerning a billing issue from 2014. The second was received on April 6, 2016, and concerned a leaking pipe on the Utility’s side of the meter. The issue was resolved when the pipe was repaired on April 20, 2016. Both complaints filed with the Commission in 2016 have been closed. Table 1-1 below, summarizes the customer contacts for Aquarina.

**Table 1-1
 Customer Contacts**

Subject of Complaint	PSC’s Records (CATS)	Utility’s Records	DEP	Customer Meeting*
Billing Related	4	3	0	2
Opposing Rate Increase	0	0	0	7
Quality of Service	2	0	0	9
Other	0	0	0	1
Total	6	0	0	19

*A complaint may appear more than once in this table if it meets multiple categories.

Summary

The Utility is in compliance with all primary and secondary water standards and the DEP deemed the Utility in compliance for both water and wastewater operations on February 28, 2014. Based on the discussion and review above, staff recommends the overall quality of service provided by Aquarina should be considered satisfactory.

Issue 2: What are the used and useful percentages (U&U) of Aquarina’s water treatment plant (WTP), WTP storage, distribution system, wastewater treatment plant, collection system, non-potable plant, non-potable distribution system, and non-potable storage?

Recommendation: Staff is recommending the following U&U percentages for Aquarina’s water, wastewater, and non-potable systems:

Plant	U&U Percentage
Water Treatment Plant	81.0 Percent
Water Distribution	62.6 Percent
Water Plant Storage	46.7 Percent
Wastewater Plant	55.9 Percent
Wastewater Collection System	65.4 Percent
Non-Potable Plant	100 Percent
Non-Potable Distribution	100 Percent
Non-Potable Storage	61.0 Percent

Staff also recommends that no adjustments to operating expenses be made for excessive unaccounted for water (EUW) or excessive inflow & infiltration (I&I). (Lewis)

Staff Analysis: Rates for Aquarina were previously set in 2003. For comparison purposes Table 2-1 below, summarizes the U&U determined in Aquarina’s 2003 rate case and the U&U being recommended by staff in the current case. Staff notes that Rule 25-30.4325, F.A.C., which codifies the Commission’s policy for calculating U&U, became effective in 2008.

Table 2-1

	Used and Useful	
	2003	Recommended
Water Treatment Plant	29.7 Percent	81.0 Percent
Water Distribution	62.6 Percent	62.6 Percent
Water Plant Storage	Not Calculated	46.7 Percent
Wastewater Plant	55.9 Percent	55.9 Percent
Wastewater Collection System	65.4 Percent	65.4 Percent
Non-Potable Plant	100 Percent	100 Percent
Non-Potable Distribution	100 Percent	100 Percent
Non-Potable Storage	Not Calculated	61.0 Percent

Potable Water Treatment Plant Used & Useful

Pursuant to Rule 25-30.4325, F.A.C., the U&U calculation for a WTP is ((Max Day - EUW + Fire Flow + Growth)/ Firm Reliable Capacity). Based on Aquarina's Monthly Operating Reports (MORs) the Max Day usage during the test year was 70,000 gallons. The Utility's MORs additionally indicate that there was no EUW during the test year. Staff's analysis of EUW is discussed in greater detail below. Fire flow is handled by a separate, non-potable system, therefore it is not considered in staff's evaluation of WTP used and useful. Historic flows indicate negative growth since 2011; therefore, staff is not making an adjustment for growth.

Rule 25-30.4325, F.A.C., provides that Firm Reliable Capacity (FRC) is expressed in gallons per day (gpd), based on 16 hours of pumping, for systems with storage capacity such as Aquarina's system. Typically the FRC is calculated by using the pumping capacity of the smallest well in the system which in this case is rated at 450 gpm. Based on 16 hours of availability the FRC equals 432,000 gpd. However, the Rule contains a provision by which an alternative calculation may be considered if supporting justification is provided, including service area or treatment capacity restrictions, changes in flows due to conservation or a reduction in the number of customers, and alternative peaking factors. The most recent DEP sanitary survey, for Aquarina's WTP, states that the Max Day capacity of the WTP is 86,400 gpd. Therefore, staff believes that 86,400 gpd should be used as the FRC. Based on the inputs discussed above, the resulting U&U calculation for the WTP equals 81 percent (70,000 - 0 + 0 + 0/86,400).

In Aquarina's 2003 rate case, the water treatment plant was deemed 29.7 percent U&U. As previously noted, Rule 25-30.4325, F.A.C., became effective subsequent to the Commission's decision in that case. Review of the U&U analysis in the previous case shows that storage was considered in determining the FRC. Rule 25-30.4325(3), F.A.C., states that [s]eparate used and useful calculations shall be made for the water treatment system and storage facilities. Staff's U&U calculation for Aquarina's storage facilities is discussed later.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. When establishing the Rule, the Commission recognized that some uses of water are readily measurable and others are not. Unaccounted for water is all water that is produced that is not sold, metered or accounted for in the records of the Utility. The Rule provides that to determine whether adjustments to plant and operating expenses, such as purchased electrical power and chemicals cost, are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible. The unaccounted for water is calculated by subtracting both the gallons used for other purposes, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year.

Aquarina's MORs show that the Utility treated 12,046,000 gallons and sold 12,322,490 gallons of water during the test year. This indicates the Utility sold 276,490 gallons more than it treated. Therefore, the Utility had an unaccounted for water value of negative 2.24 percent. The Utility explained its flow meter has an error margin of 6 percent.⁶ Even if staff were to recommend an

⁶ Document No. 04356-15 filed July 13, 2015.

adjustment to account for the inaccuracy of the flow meter, the unaccounted for water would not exceed 10 percent. Therefore, staff is recommending that no adjustment be made to operating expenses for chemicals and purchase power due to the EUW.

Potable Water Treatment Plant Storage Used & Useful

Pursuant to Rule 25-30.4325, F.A.C., the U&U calculation for WTP storage is $((\text{Max Day} - \text{EUW} + \text{Fire Flow} + \text{Growth})/\text{usable storage of the water storage tank})$. Aquarina's water storage tank is rated at 150,000 gallons. The resulting calculation, assuming the Max Day discussed in the previous section, equals 46.7 percent $((70,000 - 0 + 0 + 0)/150,000)$.

Potable Water Distribution System Used & Useful

In the Utility's previous rate case, distribution system used and useful was based on the capacity of the system and the number of test year connections measured on the basis of equivalent residential connections (ERCs). A growth allowance of 60 ERCs was also considered in the previous rate case. In response to a staff data request, the Utility stated that it does not have access to records which detail expansion or changes to the distribution system from 2003 to 2011. Due to incomplete records regarding Aquarina's water distribution system, staff is unable to determine the current capacity of the Utility's distribution system. To this point, staff notes that the Utility was obtained by current ownership in 2012.

In Aquarina's 2003 rate case, it was noted that recent approvals from Brevard County expanded the Utility's growth potential from 436 ERCs to 600 ERCs. Therefore, it is reasonable to consider that expansion of the water distribution may have occurred in the 2003 to 2011 timeframe.

Staff additionally considered whether or not the system should be considered built-out which would result in a U&U of 100 percent. Based on staff's review of the area, as well as communication with local community managers, it appears that there is potential for new construction in the area.

Given the lack of available information, staff recommends adhering to the prior Commission decision to consider the water distribution system 62.6 percent U&U. As discussed in Issue 3, staff is recommending granting the Utility's request for Geographic Information System (GIS) mapping of its plant to determine the current connection capacity of its water distribution system. The GIS mapping will allow the Utility to provide accurate information regarding its distribution system.

Wastewater Treatment Plant Used & Useful

In Aquarina's 2003 rate case, the WWTP was found to be 55.9 percent U&U. The Annual Average Daily Flow (AADF) from the Discharge Monitoring Reports filed monthly with DEP was 38,296 gpd. Pursuant to Rule 25-30.432, F.A.C., the U&U calculation for a WWTP is $((\text{AADF} - \text{I\&I} + \text{Growth})/\text{permitted capacity})$. As discussed in greater detail below, I&I for the WWTP cannot be accurately determined at this time, therefore, staff is not including an I&I value in its calculation. Based on historic flows, staff does not believe an adjustment for growth should be made at this time. The facility has a permitted capacity of 99,000 gpd.

Based on the inputs discussed above, the resulting calculation equals 44.8 percent $((38,296 - 0 + 0)/99,000 \text{ gpd})$ which is lower than the previously Commission ordered U&U percentage of 55.9 percent. Therefore, staff recommends adhering to the prior Commission decision to consider the wastewater treatment plant to be 55.9 percent U&U.

Inflow & Infiltration (I&I)

Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider I&I. Additionally, adjustments to operating expenses such as chemical and electrical costs are also considered necessary. Typically, inflow results from water entering a wastewater collection system through manholes or lift stations; whereas, infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints. It is an industry standard and Commission practice to allow 10 percent of water sold as inflow plus 500 gpd per inch diameter pipe per mile for infiltration.⁷ The sum of these amounts is the allowable I&I.

The Utility was not able to provide the size and length of its wastewater mains and indicated that it has incomplete records. Absent this information, an allowance for infiltration cannot be accurately determined. Therefore, staff is recommending no adjustments to operating expenses due to I&I. This recommendation is consistent with the Commission's decision in Aquarina's last rate case in which the Commission identified I&I as N/A and an adjustment was not made.⁸

Wastewater Collection System Used & Useful

For the same reasons discussed in staff's U&U analysis of Aquarina's water distribution system, staff is unable to determine the current capacity of the Utility's wastewater collection system. Therefore, consistent with staff's recommendation regarding the Utility's distribution system, staff recommends adhering to the prior Commission decision to consider the wastewater collection system to be 65.4 percent U&U.

Non-Potable Water System and Water Distribution System Used & Useful

Although a specific rule for non-potable water systems does not exist, staff believes that the U&U equation for a WTP might reasonably be applied to a non-potable water system. Aquarina's non-potable water system is served by a single well. Pursuant to Rule 25-30.4325, F.A.C., a water treatment system is considered 100 percent U&U if the system is served by a single well. Therefore, staff recommends that Aquarina's non-potable water system be considered 100 percent U&U. Moreover, in Aquarina's 2003 rate case, the Utility's non-potable water distribution system was determined to be 100 percent U&U. Staff has not received any information that the non-potable water distribution system has been expanded. Therefore, staff recommends that the non-potable water distribution system be considered 100 percent U&U.

⁷ Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, *In re: Application for rate increase in Martin County by Indiantown Company, Inc.*

⁸ Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, *In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.*

Non-Potable Water Storage Used & Useful

Similar to staff’s evaluation of Aquarina’s non-potable water system, staff recommends that the standards contained in Rule 25-30.4325, F.A.C., might reasonably be used to determine the U&U of the Utility’s non-potable water storage. Therefore, the U&U of Aquarina’s non-potable water system is $((\text{Max Day} - \text{EUW} + \text{Fire Flow} + \text{Growth}) / \text{Firm Reliable Capacity})$. For the Max Day staff relied on test year data and determined a value of 512,052 gallons based on a daily average for the peak month. Based on a response to a staff data request, the Utility is required to maintain 250,000 gallons for fire flow. Historic flows indicate negative growth since 2011, therefore, staff does not believe an adjustment for growth should be made. The FRC of the non-potable water storage is 1.25 million gallons.

Sufficient information was not available to determine EUW, therefore staff has no basis to support an adjustment for EUW. Based on the inputs discussed above, staff recommends that a U&U of 61 percent $((512,052 - 0 + 250,000) / 1,250,000)$ for Aquarina’s non-potable water storage.

Summary

The following U&U percentages for water, wastewater, and non-potable systems should be considered in setting rates for Aquarina.

Plant	U&U Percentage
Water Treatment Plant	81.0 Percent
Water Distribution	62.6 Percent
Water Plant Storage	46.7 Percent
Wastewater Plant	55.9 Percent
Wastewater Collection System	65.4 Percent
Non-Potable Plant	100 Percent
Non-Potable Distribution	100 Percent
Non-Potable Storage	61.0 Percent

Staff also recommends that no adjustments to operating expenses be made for EUW or excessive I&I.

Issue 3: What is the appropriate average test year potable water rate base, non-potable water rate base, and wastewater rate base for Aquarina?

Recommendation: The appropriate average test year potable water, non-potable water, and wastewater rate bases are \$170,153, \$172,587, and (\$2,091), respectively. (L. Smith, Lewis)

Staff Analysis: Aquarina’s net book value was last established in its 2012 transfer docket by Order No. PSC-12-0577-PAA-WS.⁹ The test year ended December 31, 2014, was used for the instant case. A summary of each rate base component and recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

The Utility recorded UPIS of \$1,907,336 for potable water, \$22,080 for non-potable water, and \$2,116,139 for wastewater. The staff audit identified several adjustments resulting in an increase to UPIS for potable water, non-potable water, and wastewater of \$49,635, \$905, and \$7,708 respectively. These adjustments are shown on Table 3-1, Table 3-2, and Table 3-3.

Table 3-1

Potable Water Audit Adjustments			
Acct.	Description	Adjustments	Reason for Adjustment
304	Structures & Improvements	\$210	Correct transfer amount posted in 2011
311	Pumping Equip.	1,820	Reclassify O&M Expense to capitalize to plant net of retirement
320	Water Treatment Equip.	5,559	Correct transfer amount posted in 2011
331	T&D Mains	2,188	Correct transfer amount posted in 2011
333	Services	158	Correct transfer amount posted in 2011
334	Meters & Meter Installations	(5,956)	Correct transfer amount posted in 2011
339	Other Plant & Misc. Equip.	899	Correct transfer amount posted in 2011
341	Transportation Equip.	40,596	To reflect the appropriate allocation between water and wastewater
343	Tools, Shop, & Garage Equip.	900	Reclassify O&M Expense to capitalize to plant
344	Lab Equip.	2,000	Reclassify O&M Expense to capitalize to plant
347	Misc. Equip.	1,261	Correct transfer amount posted in 2011
	Total Adjustments	<u>\$49,635</u>	

Source: Audit

Table 3-2

Non-Potable Water Audit Adjustment			
Acct.	Description	Adjustment	Reason for Adjustment
311	Pumping Equip.	\$905	Reclassify O&M Expense to capitalize to plant net of retirement

Source: Audit

⁹ Order No. PSC-12-0577-PAA-WS, issued October 25, 2012, in Docket No. 110061-WS, *In re: Application for authority to transfer assets and Certificate Nos. 507-W and 450-S of Service Management Systems, Inc. to Aquarina, Inc. in Brevard County.*

Table 3-3

Wastewater Audit Adjustments			
Acct.	Description	Adjustments	Reason for Adjustment
354	Structures & Improvements	\$774	Correct transfer amount posted in 2011
360	Collection - Sewers Forced	2,872	To capitalize plant addition
364	Flow Measurement Devices	1,475	Reclassify O&M Expense to capitalize to plant
380	Treatment & Disposal Equip.	(8,077)	Correct transfer amount posted in 2011
390	Office Furniture & Equip.	(10,200)	To remove transfer
391	Transportation Equip.	20,298	To reflect the appropriate allocation between water and wastewater
394	Laboratory Equipment	565	Correct transfer amount posted in 2011
	Total Adjustments	<u>\$7,708</u>	

Source: Audit

In addition, staff made adjustments to UPIS by decreasing UPIS for potable water and increasing UPIS for non-potable water in order to match the amount of audited Contributions in Aid of Construction (CIAC) for the non-potable system. This resulted in a decrease to potable water UPIS and a corresponding increase to non-potable water UPIS of \$90,305. Staff then reduced UPIS for potable and non-potable water by \$36,324 and \$67,162, respectively, to retire CIAC accounts that were over-amortized.

Staff further reduced potable water UPIS and increased non-potable water UPIS by \$234,124 to reflect Commission-ordered adjustments.¹⁰ Based on conversations with the Chief Operator of the Utility, staff reduced potable water and increased non-potable water by \$149,558, to impute Transmission and Distribution Mains for the non-potable system.

Staff also reduced wastewater UPIS and increased non-potable water UPIS by \$512,792 to reflect previous Commission-ordered adjustments.¹¹ Further, staff made averaging adjustments to decrease UPIS for potable water, non-potable water, and wastewater by \$2,329, \$31, and \$1,436, respectively.

Pro Forma Plant

On July 6, 2015, the Utility submitted a request to replace several critical parts of its aging plant along with acquiring new system maps of its infrastructure.¹²

Water Treatment Plant – Reverse Osmosis Skid

Aquarina requested replacement of its reverse osmosis skid due to its age. The Utility indicated that the unit has been in operation since 1984, it is fully depreciated and replacement parts are

¹⁰ Order Nos. PSC-95-1417-FOF-WS, issued November 21, 1995, in Docket No. 941234-WS, *In re: Application for staff-assisted rate case in Brevard County by Aquarina Developments, Inc.* and PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, *In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.*

¹¹ Order No. PSC-95-1417-FOF-WS, issued November 21, 1995, in Docket No. 941234-WS, *In re: Application for staff-assisted rate case in Brevard County by Aquarina Developments, Inc.*

¹² See Document 04406-15 filed July 14, 2015.

becoming scarce. Aquarina additionally indicated that it requested quotes for service contracts on the system, but none were provided, even from the vendor that sold Aquarina the original system. Staff agrees with the Utility that it is prudent to replace its reverse osmosis skid at this time. The Utility provided five quotes from three manufactures ranging in price from \$42,637 to \$68,430. Aquarina selected the second to lowest bid based on the system's capacity to provide service to its existing and future customer base.¹³ The final quote was \$52,232 and includes maintenance services.¹⁴

Distribution and Collection Systems – GIS Mapping

Upon purchase, the Utility did not receive adequate records indicating the location and scope of its current distribution and collection systems. The maps and plans in the possession of the Utility do not represent the modifications and changes to the system up to this date. Aquarina stated that plans and diagrams are needed to delineate its three systems (potable, non-potable, and sewer). The maps and plans will also allow the Utility to respond to 811 Florida One-Call. Aquarina requested two quotes to perform system mapping. Only one party provided a quote to the Utility in the amount of \$76,768. Based on review of a previous rate case the quote appears to be reasonable.¹⁵ Aquarina service area is larger and has three (two water distribution and a wastewater collection) systems while only wastewater service is provided by the referenced Utility in Docket No. 130178-SU.

Wastewater Treatment Plant – Catwalks & Sand Filter Blowers

The catwalks inside the WWTP are rusted and need repair. Due to the safety concerns, Aquarina requested the replacement of the catwalks. During a plant visit on June 3, 2015, staff observed the condition of the catwalks and agrees that the catwalks should be replaced. A single quote of \$9,431 was provided to replace the catwalks. In addition, the operator stated the blowers for the sand filters needed to be replaced due to their age. During staff's site visit, the blowers appeared to be very aged and worn down by the coastal environment. Staff selected the lower of two quotes (\$5,446 and \$11,296) received to replace the sand filter air compressors.

Wastewater Treatment Plant – Blowers

The Utility stated the WWTP blowers are aged and often need repair. After observing the condition of blowers, staff believes it is prudent for the Utility to replace the blowers to diminish the frequency of repair. The Utility received three quotes ranging from \$27,912 to \$71,500 to perform the requested work. The selected quote to replace the blowers is \$27,912.¹⁶

Meter Retirements and Safety Equipment

Aquarina states several of its residential customer meters are not working properly and need to be replaced. Staff suggested to the Utility to incorporate a meter replacement program into its maintenance program. Based on the information provided by the Utility, staff expects the replacement of 40 meters per year at an estimated cost of \$2,800 per year. The Chief Operator of the Utility, stated approximately 100 meters have been replaced over the previous four years due to the corrosiveness of the environment with 20 meters still needing replacement as of August

¹³ See Document 04356-15 filed July 13, 2015, p. 61.

¹⁴ See Document 06654-15 filed October 19, 2015.

¹⁵ Order No. PSC-16-0204-FOF-SU filed May 19, 2016.

¹⁶ See Document 04356-15 filed July 13, 2015, p. 71.

Date: October 20, 2016

2015. The provided meter records indicate 17 residential water meters were replaced during 2014. Thus, it appears to be reasonable to allow the Utility to replace approximately of 20 potable and 20 non-potable water meters per year. In addition, the Utility included the cost of protective gear (cones, vests, helmets and boots) which staff agrees is necessary and appropriate for personnel safety.

As a result, staff made net adjustments increasing UPIS for potable water, non-potable water, and wastewater of \$5,896, \$2,774, and \$2,424, respectively, for these pro forma plant additions. Therefore, staff recommends that the appropriate UPIS balances are \$1,450,227 ($\$1,907,336 + \$49,635 - \$90,305 - \$36,324 - \$234,124 - \$149,558 - \$2,329 + \$5,896$) for potable water, \$945,345 ($\$22,080 + \$905 + \$90,305 - \$67,162 + \$234,124 + \$149,558 + \$512,792 - \$31 + \$2,774$) for non-potable water, and \$1,612,043 ($\$2,116,139 + \$7,708 - \$512,792 - \$1,436 + \$2,424$) for wastewater.

Land & Land Rights

The Utility recorded test year land values of \$62,080 for potable water and \$33,680 for wastewater. Based on staff's review, an adjustment was made to allocate a portion of land to non-potable water based on the ratio of potable to non-potable plant. Accordingly, staff reduced the balance for potable water and increased the balance for non-potable water by \$24,498. Therefore, staff recommends that the appropriate land balances are \$37,582 ($\$62,080 - \$24,498$) for potable water and \$24,498 for non-potable water. No adjustment was required to the Utility's wastewater land balance of \$33,680.

Non-Used and Useful (U&U) Plant

As discussed in Issue 2, the water treatment plant should be considered 81.0 percent U&U. The water treatment storage is calculated as 46.7 percent U&U and the water distribution system is 62.6 percent U&U. The non-potable storage tank should be considered 61.0 percent U&U. The wastewater treatment plant should be considered 55.9 percent U&U and the wastewater collection system should be considered 65.4 percent U&U. Based on these U&U percentages, staff has reduced potable water plant by \$490,147 and reduced potable water accumulated depreciation by \$416,953. Staff also reduced non-potable water plant and accumulated depreciation by \$199,989. Additionally, staff has reduced wastewater plant by \$480,926 and reduced accumulated depreciation by \$418,603. Based on the above, the non-U&U component is \$73,194 ($\$490,147 - \$416,953$) for potable water, \$0 ($\$199,989 - \$199,989$) for non-potable water, and \$62,323 ($\$480,926 - \$418,603$) for wastewater, respectively.

Accumulated Depreciation

The Utility recorded a test year Accumulated Depreciation balance of \$1,522,797 for potable water and \$1,866,188 for wastewater. No Accumulated Depreciation was recorded for non-potable water. The staff auditor recalculated Accumulated Depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and increased these accounts by \$10,652 for potable water and \$18,566 for wastewater. Staff made an adjustment to allocate the appropriate amount of Accumulated Depreciation to the non-potable water system. This adjustment resulted in a decrease to the balance for potable water and an increase to the balance for non-potable water of \$10,365.

Staff also made adjustments to Accumulated Depreciation to match the amount of the audited balances of Accumulated Amortization of CIAC. Staff therefore decreased Accumulated Depreciation for potable water and increased this account for non-potable water by \$99,758. Staff reduced Accumulated Depreciation for potable and non-potable water by \$52,420 and \$86,236, respectively, to reflect the retirements associated with the fully amortized CIAC accounts.

Staff further decreased Accumulated Depreciation for potable water and increased this account for non-potable water by \$202,514, and decreased wastewater and increased non-potable water by \$512,792 to reflect the Commission-ordered adjustments discussed in the UPIS section. Staff decreased Accumulated Depreciation for potable water and increased this account for non-potable water by \$67,369 to reflect the imputation of T&D Mains for the non-potable water system.

Staff made averaging adjustments that resulted in decreases of \$20,232 for potable water, \$265 for non-potable water, and \$14,814 for wastewater. Further, staff made adjustments based on pro forma plant additions and retirements resulting in a decrease of \$9,898 for potable water and \$923 for non-potable water, and an increase of \$45 for wastewater. Staff's adjustments result in Accumulated Depreciation balances of \$1,070,894 ($\$1,522,797 + \$10,652 - \$10,365 - \$99,758 - \$52,420 - \$202,514 - \$67,369 - \$20,232 - \$9,898$) for potable water, \$805,374 ($\$10,365 + \$99,758 - \$86,236 + \$202,514 + \$512,792 + \$67,369 - \$265 - \923) for non-potable water, and \$1,357,193 ($\$1,866,188 + \$18,566 - \$512,792 - \$14,814 + \45) for wastewater.

Contributions In Aid of Construction (CIAC)

The Utility recorded CIAC balances of \$483,149 for potable water and \$603,375 for wastewater. No CIAC was recorded for non-potable water. Based on the staff audit, potable water CIAC was decreased by \$95,372 and non-potable water was increased by \$107,222 to reflect the appropriate CIAC balances. Staff reduced CIAC for potable and non-potable water by \$36,324 and \$67,162, respectively, to reflect retirements staff made to CIAC accounts that were over-amortized. Averaging adjustments were made to decrease the balances for potable water by \$13,585, non-potable water by \$4,275, and wastewater by \$6,032. Therefore, staff recommends that the appropriate CIAC balances are \$337,868 ($\$483,149 - \$95,372 - \$36,324 - \$13,585$) for potable water, \$35,785 ($\$107,222 - \$67,162 - \$4,275$) for non-potable water, and \$597,343 ($\$603,375 - \$6,032$) for wastewater.

Accumulated Amortization of CIAC

The Utility recorded accumulated amortization of CIAC of \$276,662 for potable water and \$299,305 for wastewater. No accumulated amortization of CIAC was recorded for non-potable water. Accumulated amortization of CIAC has been recalculated by staff using composite depreciation rates. As a result, staff decreased the balance by \$70,242 for potable water, increased the balance by \$107,911 for non-potable water, and increased the balance for wastewater by \$58,562. Staff reduced this account for potable and non-potable by \$52,420 and \$86,236, respectively, associated with the CIAC retirements discussed above. Staff also decreased the balances by \$4,657 for potable water, \$1,564 for non-potable water, and \$7,758 for wastewater to reflect the appropriate averaging adjustments. Staff's recommended accumulated amortization of CIAC balances are \$149,343 ($\$276,662 - \$70,242 - \$52,420 - \$4,657$) for potable

Date: October 20, 2016

water, \$20,111 (\$107,911 - \$86,236 - \$1,564) for non-potable water, and \$350,109 (\$299,305 + \$58,562 - \$7,758) for wastewater.

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(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$14,957 for potable water, \$23,792 for non-potable water and \$18,936 for wastewater.

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$170,153 for potable water, \$172,587 for non-potable water, and (\$2,091) for wastewater. Potable water, non-potable water, and wastewater rate bases are shown on Schedule Nos. 1-A, 1-B, and 1-C, respectively. The related adjustments are shown on Schedule No. 1-D.

Issue 4: What is the appropriate return on equity and overall rate of return for Aquarina Utilities, Inc.?

Recommendation: The appropriate return on equity (ROE) is 11.16 percent with a range of 10.16 percent to 12.16 percent. The appropriate overall rate of return is 3.66 percent. (L. Smith)

Staff Analysis: According to the staff audit, Aquarina's test year capital structure reflected negative common equity of \$505,064 and a long-term debt balance of \$863,346. Staff increased long-term debt by \$8,921 to correct the outstanding principal balance for a State Revolving Fund Loan on the Utility's general ledger. Staff further reduced long-term debt by \$425,516 and included it in common equity. This amount is included in the Utility's Annual Reports as "Advances from Associated Companies" and represents deferred payments to or cash infusions by the Utility owners and related parties. In accordance with Commission practice, staff further reduced the negative common equity to set it to zero.¹⁷ The Utility recorded customer deposits of \$193. Staff reduced customer deposits by \$32 to reflect an averaging adjustment. Therefore, staff recommends a customer deposit balance of \$161 (\$193 - \$32) and a long-term debt balance of \$446,751 (\$863,346 + \$8,921 - \$425,516). Finally, the Utility's capital structure was reconciled with staff's recommended rate base.

The appropriate ROE for the Utility is 11.16 percent based upon the Commission-approved leverage formula currently in effect.¹⁸ Staff recommends an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 3.66 percent. The ROE and overall rate of return are shown on Schedule No. 2.

¹⁷ See e.g., Order No. PSC-08-0483-PAA-WS, issued July 25, 2008, in Docket No. 070627-WU, *In re: Application for staff-assisted rate case in Lake County by Raintree Utilities, Inc.*

¹⁸ Order No. PSC-16-0254-PAA-WS, issued June 29, 2016, in Docket No. 160006-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 5: What are the appropriate test year revenues for Aquarina’s water and wastewater system?

Recommendation: The appropriate test year revenues for Aquarina’s water and wastewater systems are \$268,677 (\$170,848 potable + \$97,829 non-potable) and \$161,821, respectively. (Bruce)

Staff Analysis: Aquarina recorded total test year revenues of \$266,168 for water and \$160,261 for wastewater. The water revenues included \$263,949 of service revenues and \$2,219 of miscellaneous revenues. The wastewater revenues included \$159,976 of service revenues and \$285 of miscellaneous revenues. In order to determine the appropriate test year service revenues, staff normalized the number of bills by adjusting for customers moving in and out during the test year to reflect 12 months of bills. Based on staff’s review of the Utility’s billing determinants and the service rates that were in effect during the test year, staff determined test year service revenues should be \$264,604 for water and \$161,166 for wastewater. This results in increases of \$655 and \$1,190 for water and wastewater test year service revenues, respectively.

Staff also made adjustments to miscellaneous revenues for water and wastewater. The Utility recorded unsupported revenues to miscellaneous water revenues and improperly recorded late payment charges for wastewater. As discussed in Issue 12, staff increased the Utility’s miscellaneous service charges for water and wastewater to allow the cost causer to pay the cost associated with those services; therefore, staff annualized the Utility’s miscellaneous service revenues. For this reason, staff increased miscellaneous water service revenues by \$1,853 and increased miscellaneous wastewater service revenues by \$370. Table 5-1 below, represents a summary of staff’s adjustments for test year revenues.

**Table 5-1
 Test Year Revenues**

	Water*	Wastewater
Service Revenues		
Utility Recorded Service Revenues	\$263,949	\$159,976
Staff’s Adjustment	\$ 655	\$1,190
Total Service Revenues	\$264,605	\$161,166
Miscellaneous Revenues		
Utility Recorded Miscellaneous Revenues	\$2,219	\$285
Staff’s Miscellaneous Revenue Adjustments	\$1,853	\$370
Total Miscellaneous Revenues	\$4,072	\$655
Total Test Year Revenues	\$ 268,677	\$161,821
* Includes both potable and non-potable revenues		

Source: Utility’s general ledger and staff’s calculations.

Based on the above, the appropriate test year revenues for Aquarina’s water and wastewater systems, including miscellaneous revenues are \$268,677 and \$161,821, respectively.

Issue 6: What is the appropriate test year water and wastewater operating expenses for Aquarina Utilities, Inc.?

Recommendation: The appropriate amount of operating expense for the Utility is \$152,028 for potable water, \$240,466 for non-potable water, and \$169,664 for wastewater. (L. Smith, Lewis)

Staff Analysis: Aquarina recorded operating expense of \$113,009 for potable water, \$170,010 for non-potable water, and \$146,926 for wastewater for the test year ended December 31, 2014. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made several adjustments to the Utility's operating expenses as summarized below.

Operation and Maintenance Expenses

Salaries and Wages for Employees (601/701)

Aquarina recorded Salaries and Wages for Employees expense of \$48,832 for potable water, \$74,014 for non-potable water, and \$61,423 for wastewater. Staff reduced potable water, non-potable water, and wastewater Salaries and Wages for Employees expense by \$1,707, \$2,587, and \$2,147, respectively. The adjustments are to normalize Salaries and Wages for Employees expense by removing payroll associated with two former employees that were not replaced by the Utility. Also, staff reduced potable water, non-potable water, and wastewater Salaries and Wages for Employees expense by \$183, \$278, and \$231, respectively, in order to remove an insurance reimbursement to an employee who no longer works for Aquarina and was not replaced. In addition, staff reduced potable water, non-potable water, and wastewater Salaries and Wages for Employees expense by \$4,807, \$7,286, and \$6,046, respectively, in order to remove unpaid salary accruals from outside the test year. Further, staff increased potable water, non-potable water, and wastewater Salaries and Wages for Employees expense by \$28,663, \$43,444, and \$36,053, respectively, to include three new maintenance workers that were requested by the Utility. Aquarina's facilities are more than 30 years old. The new employees are needed to help maintain the system and to respond to customer complaints. Staff believes the addition of three employees is reasonable and necessary.

All common O&M expenses were allocated between potable water and non-potable water based on the methodology described in the last rate case with the exception of accounts 632, 634, 635, 667, and 675.¹⁹ Staff believes the expenses included in these accounts are either directly allocable or reflect fixed costs and has adjusted the percentages accordingly. The portions of the expenses that are fixed were allocated between potable water and non-potable water based on ERCs. The variable portion of these expenses are allocated based on gallons sold. This allocation method is shown on Attachment A. Therefore, staff recommends Salaries and Wages for Employees expenses of \$70,798 (\$48,832 - \$1,707 - \$183 - \$4,807 + \$28,663) for potable water, \$107,308 (\$74,014 - \$2,587 - \$278 - \$7,286 + \$43,444) for non-potable water, and \$89,052 (\$61,423 - \$2,147 - \$231 - \$6,046 + \$36,053) for wastewater.

¹⁹ Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, p. 40, in Docket No. 021228-WS, *In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.*

Employee Pension and Benefits (604/704)

The Utility did not record any Employee Pension and Benefits expense. Staff increased potable water, non-potable water, and wastewater Employee Pension and Benefits expense by \$5,670, \$8,594, and \$7,132, respectively. These adjustments reclassify \$7,132 of insurance expense from Account 659/759 – Insurance Other and annualize that amount to provide health insurance for Aquarina’s two existing employees. The adjustments are based on an annualized premium of \$21,396 ($\$7,132 / 4 \text{ months} \times 12 \text{ months}$). Staff also increased potable water, non-potable water, and wastewater Employee Pension and Benefits expense by \$5,446, \$8,254, and \$6,850, respectively, in order to include health insurance and workers compensation insurance for the three new maintenance employees. Therefore, staff recommends Employee Pension and Benefits expenses of \$11,116 ($\$5,670 + \$5,446$) for potable water, \$16,848 ($\$8,594 + \$8,254$) for non-potable water, and \$13,982 ($\$7,132 + \$6,850$) for wastewater.

Purchased Power (615/715)

The Utility recorded Purchased Power expense of \$3,180 for potable water, \$32,150 for non-potable water, and \$17,665 for wastewater. Staff increased the expense for potable and non-potable water by \$357 and \$3,609, respectively, and reduced wastewater expense by \$4,254 to recognize the following adjustments. Staff replaced the December 2013 electric bills that were included in the general ledger with the December 2014 electric bills resulting in a net increase of \$462, and removed a monthly allocation for office purchased power that ceased in May 2014 resulting in a decrease of \$750. The adjustments result in a net reduction of \$288 ($\$462 - \750) to Purchased Power expense. Staff also directly charged a lift station power bill to wastewater Purchased Power expense and reallocated the total common purchased power from 66.67 percent for water and 33.33 percent for wastewater which was used by Aquarina to 75 percent for water and 25 percent for wastewater based on staff’s engineering evaluation of power usage allocation established in Order No. PSC-03-1342-PAA-WS. Therefore, staff recommends Purchased Power expenses of \$3,537 ($\$3,180 + \357) for potable water, \$35,759 ($\$32,150 + \$3,609$) for non-potable water, and \$13,411 ($\$17,665 - \$4,254$) for wastewater.

Chemicals (618/718)

The Utility recorded Chemical expense of \$1,564 for potable water, \$48 for non-potable water, and \$1,289 for wastewater. Staff has reviewed the invoices and charges to this account and finds this amount to be reasonable. Therefore, staff recommends Chemical expense of \$1,564 for potable water, \$48 for non-potable water, and \$1,289 for wastewater.

Materials and Supplies (620/720)

The Utility recorded Materials and Supplies expense of \$6,424 for potable water, \$4,873 for non-potable water, and \$6,023 for wastewater. Staff increased Materials and Supplies expense for potable water, non-potable water, and wastewater by \$705, \$1,686, and \$1,196, respectively, to include reimbursement for an October miscellaneous expense voucher that was not posted to the general ledger. Staff also reduced Materials and Supplies expense for potable water by \$1,079 and non-potable water by \$2,578 to reclassify and capitalize to Account 311 – Pumping Equipment the cost to replace two 7 ½ horse power (hp) booster pumps at the water plant. Staff further reduced Materials and Supplies expense for potable water, non-potable water and wastewater expense by \$110, \$263, and \$186, respectively, to remove non-utility purchases in June and September of the test year. Therefore, staff recommends Materials and Supplies

expense of \$5,941 ($\$6,424 + \$705 - \$1,079 - \110) for potable water, \$3,717 ($\$4,873 + \$1,686 - \$2,578 - \263) for non-potable water, and \$7,033 ($\$6,023 + \$1,196 - \186) for wastewater.

Contractual Services - Professional (632/732)

Aquarina recorded Contractual Services – Professional expense of \$3,807 for potable water, non-potable water, and wastewater. This account consists of expenses related to income tax and PSC Annual Report preparation. Staff reduced this account by \$533 ($\$666 - \133) for potable water, non-potable water, and wastewater to remove accounting expenses associated with filing an extension for income taxes. Since this expense is non-recurring, staff has decreased this account by \$666 for potable water, non-potable water, and wastewater, to remove the expense and increased this expense by \$133 for potable water, non-potable water, and wastewater to amortize the amount over five years. Therefore, staff recommends Contractual Services Professional Expense of \$3,274 for potable water, non-potable water, and wastewater.

Contractual Services – Management Fees (634/734)

Aquarina recorded Contractual Services – Management Fees expense of \$1,930 for potable water, non-potable water, and wastewater. Staff believes this amount is reasonable, but would note that we are not recommending an increase related to payroll processing for the new employees requested by the Utility.

Contractual Services - Testing (635/735)

Aquarina recorded Contractual Services - Testing expense of \$669 for potable water and \$3,107 for wastewater. Staff reduced potable water by \$401 and wastewater by \$1,106. These adjustments remove non-utility testing expenses that were identified during the review of the contract vendors' invoices for testing services. Therefore, staff recommends Contractual Services – Testing expenses of \$268 ($\$669 - \401) for potable water and \$2,001 ($\$3,107 - \$1,106$) for wastewater.

Contractual Services - Other (636/736)

Aquarina recorded Contractual Services - Other expense of \$2,737 for potable water, \$6,541 for non-potable water, and \$2,154 for wastewater. Staff reduced non-potable water expense by \$3,620 to reclassify and capitalize to Account 311 – Pumping Equipment, the cost to replace a 75-hp non-potable well pump at the water plant. Staff increased potable water by \$2,703 and non-potable water by \$720 to include contract labor to service the potable booster pumps shown on an October miscellaneous expense voucher that was not posted to the general ledger.

Staff also increased this expense for potable water by \$1,160, for non-potable water by \$36, and wastewater by \$298 to reflect an amortized amount of pro forma repairs. Since this increase is non-recurring, staff has amortized this amount over five years in accordance with Rule 25-30.433(8), F.A.C. Staff also reduced this expense by \$783 for potable water, \$1,872 for non-potable water, and \$390 for wastewater to remove charges for meter reading that will be performed by one of the new employees covered earlier.

Staff further reduced this expense by \$183 for potable water, \$437 for non-potable water, and \$584 for wastewater to remove and amortize non-recurring expenses in this account. Therefore, staff recommends Contractual Services – Other expense of \$5,634 ($\$2,737 + \$2,703 + \$1,160 - \$783 - \183) for potable water, \$1,368 ($\$6,541 - \$3,620 + \$720 + \$36 - \$1,872 - \437) for non-potable water, and \$1,478 ($\$2,154 + \$298 - \$390 - \584) for wastewater.

Rental of Building/Property 641/741)

Aquarina recorded Rental of Building/Property expense of \$334 for potable and non-potable water, and \$333 for wastewater. Staff decreased this expense for potable and non-potable water by \$334, and wastewater expense by \$333 for the test year. This adjustment removes the 2014 office rental expense for an office at the owner's home. That office is no longer needed as the Utility now has an onsite office. Staff then increased Rental of Building/Property expense by \$3,000 for potable water, non-potable water, and wastewater to reflect the rental of 1,200 square feet of a 2,400 square foot maintenance/storage building on the owner's property. This represents a price per square foot of \$0.63. While related party transactions require close scrutiny, the fact that the transaction is between related parties does not mean that the transaction is unreasonable. However, it is a Utility's burden to prove that its costs are reasonable.²⁰ The burden is even greater when the transaction is between related parties. The Florida Supreme Court established that the standard to use in evaluating affiliate transactions is whether those transactions exceed the going market rate or are otherwise inherently unfair.²¹ Based on its analysis, staff reduced Rental of Building/Property expense by \$396 for potable water, non-potable water, and wastewater to reflect a price per square foot of \$0.54. This price was derived by taking the average rental price for seven similarly sized warehouse rentals in the City of Melbourne. Thus, staff recommends Rental of Building/Property expense of \$2,604 ($\$334 - \$334 + \$3,000 - \396) for potable and non-potable water, and \$2,604 ($\$333 - \$333 + \$3,000 - \396) for wastewater.

Rental of Equipment (642/742)

Aquarina recorded Rental of Equipment expense of \$7,800 for potable water, non-potable water, and wastewater. The owners of the Utility own this equipment and lease it to the Utility. Staff reduced this expense for potable water, non-potable water, and wastewater by \$7,800 for the test year.²² These adjustments remove 2014 water and wastewater annual equipment lease expenses. Staff then increased Rental of Equipment expense by \$6,000 for potable water, non-potable water, and wastewater to include the 2015 water and wastewater lease expense. Staff further reduced Rental of Equipment expense by \$1,200 for potable water, non-potable water, and wastewater. This adjustment removes the lease for a lawn mower because Aquarina has now purchased a mower. This adjustment also includes a reduction to a separate lawn equipment lease. This adjustments further removes the electric golf cart and dump trailer which were deemed to be duplicative given the other equipment already rented by the Utility. Thus, staff recommends Rental of Equipment expense of \$4,800 ($\$7,800 - \$7,800 + \$6,000 - \$1,200$) for potable water, non-potable water, and wastewater.

Transportation Expense (650/750)

Aquarina recorded Transportation expense of \$3,731 for potable water, \$8,917 for non-potable water, and \$6,520 for wastewater. During the test year, Aquarina paid \$3,518 for mileage reimbursements to its employees and contractors.

²⁰ *Florida Power Corp. v. Cresse*, 413 So. 2d 1187, 1191 (Fla. 1982).

²¹ *GTE Florida Inc. v. Deason*, 642 So. 2d 545 (Fla. 1994). (Court applying higher standard.).

²² Staff's analysis included comparing lease amounts to a rate of return methodology.

Date: October 20, 2016

The office manager uses her personal vehicle to travel to and from the bank, post office, and for other related duties. She estimated her monthly mileage to be 645 miles based on historical documents. Accordingly, staff believes the mileage estimate is reasonable given the remote location of the Utility with respect to commercial centers of business, such as the bank and post office. Staff recommends the office manager be reimbursed for the business use of her personal vehicle at the IRS 2015 mileage rate of \$0.575 applied to an annual estimate of 7,740 miles (645 miles per month x 12 months). This results in an annual amount of \$4,451 (7,740 x \$0.575). Therefore, staff has made a net increase to Transportation expense of \$933 (\$4,451 - \$3,518), allocated at \$183 for potable water, \$439 for non-potable water, and \$311 for wastewater.

The fuel portion of the Transportation expense was reduced by \$733 for potable water, \$1,752 for non-potable water, and \$1,242 for wastewater to remove reimbursement for non-utility purchases. Staff also reduced Transportation expense by \$292 for potable water, \$699 for non-potable water, and \$496 for wastewater to remove repairs for non-utility vehicles. Further, staff removed expenses of \$148 for potable water, \$352 for non-potable water, and \$250 for wastewater related to unsupported costs for airline tickets. Therefore, staff recommends Transportation expense of \$2,742 (\$3,731 + \$183 - \$733 - \$292 - \$148) for potable water, \$6,552 (\$8,917 + \$439 - \$1,752 - \$699 - \$352) for non-potable water, and \$4,843 (\$6,520 + \$311 - \$1,242 - \$496 - \$250) for wastewater.

Insurance - Vehicles (656/756)

Aquarina recorded Insurance - Vehicle expense of \$1,728 for potable water, non-potable water, and wastewater. Staff reduced Insurance - Vehicle expense for potable water, non-potable water, and wastewater by \$1,162 to remove the 2015 vehicle insurance premiums associated with the electric-powered golf cart and the dump trailer. Therefore, staff recommends Insurance - Vehicle expense of \$566 (\$1,728 - \$1,162) for potable water, non-potable water, and wastewater.

Insurance - General Liability (657/757)

Aquarina recorded Insurance - General Liability expense of \$2,624 for potable water, non-potable water, and wastewater. Staff reduced potable water and non-potable water by \$10, and wastewater expense by \$11 to remove the 2014 premium and include the 2015 general liability insurance premiums to reflect the actual going-forward cost for Aquarina. Therefore, staff recommends Insurance - General Liability expense of \$2,614 (\$2,624 - \$10) for potable water and non-potable water, and \$2,613 (\$2,624 - \$11) for wastewater.

Insurance - Other Expense (659/759)

Aquarina recorded Insurance - Other expense of \$2,378 for potable water and non-potable water, and \$2,377 for wastewater. Staff reduced Insurance - Other expense by \$2,378 for potable water and non-potable water, and \$2,377 for wastewater, to remove the 2014 employee health insurance premiums that were reclassified to Account 604/704 – Employee Pension and Benefits expense.

Regulatory Commission Expense (667/767)

Aquarina recorded Regulatory Commission expense of \$25 for potable water and non-potable water, and \$50 for wastewater. Staff reduced potable water and non-potable water by \$25 and reduced wastewater expense by \$50 to reclassify the Department of Environmental Regulation

(DEP) permit fees to Accounts 675/775 – Miscellaneous expense. By Rule 25-22.0407, F.A.C., the Utility is required to mail notices of the customer meeting and notices of the Phase I and final rates in this case to its customers. For these notices, staff has estimated \$581 for postage, \$406 for printing, and \$61 for envelopes. Additionally, Aquarina paid a \$2,000 rate case filing fee. The Utility also provided invoices and estimates for legal fees of \$7,670. This work relates to data requests, reviewing staff's report and recommendation, and attending the agenda conference. Staff reviewed the billing rates and hours for this expense. Staff reduced the estimated attorney's fees by \$1,440 (4 hours at \$360 per hour) in order to split the estimated driving time to attend the Commission Conference with another Utility is representing on the same Commission Conference. Based on the above, staff recommends that the total Regulatory Commission expense is \$9,277, which amortized over four years is \$2,319. This results in a Regulatory Commission expense of \$773 for potable water, non-potable water, and wastewater.

Miscellaneous Expense (675/775)

Aquarina recorded Miscellaneous expense of \$4,239 for potable water, \$4,239 for non-potable water, and \$7,116 for wastewater, respectively. Staff made a net reduction to Miscellaneous expense of \$2,253 for potable water, non-potable water, and wastewater. This resulted from removing \$9,835 currently in these accounts for telephone and internet expenses and including \$2,760 for the going-forward annual cost of one internet and business telephone provider, as well as two cellular telephones used by Aquarina's full-time employees.

Staff also reduced wastewater expense by \$2,872 to reclassify and capitalize to Account 360 – Collection Sewers – Force the cost to refurbish the master lift station pumps. Staff increased this expense for potable water and non-potable water by \$376 and wastewater by \$375, to include reimbursements for an October miscellaneous expense voucher that was not posted to the general ledger. Staff further reduced this expense for potable water, non-potable water, and wastewater by \$970 to remove reimbursements for non-utility meal purchases. Staff further increased this expense by \$34 for potable water, and by \$33 for non-potable water and wastewater to reclassify DEP permit fees that were recorded in Accounts 667/767 – Regulatory Commission expense. Staff therefore recommends a Miscellaneous Expense of \$1,425 ($\$4,239 - \$2,253 + \$376 - \$970 + \34) for potable water, \$1,424 ($\$4,239 - \$2,253 + \$376 - \$970 + \33) for non-potable water, and \$1,429 ($\$7,116 - \$2,253 - \$2,872 + \$375 - \$970 + \33) for wastewater.

Operation and Maintenance Expenses Summary

Based on the above, staff recommends that the O&M expense balances are \$119,658 for potable water, \$190,332 for non-potable water, and \$151,489 for wastewater. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A through 3-E.

Depreciation Expense

Aquarina did not record any Depreciation expense for the test year. Staff recalculated Depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff calculated Depreciation expense of \$45,851 for potable water, \$601 for non-potable water, and \$28,200 for wastewater, for the test year. Staff has decreased Depreciation expense for potable water and increased this expense for non-potable water by \$9,782 to reflect the reclassification of UPIS from the potable to the non-potable water system. Staff also reduced this expense for

potable water and increased it for non-potable by \$3,576 to reflect the imputation of the T&D Mains discussed above.

Staff also increased Depreciation expense for non-potable water and decreased this expense for wastewater by \$12,820 to reflect the reclassification of the non-potable water tank. Staff also decreased Depreciation expense for potable water by \$908 and non-potable by \$2,150 to reflect the retirements associated with CIAC.

Staff has increased Depreciation expense by \$163 for potable water, \$127 for non-potable water, and \$45 for wastewater, to reflect Depreciation expense related to pro forma plant additions. Based on the U&U percentages addressed in Issue 2, staff has decreased Depreciation expense by \$10,950 for potable water, and by \$4,419 for wastewater. Based on the above, Aquarina's Depreciation expense is \$20,797 ($\$45,851 - \$9,782 - \$3,576 - \$908 + \$163 - \$10,950$) for potable water, \$24,757 ($\$601 + \$9,782 + \$3,576 + \$12,820 - \$2,150 + \127) for non-potable water, and \$11,006 ($\$28,200 - \$12,820 + \$45 - \$4,419$) for wastewater.

CIAC Amortization Expense

Aquarina did not record any CIAC Amortization expense for the test year. Based on staff's audit calculations, the Utility CIAC Amortization expenses are \$9,758 for potable water, \$2,684 for non-potable water, and \$15,514 for wastewater. As discussed in Issue 3, staff has reduced these amounts by \$908 for potable water and by \$2,150 for non-potable water to reflect retirements. Therefore, staff recommends CIAC Amortization expense of \$8,849 ($\$9,758 - \908) for potable water, \$534 ($\$2,684 - \$2,150$) for non-potable water, and \$15,514 for wastewater.

Taxes Other Than Income (TOTI)

Aquarina recorded TOTI of \$19,493 for potable water, \$16,413 for non-potable water, and \$19,126 for wastewater. Staff has decreased property taxes by \$118 for potable water, non-potable water, and wastewater to reflect the appropriate test year property taxes. Staff also decreased payroll taxes by \$130 for potable water, \$198 for non-potable water, and \$164 for wastewater to remove the payroll taxes associated with the adjustment to salaries described in Staff's Audit Finding No. 8. Additionally, staff increased payroll taxes by \$2,527 for potable water, \$3,830 for non-potable water, and \$3,178 for wastewater to reflect the payroll taxes associated with the new employees described above.

Further, staff increased regulatory assessment fees (RAFs) by \$108 for potable water, \$62 for non-potable water, and \$134 for wastewater to reflect the 2014 RAFs. In addition, staff increased property taxes by \$91 for potable water, \$43 for non-potable water, and \$38 for wastewater to reflect pro forma property taxes. Staff reduced property taxes by \$980 for potable water, by \$825 for non-potable water, and \$314 for wastewater associated with the recommended non-U&U components. Finally, as discussed in Issues 7 and 9, revenues have been decreased by \$12,593 for potable water, increased by \$148,954 for non-potable water and \$17,842 for wastewater, to reflect the change in revenue required to cover expenses and allow an opportunity to earn the recommended return on investment. As a result, RAFs should be decreased by \$567 for potable water, and increased by \$6,703 for non-potable water and \$803 for wastewater to reflect RAFs of 4.5 percent on the change in revenues. Based on these adjustments, the recommended TOTI

expenses for potable water, non-potable water, and wastewater are \$20,423, \$25,911, and \$22,683, respectively.

Income Tax Expense

Aquarina recorded \$1,442 for Income Tax expense for potable water, non-potable water, and wastewater. Staff reduced this amount to zero based on the staff audit. Aquarina has shown a net loss for the last several years in its Annual Reports and income tax returns. This tax loss carry-forward is in excess of the income tax provision on a going-forward basis, and is expected to continue to be so for at least the next 10 years. In this instance, it is Commission practice to allow no provision for income tax.²³ Therefore, staff recommends no income tax provision.

Operating Expenses Summary

The application of staff's recommended adjustments to Aquarina's test year operating expenses result in operating expenses of \$152,028 for potable water, \$240,466 for non-potable water, and \$169,664 for wastewater. Operating expenses are shown on Schedule Nos. 3-A, 3-B, and 3-C. The related adjustments are shown on Schedule Nos. 3-D, 3-E, and 3-F.

²³ See e.g., Order Nos. PSC-15-0535-PAA-WU, issued November 19, 2015, in Docket No. 140217-WU, *In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.*; and PSC-10-0124-PAA-WU, issued March 1, 2010, in Docket No. 090244-WU, *In re: Application for staff-assisted rate case in Lake County by TLP Water, Inc.*

Issue 7: What is the appropriate revenue requirement for potable and non-potable water?

Recommendation: The appropriate revenue requirement is \$158,255 for potable water, resulting in an annual decrease of \$12,593 (or -7.37 percent). The appropriate revenue requirement is \$246,783 for non-potable water, resulting in an annual increase of \$148,954 (or 152.26 percent). (L. Smith)

Staff Analysis: The appropriate revenue requirement for the potable system results in a decrease of \$12,593 (or -7.37 percent). However, staff recommends not changing revenues for the potable system and the disposition of the revenue decrease will be addressed in Issue 10. The calculations are shown in Tables 7-1 and 7-2 for potable water and non-potable water, respectively. Aquarina should be allowed an annual increase of \$148,954 (or 152.26 percent) for non-potable water. This increase will allow the Utility the opportunity to recover its expenses and earn a 3.66 percent return on the investment for the non-potable water system.

Table 7-1

Potable Water Revenue Requirement	
Adjusted Rate Base	\$170,153
Rate of Return	<u>x 3.66%</u>
Return on Rate Base	\$6,226
Adjusted O&M Expense	119,658
Depreciation Expense	20,797
CIAC Amortization Expense	(8,849)
Taxes Other Than Income	20,990
Test Year RAFs	<u>(7,688)</u>
Revenue Before RAFs	\$151,134
RAF Gross-up Factor	<u>x 0.955</u>
Total Revenues	\$158,255
Less Adjusted Test Year Revenues	<u>170,848</u>
Annual Increase	<u>(\$12,593)</u>
Percent Increase	<u>-7.37%</u>

Table 7-2

Non-Potable Water Revenue Requirement	
Adjusted Rate Base	\$172,587
Rate of Return	<u>x 3.66%</u>
Return on Rate Base	\$6,317
Adjusted O&M Expense	190,332
Depreciation Expense	24,757
CIAC Amortization Expense	(534)
Taxes Other Than Income	19,208
Test Year RAFs	<u>(4,402)</u>
Revenues Before RAFs	\$235,678
RAF Gross-up Factor	<u>x 0.955</u>
Total Revenues	\$246,783
Less Adjusted Test Year Revenues	<u>97,829</u>
Annual Increase	<u>\$148,954</u>
Percent Increase	<u>152.26%</u>

Issue 8: Should the Commission utilize the operating ratio methodology as an alternative means to calculate the wastewater revenue requirement for Aquarina, and, if so, what is the appropriate margin?

Recommendation: Yes. The Commission should utilize the operating ratio methodology for calculating wastewater revenue requirement for Aquarina. The margin should be 6.60 percent of O&M expenses. (L. Smith)

Staff Analysis: Section 367.0814(9), F.S., provides that the Commission may, by rule, establish standards and procedures for setting rates and charges of small utilities using criteria other than those set forth in Sections 367.081(1), (2)(a), and (3), F.S. Further, Rule 25-30.456, F.A.C., provides, in part, as an alternative to a staff-assisted rate case as described in Rule 25-30.455, F.A.C., that water utilities whose total gross annual operating revenues are less than \$275,000 per system may petition the Commission for staff assistance using alternative rate setting.

Although the Utility did not petition the Commission for alternative rate setting under the aforementioned rule, staff believes the Commission should exercise its discretion to employ the operating ratio methodology to set wastewater rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the Utility's rate base, the revenue requirement is based on Aquarina's wastewater O&M expenses plus a margin. This methodology has been applied in cases that satisfy the qualifying criteria discussed below and cases in which the traditional calculation of the revenue requirement would not provide sufficient protection against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU, the Commission, for the first time, utilized the operating ratio methodology as an alternative means for setting rates.²⁴ This order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expenses capped at \$10,000. This criterion was applied again in Order No. PSC-97-0130-FOF-SU.²⁵ Recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-15-0535-PAA-WU.²⁶

By Order No. PSC-96-0357-FOF-WU, the Commission established criteria to determine whether to utilize the operating ratio methodology for those utilities with low or non-existent rate base. The qualifying criteria established by Order No. PSC-96-0357-FOF-WU and how they apply to the Utility are discussed below:

1) Whether the Utility's O&M expenses exceeds rate base. The operating ratio method substitutes O&M expenses for rate base in calculating the amount of return. A utility generally

²⁴ Issued March 13, 1996, in Docket No. 950641-WU, *In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.*

²⁵ Issued February 10, 1997, in Docket No. 960561-SU, *In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.*

²⁶ Issued November 19, 2015, in Docket No. 140217-WU, *In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.*

would not benefit from the operating ratio method if rate base exceeds O&M expenses. The decision to use the operating ratio method depends partly on the determination of whether the primary risk resides in capital costs or operating expenses. In the instant case, the Utility has a negative rate base and under traditional rate base regulation, Aquarina would not be entitled to any return on investment. Based on the staff's recommendation, the adjusted wastewater rate base for the test year is (\$2,091), while adjusted wastewater O&M expenses are \$151,489. The Utility's primary risk resides with covering its operating expense.

2) Whether the Utility is expected to become a Class B Utility in the foreseeable future. Pursuant to Rule 25-30.456, F.A.C., the alternative form of regulation being considered in this case only applies to small utilities with gross annual revenue of \$275,000 or less. Even though Aquarina is a Class B Utility, the recommended wastewater revenue requirement of \$179,663 is well below the threshold level for Class B status (\$200,000 per system).

3) Quality of service and condition of plant. As discussed in Issue 1, staff has recommended that the quality of service is satisfactory.

4) Whether the Utility is developer-owned. Aquarina is not owned by the developer. This Utility was established almost 30 years ago, and there has been no significant growth in years. Staff does not anticipate any significant growth in the foreseeable future.

5) Whether the Utility operates treatment facilities or is simply a distribution and/or collection system. The issue in general is whether purchased water and/or wastewater costs should be excluded in the computation of the operating margin. Aquarina operates the wastewater treatment plant. Therefore, there is no concern regarding excluding purchased wastewater costs. Based on staff's review of Aquarina's situation relative to the above criteria, staff recommends that the Utility is a viable candidate for the operating ratio methodology.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU²⁷, the Commission determined that a margin of 10 percent shall be used unless unique circumstances justify the use of a greater or lesser margin. In addition, this order suggested a cap of \$10,000. The important question is not what the percentage should be, but what level of operating margin will allow a utility to provide safe and reliable service and remain a viable entity. In order to answer this question, the particular circumstances of a utility must be reviewed and considered thoroughly.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenue for a utility to cover its interest expense.

Second, the use of the operating ratio methodology rests on the contention that the principal risk to a utility resides in operating costs rather than in cost of the plant. The fair return on a small rate base may not adequately compensate a utility owner for incurring the risk associated with covering the much larger operating cost. Therefore, staff believes the margin should adequately compensate the utility owner for the principal risk, which lies with the operating costs.

²⁷ Issued February 10, 1999, in Docket No. 960561-WU, *In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.*

Third, in consideration of Aquarina's capital structure being 99.95 percent long-term debt, with an overall cost of capital of 3.66 percent, staff believes that an operating margin of 6.60 percent, which equates to the cap of \$10,000, is appropriate. Staff believes this would be sufficient to cover debt service obligations associated with regulated operations and provide protection against variability in revenues and expenses.

Conclusion

The above factors show that the Utility needs a higher margin of revenue over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide Aquarina with adequate cash flow to provide some assurance of safe and reliable service, staff recommends application of the operating ratio methodology at a margin of 6.60 percent of O&M expenses for determining the wastewater revenue requirement.

Issue 9: What is the appropriate wastewater revenue requirement?

Recommendation: The appropriate wastewater revenue requirement is \$179,094, resulting in an annual increase of \$17,273 (or 10.67 percent). (L. Smith)

Staff Analysis: Aquarina should be allowed an annual increase of \$17,842 (or 11.03 percent) for wastewater. This will allow the Utility the opportunity to recover its expenses and earn a 6.60 percent margin over its wastewater system’s operating and maintenance expenses. The calculations are shown in Table 9-1.

Table 9-1

Wastewater Revenue Requirement	
O&M Expenses	\$151,489
Operating Ratio	<u>x 6.60%</u>
Operating Margin	\$10,000
Adjusted O&M Expense	151,489
Depreciation Expense	11,006
CIAC Amortization Expense	(15,514)
Taxes Other Than Income	21,880
Test Year RAFs	<u>(7,282)</u>
Revenue Before RAFs	\$171,579
RAF Gross-Up Factor	<u>x 0.955</u>
Total Revenues	\$179,663
Less Adjusted Test Year Revenues	<u>161,821</u>
Annual Increase (Decrease)	<u>\$17,842</u>
Percent Increase (Decrease)	<u>11.03%</u>

Issue 10: What are the appropriate rate structures and rates for Aquarina's water and wastewater systems?

Recommendation: The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B. 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 sheet 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. (Bruce)

Staff Analysis: Water Rates (Potable)

Aquarina is located in Brevard County within the St. Johns River Water Management District (SJRWMD). The Utility provides water service to approximately 271 residential customers and 25 general service customers including master-metered developments, clubhouses, and a fire station. Typically, staff evaluates the seasonality of utility customers based on the percentage of bills at zero gallons, which is 13 percent. However, for this Utility, the customers are in residence periodically throughout each month rather than a few months out of the year. Therefore, staff believes it is appropriate to evaluate the seasonality based on the percentage of bills at the 1,000 gallon level, which is 36 percent. As a result, it appears that the customer base is somewhat seasonal. The average residential water demand is 2,150 gallons per month. The average water demand excluding zero gallon bills is 2,479 per month. Currently, the Utility's water rate structure consists of a monthly base facility charge (BFC) and uniform gallonage charge for the residential and general service customers.

As discussed in Issue 7, the potable water system is overearning by 7.37 percent (or \$12,593). To the extent possible, when there are overearnings for a water and wastewater system, staff believes it is appropriate to avoid decreasing water rates by netting the revenues of the systems if the customer bases are similar. Staff believes decreasing the potable water rates undermine conservation efforts. In this case, there is a minimal difference in the potable water and wastewater customer bases. There are 296 potable customers and 311 wastewater customers, which is a difference of 15 customers (approximately 5 percent). Due to the low percentage difference between potable water and wastewater customers, staff believes it is appropriate to net the water system overearnings against the wastewater system increase. This will allow the water rates to remain unchanged rather than decrease. Furthermore, since staff is recommending the rates remain unchanged, a repression adjustment is not appropriate in this case.

Irrigation Rates (Non-Potable)

The Utility provides irrigation service to approximately 107 residential and general service customers including a golf course and master-metered irrigation systems through a non-potable system. Although the customer base is seasonal, the customers irrigate while out of residence. The average non-potable water demand is 97,325 gallons per month. The groundwater is pumped from a dedicated well and piped directly to irrigation customers without treatment. The current

rate structure consists of a gallonage charge only and no base facility charge because the Utility was unable to locate the various meters.²⁸

Staff evaluated whether a gallonage charge only rate structure is appropriate on a going-forward basis. In this case, the Utility was able to locate all irrigation meters. Staff believes that it is appropriate to implement a BFC and uniform gallonage charge for irrigation customers to provide a fixed revenue stream while sending the appropriate pricing signals to target those customers with high levels of consumption. Therefore, staff recommends 30 percent of the non-potable revenues be allocated to the BFC for ratesetting purposes. This will allow lower bills for irrigation and promote the continued use of non-potable water for irrigation purposes.

Wastewater Rates

The Utility provides wastewater service to approximately 269 residential customers and 19 general service customers who also receive water service from Aquarina. The Utility also provides wastewater only service to 23 residential customers who receive their water service from the South Brevard Water Cooperative. Currently, the wastewater rate structure for residential customers consists of a monthly uniform BFC for all meter sizes and a gallonage charge with an 8,000 gallon cap. The wastewater-only customers are billed a flat rate, which reflects approximately 2,622 gallons per month of demand. General service customers are billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

As discussed earlier, staff recommends netting the potable water system's overearnings against the wastewater system's increase to avoid a decrease in rates. Netting the potable water and wastewater systems' revenues results in an increase of 3.25 percent for the wastewater system. However, a 3.15 percent increase reflects the recommended revenue increase excluding miscellaneous revenue. Due to the low overall increase for wastewater, staff recommends an across-the-board increase of 3.15 to the existing rates.

Summary

Based on the above, staff recommends that the potable water system overearnings be netted against the wastewater system increase. The potable water rate structure and rates should remain unchanged. Staff recommends a BFC and uniform gallonage charge rate structure with 30 percent of the revenues allocated to the BFC for non-potable water. The wastewater rate structure should be an across-the-board increase to the existing rates.

The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B. 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 sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has

²⁸Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, *In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.*, p. 45.

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 11: What is the appropriate amount by which rates should be reduced in four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S?²⁹

Recommendation: The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B, 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 four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Aquarina 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, separate data should be filed 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, L. Smith)

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year 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, the associated return in working capital, and the gross-up for RAFs. This results in a reduction of \$813 for potable water, \$813 for non-potable water, and \$810 for wastewater.

The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B 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 four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Aquarina 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, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

²⁹ Section 367.0816, F.S., was repealed effective July 1, 2016. The Statute was in effect at the time Aquarina filed its staff-assisted rate case, therefore, the Statute applies.

Issue 12: Should Aquarina's miscellaneous service charges be revised?

Recommendation: Yes. Aquarina's miscellaneous service charges should be revised. The charges should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges 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. (Bruce)

Staff Analysis: Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. During the course of this proceeding, the Utility requested a \$25 meter box maintenance charge, \$40 meter lock-off charge, and a \$200 emergency call out charge. The Utility provided cost justification in support of its requested charges. Although titled differently by the Utility, staff believes the Utility's proposed charges are consistent with the services provided under its existing miscellaneous service charges as provided in Rule 25-30.460, F.A.C.

Aquarina's current initial connection, normal reconnection, premises visit, and violation reconnection charges were last established on November 27, 1990.³⁰ However, in reviewing the Utility's cost justification for the proposed charges, staff determined that the existing miscellaneous service charges may not adequately recover the cost of the respective service. Staff believes that the cost justification provided for the requested charges is consistent with the information needed to update the Utility's existing miscellaneous service charges. The charges are designed to ensure that as these services are provided by the Utility, the cost burden is placed on the cost causer consistent with Commission practice. The changes and additions to the Utility's miscellaneous service charges are discussed below.

Initial Connection Charge

Currently, the Utility's initial connection charge is \$15 for water and wastewater. The initial connection charge is levied for service initiation at a location where service did not exist previously. The Utility representative makes one trip when performing the service of an initial connection. While the Utility did not specifically request an increase in the initial connection charge, based on labor and transportation to and from the service territory, staff recommends initial connection charges of \$26 and \$32 for normal and after hours, respectively for water and wastewater service. Staff's calculation is shown below in Table 12-1.

³⁰Order No. 23812, issued November 27, 1990, in Docket No. 900168-WS, *In re: Application for a staff-assisted rate case in Brevard County by Aquarina Developments, Inc.*

**Table 12-1
 Initial Connection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00	Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00
Labor (Field) (\$36/hr x 1/3 hr)	\$12.00	Labor (Field) (\$54/hr x 1/3hr)	\$18.00
Transportation (\$.54/mile x 10 miles-to/from)	\$5.40	Transportation (\$.54/mile x 10 miles-to/from)	\$5.40
Total	\$26.40	Total	\$32.40

Source: Utility's cost justification documentation.

Normal Reconnection Charge

The Utility's existing normal reconnection charge is \$15 for water and wastewater. Normal reconnection is a charge to be levied for the transfer of service to a new customer account at a previously served location, or reconnection of service subsequent to a customer requested disconnection. A normal reconnection requires two trips, which includes one to turn service on and the other to turn service off.

The Utility requested a \$40 meter lock-off charge. The majority of Aquarina's customer base is seasonal and the Utility encourages the customers to have their meter locked off to avoid any potential excessive water losses when they are not in residence. The Utility indicated that there is a fair amount of water from theft, running toilets, and damaged water heaters. The Utility believes it is a legitimate service to offer and requested a charge of \$25, which includes a premises visit and its existing normal reconnection charge. Subsequent to its original requested charge of \$25, Aquarina revised its requested meter box lock-off charge to \$40, which includes two premises visits of \$10, a normal reconnection charge of \$15, and \$5 to cover the expense of the lock.

Staff believes the Utility could use its normal reconnection charge to achieve the same result without any special designation for meter box lock-off. As stated earlier, a normal reconnection charge includes two trips, which would cover the Utility turning off the service and subsequently turning on the service when the customer returns. Staff does not believe the \$5 lock charge is appropriate. The Utility indicated that the locks will be re-useable. Therefore, staff believes that the lock should be a cost of doing business.

Based on labor and transportation to and from the service territory, staff recommends that the normal reconnection charge should be \$38 and \$47 for normal and after hours, respectively for water and wastewater service. Staff's calculations are shown below in Table 12-2.

**Table 12-2
 Normal Reconnection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00	Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00
Labor (Field) (\$36/hr x 1/4 hr x 2)	\$18.00	Labor (Field) (\$54/hr x 1/4hr x 2)	\$27.00
Transportation (\$.54/mile x 10 miles-to/from x 2)	\$10.80	Transportation (\$.54/mile x 10 miles-to/from x 2)	\$10.80
Total	\$37.80	Total	\$46.80

Source: Utility's cost justification documentation.

Violation Reconnection Charge

The Utility's existing violation reconnection charge is \$15 for water and actual cost for wastewater. The violation reconnection charge is levied prior to reconnection of an existing customer after discontinuance of service for cause. The service performed for violation reconnection requires two trips, which includes one trip to turn off service and a subsequent trip to turn on service once the violation has been remedied. Based on labor and transportation to and from the service territory, staff recommends water violation reconnection charges of \$38 and \$47 for normal and after hours, respectively. Due to the labor intensive nature of a wastewater disconnection and pursuant to Rule 25-30.460, F.A.C., wastewater violation reconnection is and should remain at actual cost. Staff's calculations for water violation reconnection charges are shown below in Table 12-3.

**Table 12-3
 Violation Reconnection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00	Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00
Labor (Field) (\$36/hr x 1/4 hr x 2)	\$18.00	Labor (Field) (\$54/hr x 1/4hr x 2)	\$27.00
Transportation (\$.54/mile x 10 miles-to/from x 2)	\$10.80	Transportation (\$.54/mile x 10 miles-to/from x 2)	\$10.80
Total	\$37.80	Total	\$46.80

Source: Utility's cost justification documentation.

Premises Visit

The Utility's existing premises visit is \$10 for water and wastewater. The premises visit charge is levied when a service representative visits a premises at the customer's request for complaint resolution and the problem is found to be the customer's responsibility. In addition, the premises visit can be levied when a service representative visits a premises for the purpose of

discontinuing service for nonpayment of a due and collectible bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. A premises visit requires one trip.

Aquarina requested a \$200 emergency hours call out charge to cover costs incurred when the Utility owners travel from their home after hours and on holidays at the customer's request. The Utility's proposed charge included two hours of labor for two people and mileage to and from the service area. Staff does not believe that labor should be included for two people. Staff believes the Utility could use its premises visit charge to achieve the same result without any special designation for an emergency call out charge. Staff believes its recommended after hours premises visit charge recovers the appropriate cost incurred for after hours emergency calls. For the after hours calculation, staff included additional labor time and miles since the Utility representative would be traveling from a location other than the Utility's office. Based on labor and transportation to and from the service territory, staff recommends premises visit charges of \$26 and \$99 for normal and after hours, respectively for water and wastewater service. Staff's calculations are shown below in Table 12-4.

**Table 12-4
 Premises Visit Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00	Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00
Labor (Field) (\$36/hr x 1/3 hr)	\$12.00	Labor (Field) (\$54/hr x 1.10 hr)	\$59.40
Transportation (\$.54/mile x 10 miles-to/from)	\$5.40	Transportation (\$.54/mile x 28 miles-to/from)	\$30.24
Total	\$26.40	Total	\$98.64

Source: Utility's cost justification documentation.

The Utility requested a \$25 meter box maintenance charge and this charge should not be approved because it is the Utility's responsibility to maintain the customer's meters as provided by Rules 25-30.230 and 25-30.231, F.A.C. Below, in Table 12-5 are staff's recommended miscellaneous service charges.

**Table 12-5
 Summary of Staff's Recommended Miscellaneous Service Charges**

Miscellaneous Service Charges	Water		Wastewater	
	During Hours	After Hours	During Hours	After Hours
Initial Connection Charge	\$26	\$32	\$26	\$32
Normal Reconnection Charge	\$38	\$47	\$38	\$47
Violation Reconnection Charge	\$38	\$47	Actual Cost	Actual Cost
Premises Visit Charge (in lieu of Disconnection)	\$26	\$99	\$26	\$99

Summary

Aquarina's miscellaneous service charges should be revised. The charges should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges 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 13: Should Aquarina’s request for direct debit charge be approved?

Recommendation: Yes. Aquarina’s request for a direct debit charge should be approved. The direct debit charge should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, 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 the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Bruce)

Staff Analysis: Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. During the course of this proceeding, the Utility requested a direct debit charge. The Utility provided cost justification in support of the requested charge.

Aquarina requested to implement a direct debit charge. The purpose of the charge is to cover the costs of Aquarina’s bank debiting the bank account of a customer for its utility bill. The Utility mailed response cards to its customers to determine how many would actually use this method of payment and 55 customers provided the information required to use this payment option. For 40 or more debit items, Aquarina’s bank charges a \$10 monthly maintenance charge, \$45 for an automatic clearing house (ACH) Module (monthly service charge), \$12 per file sent (batch), and \$.14 per debit item. Staff believes a direct debit charge is appropriate because it places the cost on the cost causer. Below in Table 13-1, is the calculation of staff’s recommended direct debit charge.

**Table 13-1
Direct Debit Charge Calculation**

Aquarina Bank Charges	
Monthly Maintenance	\$10.00
ACH Module	\$45.00
Charge Per File	<u>\$12.00</u>
Total Fixed Charges	\$67.00
# of customers per month	55
Per Customer Fixed Charge	\$1.22
Charge Per Debit Sent	<u>\$0.14</u>
Direct Debit Charge	\$1.36

Source: Utility’s cost justification documentation.

Summary

Aquarina’s request for a direct debit charge should be approved. The direct debit charge should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, 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 the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 14: Should Aquarina be authorized to collect Non-Sufficient Funds (NSF) charges?

Recommendation: Yes. Aquarina should be authorized to collect NSF charges for both systems. Staff recommends that Aquarina revise its tariffs to reflect the NSF charges currently set forth in Section 68.065, F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. Furthermore, the charges should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within 10 days of the date of the notice. (Bruce)

Staff Analysis: Section 367.091, F.S., requires rates, charges, and customer service policies to be approved by the Commission. The Commission has authority to establish, increase, or change a rate or charge. Staff believes that Aquarina should be authorized to collect NSF charges consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Section 68.065(2), F.S., the following NSF charges may be assessed:

- 1) \$25, if the face value does not exceed \$50.
- 2) \$30, if the face value exceeds \$50 but does not exceed \$300.
- 3) \$40, if the face value exceeds \$300.
- 4) Or 5 percent of the face amount of the check, whichever is greater.

Approval of NSF charges is consistent with prior Commission decisions.³¹ Furthermore, NSF charges place the cost on the cost-causer, rather than requiring that the costs associated with the return of the NSF checks be spread across the general body of ratepayers. As such, Aquarina should be authorized to collect NSF charges for both systems. Staff recommends that Aquarina revise its tariff sheet to reflect the NSF charges currently set forth in Section 68.065, F.S. The NSF 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. Furthermore, the NSF charges should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within 10 days of the date of the notice.

³¹ See e.g., Order Nos. PSC-14-0198-TRF-SU, issued May 2, 2014, in Docket No. 140030-SU, *In re: Request for approval to amend Miscellaneous Service charges to include all NSF charges by Environmental Protection Systems of Pine Island, Inc.*; and PSC-13-0646-PAA-WU, issued December 5, 2013, in Docket No. 130025-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*

Issue 15: Should Aquarina’s existing service availability charges be revised, and if so, what are the appropriate charges?

Recommendation: No. The appropriate service availability charges are the Utility’s existing charges for the potable and non-potable water systems. The wastewater main extension charge should be discontinued. (Bruce)

Staff Analysis: The Utility’s existing service availability charges for the potable water system consist of a \$500 main extension charge, a \$780 plant capacity charge, and a \$150 meter installation charge. The non-potable water system’s existing service availability charges consist of a \$50 main extension charge, \$250 plant capacity charge, and a \$150 meter installation charge. For the wastewater system, the existing service availability charge is a \$635 main extension charge.

Service availability charges are one-time charges applicable to new connections, which allows a customer to pay its pro rata share of the facilities and plant cost. Rule 25-30.580, F.A.C., establishes guidelines for designing service availability charges. Pursuant to the Rule, the maximum amount of contributions-in-aid-of construction (CIAC), net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of the utility’s facilities and plant when the facilities and plant are at their designed capacity. The minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution system or wastewater collection system. The existing contribution levels are 63 percent, 7 percent, and 97 percent for potable water, non-potable water, and wastewater, respectively. Below in Table 15-1, is a summary of the contributions-in-aid-of contribution levels for each system based on the recommended rate base.

**Table 15-1
 Contributions-in- Aid-of-Construction Levels**

	Potable Water	Non-Potable Water	Wastewater
Utility Plant in Service	\$1,300,669	\$1,094,903	\$1,612,043
Accumulated Depreciation	\$1,003,525	\$872,742	\$1,357,193
CIAC	\$337,868	\$35,785	\$597,343
Amortization of CIAC	\$149,343	\$20,111	\$350,109
Contribution Level	63%	7%	97%

The Utility requested that staff evaluate its existing service availability charges, including any appropriate charges for irrigation service for new connections. Aquarina requested its service availability charges be increased to account for growth that may not materialize due to a major development in the Utility’s certificated territory being at an indefinite stalemate. In addition, the

Utility is concern that its existing service availability charges do not reflect current costs of maintaining the plant in today’s economy.

The design and development plans of Aquarina’s certificated territory have changed over time. According to the Utility, various lines have been constructed, connected, interconnected, and abandoned. The Utility requested and staff has recommended approval of pro forma revenue for GIS mapping. The GIS mapping will allow the Utility to delineate the potable, non-potable, and wastewater distribution and collection systems. At that time, staff would be able to determine the appropriate number of equivalent residential connections to use in development of revised service availability charges. Staff believes the existing potable and non-potable service availability charges are sufficient within the guidelines of Rule 25-30.580 F.A.C., and should remain unchanged at this time. However, the wastewater system’s contribution level exceeds the maximum amount of 75 percent pursuant to Rule 25-30.580, F.A.C.; therefore, the Utility’s existing main extension charge for wastewater should be discontinued. Staff notes that once the GIS mapping is completed the Utility can file a service availability application and have its service availability charges evaluated.

Summary

The appropriate service availability charges are the Utility’s existing charges for the potable and non-potable water systems. The wastewater main extension charge should be discontinued.

**Table 15-2
 Current and Recommended Service Availability Charges**

	Current and Recommended		Current and Recommended	
	Potable	Non Potable	Wastewater	
Meter Extension Charge	\$500	\$50	\$635	\$0
Plant Capacity Charge	\$780	\$250	N/A	N/A
Meter Installation Charge	\$150	\$150	N/A	N/A

Issue 16: Should the Commission approve a Phase II increase for pro forma items for Aquarina?

Recommendation: Yes. The Commission should approve a Phase II revenue requirement associated with pro forma items. The Utility's Phase II revenue requirement is \$171,277 for potable water, \$252,165 for non-potable water, and \$185,657 for wastewater, which equates to increases of 8.23 percent, 2.18 percent, and 3.34 percent, respectively, over the Phase I revenue requirements. Staff recommends that the potable water rates remain unchanged for Phase II. The Phase II wastewater rates should be designed to produce revenues of \$185,002, excluding miscellaneous revenues.

Implementation of the Phase II rates is conditioned upon Aquarina completing the pro forma items within 12 months of the issuance of a consummating order in this docket. The Utility should be required to submit a copy of the final invoices and cancelled checks or other payment confirmation documentation for all pro forma plant items. The Utility should be allowed to implement the above rates once all pro forma items have been completed and documentation provided showing that the improvements have been made. Once verified by staff, the 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. The rates should not be implemented until notice has been received by the customers. Aquarina should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing. (Lewis, L. Smith)

Staff Analysis: As discussed in Issue 3, the Utility has requested recognition of several pro forma plant items in the instant case. Several of the pro forma items either have been or will be completed before implementation of the Phase I rates and, therefore, staff has included these items in the Phase I revenue requirement as reflected in previous issues. In addition, the Utility has additional pro forma items that are to be completed after Phase I rates become effective. Table 16-1 summarizes the Phase II pro forma plant items and estimated cost.

Staff is recommending a Phase II revenue requirement associated with the pro forma items for a number of reasons. First, it assures that the pro forma items are completed prior to the Utility's recovery of the investment in rates. In addition, addressing the pro forma items in a single case saves additional rate case expense to the customers because the Utility would not need to file another rate case or limited proceeding to seek recovery for these items. The Commission has approved a Phase-In approach in Docket Nos. 140175-WU and 140177-WU.³²

Staff's adjustment to the Phase II UPIS balances results in increases of \$13,434 for potable water and \$11,005 for wastewater. Staff reduced accumulated depreciation by \$37,859 for potable water and \$30,431 for wastewater for retirements. Staff also reduced wastewater plant and accumulated depreciation by \$3,784 and \$245, respectively, for non-U&U components. Further,

³² Order Nos. PSC-15-0592-PAA-WU, issued December 30, 2015, in Docket No. 140175-WU, *In re: Application for staff-assisted rate case in Pasco County by Crestridge Utilities, LLC.*; and PSC-15-0588-PAA-WU, issued December 29, 2015, in Docket No. 140177-WU, *In re: Application for staff-assisted rate case in Pasco County by Holiday Gardens Utilities, LLC.*

staff increased the working capital allowance by \$1,221 for potable water, \$640 for non-potable water, and \$640 for wastewater.

Staff adjustments for Phase II include an increase in O&M expenses of \$9,769 for potable water, \$5,117 for non-potable water, and \$5,117 for wastewater. Staff has adjusted depreciation expense to reflect the pro forma additions, retirements, and U&U adjustments resulting in increases of \$610 for potable water and \$436 for wastewater. Staff has increased TOTI by \$208 for potable water and \$170 for wastewater to reflect the increase in property taxes related to pro forma additions. Staff's total adjustment to operating expenses, including additional RAFs, results in increases of \$11,173 for potable water, \$5,360 for non-potable water, and \$5,993 for wastewater. The resulting operating expenses are \$163,201 for potable water, \$245,825 for non-potable water, and \$175,657 for wastewater.

Table 16-1

Phase II Pro Forma Adjustments			
Description	UPIS	Accum Depr.	Depr. Expense
<u>Potable Water</u>			
Reverse Osmosis Skid	\$53,736	(\$2,443)	\$2,443
Retirement	<u>(40,302)</u>	<u>40,302</u>	<u>(1,832)</u>
Total	<u>\$13,434</u>	<u>\$37,859</u>	<u>\$611</u>
<u>Wastewater</u>			
Catwalks at Plant	\$9,703	(\$359)	\$359
Blower	28,716	(1,914)	1,914
Sand Filters	5,603	(311)	311
Retirements	<u>(33,016)</u>	<u>33,016</u>	<u>(1,939)</u>
Total	<u>\$11,005</u>	<u>\$30,431</u>	<u>\$646</u>

The Utility's Phase II revenue requirement should be \$171,277 for potable water, \$252,165 for non-potable water, and \$185,657 for wastewater. These totals represent increases of 8.23 percent, 2.18 percent, and 3.34 percent for potable water, non-potable water, and wastewater, respectively, over the recommended Phase I revenue requirements. As previously mentioned in Issue 10, staff recommends netting the Phase I potable water systems' overearnings and wastewater systems' revenues. The netting of wastewater revenues to potable water revenues avoided a reduction to Phase I potable water rates. Including miscellaneous revenues, the Phase I rates generate 99.7 percent of the Phase II potable water revenue requirement. As a result, the potable water rates should remain unchanged for Phase II. The wastewater rates should be design to generate revenues of \$185,002, excluding miscellaneous revenues. The BFC allocation should remain the same as the test year revenue allocation of 60 percent. The residential gallonage cap

should remain at 8,000 gallons. The general service gallonage charge should continue at 1.2 times the residential gallonage charge consistent with Commission practice.

Phase II rate bases are shown on Schedule Nos. 5-A, 5-B, and 5-C. The capital structure for Phase II is shown on Schedule No. 6. The revenue requirements are shown on Schedule Nos. 7-A, 7-B, and 7-C. The resulting rates are shown on Schedule Nos. 8-A, 8-B, and 8-C.

Implementation of the Phase II rates is conditioned upon Aquarina completing the pro forma items within 12 months of the issuance of a consummating order in this docket. The Utility should be required to submit a copy of the final invoices and cancelled checks for all pro forma plant items. The Utility should be allowed to implement the above rates once all pro forma items have been completed and documentation provided showing that the improvements have been made. Once verified by staff, the 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. The rates should not be implemented until notice has been received by the customers. Aquarina should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing.

Issue 17: Should the recommended rates 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?

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. Aquarina 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. (L. Smith)

Staff Analysis: This recommendation proposes an increase in water and wastewater 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. Aquarina 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.

The Utility 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 \$102,802. 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, and,
- 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 security, 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'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.

Issue 18: Should the Utility 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?

Recommendation: Yes. The Utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Aquarina should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (L. Smith)

Staff Analysis: The Utility should be required to notify the Commission, in writing that it has adjusted its books in accordance with the Commission's decision. Aquarina should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Issue 19: Should this docket be closed?

Recommendation: No. If no person whose substantial interests 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 outstanding Phase I pro forma items have been completed, the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and the Utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Also, the docket should remain open to allow staff to verify that the Phase II pro forma items have been completed, and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively. (Murphy)

Staff Analysis: If no person whose substantial interests 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 outstanding Phase I pro forma items have been completed, the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and the Utility has provided staff with proof that the adjustments for all applicable NARUC USOA primary accounts have been made. Also, the docket should remain open to allow staff to verify that the Phase II pro forma items have been completed and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively.

AQUARINA UTILITIES, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS	
SCHEDULE OF POTABLE WATER RATE BASE PHASE I			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$1,907,336	(\$457,110)	\$1,450,227
LAND & LAND RIGHTS	62,080	(24,498)	37,582
NON-USED AND USEFUL COMPONENT	0	(73,194)	(73,194)
ACCUMULATED DEPRECIATION	(1,522,797)	451,903	(1,070,894)
CIAC	(483,149)	145,281	(337,868)
AMORTIZATION OF CIAC	276,662	(127,319)	149,343
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>14,957</u>	<u>14,957</u>
WATER RATE BASE	<u>\$240,132</u>	<u>(\$69,980)</u>	<u>\$170,153</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 1-B	
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS	
SCHEDULE OF NON-POTABLE WATER RATE BASE PHASE I			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$22,080	\$923,265	\$945,345
LAND & LAND RIGHTS	0	24,498	24,498
NON-USED AND USEFUL COMPONENT	0	0	0
ACCUMULATED DEPRECIATION	0	(805,374)	(805,374)
CIAC	0	(35,785)	(35,785)
AMORTIZATION OF CIAC	0	20,111	20,111
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>23,792</u>	<u>23,792</u>
WATER RATE BASE	<u>\$22,080</u>	<u>\$150,507</u>	<u>\$172,587</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 1-C	
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS	
SCHEDULE OF WASTEWATER RATE BASE PHASE I			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$2,116,139	(\$504,096)	\$1,612,043
LAND & LAND RIGHTS	33,680	0	33,680
NON-USED AND USEFUL COMPONENT	0	(62,323)	(62,323)
ACCUMULATED DEPRECIATION	(1,866,188)	508,995	(1,357,193)
CIAC	(603,375)	6,032	(597,343)
AMORTIZATION OF CIAC	299,305	50,804	350,109
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>18,936</u>	<u>18,936</u>
WASTEWATER RATE BASE	<u>(\$20,439)</u>	<u>\$18,348</u>	<u>(\$2,091)</u>

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 ADJUSTMENTS TO RATE BASE PHASE I	SCHEDULE NO. 1-D DOCKET NO. 150010-WS PAGE 1 OF 1		
	WATER-P	NP-WATER	WASTEWATER
UTILITY PLANT IN SERVICE			
1. To reflect the audited plant balances. (AF 1)	\$49,635	\$905	\$7,708
2. To match CIAC adjustments in audit	(90,305)	90,305	0
3. To reflect retirements related to CIAC	(36,324)	(67,162)	0
4. To reflect reclassification from Potable to NP	(234,124)	234,124	0
5. To impute T&D Mains for NP system.	(149,558)	149,558	0
6. To reflect reclassification from Wastewater to NP	0	512,792	(512,792)
7. To reflect the appropriate averaging adjustment.	(2,329)	(31)	(1,436)
8. To reflect the appropriate pro forma additions.	5,896	2,774	2,424
Total	<u>(\$457,110)</u>	<u>\$923,265</u>	<u>(\$504,096)</u>
LAND & LAND RIGHTS			
To reflect appropriate land balances.	<u>(\$24,498)</u>	<u>\$24,498</u>	<u>\$0</u>
NON-USED AND USEFUL COMPONENT			
1. To reflect the appropriate Non-U&U UPIS.	(\$490,147)	(\$199,989)	(\$480,926)
2. To reflect the appropriate Non-U&U Accumulated Depreciation.	<u>416,953</u>	<u>199,989</u>	<u>418,603</u>
Total	<u>(\$73,194)</u>	<u>\$0</u>	<u>(\$62,323)</u>
ACCUMULATED DEPRECIATION			
1. To reflect the appropriate Accumulated Depreciation balances. (AF 5)	(\$10,652)	\$0	(\$18,566)
2. To reflect pro rata Potable/NP split.	10,365	(10,365)	0
3. To match CIAC adjustments in audit	99,758	(99,758)	0
4. To reflect retirements related to CIAC	52,420	86,236	0
5. To reflect reclassification from Potable to NP	202,514	(202,514)	0
6. To reflect reclassification from Wastewater to NP	0	(512,792)	512,792
7. To reflect imputation of T&D Mains for NP system.	67,369	(67,369)	0
8. To reflect the appropriate averaging adjustment.	20,232	265	14,814
9. To reflect the appropriate pro forma additions.	<u>9,898</u>	<u>923</u>	<u>(45)</u>
Total	<u>\$451,903</u>	<u>(\$805,374)</u>	<u>\$508,995</u>
CIAC			
1. To reflect the appropriate CIAC balance. (AF 4)	\$95,372	(\$107,222)	\$0
2. To reflect retirements	36,324	67,162	0
3. To reflect the appropriate CIAC averaging adjustments.	<u>13,585</u>	<u>4,275</u>	<u>6,032</u>
Total	<u>\$145,281</u>	<u>(\$35,785)</u>	<u>\$6,032</u>
AMORTIZATION OF CIAC			
1. To reflect the audited Accumulated Amortization of CIAC balance. (AF 6)	(\$70,242)	\$107,911	\$58,562
2. To reflect retirement of CIAC	(52,420)	(86,236)	0
3. To reflect the appropriate averaging adjustment.	<u>(4,657)</u>	<u>(1,564)</u>	<u>(7,758)</u>
Total	<u>(\$127,319)</u>	<u>\$20,111</u>	<u>\$50,804</u>
WORKING CAPITAL ALLOWANCE			
To reflect 1/8 of test year O & M expenses.	<u>\$14,957</u>	<u>\$23,792</u>	<u>\$18,936</u>

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 SCHEDULE OF CAPITAL STRUCTURE - PHASE I							SCHEDULE NO. 2 DOCKET NO. 150010-WS	
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$0	\$0	\$0					
2. RETAINED EARNINGS	0	0	0					
3. PAID IN CAPITAL	0	0	0					
4. OTHER COMMON EQUITY	<u>(505,064)</u>	<u>505,064</u>	<u>0</u>					
TOTAL COMMON EQUITY	<u>(\$505,064)</u>	<u>\$505,064</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	<u>11.16%</u>	<u>0.00%</u>
5. LONG-TERM DEBT	\$863,346	(\$416,595)	\$446,751	(\$106,263)	\$340,488	99.95%	3.66%	3.66%
6. SHORT-TERM DEBT	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%
TOTAL DEBT	\$863,346	(\$416,595)	\$446,751	(\$106,263)	\$340,488	99.95%		
7. CUSTOMER DEPOSITS	<u>193</u>	<u>(32)</u>	<u>161</u>	<u>0</u>	<u>161</u>	<u>0.05%</u>	<u>2.00%</u>	<u>0.00%</u>
8. TOTAL	<u>\$358,475</u>	<u>\$88,437</u>	<u>\$446,912</u>	<u>(\$106,263)</u>	<u>\$340,649</u>	<u>100.00%</u>		<u>3.66%</u>
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>	
OVERALL RATE OF RETURN						<u>3.66%</u>	<u>3.66%</u>	

AQUARINA UTILITIES, INC.			SCHEDULE NO. 3-A		
TEST YEAR ENDED 12/31/2014			DOCKET NO. 150010-WS		
SCHEDULE OF POTABLE WATER OPERATING INCOME PHASE I					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	<u>\$169,239</u>	<u>\$1,609</u>	<u>\$170,848</u>	<u>(\$12,593)</u> -7.37%	<u>\$158,255</u>
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	\$92,074	\$27,582	\$119,658	\$0	\$119,658
DEPRECIATION EXPENSE	0	20,797	20,797	0	20,797
CIAC AMORTIZATION EXPENSE	0	(8,849)	(8,849)	0	(8,849)
TAXES OTHER THAN INCOME	19,493	1,497	20,990	(567)	20,423
INCOME TAXES	<u>1,442</u>	<u>(1,442)</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$113,009</u>	<u>\$39,586</u>	<u>\$152,595</u>	<u>(\$567)</u>	<u>\$152,028</u>
OPERATING INCOME/(LOSS)	<u>\$56,230</u>		<u>\$18,253</u>		<u>\$6,226</u>
WATER RATE BASE	<u>\$240,132</u>		<u>\$170,153</u>		<u>\$170,153</u>
RATE OF RETURN	<u>23.42%</u>		<u>10.73%</u>		<u>3.66%</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 3-B			
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS			
SCHEDULE OF NON-POTABLE WATER OPERATING INCOME PHASE I					
	TEST YEAR	STAFF	STAFF	ADJUST.	REVENUE
	PER UTILITY	ADJUSTMENTS	ADJUSTED	FOR	REQUIREMENT
			TEST YEAR	INCREASE	
OPERATING REVENUES	<u>\$96,929</u>	<u>\$900</u>	<u>\$97,829</u>	<u>\$148,954</u> 152.26%	<u>\$246,783</u>
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	\$152,155	\$38,180	\$190,332	\$0	\$190,332
DEPRECIATION EXPENSE	0	24,757	24,757	0	24,757
CIAC AMORTIZATION EXPENSE	0	(534)	(534)	0	(534)
TAXES OTHER THAN INCOME	16,413	2,795	19,208	6,703	25,911
INCOME TAXES	<u>1,442</u>	<u>(1,442)</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$170,010</u>	<u>\$63,755</u>	<u>\$233,763</u>	<u>\$6,703</u>	<u>\$240,466</u>
OPERATING INCOME/(LOSS)	<u>(\$73,081)</u>		<u>(\$135,934)</u>		<u>\$6,317</u>
WATER RATE BASE	<u>\$22,080</u>		<u>\$172,587</u>		<u>\$172,587</u>
RATE OF RETURN	<u>-330.99%</u>		<u>-78.76%</u>		<u>3.66%</u>

AQUARINA UTILITIES, INC.			SCHEDULE NO. 3-C		
TEST YEAR ENDED 12/31/2014			DOCKET NO. 150010-WS		
SCHEDULE OF WASTEWATER OPERATING INCOME PHASE I					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	<u>\$160,261</u>	<u>\$1,560</u>	<u>\$161,821</u>	<u>\$17,842</u> 11.03%	<u>\$179,663</u>
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	\$126,358	\$25,131	\$151,489	\$0	\$151,489
DEPRECIATION EXPENSE	0	11,006	11,006	0	11,006
CIAC AMORTIZATION EXPENSE	0	(15,514)	(15,514)	0	(15,514)
TAXES OTHER THAN INCOME	19,126	2,754	21,880	803	22,683
INCOME TAXES	<u>1,442</u>	<u>(1,442)</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$146,926</u>	<u>\$21,935</u>	<u>\$168,861</u>	<u>\$803</u>	<u>\$169,664</u>
OPERATING INCOME/(LOSS)	<u>\$13,335</u>		<u>(\$7,040)</u>		<u>\$10,000</u>
WASTEWATER O&M EXPENSE	<u>\$126,358</u>		<u>\$151,489</u>		<u>\$151,489</u>
OPERATING MARGIN	<u>10.55%</u>		<u>-4.65%</u>		<u>6.60%</u>

AQUARINA UTILITIES, INC.		Schedule No. 3-D		
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS		
ADJUSTMENTS TO OPERATING INCOME PHASE I		Page 1 of 3		
	<u>WATER-P</u>	<u>WATER-NP</u>	<u>WASTEWATER</u>	
OPERATING REVENUES				
To reflect appropriate revenues for the systems.	<u>\$1,609</u>	<u>\$900</u>	<u>\$1,560</u>	
OPERATION AND MAINTENANCE EXPENSES				
Salaries and Wages - Employees (601/701)				
a. To normalize salary expense to remove payroll for former employees. (AF 8)	(\$1,707)	(\$2,587)	(\$2,147)	
b. To remove insurance reimbursement to former employee.	(183)	(278)	(231)	
c. To remove unpaid salary accruals from outside the test year.	(4,807)	(7,286)	(6,046)	
d. To include maintenance employees	<u>28,663</u>	<u>43,444</u>	<u>36,053</u>	
	<u>\$21,966</u>	<u>\$33,294</u>	<u>\$27,629</u>	
Employee Pensions and Benefits (604/704)				
a. To reflect the appropriate amount of pensions and benefits. (AF 8)	\$5,670	\$8,594	\$7,132	
b. To reflect the increase for new maintenance employees.	<u>5,446</u>	<u>8,254</u>	<u>6,850</u>	
Subtotal	<u>\$11,116</u>	<u>\$16,848</u>	<u>\$13,982</u>	
Purchased Power (615/715)				
To reflect the correct amount of purchase power expense. (AF 8)	<u>\$357</u>	<u>\$3,609</u>	<u>(\$4,254)</u>	
Materials and Supplies (620/720)				
a. To include reimbursement for October expense voucher. (AF8)	\$705	\$1,686	\$1,196	
b. To reclassify potable booster pumps. (AF8)	(1,079)	(2,578)	0	
c. To remove non-utility purchases. (AF8)	<u>(110)</u>	<u>(263)</u>	<u>(186)</u>	
Subtotal	<u>(\$484)</u>	<u>(\$1,155)</u>	<u>\$1,010</u>	
Contractual Services - Professional				
To remove and amortize non-recurring accounting fees	<u>(\$533)</u>	<u>(\$533)</u>	<u>(\$533)</u>	
Contractual Services - Testing (635/735)				
To remove non-utility testing expenses. (AF 8)	<u>(\$401)</u>	<u>\$0</u>	<u>(\$1,106)</u>	
Contractual Services - Other (636/736)				
a. To capitalize non-potable pump that was expensed. (AF 8)	\$0	(\$3,620)	\$0	
b. Pump service expense that was not posted to ledger (AF 8)	2,703	720	0	
c. To reflect amortization of pro forma repairs.	1,160	36	298	
d. To remove meter reading expense.	(783)	(1,872)	(390)	
e. To remove and amortize non-recurring repairs.	<u>(183)</u>	<u>(437)</u>	<u>(584)</u>	
Subtotal	<u>\$2,897</u>	<u>(\$5,173)</u>	<u>(\$676)</u>	
Rental of Building/Property (641/741)				
a. To remove 2014 amount of rental expense for office space. (AF 8)	(\$334)	(\$334)	(\$333)	
b. To include 2015 storage building rental expense. (AF 8)	3,000	3,000	3,000	
c. To reflect reduction in price per square foot.	<u>(396)</u>	<u>(396)</u>	<u>(396)</u>	
Subtotal	<u>\$2,270</u>	<u>\$2,270</u>	<u>\$2,271</u>	
Rental of Equipment (642/742)				
a. To remove 2014 amount of equipment rental expense. (AF 8)	(\$7,800)	(\$7,800)	(\$7,800)	
b. To include 2015 rental expense. (AF 8)	6,000	6,000	6,000	
c. To adjust rental expense.	<u>(1,200)</u>	<u>(1,200)</u>	<u>(1,200)</u>	
Subtotal	<u>(\$3,000)</u>	<u>(\$3,000)</u>	<u>(\$3,000)</u>	

AQUARINA UTILITIES, INC.	Schedule No. 3-D		
TEST YEAR ENDED 12/31/2014	DOCKET NO. 150010-WS		
ADJUSTMENTS TO OPERATING INCOME PHASE I	Page 2 of 3		
	WATER-P	WATER-NP	WASTEWATER
Transportation Expenses (650/750)			
a. To reflect the correct amount of mileage expenses. (AF 8)	\$183	\$439	\$311
b. To reflect the correct amount of mileage expenses. (AF 8)	(733)	(1,752)	(1,242)
c. To removed repairs to non-utility vehicles. (AF 8)	(292)	(699)	(496)
d. To remove unsupported airline tickets. (AF 8)	(148)	(352)	(250)
Subtotal	<u>(\$989)</u>	<u>(\$2,365)</u>	<u>(\$1,677)</u>
Insurance - Vehicle Expenses (656/756)			
To reflect the appropriate amount of insuranc vehicle expense. (AF 8)	<u>(\$1,162)</u>	<u>(\$1,162)</u>	<u>(\$1,162)</u>
Insurance - General Liability Expenses (657/757)			
To reflect the correct amount of general liability insurance. (AF 8)	<u>(\$10)</u>	<u>(\$10)</u>	<u>(\$11)</u>
Insurance - Other Expenses (659/759)			
To reflect appropriate amount of insurance other expenses. (AF 8)	<u>(\$2,378)</u>	<u>(\$2,378)</u>	<u>(\$2,377)</u>
Regulatory Commission Expense (667/767)			
a. To reflect the correct amount of regulatory commission expense. (AF 8)	(\$25)	(\$25)	(\$50)
b. To reflect the appropriate amount of rate case expense.	773	773	773
Subtotal	<u>\$748</u>	<u>\$748</u>	<u>\$723</u>
Miscellaneous Expense (675/775)			
a. To reflect communication costs. (AF 8)	(\$2,253)	(\$2,253)	(\$2,253)
b. To reclassify and capitalize to Account 360.	0	0	(2,872)
c. To reflect reimbursements for October Misc. expenses.	376	376	375
d. To remove non-utility reimbursements.	(970)	(970)	(970)
e. To reflect reclassification for DEP permits .	34	33	33
Subtotal	<u>(\$2,814)</u>	<u>(\$2,815)</u>	<u>(\$5,687)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$27,582</u>	<u>\$38,180</u>	<u>\$25,131</u>
DEPRECIATION EXPENSE			
a. To reflect audited depreciation expense.	\$45,851	\$601	\$28,200
b. To reflect reclassification from Potable to Non-Potable.	(9,782)	9,782	0
c. To reflect retirements imputation of T&D Mains for NP system.	(3,576)	3,576	0
d. To reflect reclassification from Wastewater to Non-Potable	0	12,820	(12,820)
e. To reflect retirements.	(908)	(2,150)	0
f. To reflect pro forma depreciation expense.	163	127	45
g. Non-U&U depreciation expense.	<u>(10,950)</u>	<u>0</u>	<u>(4,419)</u>
Total	<u>\$20,797</u>	<u>\$24,757</u>	<u>\$11,006</u>
AMORTIZATION OF CIAC EXPENSE			
a. To reflect audited amount of CIAC amortization expense.	(\$9,758)	(\$2,684)	(\$15,514)
b. To reflect retirements.	908	2,150	0
Total	<u>(\$8,849)</u>	<u>(\$534)</u>	<u>(\$15,514)</u>

AQUARINA UTILITIES, INC.		Schedule No. 3-D		
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS		
ADJUSTMENTS TO OPERATING INCOME PHASE I		Page 3 of 3		
		<u>WATER-P</u>	<u>WATER-NP</u>	<u>WASTEWATER</u>
TAXES OTHER THAN INCOME				
a. To reflect the correct amount of property taxes.		(\$118)	(\$118)	(\$118)
b. To reflect the correct amount of payroll taxes.		(130)	(198)	(164)
c. To reflect the appropriate amount of payroll taxes for new employees.		2,527	3,830	3,178
d. To reflect the appropriate amount of regulatory assessment fees. (RAFs).		108	62	134
e. To reflect pro forma property taxes.		91	43	38
f. Non-U&U property taxes.		<u>(980)</u>	<u>(825)</u>	<u>(314)</u>
Total		<u>\$1,497</u>	<u>\$2,795</u>	<u>\$2,754</u>
INCOME TAX				
To reflect the correct amount of income tax expenses.		<u>(\$1,442)</u>	<u>(\$1,442)</u>	<u>(\$1,442)</u>

AQUARINA UTILITIES, INC.	SCHEDULE NO. 3-E		
TEST YEAR ENDED 12/31/2014	DOCKET NO. 150010-WS		
ANALYSIS OF POTABLE WATER OPERATION AND MAINTENANCE EXPENSE PHASE I			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$48,832	\$21,966	\$70,798
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	11,116	11,116
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	3,180	357	3,537
(616) FUEL FOR POWER PRODUCTION	74	0	74
(618) CHEMICALS	1,564	0	1,564
(620) MATERIALS AND SUPPLIES	6,424	(484)	5,941
(632) CONTRACTUAL SERVICES - PROFESSIONAL	3,807	(533)	3,274
(634) CONTRACTUAL SERVICES - MANAGEMENT FEES	1,930	0	1,930
(635) CONTRACTUAL SERVICES - TESTING	669	(401)	268
(636) CONTRACTUAL SERVICES - OTHER	2,737	2,897	5,634
(640) RENTS	0	0	0
(641) RENTAL OF BUILDING/PROPERTY	334	2,270	2,604
(642) RENTAL OF EQUIPMENT	7,800	(3,000)	4,800
(650) TRANSPORTATION EXPENSE	3,731	(989)	2,742
(656) INSURANCE - VEHICLE	1,728	(1,162)	566
(657) INSURANCE - GENERAL LIABILITY	2,624	(10)	2,614
(659) INSURANCE - OTHER	2,378	(2,378)	0
(667) REGULATORY COMMISSION EXPENSE	25	748	773
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSE	<u>4,239</u>	<u>(2,814)</u>	<u>1,425</u>
Total	<u>\$92,074</u>	<u>\$27,583</u>	<u>\$119,658</u>

AQUARINA UTILITIES, INC.	SCHEDULE NO. 3-F		
TEST YEAR ENDED 12/31/2014	DOCKET NO. 150010-WS		
ANALYSIS OF NON-POTABLE WATER OPERATION AND MAINTENANCE EXPENSE PHASE I			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$74,014	\$33,294	\$107,308
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	16,848	16,848
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	32,150	3,609	35,759
(616) FUEL FOR POWER PRODUCTION	750	0	750
(618) CHEMICALS	48	0	48
(620) MATERIALS AND SUPPLIES	4,873	(1,155)	3,717
(632) CONTRACTUAL SERVICES - PROFESSIONAL	3,807	(533)	3,274
(634) CONTRACTUAL SERVICES - MANAGEMENT FEES	1,930	0	1,930
(635) CONTRACTUAL SERVICES - TESTING	0	0	0
(636) CONTRACTUAL SERVICES - OTHER	6,541	(5,173)	1,368
(640) RENTS	0	0	0
(641) RENTAL OF BUILDING/PROPERTY	334	2,270	2,604
(642) RENTAL OF EQUIPMENT	7,800	(3,000)	4,800
(650) TRANSPORTATION EXPENSE	8,917	(2,365)	6,552
(656) INSURANCE - VEHICLE	1,728	(1,162)	566
(657) INSURANCE - GENERAL LIABILITY	2,624	(10)	2,614
(659) INSURANCE - OTHER	2,378	(2,378)	0
(667) REGULATORY COMMISSION EXPENSE	25	748	773
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSE	<u>4,239</u>	<u>(2,815)</u>	<u>1,424</u>
Total	<u>\$152,155</u>	<u>\$38,179</u>	<u>\$190,332</u>

AQUARINA UTILITIES, INC.	SCHEDULE NO. 3-G		
TEST YEAR ENDED 12/31/2014	DOCKET NO. 150010-WS		
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE PHASE I			
	TOTAL PER UTILITY*	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$61,423	\$27,629	\$89,052
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	13,982	13,982
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	0	0	0
(715) PURCHASED POWER	17,665	(4,254)	13,411
(716) FUEL FOR POWER PRODUCTION	412	0	412
(718) CHEMICALS	1,289	0	1,289
(720) MATERIALS AND SUPPLIES	6,023	1,010	7,033
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(732) CONTRACTUAL SERVICES - PROFESSIONAL	3,807	(533)	3,274
(733) CONTRACTUAL SERVICES - LEGAL	0	0	0
(734) CONTRACTUAL SERVICES - MANAGEMENT FEES	1,930	0	1,930
(735) CONTRACTUAL SERVICES - TESTING	3,107	(1,106)	2,001
(736) CONTRACTUAL SERVICES - OTHER	2,154	(676)	1,478
(741) RENTAL OF BUILDING/PROPERTY	333	2,271	2,604
(742) RENTAL OF EQUIPMENT	7,800	(3,000)	4,800
(750) TRANSPORTATION EXPENSE	6,520	(1,677)	4,843
(756) INSURANCE - VEHICLE	1,728	(1,162)	566
(757) INSURANCE - GENERAL LIABILITY	2,624	(11)	2,613
(759) INSURANCE OTHER	2,377	(2,377)	(0)
(767) REGULATORY COMMISSION EXPENSES	50	723	773
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSE	<u>7,116</u>	<u>(5,687)</u>	<u>1,429</u>
TOTAL O&M EXPENSES	<u>\$126,358</u>	<u>\$25,131</u>	<u>\$151,489</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 4-A	
TEST YEAR ENDED SEPTEMBER 30, 2014		DOCKET NO. 150010-WS	
MONTHLY WATER RATES (PHASE I)			
	RATES AT TIME OF FILING	STAFF RECOMMENDED PHASE I RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$19.16	\$19.16	\$0.10
3/4"	\$28.74	\$28.74	\$0.15
1"	\$47.90	\$47.90	\$0.25
1-1/2"	\$95.79	\$95.79	\$0.50
2"	\$153.27	\$153.27	\$0.80
3"	\$306.55	\$306.55	\$1.61
4"	\$478.96	\$478.96	\$2.52
6"	\$957.93	\$957.93	\$5.03
Charge per 1,000 gallons - Residential and General Service	\$6.95	\$6.95	\$0.04
<u>Irrigation Service - Non-Potable</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"		\$16.90	\$0.06
3/4"		\$25.35	\$0.08
1"		\$42.25	\$0.14
1-1/2"		\$84.50	\$0.28
2"		\$135.20	\$0.45
3"		\$270.40	\$0.89
4"		\$422.50	\$1.40
6"		\$845.00	\$2.79
Charge per 1,000 gallons - Irrigation Service	\$0.78	\$1.38	\$0.00
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$33.06	\$33.06	
6,000 Gallons	\$60.86	\$60.86	
8,000 Gallons	\$74.76	\$74.76	

*Phase I water rates will remain at the current rates.

AQUARINA UTILITIES, INC.		SCHEDULE NO. 4-B	
TEST YEAR ENDED SEPTEMBER 30, 2014		DOCKET NO. 150010-WS	
MONTHLY WASTEWATER RATES (PHASE I)			
	RATES AT TIME OF FILING	STAFF RECOMMENDED PHASE I RATES	4 YEAR RATE REDUCTION
<u>Residential</u>			
Base Facility Charge - All Meter Sizes			
Charge Per 1,000 gallons	\$22.13	\$22.83	\$0.11
8,000 gallon cap	\$4.79	\$4.94	
Flat Rate Service	\$34.69	\$35.78	\$0.18
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$22.13	\$22.83	\$0.11
3/4"	\$33.16	\$34.25	\$0.17
1"	\$55.28	\$57.08	\$0.28
1-1/2"	\$110.56	\$114.15	\$0.56
2"	\$176.90	\$182.64	\$0.90
3"	\$353.81	\$365.28	\$1.79
4"	\$552.83	\$570.75	\$2.80
6"	\$1,105.67	\$1,141.50	\$5.60
Charge per 1,000 gallons - General Service	\$5.76	\$5.94	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$31.71	\$32.71	
6,000 Gallons	\$50.87	\$52.47	
8,000 Gallons	\$60.45	\$62.35	

AQUARINA UTILITIES, INC.		SCHEDULE NO. 5-A	
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS	
SCHEDULE OF POTABLE WATER RATE BASE PHASE II			
DESCRIPTION	PHASE I BALANCE	STAFF	BALANCE
		ADJUSTMENTS TO UTIL. BAL.	PER STAFF
UTILITY PLANT IN SERVICE	\$1,450,227	\$13,434	\$1,463,661
LAND & LAND RIGHTS	37,582	0	37,582
NON-USED AND USEFUL COMPONENT	(73,194)	0	(73,194)
ACCUMULATED DEPRECIATION	(1,070,894)	37,859	(1,033,035)
CIAC	(337,868)	0	(337,868)
AMORTIZATION OF CIAC	149,343	0	149,343
WORKING CAPITAL ALLOWANCE	<u>14,957</u>	<u>1,221</u>	<u>16,178</u>
WATER RATE BASE	<u>\$170,153</u>	<u>\$52,514</u>	<u>\$222,667</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 5-B	
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS	
SCHEDULE OF NON-POTABLE WATER RATE BASE - PHASE II			
DESCRIPTION	PHASE I BALANCE	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$945,345	\$0	\$945,345
LAND & LAND RIGHTS	24,498	0	24,498
NON-USED AND USEFUL COMPONENT	0	0	0
ACCUMULATED DEPRECIATION	(805,374)	0	(805,374)
CIAC	(35,785)	0	(35,785)
AMORTIZATION OF CIAC	20,111	0	20,111
WORKING CAPITAL ALLOWANCE	<u>23,792</u>	<u>640</u>	<u>24,432</u>
WATER RATE BASE	<u>\$172,587</u>	<u>\$640</u>	<u>\$173,227</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 5-C	
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS	
SCHEDULE OF WASTEWATER RATE BASE PHASE II			
DESCRIPTION	PHASE I BALANCE	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$1,612,043	\$11,005	\$1,623,048
LAND & LAND RIGHTS	33,680	0	33,680
NON-USED AND USEFUL COMPONENT	(62,323)	(3,538)	(65,861)
ACCUMULATED DEPRECIATION	(1,357,193)	30,431	(1,326,762)
CIAC	(597,343)	0	(597,343)
AMORTIZATION OF CIAC	350,109	0	350,109
WORKING CAPITAL ALLOWANCE	<u>18,936</u>	<u>640</u>	<u>19,576</u>
WASTEWATER RATE BASE	<u>(\$2,091)</u>	<u>\$38,538</u>	<u>\$36,447</u>

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 ADJUSTMENTS TO RATE BASE	SCHEDULE NO. 5-D DOCKET NO. 150010-WS		
	<u>WATER-P</u>	<u>WATER-NP</u>	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>			
To reflect the appropriate pro forma additions.	<u>\$13,434</u>	<u>\$0</u>	<u>\$11,005</u>
<u>NON-USED AND USEFUL COMPONENT</u>			
To reflect the appropriate Non-U&U UPIS.	\$0	\$0	(\$3,784)
To reflect the appropriate Non-U&U Accumulated Depreciation.	<u>0</u>	<u>0</u>	<u>245</u>
Total	<u>\$0</u>	<u>\$0</u>	<u>(\$3,538)</u>
<u>ACCUMULATED DEPRECIATION</u>			
To reflect the appropriate pro forma additions.	<u>\$37,859</u>	<u>\$0</u>	<u>\$30,431</u>
<u>WORKING CAPITAL ALLOWANCE</u>			
To reflect 1/8 of test year O & M expenses.	<u>\$1,221</u>	<u>\$640</u>	<u>\$640</u>

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 SCHEDULE OF CAPITAL STRUCTURE- PHASE II							SCHEDULE NO. 6 DOCKET NO. 150010-WS		
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	WEIGHTED COST	WEIGHTED COST	
1. COMMON STOCK	\$0	\$0	\$0						
2. RETAINED EARNINGS	0	0	0						
3. PAID IN CAPITAL	0	0	0						
4. OTHER COMMON EQUITY	<u>(505,064)</u>	<u>505,064</u>	<u>0</u>				11.16%		
TOTAL	<u>(\$505,064)</u>	<u>\$505,064</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	<u>11.16%</u>	<u>0.00%</u>	
5. LONG-TERM DEBT	\$446,751	\$0	\$446,751	(\$7,285)	\$439,466	99.96%	3.66%	3.66%	
6. SHORT-TERM DEBT	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
TOTAL DEBT	\$446,751	\$0	\$446,751	(\$7,285)	\$439,466	99.96%	0.00%	0.00%	
7. CUSTOMER DEPOSITS	161	0	161	0	161	<u>0.04%</u>	<u>2.00%</u>	<u>0.00%</u>	
8. TOTAL	<u>(\$58,152)</u>	<u>\$505,064</u>	<u>\$446,912</u>	<u>(\$7,285)</u>	<u>\$439,627</u>	<u>100.00%</u>		<u>3.66%</u>	
RANGE OF REASONABLENESS						LOW	HIGH		
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>		
OVERALL RATE OF RETURN						<u>3.66%</u>	<u>3.66%</u>		

AQUARINA UTILITIES, INC.		SCHEDULE NO. 7-A			
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS			
SCHEDULE OF POTABLE WATER OPERATING INCOME PHASE II					
	PHASE I	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	<u>\$158,255</u>	<u>\$0</u>	<u>\$158,255</u>	<u>\$13,022</u> 8.23%	<u>\$171,277</u>
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	\$119,658	\$9,769	\$129,427	\$0	\$129,427
DEPRECIATION (NET)	20,797	610	21,407	0	21,407
AMORTIZATION OF CIAC	(8,849)	0	(8,849)	0	(8,849)
TAXES OTHER THAN INCOME	20,423	208	20,631	586	21,217
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$152,028</u>	<u>\$10,587</u>	<u>\$162,615</u>	<u>\$586</u>	<u>\$163,201</u>
OPERATING INCOME/(LOSS)	<u>\$6,226</u>		<u>(\$4,361)</u>		<u>\$8,075</u>
WATER RATE BASE	<u>\$170,153</u>		<u>\$222,667</u>		<u>\$222,667</u>
RATE OF RETURN	<u>3.66%</u>		<u>-1.96%</u>		<u>3.63%</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 7-B			
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS			
SCHEDULE OF NON-POTABLE WATER OPERATING INCOME PHASE II					
	PHASE I	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	<u>\$246,783</u>	<u>\$0</u>	<u>\$246,783</u>	<u>\$5,382</u> 2.18%	<u>\$252,165</u>
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	\$190,332	\$5,117	\$195,450	\$0	\$195,450
DEPRECIATION (NET)	24,757	0	24,757	0	24,757
AMORTIZATION OF CIAC	(534)	0	(534)	0	(534)
TAXES OTHER THAN INCOME	25,911	0	25,911	242	26,153
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$240,466</u>	<u>\$5,117</u>	<u>\$245,583</u>	<u>\$242</u>	<u>\$245,825</u>
OPERATING INCOME/(LOSS)	<u>\$6,317</u>		<u>\$1,200</u>		<u>\$6,340</u>
WATER RATE BASE	<u>\$172,587</u>		<u>\$173,227</u>		<u>\$173,227</u>
RATE OF RETURN	<u>3.66%</u>		<u>0.69%</u>		<u>3.66%</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 7-C			
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS			
SCHEDULE OF WASTEWATER OPERATING INCOME PHASE II					
	PHASE I	STAFF ADJS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	<u>\$179,663</u>	<u>\$0</u>	<u>\$179,663</u>	<u>\$5,994</u> 3.34%	<u>\$185,657</u>
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	\$151,489	\$5,117	\$156,607	\$0	\$156,607
DEPRECIATION EXPENSE	11,006	436	11,442	0	11,442
AMORTIZATION OF CIAC	(15,514)	0	(15,514)	0	(15,514)
TAXES OTHER THAN INCOME	22,683	170	22,853	270	23,123
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$169,664</u>	<u>\$5,724</u>	<u>\$175,388</u>	<u>\$270</u>	<u>\$175,657</u>
OPERATING INCOME/(LOSS)	<u>\$9,999</u>		<u>\$4,275</u>		<u>\$10,000</u>
WASTEWATER OPERATING EXPENSES	<u>\$151,489</u>		<u>\$156,607</u>		<u>\$156,607</u>
OPERATING MARGIN	<u>6.60%</u>		<u>2.73%</u>		<u>6.39%</u>

AQUARINA UTILITIES, INC.	Schedule No. 7-D		
TEST YEAR ENDED 12/31/2014	DOCKET NO. 150010-WS		
ADJUSTMENTS TO OPERATING INCOME	<u>WATER-P</u>	<u>WATER-NP</u>	<u>WASTEWATER</u>
OPERATION AND MAINTENANCE EXPENSES			
Contractual Services - Professional (632/732) RO Service Contract.	<u>\$4,652</u>	<u>\$0</u>	<u>\$0</u>
Contractual Services - Other (636/736) To reflect amortization of GIS Mapping.	<u>\$5,117</u>	<u>\$5,117</u>	<u>\$5,117</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$9,769</u>	<u>\$5,117</u>	<u>\$5,117</u>
DEPRECIATION EXPENSE			
a. To reflect pro forma depreciation expense.	\$610	\$0	\$646
b. To reflect Non-U&U depreciation expense.	<u>0</u>	<u>0</u>	<u>(210)</u>
Total	<u>\$610</u>	<u>\$0</u>	<u>\$436</u>
TAXES OTHER THAN INCOME			
To reflect pro forma property taxes.	<u>\$208</u>	<u>\$0</u>	<u>\$170</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 8-A	
TEST YEAR ENDED SEPTEMBER 30, 2014		DOCKET NO. 150010-WS	
MONTHLY WATER RATES (PHASE II)			
	STAFF RECOMMENDED PHASE I RATES	STAFF RECOMMENDED PHASE II RATES	
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$19.16	\$19.16	
3/4"	\$28.74	\$28.74	
1"	\$47.90	\$47.90	
1-1/2"	\$95.79	\$95.79	
2"	\$153.27	\$153.27	
3"	\$306.55	\$306.55	
4"	\$478.96	\$478.96	
6"	\$957.93	\$957.93	
Charge per 1,000 gallons - Residential and General Service	\$6.95	\$6.95	
<u>Irrigation Service - Non-Potable</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$16.90	\$17.26	
3/4"	\$25.35	\$25.89	
1"	\$42.25	\$43.15	
1-1/2"	\$84.50	\$86.30	
2"	\$135.20	\$138.08	
3"	\$270.40	\$276.16	
4"	\$422.50	\$431.50	
6"	\$845.00	\$863.00	
Charge per 1,000 gallons - Irrigation Service	\$1.38	\$1.41	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$33.06	\$33.06	
6,000 Gallons	\$60.86	\$60.86	
8,000 Gallons	\$74.76	\$74.76	

*Phase I & II water rates will remain unchanged.

AQUARINA UTILITIES, INC.		SCHEDULE NO. 8-B	
TEST YEAR ENDED SEPTEMBER 30, 2014		DOCKET NO. 150010-WS	
MONTHLY WASTEWATER RATES (PHASE II)			
	STAFF RECOMMENDED PHASE I RATES	STAFF RECOMMENDED PHASE II RATES	
<u>Residential</u>			
Base Facility Charge - All Meter Sizes			
Charge Per 1,000 gallons	\$22.83	\$25.05	
8,000 gallon cap	\$4.94	\$5.68	
Flat Rate Service	\$35.78	\$37.32	
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$22.83	\$25.05	
3/4"	\$34.25	\$37.58	
1"	\$57.08	\$62.63	
1-1/2"	\$114.15	\$125.25	
2"	\$182.64	\$200.40	
3"	\$365.28	\$400.80	
4"	\$570.75	\$626.25	
6"	\$1,141.50	\$1,252.50	
Charge per 1,000 gallons - General Service	\$5.94	\$6.81	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$32.71	\$36.41	
6,000 Gallons	\$52.47	\$59.13	
8,000 Gallons	\$62.35	\$70.49	

	Cost Recovery Allocation		Fixed Allocations		Variable Allocations		
	Common Costs	Fixed	Variable	Potable - 50%	NP - 50%	Potable - 9%	NP - 91%
(601) SALARIES AND WAGES - EMPLOYEES	\$122,846	75.00%	25.00%	\$46,067	\$46,067	\$2,764	\$27,947
(604) EMPLOYEE PENSIONS AND BENEFITS	0	75.00%	25.00%	\$0	\$0	\$0	\$0
(615) PURCHASED POWER	35,330	0.00%	100.00%	\$0	\$0	\$3,180	\$32,150
(616) FUEL FOR POWER PRODUCTION	824	0.00%	100.00%	\$0	\$0	\$74	\$750
(618) CHEMICALS	0	0.00%	100.00%	\$0	\$0	\$0	\$0
(620) MATERIALS AND SUPPLIES	6,570	50.00%	50.00%	\$1,642	\$1,642	\$296	\$2,989
(632) CONTRACTUAL SERVICES - PROFESSIONAL	7,613	100.00%	0.00%	\$3,807	\$3,807	\$0	\$0
(634) CONTRACTUAL SERVICES - MANAGEMENT FEES	3,860	100.00%	0.00%	\$1,930	\$1,930	\$0	\$0
(635) CONTRACTUAL SERVICES - TESTING	0	50.00%	50.00%	\$0	\$0	\$0	\$0
(636) CONTRACTUAL SERVICES - OTHER	9,278	50.00%	50.00%	\$2,320	\$2,320	\$418	\$4,221
(641) RENTAL OF BUILDING/PROPERTY	667	100.00%	0.00%	\$334	\$334	\$0	\$0
(642) RENTAL OF EQUIPMENT	15,600	100.00%	0.00%	\$7,800	\$7,800	\$0	\$0
(650) TRANSPORTATION EXPENSE	12,648	50.00%	50.00%	\$3,162	\$3,162	\$569	\$5,755
(656) INSURANCE - VEHICLE	3,456	100.00%	0.00%	\$1,728	\$1,728	\$0	\$0
(657) INSURANCE - GENERAL LIABILITY	5,247	100.00%	0.00%	\$2,624	\$2,624	\$0	\$0
(659) INSURANCE - OTHER	4,755	100.00%	0.00%	\$2,378	\$2,378	\$0	\$0
(667) REGULATORY COMMISSION EXPENSE	50	100.00%	0.00%	\$25	\$25	\$0	\$0
(675) MISCELLANEOUS EXPENSE	8,477	100.00%	0.00%	\$4,239	\$4,239	\$0	\$0
	<u>\$237,221</u>			<u>\$78,054</u>	<u>\$78,054</u>	<u>\$7,301</u>	<u>\$73,812</u>

Item 9

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: November 22, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Higgins) *DH*
Division of Accounting and Finance (Cicchetti, Wolmers) *GW* *ALM*
Office of the General Counsel (Leathers) *ML*

RE: Docket No. 160174-GU – Request for approval of 2016 depreciation study by Sebring Gas System, Inc.

AGENDA: 12/06/16 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Patronis

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

RECEIVED-FPSC
2016 NOV 22 AM 11:25
COMMISSION CLERK

Case Background

Rule 25-7.045, Florida Administrative Code (F.A.C.), requires natural gas public utilities to file a comprehensive depreciation study with the Florida Public Service Commission (Commission) for review at least once every five years from the submission date of the previous study. On July 20, 2016, Sebring Gas System, Inc. (Sebring or company) filed its 2016 depreciation study in compliance with the aforesaid rule. The company's last depreciation study was filed July 22, 2011. Staff notes Sebring had 2015 operating revenues of approximately \$959,000, serving 559 customers.¹ Staff has completed its review of Sebring's 2016 Depreciation Study and presents its recommendations to the Commission herein.

¹ Sebring Gas System's Annual Report of Natural Gas Utilities Form PSC/AFA 20, at December 31, 2015, filed with the Florida Public Service Commission on June 1, 2016.

Docket No. 160174-GU
Date: November 22, 2016

The Commission is vested with jurisdiction over these matters through several provisions of the Florida Statutes, including Sections 350.115, 366.05, and 366.06, F.S.

Discussion of Issues

Issue 1: Should currently prescribed depreciation rates for Sebring Gas System be revised?

Recommendation: Yes. The review of Sebring's plant depreciation information indicates a need for revising the company's currently prescribed depreciation rates. (Higgins)

Staff Analysis: Sebring's last depreciation filing was made on July 22, 2011. By Order No. PSC-12-0043-PAA-GU, the Commission approved revised depreciation rates that became effective January 1, 2011.²

The company has filed its current study in accordance with Rule 25-7.045, F.A.C., which requires natural gas companies to file a comprehensive depreciation study at least once every five years from the submission date of the previously filed study. A review of the company's plant activity and data indicates the need for revising depreciation rates. Staff's recommended depreciation components and rates are discussed in Issue 3 and shown on Attachments A and B.

² Order No. PSC-12-0043-PAA-GU, issued January 26, 2012, in Docket No. 110233-GU, In re: Petition for approval of 2011 Depreciation Study by Sebring Gas Systems, Inc.

Issue 2: What should be the implementation date for newly proposed depreciation rates?

Recommendation: Staff recommends January 1, 2017, for implementing newly proposed depreciation rates as shown on Attachments A and B to this recommendation. (Higgins)

Staff Analysis: Rule 25-7.045, F.A.C., requires that the data submitted in a depreciation study, including plant and reserve balances or company estimates, “shall be brought to the effective date of the proposed rates.” The supporting data and calculations provided by Sebring match an implementation date of January 1, 2017.

Issue 3: What are the appropriate depreciation parameters and resulting rates?

Recommendation: Staff recommends the Commission approve the lives, reserve percentages, net salvage percentages, and resulting remaining life depreciation rates for Sebring that are shown on Attachment A. As shown on Attachment B, the corresponding depreciation expense effect of staff's rate recommendations is a decrease of \$6,980 annually, or 3.8 percent, based on December 31, 2016 investments. (Higgins)

Staff Analysis:

Staff's recommendations are the result of a comprehensive review of Sebring's plant depreciation data filed in this docket. Attachment A to this recommendation shows a comparison of certain currently-approved depreciation parameters and rates to those staff is recommending become effective January 1, 2017 (Issue 2). Staff and the company are in agreement on all proposed depreciation parameters and resulting rates.³ Displayed on Attachment B is a comparison of depreciation expenses between currently-approved and proposed rates based on December 31, 2016 investments.

This filing was essentially a staff-assisted study. The company provided plant addition and retirement data spanning 2011-2016 (2016 projected), proposed net salvage values, proposed average service lives, and proposed Iowa-type survivor curves.⁴ With this information, staff determined the average age of investments on an account-by-account basis, then applied the results to Sebring's proposed curve/life combinations for determining account-specific average remaining lives. Sebring's proposed account-specific average service lives are unchanged from its prior study.

As a result of the review and analytical process, staff and Sebring agree on lives, net salvage values, and resulting depreciation rates for all accounts as shown on Attachments A and B to this recommendation.

Plant Additions

Sebring's total plant investment has grown substantially over the study period. During the 2011-2016 period (2016 projected), the company's system grew by approximately 89 percent, or from approximately \$2.9 million to approximately \$5.6 million. Over two-thirds of this system growth is attributable to initiating gas services in 2013 to both the Hardee and Desoto Correctional Institutes. Specifically, Sebring invested in the construction of two new gate stations (Account 379.00 - Measuring & Regulating Station Equipment – City Gate) which were required in order to fulfill its newly acquired service contracts with the Florida Department of Corrections. Staff notes that these two special service contracts were approved by the Commission in 2013.⁵ The

³ Sebring's Response to 2016 Depreciation Study Staff Report, No. 6.

⁴ "Iowa-type Curves" are a widely-used group of generalized survivor curves that contain the range of survivor characteristics usually experienced by public utilities, as well as companies in other industries.

⁵ Order No. PSC-13-0366-PAA-GU, issued August 8, 2013, in Docket No. 130130-GU, In re: Petition for approval of special contract with the Florida Department of Corrections - DeSoto Correctional Institution, by Sebring Gas System, Inc., and Order No. PSC-13-0367-PAA-GU, issued August 8, 2013, in Docket No. 130079-GU, In re: Petition for approval of special contract with the Florida Department of Corrections, by Sebring Gas System, Inc.

two new gate stations tapped both the Gulfstream (serving the Hardee Institution), and Florida Gas Transportation pipelines (serving the Desoto Institution).

Additional investments attributable to newly-serving the correctional institutes include the installation of mains and meters placed downstream from the gate stations. The investments were recorded in: Account 376 - Mains – Plastic, and Account 382 - Meter Installations. The total investment required to initiate service to the correctional institutes was approximately \$1.5 million. This investment is net of the approximate \$250,000 refund paid to Sebring by Gulfstream and Florida Gas Transportation companies from mandatory prepayment of engineering and construction costs. In addition to the correctional institutions, over the study period Sebring also installed new plant/extending mainlines in Sebring, Florida, for serving businesses, a fire department, and a residential community.

In response to a staff data request, the company stated it does not foresee similar levels of investment growth as it experienced in 2013 and believes its system will revert to more typical growth patterns over the next study period.⁶

Plant Retirements

The company's plant has experienced minimal retirement activity over the study period. Expressed as a percentage of study period additions, plant retirements total under 2 percent from 2011-2016. Staff notes the refund associated with tapping the two transmission pipelines discussed in the *Plant Additions* section was initially recorded as retirement in 2014 (year of refund), but later correctly revised as a "reduction of plant addition," thus accurately reflecting the final investment amount.

Average Service and Remaining Lives

Neither the company, nor staff, propose any changes to Sebring's currently-authorized, account-specific, average service lives.⁷ Staff does, however, recommend the company closely monitor the life characteristics of all its investments for evaluating if any average service life adjustments are warranted as part of future depreciation studies.

As similarly performed in the company's last depreciation review and mentioned above, staff computed account-specific average remaining lives (shown on Attachment A) by first aging Sebring's projected plant investments at December 31, 2016, then applying the results to the company's Iowa Curve and service life selections on an account-by-account basis.

Net Salvage

The company has not requested any changes to its currently authorized net salvage levels.⁸ Without experiencing meaningful levels of retirement over a period of time, company specific net salvage investigations may prove inconclusive. Thus, staff compared the company's currently-authorized/proposed-for-continued-use net salvage levels to those experienced by other

⁶ Sebring's Responses to Staff's First Data Request, No. 7.

⁷ Order No. PSC-12-0043-PAA-GU.

⁸ *Id.*

natural gas distribution companies. Staff believes Sebring’s currently-authorized/proposed net salvage values remain in-line to those currently being estimated by its industry peers and should continue to be used for applicable rate-making purposes.

Reserve Transfers

As part of reviewing Sebring’s 2016 Depreciation Study, staff calculated the book reserve position of each plant account. Staff also calculated the associated theoretical reserve positions of each plant account, which are based on the current recommended life and net salvage inputs. The difference between an account’s book and theoretical reserve amounts may be described as an imbalance, either positive or negative, or as a surplus or deficiency. When imbalances are present, corrective transfers among accounts should be evaluated, and if warranted, recommended to be performed. Staff discusses its recommended reserve transfers below.

Over the study period of 2011-2016, Sebring carried depreciation reserves of \$9,788 in Account 399 – Prior Period Adjustment. This amount was associated with a prior rate case audit finding related to the appropriate level of accumulated depreciation. This audit finding was ultimately identified by Commission Order PSC-04-1260-PAA-GU.⁹ As part of the data request process, the company was asked if it has any specific treatment proposals for this reserve amount and responded it did not.¹⁰ Staff further inquired if the company was amenable to the Commission allocating this reserve to other plant accounts in a rational manner. The company was supportive of both staff’s suggestion and transfer results/proposals. The specific depreciation reserve transfer proposals are presented in Table 3-1.

**Table 3-1
 Proposed Accumulated Depreciation Transfers**

Acct. No.	Account Title	Reserve Transfer Amounts
376.1	Mains – Steel	2,357
379	Meas. & Reg. Station Equip.(City Gate)	2,129
380.2	Services - Plastic	2,058
382	Meter Installations	119
387	Other Equipment	153
394	Tools, Shop & Garage Equipment	2,972
399	Prior Period Adjustment	(9,788)

Staff’s methodology was to first bring any account with a theoretically negative reserve position to its theoretically correct level. However, after bringing all accounts with theoretically negative

⁹ Order No. PSC-04-1260-PAA-GU, issued December 20, 2004, in Docket No. 040270-GU, In re: Application for rate increase by Sebring Gas System, Inc.

¹⁰ Sebring’s Responses to Staff’s First Data Request No. 1, and Sebring’s Responses to 2016 Depreciation Study Staff Report, No. 1.

reserve positions to their correct levels, \$2,058 of the original \$9,788 remained. For this remainder, staff proposes allocating the entire amount to Account 380.2 – Services – Plastic, due to this account having an approximate 31-year average remaining life in which the surplus is spread over/amortized, as well as mitigating the minor expense increase associated with this account. Staff believes any effects resulting from the transfer are minimal due to the account's long remaining life, as well as the small transfer amount relative to overall investment.

Staff also recommends the Commission approve transferring \$180, from Account 392 – Trans. Equipment – Other Vehicles to Account 392 – Trans. Equipment – Light Trucks, as the former account has no corresponding investment. Staff notes that its current rate recommendations incorporate all proposed reserve transfers discussed in this section.

Other Matters

For natural gas utilities, the Commission observes \$500 as being the appropriate minimum threshold for capitalization of property, while minor items costing less than \$500 are recorded as maintenance expense.¹¹ Staff in its review of Sebring's 2016 Depreciation Study became aware of a small number of capital entries which were below the \$500 minimum threshold. However, staff notes the vast majority of capital items/plant entries are appropriately above the minimum threshold. Staff consulted with the company concerning these specific entries. The company claimed it ceased making capital entries below \$500, and will only capitalize property valued at \$500 or greater going forward.¹²

For calendar year 2012, the company recorded (\$4,250) of plant retirements to Account 381 – Meters, while only recording (\$330) to the account's corresponding reserve. For calendar year 2014, the company recorded (\$20,647) of plant retirements to Account 392.1 – Transportation – Trucks, while only recording (\$14,955) to the account's corresponding reserve. Staff proposes to correct accumulated depreciation levels by matching the reserve entries to the corresponding plant entries. This proposal results in reducing account 381's reserve by (\$3,920), and account 392.1's reserve by (\$5,692). Staff notes its current depreciation rate recommendations incorporate these proposed reserve reductions.

Conclusion

Staff recommends the Commission approve the lives, net salvages, reserves, and resultant depreciation rates for Sebring that are shown on Attachment A. The expense effect of staff's plant depreciation rate recommendations, which is shown on Attachment B, is a decrease of \$6,980 annually, or 3.8 percent, based on December 31, 2016 investments.

¹¹ Rule 25-7.0461, F.A.C., and the Federal Energy Regulatory Commission Uniform System of Accounts, prescribed by the Code of Federal Regulations, Title 18, Subchapter F, Part 201 (2013).

¹² Sebring's Responses to Staff's First Data Request, No. 8.

Issue 4: Should the current amortization of investment tax credits (ITCs) and flow back of excess deferred income taxes (EDITs) be revised to reflect the approved depreciation rates and amortization schedules?

Recommendation: Yes. The current amortization of ITCs should be revised to match the actual recovery periods for the related property. The company should file detailed calculations of the revised ITC amortization at the same time it files its earnings surveillance report covering period ending December 31, 2017, as specified in rule 27-7.1352, F.A.C. (Cicchetti, Wolmers).

Staff Analysis: In Issue 2, staff has recommended approval of revised depreciation rates for the company, to be effective January 1, 2017, which reflect changes to most accounts' remaining lives to be effective January 1, 2017. Revising a utility's book depreciation lives generally results in a change in its rate of ITC amortization in order to comply with the normalization requirements of the Internal Revenue Code (IRC or Code) set forth in sections 168(f)(2) and (i)(9),¹³ former IRC section 167(l),^{14, 15} former IRC Section 46(f),^{16, 17} Federal Tax Regulations under the Code sections,¹⁸ and section 203(e) of the Tax Reform Act of 1986 (the Act).¹⁹

Staff, the Internal Revenue Service (IRS), and independent outside auditors look at a company's books and records, and the orders and rules of the jurisdictional regulatory authorities to determine if the books and records are maintained in the appropriate manner. The books are also reviewed to determine if they are in compliance with the regulatory guidelines in regard to normalization.

Former IRC Section 46(f)(6) of the Code indicated that the amortization of ITC should be determined by the period of time actually used in computing depreciation expense for ratemaking purposes and on the regulated books of the utility.²⁰ While, Section 46(f)(6) was repealed, under IRC Section 50(d)(2), the terms of former IRC Section 46(f)(6) remain applicable to public utility property for which a regulated utility previously claimed ITCs. Since staff is recommending changes to the company's remaining lives, it is also important to change the amortization of ITCs to avoid violation of the provisions of IRC section 50(d)(2), and its underlying Treasury Regulations. The consequence of an ITC normalization violation is a repayment of unamortized ITC balances to the IRS. Therefore, staff recommends the current amortization of ITCs should be revised to match the actual recovery periods for the related property. The company should file detailed calculations of the revised ITC amortization at the

¹³ 26 USC §§168(f)(2) and (i)(9).

¹⁴ Former 26 USC §167(l), repealed by Revenue Reconciliation Act of 1990, Pub. L. No. 101-508, §11812(a)(1-2)(1990).

¹⁵ Under IRC Section 50(d)(2), the terms of former IRC section 167(l) remain applicable to public utility property for which a regulated utility previously claimed ITCs, which is the case here. (I.R.S. Priv. Ltr. Rul. 200933023, In.1 (May 7, 2009)).

¹⁶ Former 26 USC §46(f), repealed by Revenue Reconciliation Act of 1990, Pub. L. No. 101-508, §11813(1990).

¹⁷ Under IRC Section 50(d)(2), the terms of former IRC section 46(f) remain applicable to public utility property for which a regulated utility previously claimed ITCs, which is the case here. (I.R.S. Priv. Ltr. Rul. 200933023, In.1 (May 7, 2009)).

¹⁸ Treas. Reg. §1.168; Treas. Reg. §1.167; Treas. Reg. §1.46.

¹⁹ Tax Reform Act of 1986, Pub. L. No. 99-514 (100 Stat. 2085, 2146)(1986).

²⁰ Former 26 USC §46(f)(6) (establishing proper determination of ratable portion).

same time it files its earnings surveillance report covering the period ending December 31, 2017, as specified in Rule 25-7.1352, F.A.C.

Issue 5: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (Leathers)

Staff Analysis: At the conclusion of the protest period, if no protest is filed, this docket should be closed upon the issuance of a consummating order.

Comparison of Rates and Components									
Account Number	Account Title	Current ¹			Staff Recommended				
		Ave. Rem. Life (yrs.)	Future Net Salvage (%)	Remaining Life Rate (%)	Ave. Rem. Life (yrs.)	Reserve (%)		Future Net Salvage (%)	Remaining Life Rate (%)
376.1	Mains - Steel	12.7	(30)	2.9	14.6	87.66%	*	(30)	2.9
376.2	Mains - Plastic	34.2	(30)	2.9	33.8	32.50%		(30)	2.9
378	Meas. & Reg. Equip. (Embedded)	13.1	(2)	3.1	16.0	52.87%		(2)	3.1
379	Meas. & Reg. Equip.(City Gate)	16.5	(2)	3.2	27.6	13.68%	*	(2)	3.2
380.1	Services - Steel	14.3	(30)	1.7	11.8	117.74%		(30)	1.0
380.2	Services - Plastic	32.0	(30)	3.1	30.7	31.29%	*	(30)	3.2
381	Meters	12.1	0	4.0	9.4	63.83%		0	3.8
382	Meter Installations	17.1	(5)	3.1	19.5	44.55%	*	(5)	3.1
383	House Regulators	10.5	0	3.3	7.0	78.21%		0	3.1
384	House Regulator Installations	13.7	(3)	3.0	14.7	59.17%		(3)	3.0
386	Property on Customers' Premises	9.5	0	4.0	6.9	83.87%		0	2.3
387	Other Equipment	15.5	0	4.0	16.8	32.80%	*	0	4.0
390	Leasehold Improvements	38.0	0	2.5	40.0	19.85%		0	2.5
391.1	Office Furniture	8.8	0	4.0	25.0	58.08%		0	4.0
391.2	Office Equipment	5.8	0	6.7	15.0	83.18%		0	4.4
392.1	Transportation - Trucks	2.7	15	10.6	8.0	68.73%		15	9.0
394	Tools, Shop & Garage Equipment	10.3	0	6.7	15.0	63.15%	*	0	6.7
396	Power Operated Equipment	5.4	0	6.7	15.0	48.99%		0	5.9
397	Communication Equipment	5.0	0	5.6	18.0	13.63%		0	5.6

¹ Order No. PSC-12-0043-PAA-GU.

*Denotes a Reserve Transfer; see Table 3-1.

Comparison of Expenses						
Account Number	Account Title	Current ¹		Staff Proposed		
		Depreciation Rate (%)	Annual Expense (\$)	Depreciation Rate (%)	Annual Expense (\$)	Change In Expense (\$)
376.1	Mains - Steel	2.9	5,409	2.9	5,409	0
376.2	Mains - Plastic	2.9	65,547	2.9	65,547	0
378	Meas. & Reg. Equip. (Embedded)	3.1	505	3.1	505	0
379	Meas. & Reg. Equip.(City Gate)	3.2	39,442	3.2	39,442	0
380.1	Services - Steel	1.7	5,992	1.0	3,525	(2,467)
380.2	Services - Plastic	3.1	20,891	3.2	21,565	674
381	Meters	4.0	11,044	3.8	10,492	(552)
382	Meter Installations	3.1	3,529	3.1	3,529	0
383	House Regulators	3.3	1,063	3.1	999	(64)
384	House Regulator Installations	3.0	1,892	3.0	1,892	0
386	Property on Customers' Premises	4.0	1,432	2.3	824	(608)
387	Other Equipment	4.0	894	4.0	894	0
390	Leasehold Improvements	2.5	332	2.5	332	0
391.1	Office Furniture	4.0	33	4.0	33	0
391.2	Office Equipment	6.7	2,096	4.4	1,377	(719)
392.1	Transportation - Trucks	10.6	19,402	9.0	16,474	(2,928)
394	Tools, Shop & Garage Equipment	6.7	1,071	6.7	1,071	0
396	Power Operated Equipment	6.7	2,647	5.9	2,331	(316)
397	Communication Equipment	5.6	1,713	5.6	1,713	0
Total			184,934		177,954	(6,980)

¹ Order No. PSC-12-0043-PAA-GU.

Item 10

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: November 22, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Rome, Guffey, Draper)
Division of Accounting and Finance (D. Buys)
Office of the General Counsel (Leathers)

Handwritten initials and signatures: CAR, SKG, ESD, DAB, ALM, and other illegible marks.

RE: Docket No. 160175-GU – Petition for review and determination on the project construction and gas transportation agreement between NUI Utilities, Inc. d/b/a City Gas Company of Florida and Florida Crystals Corporation, and approval of an interim service arrangement.

AGENDA: 12/06/16 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Patronis

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

RECEIVED-FPSC
2016 NOV 22 AM 11:25
COMMISSION CLERK

Case Background

On July 22, 2016, Florida City Gas (FCG or City Gas) filed a Petition for Review and Determination on the “Project Construction and Gas Transportation Agreement (GTA) between NUI Utilities, Inc. d/b/a City Gas Company of Florida and Florida Crystals Corporation dated April 24, 2001” and Approval of an Interim Service Arrangement. City Gas is an investor-owned natural gas utility subject to the Commission’s jurisdiction per Section 366.02(1), Florida Statutes, (F.S.). Florida Crystals Corporation (Florida Crystals or Crystals) is a national sugar manufacturer.

The GTA was executed by City Gas and Florida Crystals on April 24, 2001, and has a 30-year term. However, City Gas never submitted the GTA for Commission review and approval. The

purpose of the GTA was for City Gas to construct, own, and operate a lateral pipeline from its transmission network to the Okeelanta Plant of Florida Crystals and provide natural gas transportation service to Florida Crystals. Florida Crystals began taking transportation service pursuant to the GTA in January 2002 and both parties have abided by the terms and negotiated rates of the GTA since its execution. The GTA contains a Primary Term, a Make-Up Period, and an Extended Term. The rates of the Extended Term differ from the rates applicable during the prior two terms. City Gas states that the Extended Term of the GTA will commence in January 2017 and its analysis shows that for the next 15 years of the Extended Term the cost to serve Florida Crystals will substantially exceed projected revenues, and therefore the revenue shortfall to City Gas will be very significant.

City Gas in its petition is requesting that the Commission take the following actions: (1) determine that the GTA is not a legally effective and enforceable special contract under Florida law because the GTA was never submitted to the Commission for its review or approval and the terms of the Extended Term do not meet the Commission's rules and City Gas's tariff requirements for a special contract, (2) approve an interim service arrangement until the Commission approves a new agreement that complies with Florida law, and (3) take no further action with respect to City Gas's past performance under the GTA unless the Commission determines that such action is required, but in no event is a fine or other penalty appropriate.

City Gas further asserts in its petition that in the absence of an approved special contract, beginning January 1, 2017, City Gas, as required by law, will have to charge Crystals the applicable tariff rate (GS-1,250k rate schedule), which is much higher than the negotiated GTA rate. Therefore, FCG is requesting an interim service arrangement as presented in the petition which should remain in effect until the Commission approves a successor GTA. v

On August 5, 2016, Florida Crystals filed a Motion to be Designated a Party, or in the alternative, a Motion to Intervene. This motion is addressed in Issue 1.

On August 29, 2016, Crystals filed a Motion to Dismiss City Gas's petition. The reasons asserted by Crystals are: (1) the GTA is a valid contract and did not require filing because it was covered by and complied with City Gas's applicable tariffs, specifically the KTS rate schedule, (2) City Gas informed the Commission of the GTA in its 2003 rate case and stated in expert testimony that the negotiated rate with Crystals recovers its costs to provide service, (3) any attempt to reverse the Commission's approval of the GTA rates as supported by City Gas's expert witness is barred by the administrative finality, (4) GTA provides for rates that are fully compliant with City Gas's tariff, specifically with the KDS rate schedule (the successor to the KTS rate schedule), (5) only Florida courts can determine the validity of a contract and the Commission lacks the jurisdiction to grant City Gas's requested relief of determining that the GTA is not legally effective, (6) City Gas violated its own tariff and Rule 25-9.034, Florida Administrative Code (F.A.C.), and then asks the Commission to allow City Gas's own failures to enable City Gas to escape its contractual obligation, and (7) City Gas's claim that its other customers could be harmed if City Gas does not recover higher amounts from Crystals is not an issue in this proceeding as City Gas has not pleaded that it requires relief to earn an adequate return. The Motion to Dismiss is addressed in Issue 3.

Docket No. 160175-GU
Date: November 22, 2016

On August 29, 2016, Florida Crystals requested oral argument on its Motion to Dismiss City Gas's petition. Crystals' request for oral argument is addressed in Issue 2.

On August 31, 2016, City Gas filed a Motion for Approval of a Temporary Interim Service Arrangement, including the rates presented in Confidential Exhibit No. 3. Such temporary interim service arrangement would remain in effect until the Commission issues a final order in this docket, or the Commission issues a successor transportation arrangement. If the Commission does not approve the interim service arrangement or approve a successor program, City Gas, as required by law would charge Crystals the applicable tariff rate (rate schedule GS 1,250k) effective January 1, 2017. The proposed Temporary Interim Service Arrangement is addressed in Issue 5.

On September 19, 2016, Crystals filed a Request for Oral Argument on its response in opposition to the Motion for Approval of a Temporary Interim Service Arrangement. Crystals' request for oral argument is addressed in Issue 4.

On September 19, 2016, City Gas filed a response in opposition to Crystals' Motion to Dismiss City Gas's petition. City Gas requested the Commission deny Crystals' Motion to Dismiss the petition because: (1) the GTA is a non-binding agreement because it was not approved by the Commission, (2) the petition is well pled, and (3) states a cause of action upon which the Commission may grant relief to Crystals.

On September 19, 2016, Crystals filed a response in opposition to the motion for approval of a temporary interim service arrangement. Crystals states that City Gas's entire case is predicated on the basis that the GTA is invalid, City Gas is trying to extract more money from Crystals which has paid in excess of the cost to serve, and that City Gas is evading its obligations pursuant to the GTA.

On October 10, 2016, staff issued its First Data Request to City Gas and to Crystals. City Gas provided partial, non-confidential responses on October 28, 2016. Staff received complete responses from both parties on November 1, 2016.

On October 18, 2016, staff issued a Notice of Apparent Violation to City Gas. City Gas responded on November 1, 2016 and Florida Crystals filed Comments concerning City Gas's Response to Notice of Apparent Violation on November 17, 2016.

On November 4, 2016, after review of City Gas's newly filed, revised, confidential data, staff issued an informal meeting notice. On November 15, 2016, staff held a noticed meeting with City Gas and Crystals to discuss the discovery responses. The Commission has jurisdiction over this matter pursuant to Sections 366.04, 366.05, and 366.06, F.S.

Discussion of Issues

Issue 1: Should the Commission grant Florida Crystals' Motion to be Designated a Party or in the Alternative Motion to Intervene?

Recommendation: No. The Commission should deny Florida Crystals' Motion to be Designated a Party or in the Alternative Motion to Intervene because intervention is premature and unnecessary at this time. (Leathers)

Staff Analysis: On July 22, 2016, FCG filed its Petition for Review and Determination and Approval of an Interim Service Arrangement (Petition) asking the Commission to find that the GTA is not legally effective or enforceable because its terms do not meet the Commission's rules and statutes or FCG's tariff requirements for a special contract. FCG also requested that the Commission approve FCG's proposed interim service arrangement set forth in the Petition until the Commission approves a new service agreement as successor to the GTA. On August 5, 2016, Florida Crystals' filed its Motion to be Designated a Party or in the Alternative Motion to Intervene, pursuant to Chapters 120 and 366, F.S., and Rules 25-22.036, 25-22.039, 28-106.201, and 28-106.205, F.A.C. Florida Crystals states that as FCG's counterparty to the GTA and as the customer for whom FCG is attempting to establish an interim service arrangement for future gas transportation services, Florida Crystals is a necessary, indispensable party and its substantial interests will be directly affected by the issues raised in this docket. Florida Crystals requests party or intervenor status so that it may file responsive pleadings and otherwise fully participate in Docket No. 160175-GU.

Section 120.57, F.S., sets forth the provisions applicable to hearings involving disputed issues of material fact. Determinations as to intervention or party status are appropriate for proceedings conducted pursuant to Section 120.57, F.S. However, subsection (5) of the statute does not apply to agency investigations preliminary to agency action. This is precisely the posture this docket is currently in: a proceeding preliminary to Commission action, for which intervention or determinations as to party status are premature. Interested persons may participate at the Agenda Conference on Issue 5, pursuant to Rule 25-22.0021(2), F.A.C. The Commission invites broad participation in preliminary proceedings in order to better inform itself of the scope and implications of its decisions.¹ Florida Crystals may participate fully in this proceeding, including filing its motion to dismiss and other responses and having them considered by the Commission, without intervening in this proceeding.

Further, substantially affected persons will have the opportunity to request a hearing pursuant to Sections 120.569 and 120.57, F.S., once the Commission's order is issued. For the reasons explained above, formal intervention by Florida Crystals, pursuant to Chapter 120, F.S., is premature and unnecessary at this time. Staff therefore recommends that the Commission deny Florida Crystals' Motion to be Designated a Party or in the Alternative Motion to Intervene.

¹ Order No. PSC-12-0139-PCO-WS, issued on March 26, 2012, Docket No. 110264-WS, *In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.*, (Order Denying Motion to Intervene in PAA Proceeding); Order No. PSC-14-0311-PCO-EM, issued on June 13, 2014, in Docket No. 140059-EM, *In re: Notice of new municipal electric service provider and petition for waiver of Rule 25-9.044(2), F.A.C.*, by *Babcock Ranch Community Independent School District*.

Issue 2: Should the Commission grant Florida Crystals' Request for Oral Argument on its Motion to Dismiss Petition?

Recommendation: Yes. The Commission should grant Florida Crystals' Request for Oral Argument on its Motion to Dismiss Petition. Staff recommends allowing each side 10 minutes to address this matter. (Leathers)

Staff Analysis: Rule 25-22.0022(7)(a), F.A.C., provides that oral argument at an Agenda Conference will only be entertained for recommended orders and dispositive motions (such as a motion to dismiss). A request for oral argument must be filed concurrently with the motion on which argument is requested, as has been done here. Rule 25-22.0022(1), F.A.C. In its Response in Opposition to Florida Crystals' Motion to Dismiss Petition, FCG stated that it did not object to the request if the Commission finds that oral argument will assist with the Commission's understanding and evaluation of the issues related to the Motion to Dismiss Petition.

Rule 25-22.0022(3), F.A.C., provides that granting or denying a request for oral argument is within the sole discretion of the Commission. The Commission has traditionally granted oral argument upon a finding that oral argument would aid the Commission in its understanding and disposition of the underlying motion. Furthermore, the Commission invites broad participation in PAA or preliminary proceedings in order to better inform itself of the scope and implications of its decisions.² Staff believes that the Commissioners would benefit from oral argument on Florida Crystals' Motion to Dismiss the Petition. Accordingly, staff recommends that the Commission grant Florida Crystals' Request for Oral Argument with respect to the Motion to Dismiss addressed in Issue 3. Staff further recommends that if the Commission decides to hear oral argument, Florida Crystals and FCG should each be allowed 10 minutes to address the Commission on this matter.

² Order No. PSC-12-0139-PCO-WS; Order No. PSC-14-0311-PCO-EM.

Issue 3: Should the Commission grant Florida Crystals' Motion to Dismiss Petition?

Recommendation: No. The Commission should deny Florida Crystals' Motion to Dismiss Petition because the Petition states a cause of action upon which relief may be granted. (Leathers)

Staff Analysis:

Standard of Review

A motion to dismiss challenges the legal sufficiency of the facts alleged in a petition to state a cause of action.³ In order to sustain a motion to dismiss, the moving party must show that, accepting all allegations as true, the petition fails to state a cause of action for which relief may be granted.⁴ The moving party must specify the grounds for the motion to dismiss, and all material allegations must be construed against the moving party in determining if the petitioner has stated the necessary allegations.⁵ A sufficiency determination should be confined to the petition and documents incorporated therein, and the grounds asserted in the motion to dismiss.⁶ Thus, "the trial court may not look beyond the four corners of the complaint, consider any affirmative defenses raised by the defendant, nor consider any evidence likely to be produced by either side."⁷ Finally, all allegations in the petition must be viewed as true and in the light most favorable to the petitioner in order to determine whether there is a cause of action upon which relief may be granted.⁸

FCG's Petition

On July 22, 2016, FCG filed a petition with the Commission requesting the review and determination of the legal effectiveness and enforceability of the GTA, along with approval of an interim service arrangement. FCG alleges that the GTA was negotiated and signed by prior management and that key elements of the development and implementation of the GTA remain unknown because the employees involved in the transaction are no longer with the company. FCG acknowledges that the GTA was never submitted to the Commission for approval, pursuant to Rule 25-9.034, F.A.C., but that FCG and Florida Crystals have apparently followed the terms of the GTA for nearly 15 years.

While FCG asserts that its management first became aware of the GTA in 2010-2011 during the course of Docket No. 090539-GU (Miami-Dade docket), it did not fully understand when the Extended Term of the GTA would begin until Florida Crystals exceeded its transportation volume cap in 2015. As a result of the subsequent legal, regulatory, and financial analyses and the lack of Commission approval, FCG petitioned the Commission to determine that the GTA is

³ *Meyers v. City of Jacksonville*, 754 So. 2d 198, 202 (Fla. 1st DCA 2000); *Varnes v. Dawkins*, 624 So. 2d 349, 350 (Fla. 1st DCA 1993).

⁴ *Varnes v. Dawkins*, 624 So. 2d at 350.

⁵ *Matthews v. Matthews*, 122 So. 2d 571 (Fla. 2nd DCA 1960).

⁶ *Barbado v. Green and Murphy, P.A.*, 758 So. 2d 1173 (Fla. 4th DCA 2000); *Varnes v. Dawkins*, 624 So. 2d at 350; Rule 1.130 Florida Rules of Civil Procedure.

⁷ *Varnes v. Dawkins*, 624 So. 2d at 350.

⁸ See e.g., *Ralph v. City of Daytona Beach*, 471 So. 2d 1, 2 (Fla. 1983); *Orlando Sports Stadium, Inc. v. State ex rel Powell*, 262 So. 2d 881, 883 (Fla. 1972); *Kest v. Nathanson*, 216 So. 2d 233, 235 (Fla. 4th DCA 1968); *Ocala Loan Co. v. Smith*, 155 So. 2d 711, 715 (Fla. 1st DCA 1963).

not a legally effective or enforceable special contract and approve FCG's proposed interim service arrangement for Florida Crystals in lieu of the Extended Term of the GTA until the issuance of a final order by the Commission or the parties negotiate an appropriate special contract to be submitted for Commission approval. FCG supported its Petition by stating that the Extended Term of the GTA consists of a rate that is substantially below FCG's cost to serve, thereby making it impossible to serve Florida Crystals under the GTA rates. Accordingly, FCG maintains that the Commission has not only the authority, but the responsibility to step in and prevent the Extended Term rates from going into effect.

FCG further appears to assert that the GTA should have been submitted to the Commission for approval, pursuant to Rule 25-9.034, F.A.C., prior to its execution. FCG cited the Commission's finding in the Miami-Dade docket stated that: "[the Commission has] exclusive, superior authority over the rates and charges of FCG, a regulated public utility. Pursuant to Rule 25-9.034(1), F.A.C., all special contracts and agreements entered into by a public utility that are not specifically covered by its filed tariff must be approved by this Commission."⁹ Furthermore, FCG averred that, "another fundamental tenant of Florida law establishes that utility contracts remain subject to PSC oversight throughout their tenure and that the PSC has the authority to later terminate or amend a contract that is no longer compliant with the law."¹⁰

FCG stated that its general body of ratepayers has not been adversely impacted by service to Florida Crystals and that FCG management has acted in good faith to remedy this situation in a manner that will not adversely impact its general body of ratepayers or Florida Crystals.

Florida Crystals' Motion to Dismiss Petition

On August 29, 2016, Florida Crystals filed its Motion to Dismiss Petition. Florida Crystals argues that FCG's Petition should be dismissed because:

- No basis in law or fact exists for the relief requested by FCG, as the rates set forth in the GTA were covered by and consistent with FCG's Rate Schedule KTS at the time the GTA was negotiated and, therefore, FCG was not required to obtain Commission approval of the GTA pursuant to Rule 25-9.034(1), F.A.C.;
- FCG expressly represented to Florida Crystals that the Commission's approval was not required and that FCG communicated that it would effectively waive regulatory approvals;
- The Commission approved the rates paid by Florida Crystals in FCG's 2003 rate case when FCG induced the Commission to approve its Rate Schedule KDS as the successor to Rate Schedule KTS and averred in expert testimony that "[t]he Company's negotiated

⁹ Quoting Order No. PSC-10-0671-PCO-GU, issued on November 5, 2010, in Docket No. 090539-GU, *In re: Petition for approval of Special Gas Transportation Service agreement with Florida City Gas by Miami-Dade County through Miami-Dade Water and Sewer Department.*

¹⁰ *Miller & Sons, Inc. v. Hawkins*, 373 So. 2d 913 (Fla. 1979).

rate contract with Florida Crystals establishes a rate that recovers its costs to provide service”;¹¹

- The doctrine of administrative finality bars FCG from overturning the Commission’s approval of its rates in its 2003 rate case;
- FCG’s assertion that the GTA is inconsistent with its tariff is false because it is impossible for Florida Crystals to ever pay a rate less than 1 cent per therm for transportation service as the average rate paid for the service under the GTA can never be less than 1.2 cents per therm;
- FCG fails to state a claim upon which relief can be granted because the Commission lacks the jurisdiction to grant its request as jurisdiction to interpret contracts between parties rests exclusively with the judicial courts of Florida;
- The Commission cannot allow FCG to “bootstrap” its admitted violations of Commission rules to escape the consequences of FCG’s prior representations to the Commission or deprive Florida Crystals the benefit of its bargain;
- FCG’s suggestion that its other customers will be harmed if the Commission does not allow it to charge Florida Crystals a higher rate is not at issue in this proceeding and any claims to an entitlement to a rate increase would have to be established in an appropriate general rate case proceeding.

Florida Crystals attached Exhibits A, B, and C in support of its Motion to Dismiss Petition. Staff believes that Exhibit C is evidentiary in nature because it provides facts not included in FCG’s Petition and disputes FCG’s statements. Therefore, Florida Crystals’ Exhibit C is not discussed or considered in staff’s analysis in this recommendation.¹²

FCG’s Response in Opposition to Florida Crystals’ Motion to Dismiss Petition

On September 19, 2016, FCG filed a response to Florida Crystals’ Motion to Dismiss Petition. In its response, FCG asserts that its Petition properly states a cause of action upon which relief may be granted and that Florida Crystals’ Motion to Dismiss Petition should be denied as its arguments consist of affirmative defenses not pleading deficiencies. Specifically, FCG maintains that Florida Crystals’ motion should be denied because:

- Florida Crystals’ argument that the rates set forth in the GTA were covered by and consistent with FCG’s Rate Schedule KTS at the time the GTA was negotiated reflects disputed issues of fact and law and is, therefore, an affirmative defense. Further, that FCG is obligated to request the Commission’s review of the GTA as each of the respective rate periods are not consistent with Rate Schedule KDS;
- Florida Crystals’ Exhibit C does not meet the standards for a motion to dismiss and that “no public utility has the unilateral power to waive its tariff, Rule 25-9.034, or this Commission’s authority under Chapter 366”;

¹¹ Quoting Direct Testimony of Jeff Householder, August 15, 2003, page 77, Docket No. 030569-GU, *In re: Application for rate increase by City Gas Company of Florida*. (Document No. 07495-03)

¹² See *Varnes v. Dawkins*, 624 So. 2d at 350.

- Florida Crystals' argument that the GTA is not a special contract requiring Commission approval pursuant to Rule 25-9.034(1), F.A.C., is an affirmative defense contrary to the language of the rule and the Commission's underlying statutory authority over public utility rates;
- Florida Crystals' argument that FCG obtained the Commission's approval of the GTA rates through FCG's 2003 rate case is an affirmative defense, not a demonstration that the Petition fails to state a cause of action, noting that nothing in that rate case directly or indirectly meets the requirements of Rule 25-9.034(1), F.A.C., as the GTA was never filed, reviewed, or approved, and that Florida Crystals cannot point to any part of that order that contains any of the GTA rates. Further, that Florida Crystals' submission of testimony and evidence from the 2003 rate case looks outside the four corners of FCG's Petition;
- Florida Crystals' argument that the doctrine of administrative finality bars FCG from overturning the Commission's approval of its rates in its 2003 rate case fails because there has been no final order on the GTA rates, the doctrine of administrative finality permits an agency to revisit a prior decision when there is a demonstration of changed facts and circumstances, and it is an affirmative defense that reaches beyond the four corners of the Petition;
- Florida Crystals' argument that the GTA is subject to general contract law and not the Commission's authority is an affirmative defense and does not meet the requirements for dismissal;
- The failure to previously obtain approval of the GTA does not bar FCG's Petition and that the statements made in the 2003 rate case, or at any other prior time, were based upon whatever the company's then management thought appropriate are irrelevant and are perhaps affirmative defenses;
- Florida Crystals' argument that FCG should file a general rate case in order to change its rates is not a basis for dismissal as the instant issue is whether the GTA recovers its cost per the rule, not whether FCG is meeting its revenue requirements.

Analysis

When viewed within the "four corners of the complaint" exclusive of all affirmative defenses/responses, assuming all alleged facts are true, and in the light most favorable to FCG, staff believes that the Petition states a cause of action that would invoke the Commission's jurisdiction or permit the Commission to grant the relief requested. Specifically, the Petition contains sufficient allegations to allow the Commission to review the GTA and determine whether it is subject to the Commission's approval as prescribed by Rule 25-9.034(1), F.A.C. For these reasons, staff recommends that the Commission deny Florida Crystals' Motion to Dismiss Petition.

Issue 4: Should the Commission grant Florida Crystals' Request for Oral Argument on its Response in Opposition to Motion for Approval of a Temporary Interim Service Arrangement?

Recommendation: No. The Commission should not grant Florida Crystals' Request for Oral Argument on its Response in Opposition to Motion for Approval of a Temporary Interim Service Arrangement. However, staff recommends that the parties be permitted to participate informally on this issue. (Leathers)

Staff Analysis: Rule 25-22.0022(3), F.A.C., provides that granting or denying a request for oral argument is within the sole discretion of the Commission. Rule 25-22.0022(7)(a), F.A.C., provides that oral argument at an Agenda Conference will only be entertained for recommended orders and dispositive motions. Because Florida Crystals' Response in Opposition to Motion for Approval of a Temporary Service Arrangement does not comport with any of the provisions of Rule 25-22.0022(7)(a), F.A.C., staff believes that oral argument is inappropriate. However, the Commission invites broad participation in PAA or preliminary proceedings in order to better inform itself of the scope and implications of its decisions.¹³ Therefore, pursuant to Rule 25-22.0021(2), F.A.C., staff believes Florida Crystals should be permitted to participate informally with respect to Issue 5 of this recommendation.

Accordingly, staff recommends that the Commission deny Florida Crystals' Request for Oral Argument with respect its Response in Opposition to Motion for Approval of a Temporary Interim Service Arrangement addressed in Issue 5. However, staff recommends that the parties be permitted to participate informally on this issue.

¹³ Order No. PSC-12-0139-PCO-WS; Order No. PSC-14-0311-PCO-EM

Issue 5: Should the Commission approve City Gas's Motion for Approval of the Temporary Interim Service Arrangement including the revised Interim Rates filed on November 1, 2016 in Confidential Exhibit 3A?

Recommendation: No. The Make-Up Period GTA rates should be in effect for a transition period beginning on the date of the Commission vote on this recommendation until a final Commission decision in this docket. If City Gas and Crystals are able to negotiate within the transition period a mutually agreeable operating agreement, it should be brought before the Commission for a decision. If City Gas and Crystals are unable to negotiate a mutually agreeable operating arrangement within the transition period, City Gas should be required to file a limited proceeding by July 31, 2017, for the purpose of determining the appropriate cost basis for contract rates. Revenues collected via the temporary rates during the transition period should be subject to refund with interest based on the Commission's final order in this docket. (Rome, Draper, D. Buys)

Staff Analysis: The following discussion is predicated on the assumption that the Commission adopts staff's recommendation on Crystals' Motion to Dismiss in Issue 3. If the Commission approves Crystals' Motion to Dismiss, this issue is moot.

Background

As chronicled in the case background, the parties to the GTA have filed pleadings in which numerous assertions were made pertaining to factual circumstances and points of law regarding which the parties provided differing interpretations. Staff does not attempt to adjudicate each point of contention for purposes of this recommendation. As discussed below, staff believes that the overarching objective at this time is to recommend an interim solution under which the parties to the GTA can continue to operate and collaborate on a permanent solution.

The term of the GTA¹⁴ is divided into three basic intervals: Primary Term, Make-Up Period, and Extended Term. City Gas represented that the Extended Term begins on January 1, 2017. Crystals provided documentation in its November 1, 2016 response to staff's first data request to support its representation of a November 15, 2016 start date for the GTA's Extended Term. Staff believes that the documentation provided by Crystals adequately supports the assertion regarding a November 15, 2016 start date for the Extended Term. The contract rates that Crystals would pay under the Extended Term differ from the contract rates applicable during the Primary Term and Make-Up Period. Staff's analysis in this issue focuses on whether the contract rates during the Extended Term would cover City Gas's cost to serve Crystals on a going-forward basis. The Extended Term has a 15-year term ending in 2032. Therefore, the determination of appropriate prospective contract rates is important due to the length of the remaining duration of the GTA.

Prospective Coverage of Cost of Service

In conjunction with its petition filed on July 22, 2016, City Gas provided information to support its assertion that the Extended Term contract rates would not cover the cost to serve Crystals on a going-forward basis. In its August 31, 2016 Motion for Approval of a Temporary Interim Service Arrangement, City Gas provided temporary rates set forth in the Company's original petition in

¹⁴ City Gas requested confidential treatment of the GTA in its entirety on July 25, 2016; Document No. 05536-16.

which City Gas stated that based upon its recent experience, “transportation service for Florida Crystals can be net profitable at rates below the tariff rate.”¹⁵

However, in its November 1, 2016 response to staff’s first data request, City Gas provided revised information which indicated that from its inception in 2002, the GTA has not covered the cost to serve Crystals. City Gas also provided revisions to the proposed temporary interim rates that it avers would be necessary to cover the cost to serve (*i.e.*, superseding the rates in the proposed Temporary Interim Service Arrangement).

In its September 19, 2016 Response in Opposition to Motion for Approval of a Temporary Interim Service Arrangement, Crystals asserted that the Extended Term rates generate revenues that are significantly greater than City Gas’s true incremental costs to serve. Crystals suggested that the true incremental costs of serving the Okeelanta facility are at most City Gas’s operation and maintenance (O&M) costs. Crystals stated that comparing City Gas’s projected O&M costs to the revenues that City Gas expects to receive under the Extended Term GTA rates shows that the projected revenues exceed the true incremental costs of service.¹⁶

When staff evaluates whether or not special contract rates such as those contained in the GTA are sufficient to cover the cost of service, staff reviews the support provided for all the costs associated with serving the customer. These costs include the utility’s required return on investment (rate base times rate of return), O&M expense, depreciation expense, state income taxes, federal income taxes, and taxes other than income taxes (primarily property taxes). Staff disagrees with Crystals’ assertion that the consideration should be limited to the projected O&M costs.

At the noticed meeting with City Gas and Crystals on November 15, 2016, staff discussed the differences between City Gas’s November 1, 2016 representation that the GTA has never covered the cost to serve and the testimony of City Gas’s expert witness in City Gas’s 2003 rate case which stated that “The Company’s negotiated rate contract with Florida Crystals establishes a rate that recovers its cost to provide service.”¹⁷ City Gas represented to staff that its current presentation on the cost to serve Crystals is based on the best available information.

While the above mentioned inconsistency in historical information is a concern to staff, staff focuses in this recommendation on whether or not the rates in the GTA will cover City Gas’s cost to serve Crystals on a going-forward basis. Based on the confidential information provided by City Gas, staff believes that City Gas has made a reasonable demonstration that the GTA contract rates under the Extended Term would not cover the cost to serve. Staff suggests that Commission action is appropriate at this time due to Crystals’ assertion that the Extended Term commences on November 15, 2016. Staff has developed four potential options for consideration; these options are discussed below.

¹⁵ City Gas’s July 22, 2016 petition; page 20.

¹⁶ Crystals’ Response in Opposition to Motion for Approval of a Temporary Interim Service Arrangement; pp. 20-22.

¹⁷ Direct Testimony of Jeff Householder, August 15, 2003, page 77, Docket No. 030569-GU, *In re: Application for rate increase by City Gas Company of Florida*. (Document No. 07495-03)

Discussion of Potential Courses of Action

The four options discussed below are presented in the order of least preferred to recommended option. All options are predicated on the assumption that the Commission adopts staff's recommendation in Issue 3.

Option 1 – Tariff Rate

If the Commission were to take no further action in this docket prior to January 1, 2017, City Gas stated that pursuant to Section 366.06(1), F.S., and Rule 25-9.034, F.A.C., it would be required to begin charging Crystals the applicable tariff rate as of January 1, 2017.¹⁸ Staff does not recommend this option as it appears the applicable rate contained in the GS-1,250k rate schedule would cause a significant adverse financial impact to Crystals. City Gas also agreed that the application of the tariff would impose a significant hardship to Crystals and the tariff does not adequately address a customer like Crystals.¹⁹ Therefore, staff does not recommend this option.

Option 2 – Revised Temporary Interim Rate (FCG Proposal)

City Gas proposed interim rates in its Motion for Approval of a Temporary Interim Service Arrangement (Confidential Exhibit No. 3) and revised interim rates in its response to staff's first data request (Confidential Exhibit No. 3A). Based on the information in City Gas's data request response, staff believes that the proposed interim rates as revised would cover the cost to serve Crystals. However, staff also believes that City Gas potentially could recover its cost of service at rates that would be more favorable to Crystals. Staff further recognizes that it appears that the implementation of Option 2 would cause a significant adverse financial impact to Crystals; although, the impact would be less severe than the impact that would result from the implementation of Option 1. Furthermore, based on its preliminary analysis of the revised interim rates, staff does not agree with a key assumption regarding Crystals' therm usage used by City Gas in the calculation. Therefore, staff does not recommend this option.

Option 3 – Extended Term Contract Rate (Crystals Proposal)

If the Commission were to deny City Gas's Motion for Approval of a Temporary Interim Service Arrangement including the revised interim rates, the Commission has the option to allow the Extended Term contract rates stated in the GTA to take effect. This option would enable Crystals to receive the Extended Term rates as set forth in the GTA. However, as stated above, staff believes that the Extended Term contract rates do not cover City Gas's cost to serve Crystals on a going-forward basis; therefore, staff does not recommend this option.

Option 4 – Make-up Period GTA Rate (Staff Recommended)

If the Commission were to deny City Gas's Motion for Approval of a Temporary Interim Service Arrangement including the revised interim rates, the Commission has the option to leave the Make-Up Period GTA rates in effect beginning on the date of the Commission's vote on this recommendation until a final Commission decision on this matter. Although Crystals would not realize the benefits of the Extended Term rates during the transition period, it would continue to pay the same current Make-Up Period rates and avoid the adverse financial impacts that would occur under Options 1 and 2. Based on information provided by City Gas, staff believes that City

¹⁸ City Gas's Motion for Approval of a Temporary Interim Service Arrangement; p. 4.

¹⁹ City Gas's July 22, 2016 petition; page 7.

Gas's under-recovery of the cost of service during the transition period under Option 4 would be less than the under-recovery that would occur under Option 3.

Possible Refunds

Staff reviewed the financial condition of City Gas consistent with staff's recommendation that any revenues collected by City Gas from Florida Crystals during the transition period be held subject to refund pending a final Commission decision on the appropriate contract rates in the docket. To review City Gas's financial condition, staff performed an analysis similar to a corporate undertaking. The total corporate undertaking amount staff assumed in its analysis is the difference between City Gas's proposed Temporary Interim Service Arrangement Rate as revised and the Extended Term Contract Rate for one year. Staff notes that depending on the Commission vote on this issue (i.e., appropriate rates for transition period), the length of the transition period, and the final outcome and associated contract rates in the docket, the amount of a refund, if any, will likely vary.

City Gas is an operating division of Pivotal Utility Holdings, Inc., (Pivotal) which is a wholly-owned subsidiary of Southern Company Gas (formerly known as AGL Resources, Inc.) which is a wholly-owned direct subsidiary of Southern Company. Pivotal finances its on-going cash requirements through its participation in Southern Company Gas's Utility Money Pool currently in the amount of \$800 million. City Gas's available share of the Utility Money Pool is up to \$250 million.

The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Staff reviewed Pivotal's 2013, 2014, and 2015 financial statements to determine if the company can support a corporate undertaking in the amount required. In its 2013, 2014, and 2015 financial statements, Pivotal reported insufficient liquidity based on staff's criteria for a corporate undertaking. Pivotal reported negative working capital, a current ratio of less than one, and an interest coverage ratio less than two times. However, in the instant case, Pivotal's liquidity is not an issue due to its ability to access up to \$250 million from Southern Company Gas's Utility Money Pool to fund its on-going cash requirements. Further, Pivotal achieved a three-year average net income significantly greater the corporate undertaking amount indicating sufficient profitability. In addition, Pivotal reported adequate ownership equity over the entire 3-year review period.

Based on staff's review of Pivotal's financial statements, staff believes the company has adequate resources to guarantee any potential refund of revenues collected by FCG under interim conditions.

Further, in no instance should the maintenance and administrative costs associated with the potential refund be borne by Crystals. These costs are the responsibility of, and should be borne by City Gas. Irrespective of the form of security chosen by City Gas, an account of all monies received as a result of the temporary rates should be maintained by FCG. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-7.091(4), F.A.C.

Conclusion

Staff recommends Option 4 in an effort to provide a balanced temporary solution to allow City Gas and Crystals additional time to negotiate a mutually acceptable operating arrangement. If requested by the parties, Commission staff would be willing to facilitate any negotiations. Staff

encourages City Gas and Florida Crystals to negotiate a mutually acceptable operating arrangement. If the parties are not able to reach an agreement during the transition period, the Commission then would render a final decision on appropriate contract rates within the context of the limited proceeding.

To conclude, the Commission should deny City Gas's motion for Approval of a Temporary Interim Service Arrangement including the revised Interim Rates filed on November 1, 2016 in Confidential Exhibit 3A. The Make-Up Period GTA rates should be in effect for a transition period beginning on the date of the Commission's vote on this recommendation until a final Commission decision in this docket. If City Gas and Crystals are able to negotiate in the transition period a mutually agreeable operating agreement, it should be brought before the Commission for a decision. If City Gas and Crystals are unable to negotiate a mutually agreeable operating arrangement within the transition period, City Gas should be required to file a limited proceeding by July 31, 2017, for the purpose of determining the appropriate cost basis for contract rates. Revenues collected via the temporary rates during the transition period should be subject to refund with interest based on the Commission's final order in this docket.

Issue 6: Should this docket be closed?

Recommendation: No. This docket should remain open to allow City Gas and Crystals an opportunity to negotiate a mutually agreeable operating arrangement and until the Commission makes a final decision on the arrangement. If City Gas and Crystals are unable to negotiate an arrangement, this docket should continue to remain open until a limited proceeding to resolve the matter can be completed and a consummating order is issued. (Leathers)

Staff Analysis: This docket should remain open to allow City Gas and Crystals an opportunity to negotiate a mutually agreeable operating arrangement and until the Commission makes a final decision on the arrangement. If City Gas and Crystals are unable to negotiate an arrangement, this docket should continue to remain open until a limited proceeding to resolve the matter can be completed and a consummating order is issued.

Item 11

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: November 22, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Guffey) *ESD SKG BPN*
Office of the General Counsel (Leathers) *mf jsc*

RE: Docket No. 160199-GU – Joint petition for approval of gas reliability infrastructure program cost recovery factors by Florida Public Utilities Company, Florida Public Utilities Company-Fort Meade, and the Florida Division of Chesapeake Utilities Corporation.

AGENDA: 12/06/16 – Regular Agenda – Tariff Filing - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 8-Month Effective Date: 05/01/17 (60-day suspension date waived by the utility to the December 6, 2016 Agenda)

SPECIAL INSTRUCTIONS: None

Case Background

On September 1, 2016, Florida Public Utilities Company (FPUC), FPUC-Fort Meade (Fort Meade), and the Florida Division of Chesapeake Utilities Corporation (Chesapeake), collectively the company, filed a joint petition seeking approval to implement their Gas Reliability Infrastructure Program (GRIP) cost recovery factors for the period January 2017 through December 2017.

RECEIVED-FPSC
NOV 22 AM 9:40
COMMISSION
CLERK

The GRIP program for FPUC and Chesapeake was originally approved in September 2012 in Order No. PSC-12-0490-TRF-GU¹ to recover the cost of accelerating the replacement of cast iron and bare steel distribution mains and services through a surcharge on customer's bills. The program is expected to be complete in 2022. FPUC's and Chesapeake's currently effective surcharges were approved in Order No. PSC-15-0578-TRF-GU.² Additionally, the same order established Fort Meade's new GRIP program and required Fort Meade to file a petition for 2017 GRIP factors concurrent with the annual FPUC and Chesapeake GRIP filings in September 2016. FPUC, Fort Meade, and Chesapeake's proposed 2017 surcharges are discussed in Issue 1 of this recommendation. As provided for in the 2012 order, the filing includes a final true-up for 2015, an actual/estimated true-up for 2016, and the projected revenue requirement for 2017 for the three companies.

In its email, the company waived the 60-day suspension deadline to the December 6, 2016 Agenda Conference pursuant to Section 366.06(3), Florida Statutes (F.S.). On October 13, 2016, the company filed responses to staff's first data request. On October 25, 2016, the company filed corrected data tables per staff's request. The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, F.S.

¹ Order No. PSC-12-0490-TRF-GU, issued September 24, 2012, in Docket No. 120036-GU, *In re: Joint petition for approval of Gas Reliability Infrastructure Program (GRIP) by Florida Public Utilities Company and the Florida Division of Chesapeake Utilities Corporation.*

² Order No. PSC-15-0578-TRF-GU, issued December 21, 2015, in Docket No. 150191-GU, *In re: Joint petition for approval to implement gas reliability infrastructure program (GRIP) for Florida Public Utilities Company-Fort Meade and for approval of GRIP cost recovery factors by Florida Public Utilities Company, Florida Public Utilities Company-Fort Meade and the Florida Division of Chesapeake Utilities Corporation.*

Discussion of Issues

Issue 1: Should the Commission approve FPUC, Fort Meade, and Chesapeake's proposed GRIP surcharge factors for 2017?

Recommendation: Yes. The Commission should approve FPUC, Fort Meade, and Chesapeake's proposed GRIP surcharge factors for 2017 commencing with bills rendered for meter readings taken on or after January 6, 2017. (Guffey)

Staff Analysis: The FPUC and Chesapeake GRIP surcharges have been in effect since January 2013, while Fort Meade's surcharges will be first implemented in January 2017. The petitioners assert that certain replacement projects in high consequence areas within cities and larger municipalities continue to be on an accelerated track. In response to staff's data request, the company stated that it has performed replacement projects in West Palm Beach, Lake Worth, Deland, Debarry, Winter Haven, Haines City, Auburndale, Lake Wales, Palm Beach, and North Palm Beach. The accelerated status of these projects has resulted in increased GRIP costs due to various construction requirements imposed by the municipalities. The company anticipates that as the projects in high consequence areas are completed and the activity shifts to less populated areas, the overall GRIP costs will decline.

Attachment 1 provides an update of mains and services replaced and replacement forecasts through the end of the term of the GRIP programs for the companies. The companies appear to be on track to complete the replacements on time. Attachments 2 through 4 show the proposed tariffs.

FPUC's True-Ups by Year

FPUC's calculations for the 2017 GRIP revenue requirement and surcharges include a final true-up for 2015, an actual/estimated true-up for 2016, and projected costs for 2017. Staff notes that FPUC recovers \$747,733 of annual GRIP expenses in base rates. This amount included in base rates is excluded from the GRIP surcharge calculation.

Final True-Up for 2015

FPUC stated that the GRIP revenues for 2015 were \$4,089,962, compared to a revenue requirement of \$5,774,298. The resulting under-recovery is \$1,684,336. After adding interest of \$1,954 and the end of 2014 under-recovery of \$1,281,394, the final 2015 true-up is an under-recovery of \$2,967,684.

Actual/Estimated True-Up for 2016

FPUC provided actual GRIP revenues for January through July and estimated revenues for August through December 2016, totaling \$8,026,637. The actual/estimated revenue requirement for 2016 is \$8,938,870, and it includes a return on investment, depreciation expense, and property tax expense. The forecasted under-recovery for 2016 is \$912,233. After adding interest of \$7,444, and the final 2015 under-recovery of \$2,967,684, the total 2016 under-recovery is \$3,887,361.

Projected Costs for 2017

FPUC projects capital expenditures of \$5,139,504 for the replacement of cast iron/bare steel infrastructure in 2017. This compares with final 2015 expenditures of \$27,181,346 and actual/estimated 2016 expenditures of \$17,944,442. The return on investment, net depreciation expense, customer notification, and property tax expenses associated with that investment are \$11,090,358. Subtracting the revenue requirement for bare steel replacement investment included in base rates results in a 2017 revenue requirement of \$10,342,631. After adding the total 2016 under-recovery of \$3,887,361, the 2017 revenue requirement is \$14,229,992. Table 1-1 shows FPUC's 2017 revenue requirement calculation.

**Table 1-1
 FPUC 2017 Revenue Requirement Calculation**

2017 Projected Expenditures	\$5,139,504
Return on Investment	\$7,516,062
Depreciation Expenses	\$2,021,364
Tax and Customer Notice Expenses	\$1,552,932
2017 Revenue Requirement	\$11,090,358
Less Revenue Requirement in Base Rates	\$747,727
2017 GRIP Revenue Requirement	\$10,342,631
Plus 2016 Under-Recovery	\$3,887,361
2017 Total Revenue Requirement	\$14,229,992

Source: GRIP Schedule C-2 of Exhibit MC-1, page 4 of 14

Chesapeake's True-Ups by Year

Chesapeake does not have a replacement recovery amount embedded in base rates. Chesapeake's calculations for the 2017 GRIP revenue requirement and surcharges include a final true-up for 2015, an actual/estimated true-up for 2016, and projected costs for 2017.

Final True-Up for 2015

Chesapeake stated that the GRIP revenues for 2015 were \$1,775,375, compared to total replacement costs of \$1,689,514. The resulting over-recovery is \$85,861. After adding interest of \$105 and the end of 2014 under-recovery amount of \$211,175, the final 2015 under-recovery is \$125,419.

Actual/Estimated True-Up for 2016

Chesapeake provided actual GRIP revenues for January through July and estimated revenues for August through December 2016, which total \$2,237,448. The actual/estimated GRIP revenue requirement for 2016 is \$2,424,705 and includes a return on investment, depreciation expense, and property tax expense. The forecasted under-recovery for 2016 is \$187,257. After adding interest of \$121 and the 2015 under-recovery amount of \$125,419, the total 2016 under-recovery is \$312,797.

Projected Costs for 2017

Chesapeake projects capital expenditures of \$1,623,012 for the replacement of cast iron/bare steel infrastructure in 2017. This compares with final 2015 expenditures of \$5,692,055 and actual/estimated 2016 expenditures of \$5,340,859. The return on investment, depreciation expense, and property tax expense to be recovered in 2017 totals to \$2,877,498. After adding the total 2016 under-recovery of \$312,797, the total 2017 revenue requirement is \$3,190,295. Table 1-2 shows Chesapeake's 2017 revenue requirement calculation.

**Table 1-2
Chesapeake 2017 Revenue Requirement Calculation**

2017 Projected Expenditures	\$1,623,012
Return on Investment	\$1,927,204
Depreciation Expenses	\$519,182
Tax and Customer Notice Expenses	\$431,112
2017 Revenue Requirement	\$2,877,498
Plus 2016 Under-Recovery	\$312,797
2017 Total Revenue Requirement	\$3,190,295

Source: GRIP Schedule C-2 of Exhibit MC-1, page 9 of 14

Fort-Meade's True-Ups by Year

When the Commission first approved the Fort Meade GRIP program in Order No. PSC-15-0578-TRF-GU, the Commission allowed Fort Meade to start the replacement of approximately 250 steel services in 2016; however, the utility was required to defer collecting GRIP surcharges from customers until January 2017. As stated in the order approving the Fort Meade GRIP program, FPUC acquired Fort Meade's natural gas system in 2013, and the implementation of the GRIP surcharge for Fort Meade prior to October 2016 would be in violation of a term in the purchase agreement of the Fort Meade system. Fort Meade will provide notice to its customers of the proposed GRIP factors in the December bills.

Actual/Estimated True-Up for 2016

Fort Meade did not have a GRIP surcharge in 2016. Therefore, GRIP revenues for 2016 are \$0. The actual/estimated GRIP revenue requirement for 2016 is \$4,208 and includes a return on investment and depreciation expense. After adding interest of \$2, the total 2016 under-recovery is \$4,210.

Projected Costs for 2017

Fort Meade projects capital expenditures of \$277,081 for the replacement of cast iron/bare steel infrastructure in 2017. This compares with actual/estimated 2016 expenditures of \$197,915. The return on investment, depreciation expense, and property tax expense to be recovered in 2017 totals \$45,648. After adding the total 2016 under-recovery of \$4,210, the total 2017 revenue requirement is \$49,858. Table 1-3 shows Fort Meade's 2017 revenue requirement calculation.

Table 1-3
Fort Meade 2017 Revenue Requirement Calculation

2017 Projected Expenditures	\$277,081
Return on Investment	\$31,380
Depreciation Expenses	\$10,332
Tax and Customer Notice Expenses	\$3,936
2017 Revenue Requirement	\$45,648
Plus 2016 Under-Recovery	\$4,210
2017 Total Revenue Requirement	\$49,858

Source: GRIP Schedule C-2 of Exhibit MC-1, page 13 of 14

Proposed Surcharges for FPUC, Chesapeake, and Fort Meade

As established in the 2012 order approving the GRIP, the total 2017 revenue requirement is allocated to the rate classes using the same methodology that was used for the allocation of mains and services in the cost of service study used in the companies' most recent rate case. Fort Meade has the same rate schedules as FPUC and FPUC's allocation factors are used to calculate the GRIP surcharges for Fort Meade. After calculating the percentage of total plant costs attributed to each rate class, the respective percentages were multiplied by the 2017 revenue requirement, resulting in the revenue requirement by rate class. Dividing each rate class' revenue requirement by projected therm sales provides the GRIP surcharge for each rate class.

The proposed 2017 GRIP surcharge for residential FPUC customers on the RS Schedule is \$0.34225 per therm (compared to the current surcharge of \$0.26393 per therm). The monthly bill impact is \$6.85 beginning January 6, 2017 for a residential customer who uses 20 therms per month. The proposed FPUC tariff page is provided in Attachment 2.

The proposed 2017 GRIP surcharge for residential Chesapeake customers on the FTS-1 schedule is \$0.10371 per therm (compared to the current surcharge of \$0.08568 per therm). The monthly bill impact is \$2.07 beginning January 6, 2017 for a residential Chesapeake customer who uses 20 therms per month. The proposed Chesapeake tariff page is provided in Attachment 3.

The proposed 2017 GRIP surcharge for residential Fort Meade customers on the RS Schedule is \$0.36931 per therm. The monthly bill impact is \$7.39 beginning January 6, 2017 for a residential Fort Meade customer who uses 20 therms per month. The proposed Fort Meade tariff page is provided in Attachment 4.

Conclusion

Staff believes the calculation of the 2017 GRIP surcharge revenue requirement and the proposed GRIP surcharges for FPUC, Chesapeake, and Fort Meade are reasonable and accurate. Therefore, staff recommends approval of FPUC, Chesapeake, and Fort Meade's proposed 2017 GRIP surcharge for each rate class commencing with bills rendered for meter readings taken on or after January 6, 2017.

Issue 2: Should this docket be closed?

Recommendation: If Issue 1 is approved and a protest is filed within 21 days of the issuance of the order, the tariffs should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Leathers)

Staff Analysis: If Issue 1 is approved and a protest is filed within 21 days of the issuance of the order, the tariffs should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.

Table 1
FPUC Pipe Replacement Program Progress

Year	Main Replacement					Service Replacement	
	Replaced Cast Iron (miles)	Replaced Bare Steel (miles)	Remaining Cast Iron at Year End (miles)	Remaining Bare Steel at Year End (miles)	Total Miles Remaining	Replaced Number of Bare Steel Services	Total Number of Remaining Steel Services
July 2012			0.9	197.10	198.00		7980
2012		6.00	0.9	191.10	192.00	91	7889
2013	0.6	26.40	0.3	164.70	165.00	2071	5818
2014		38.00	0.3	126.70	127.00	1275	4543
2015		30.00	0.3	96.70	97.00	605	3938
2016		29.00	0.3	67.70	68.00	815	3123
2017	0.3	13.70	0	54.00	54.00	650	2473
2018		14.00	0	40.00	40.00	650	1823
2019		14.00	0	26.00	26.00	650	1173
2020		14.00	0	12.00	12.00	650	523
2021		10.00	0	2.00	2.00	465	58
2022		2.00	0	0.00	0.00	58	0

Source: Response to staff's first data request/Attachment A, Revised 10/21/2016

Table 2
Chesapeake Pipe Replacement Program Progress

Year	Main Replacement					Service Replacement	
	Replaced Cast Iron (miles)	Replaced Bare Steel (miles)	Remaining Cast Iron at Year End (miles)	Remaining Bare Steel at Year End (miles)	Total Miles Remaining	Replaced Number of Bare Steel Services	Total Number of Remaining Steel Services
July 2012			0	152.00	152.00		762
2012		5.00	0	147.00	147.00	34	728
2013		3.00	0	144.00	144.00	139	589
2014		19.00	0	125.00	125.00	47	542
2015		34.00	0	91.00	91.00	284	258
2016		30.00	0	61.00	61.00	52	206
2017		13.00	0	48.00	48.00	42	164
2018		13.00	0	35.00	35.00	42	122
2019		13.00	0	22.00	22.00	42	80
2020		13.00	0	9.00	9.00	42	38
2021		7.00	0	2.00	2.00	26	12
2022		2.00	0	0.00	0.00	12	0

Source: Response to staff's first data request/Attachment A, Revised 10/21/2016

Table 3
Fort Meade Pipe Replacement Program Progress

Year	Main Replacement				Service Replacement		
	Replaced Cast Iron (miles)	Replaced Bare Steel (miles)	Remaining Cast Iron at Year End (miles)	Remaining Bare Steel at Year End (miles)	Total Miles Remaining	Replaced Number of Bare Steel Services	Total Number of Remaining Steel Services
Jan. 2016			0	0	0		250
2016		0	0	0	0	100	150
2017		0	0	0	0	125	25
2018		0	0	0	0	25	0

Source: Response to staff's first data request/Attachment A, Revised 10/21/2016

Florida Public Utilities Company
F.P.S.C. Gas Tariff
Third Revised Volume No. 1

Twelfth Revised Sheet No. 35.4
Cancels Eleventh Revised Sheet No. 35.4

BILLING ADJUSTMENTS

(Continued from Sheet No. 35.3)

Gas Reliability Infrastructure Program (GRIP)

Applicability

The bill for gas or transportation service supplied to a Customer in any Billing Period shall be adjusted as follows:

The GRIP factors for the period from the first billing cycle for January 2017 through the last billing cycle for December 2017 are as follows:

<u>Rate Class</u>	<u>Rates Per Therm</u>
Rate Schedule RS	\$0.34225
Rate Schedule GS-1	\$0.23903
Rate Schedule GS-2	\$0.23903
Rate Schedule GSTS-1	\$0.23903
Rate Schedule GSTS-2	\$0.23903
Rate Schedule LVS	\$0.12689
Rate Schedule LVTS	\$0.12689
Rate Schedule IS	\$0.11461
Rate Schedule ITS	\$0.11461
Rate Schedule GLS	\$0.49951
Rate Schedule GLSTS	\$0.49951
Rate Schedule NGV	\$0.23903
Rate Schedule NGVTS	\$0.23903

(Continued to Sheet No. 35.5)

Issued by: Jeffrey Householder, President

Effective:

Florida Public Utilities Company-Fort Meade
F.P.S.C. Gas Tariff
Original Volume No. 1

Original Sheet No. 64

BILLING ADJUSTMENTS

Gas Reliability Infrastructure Program (GRIP)

Applicability

The bill for gas or transportation service supplied to a Customer in any Billing Period shall be adjusted as follows:

The GRIP factors for the period from the first billing cycle for January 2017 through the last billing cycle for December 2017 are as follows:

<u>Rate Class</u>	<u>Rates Per Therm</u>
Rate Schedule RS	\$0.36931
Rate Schedule GS-1	\$0.11672
Rate Schedule GS-2	\$0.11672
Rate Schedule GSTS-1	\$0.11672
Rate Schedule GSTS-2	\$0.11672
Rate Schedule LVS	\$0.00000
Rate Schedule LVTS	\$0.00000
Rate Schedule IS	\$0.00000
Rate Schedule ITS	\$0.00000
Rate Schedule GLS	\$0.00000
Rate Schedule GLSIS	\$0.00000
Rate Schedule NGV	\$0.00000
Rate Schedule NGVTS	\$0.00000

Issued by: Jeffrey Householder, President

Effective:

Item 12

Docket No. 110200-WU
Date: November 22, 2016

By Order No. PSC-12-0435-PAA-WU (PAA Order), issued August 22, 2012, the Commission approved rates designed to generate a total water revenue requirement of \$1,811,648. Also approved in that Order were certain pro forma plant project items proposed by the Utility. The pro forma plant project items approved by the Commission included a new ground storage tank, the relocation and elevation of high service pumps, a building to house new facilities next to the new ground storage tank, and the upgrade of the distribution system.

The PAA Order further provided that WMSI should secure financing and complete the pro forma plant project items within 18 months of issuance of the Consummating Order. Additionally, the PAA Order stated that within 12 months of completion of the pro forma plant project, the Utility should submit data, such as final invoices and cancelled checks, so that a true-up of all prudently incurred investments and costs associated with the pro forma plant project could be performed.

On September 12, 2012, OPC timely filed a protest of portions of the PAA Order. The pro forma plant adjustments and requirements were not disputed and became final with the Final Order. By letter dated September 13, 2012, WMSI gave notice that it elected to put the rates approved in the PAA Order into effect during the pendency of the administrative hearing pursuant to Section 367.081(8), Florida Statutes (F.S.)(2012). On September 19, 2012, WMSI filed a timely cross-petition. A hearing was held on January 16 and 17, 2013, on St. George Island (Island). The Commission issued a Final Order on the matter on May 16, 2013. Rates designed to generate a total water revenue requirement of \$1,905,203 were approved in that Order. The issuance date of the Final Order became the commencement date for the 18-month deadline to secure financing and complete the pro forma plant project, resulting in a pro forma project completion date of November 16, 2014.

On September 22, 2014, the Utility filed a motion for extension of time to complete financing and construction requirements of its pro forma plant project due to unforeseen delays in securing financing. A noticed informal meeting was held on October 14, 2014, between Commission staff and interested persons to discuss the motion. According to WMSI's motion, the Utility had commenced construction within the constraints of its cash flow and escrowed funds. Additionally, the Utility added that property had been acquired and permitting was in place.

On December 22, 2014, the Utility filed an amended motion for extension of time to complete financing and construction requirements of the pro forma plant project that included a scheduled closing date for a loan with Ameris Bank. The Utility closed on its loan with Ameris Bank on March 12, 2015, and provided support documentation of said closing on March 24, 2015. Given the condition of the existing water storage infrastructure, by Order No. PSC-15-0191-PCO-WU, issued May 8, 2015, the Commission encouraged the Utility to move expeditiously with its plan to accelerate construction. By that same order, the Commission granted WMSI's motion for extension of time through December 31, 2015 to complete financing and construction requirements. WMSI was further ordered to provide support documentation for its pro forma plant project to the Commission within 60 days of the issuance of the letter of clearance from the Florida Department of Environmental Protection (DEP).

On April 5, 2016, the Utility submitted the letter of clearance from DEP which was dated March 31, 2016. The Utility provided the required support documentation including final invoices and

Docket No. 110200-WU
Date: November 22, 2016

cancelled checks, to allow the Commission to perform a true-up of all prudently incurred investments and associated costs. Staff has verified that the approved pro forma plant project has been completed. Staff also has performed a true-up analysis of the pro forma plant costs. The following recommendation addresses staff's recommended true-up adjustments. The Commission has the authority to consider this matter pursuant to Section 367.081, Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Should any adjustments be made to WMSI's revenue requirement based on the true-up of costs associated with the pro forma plant project previously authorized by the Commission?

Recommendation: Yes. Adjustments should be made to reflect the true-up costs for the pro forma plant project previously authorized by the Commission. Land and plant should be decreased collectively by \$6,006. Corresponding adjustments should be made to increase accumulated depreciation and depreciation expense both by \$5,969. This results in a true-up revenue increase of \$5,547 or 0.29 percent. Due to the low percentage increase, the rates should remain unchanged. In addition, service availability charges should remain unchanged. Further, the Utility should notify the Commission of any future sale, transfer, or reassignment of the 12 remaining lots to any person or entity within 60 days of such a transaction. At the time that it notifies the Commission, the Utility should also submit all documentation regarding the transaction, including, but not limited to, the market value of the land and calculation of any gain on sale. Finally, the escrow account should be closed and any remaining funds in the escrow account should be released to the Utility. (Graves, Galloway, Hudson)

Staff Analysis: Pursuant to Order No. PSC-12-0435-PAA-WU, dated August 22, 2012, the Commission determined that several of the Utility's pro forma plant items were reasonable, prudent, and in the best interest of the Utility and its customers. The revenue requirement approved in that Order was calculated using estimated costs totaling \$3,490,617 for the pro forma plant and land items. The pro forma plant project items approved by the Commission included a new ground storage tank, the relocation and elevation of high service pumps on the Island, a building to house new facilities next to the new ground storage tank, and the upgrade of the distribution system. The Order additionally provided that WMSI should complete the pro forma plant within 18 months of issuance of the Consummation Order.

After unforeseen delays and a motion filed by the Utility for an extension of time, by Order No. PSC-15-0191-PCO-WU, issued May 8, 2015, the Commission encouraged the Utility to move expeditiously with its plan to accelerate construction. WMSI was further ordered to provide support documentation for its pro forma plant project to the Commission within 60 days of the issuance of the letter of clearance from the Florida Department of Environmental Protection (DEP). Documentation was to be provided so that the Commission staff could analyze the actual costs of the project and determine whether a true-up adjustment should be made.

Pro Forma Plant

On April 5, 2016, the Utility submitted a letter of clearance from DEP which was dated March 31, 2016. By letter dated April 13, 2016, WMSI provided documentation of actual costs for the system improvements that it completed, as required. The Utility's documentation included invoices and checks for a construction contract (dated January 15, 2014), engineering services, system evaluation, and additional system costs such as permitting. The cost of these items totaled \$3,085,115. Staff believes the total cost of these items is reasonable when compared to the amount approved by the Commission. The Utility's letter also included documentation of five change orders totaling \$705,418. Including the 5 change orders, the total cost of pro forma plant provided by the Utility is \$3,790,533.

Based on review of the documentation provided by WMSI, as well as the Utility’s responses to data requests, staff recommends that the Commission exclude \$495,922 of the cost associated with the five change orders for purposes of calculating the true-up for this proceeding. The resulting total pro forma plant recommended by staff equals \$3,294,611. For comparison purposes, Table 1 summarizes the total pro forma plant amount previously approved by the Commission, the pro forma plant amounts provided by the Utility, and the pro forma plant amounts recommended by staff. Staff’s recommendation and analysis of the Utility’s five change orders are discussed in greater detail below.

Table 1
Summary of Pro Forma Plant

<u>Account Name</u>	<u>Pro Forma Plant Approved Amounts</u>	<u>Pro Forma Plant Utility Amounts</u>	<u>Pro Forma Plant Staff Amounts</u>
Structures and Improvements	336,085	751,652	577,991
Supply Mains	164,690	329,277	258,927
Power Generation Equipment	141,951	169,935	137,835
Pumping Equipment	655,150	554,714	554,714
Water Treatment Plant	63,261	50,541	50,541
Distribution Reservoirs and Standing pipes	831,246	833,780	833,780
Transmission and Distribution Mains	811,282	1,024,987	826,237
Communication Equipment	<u>43,520</u>	<u>75,647</u>	<u>54,586</u>
Total Pro Forma Plant	<u>\$3,047,185</u>	<u>\$3,790,533</u>	<u>\$3,294,611</u>

In response to a staff data request, the Utility provided an explanation of the changes that were included in Change Order Requests 1 and 2, dated March 2015 and October 2015, respectively. After the January 2014 contract was signed, Federal Emergency Management Agency (FEMA) increased the minimum flood elevation requirements for St. George Island from 9 feet to 11 feet. Change Order Request 1 included costs to increase the elevation of the ground storage tank to comply with FEMA’s increased minimum flood elevation requirements. The change in the increased minimum flood elevation required a more substantial foundation to support the higher tank elevation. Also, after the original contract for the tank was signed, DEP and Franklin County required the construction of a retention pond and security fence at the tank site. The total cost to comply with the discussed requirements was \$127,938.

The Utility also provided documentation that it incurred an additional cost of \$73,905 in order to increase a water main by 1,232 linear feet to provide better fire-flow. The Utility explained that engineering analysis showed that water pressure at certain locations on the Island would have been below the state mandated minimum.

Staff believes that the activities taken to comply with governmental standards and requirements are beyond the Utility’s control and should be included for purposes of calculating the true-up for this proceeding. In addition staff believes that many of the Utility’s additional costs have

been adequately supported by the Utility. Several of the additional costs reflect changes in planned conditions differing from actual conditions. As an example, pipe measurements and/or material were changed to address wet areas that were not shown on the maps used to originally estimate costs. Similarly, many reductions in costs were associated with modifications to pipe measurements. The cost of the high service pumps were also less than originally planned. However, as discussed below, some of the additional costs were incurred at the discretion of the Utility and go beyond what was previously determined to be reasonable, prudent, and in the best interest of the Utility and its customers.

Structure Improvements and Power Generation Equipment

The Commission approved pro forma plant associated with a new building to house the basic pumping and treatment functions of the Utility, including four pumps, a chlorination system, and a generator. In response to a staff data request, WMSI stated that the building was redesigned several times after the Minimum Filing Requirements (MFRs) were filed and that it decided it would be prudent and cost effective to increase the size of the building. The Utility further stated that the described modification includes the space planned at the time its MFRs were filed as well as additional space necessary to accommodate its Island personnel, billing and administrative operations, and space for storage.

Staff believes the modification described above is beyond what was previously determined to be reasonable, prudent, and in the best interest of the Utility and its customers. Therefore, staff is recommending that the Commission exclude costs associated with the building modification from its consideration of the Utility's true-up.

Staff's exclusions include structural changes to the building necessary to accommodate office operations (\$7,981), additional air-conditioning (\$27,649), and amenity additions such as cabinetry and appliances (\$13,553). Staff also recommends excluding costs (\$32,100) for a generator larger than previously planned. Based on a response from the Utility, the larger generator was needed after the size of the building was increased.

The cost of the building was also increased to comply with FEMA's minimum flood elevation requirements. The cost to increase the elevation of the building was \$287,800. Because this increase includes costs associated with the previously discussed building modification, staff recommends that the Commission exclude a portion of these costs from pro forma plant. Staff recommends that the allowable cost be reduced by \$124,478, which reflects a proration of the cost based on the increased square footage of the building.

In total, staff's recommended exclusions, for activities associated with the building modification, total \$205,761. Of the \$205,761 total, \$173,661 should be excluded from the Utility's Structures and Improvements account. The cost for the larger generator should be excluded from the Utility's Power Generation Equipment account.

Transmission and Distribution Mains

Change Order Request 3 included an additional \$198,750 for a new water line in the state park on St. George Island. In response to a staff data request the Utility indicated that the State requested that WMSI build a new line in September 2005. WMSI further stated that after it saved \$260,000 on the price of the building site, and after it closed on a \$6,000,000 loan, the Utility decided it would be prudent to build the new water line in the state park as requested by the state 10 years earlier.

Similar to the building modification discussed earlier, staff believes the new water line in the state park is beyond the scope of what the Commission previously determined was reasonable, prudent, and in the best interest of the Utility's customers. Therefore, staff is recommending that the Commission exclude the \$198,750 of additional costs associated with the new water line from its consideration of the Utility's pro forma plant. These costs should be excluded from the Utility's Transmission and Distribution Mains account.

Supply Mains

Change Order Request 4 was dated January 19, 2016. The change order included \$70,350 associated with an increase in road bores, from 5 to 15. In a subsequent letter, the Utility stated that several of the additional road bores had been completed prior to the signing of Change Order Request 4. The Utility did not however, provide a statement or documentation confirming that the additional road bores were finished prior to the December 31, 2015, completion date ordered by the Commission. Therefore, staff recommends that the \$70,350 for the 10 additional road bores should be excluded from the Utility's Supply Mains account.

Communication Equipment

The pro forma items considered by the Commission in the PAA Order included a supervisory control data acquisition (SCADA) system for wells, high service pumps, ground storage tank level, and distribution system pressure. Change Order Request 5 covered 4 new well meters to allow the SCADA system to operate as well as a security system which is tied in with the SCADA system. By letter dated November 4, 2016, the Utility indicated that this item was completed, certified, and placed in service as of April 1, 2016. Because the completion date occurred after December 31, 2015, staff recommends that the associated costs totaling \$21,061 be excluded from the Utility's Communication Equipment account.

Land

In addition to evaluating the pro forma plant project, staff also analyzed the land value to be included in rate base. In order to construct the Commission-approved pro forma plant project, WMSI had to acquire land. WMSI originally proposed a land purchase that was valued at \$425,000. In its Motion to Allow Withdrawals from Escrow, dated September, 21, 2012, WMSI stated its customers expressed concern regarding the proposed \$425,000 cost of the land upon which the water storage tank was to be constructed. In response to this concern, WMSI located 24 bank-owned lots which were obtained through foreclosure. The purchase price for these 24 bank-owned lots was \$190,000. According to the Utility, it would only need 12 of the 24 lots. In the filing, the Utility stated, "in addition to an initial savings from the original lots, WMSI will sell the twelve (12) lots not needed for the pro forma project, further reducing the cost to WMSI and to its customers."

On October 11, 2012, a Purchase and Sale Agreement was executed between the Utility and Centennial Bank. The closing date of the agreement was November 8, 2012. In response to staff's data requests, WMSI provided the Appraisal Report dated March 25, 2013, performed by Cureton-Johnson & Associates, LLC Real Estate Services. The date of the report is April 5, 2013, and the date of the value is March 25, 2013. According to the appraisal, "after market and physical characteristic adjustments, the comparables price per lot figures ranged from a low of \$22,866 per lot to a high of \$43,167 per lot. After market conditions adjustments, the range of average gross adjustments was 0% to -30% for each sale." The appraisal determined a total value of \$544,500 for the 24 lots.

According to the appraisal, some of the lots are considered "upland" and the other lots are considered "wetland." Further, the value of each lot is affected by its designation. The appraisal determined that, of the 24 lots, 14 are upland lots and 10 are wetland lots. According to the appraisal, the reconciled value per lot would be \$33,000 for the upland lots. The appraisal stated the wetland lots would be valued at 25 percent of the value of the upland lots, resulting in a price per lot of either \$33,000 for upland lots or \$8,250 ($\$33,000 \times 0.25$) for wetland lots.

Only 8 lots (Lots 12-19, Unit 1, Block 3 West) of the 24 lots were actually used by the Utility for its storage tank construction project. On February 11, 2016, in its response to a staff data request, the Utility stated that the remaining 16 lots not used by the Utility were sold to Brown Management Group, Inc. (BMG) on October 28, 2013, for \$30,000. Further, the Utility contended the remaining 8 lots that have been used for the pro forma project should be valued at \$160,000. On May 5, 2016, in its response to staff's data request, the Utility argued that,

WMSI had to make a bulk purchase of all 24 lots for \$190,000 in order to get the eight lots needed for the improvements. The lots were bank-owned, and the bank would not sell only the eight lots WMSI needed, even though it would have been financially reasonable for WMSI to pay \$160,000 for those eight lots, if they could have been purchased without the additional 16 lots. WMSI valued those 8 lots at \$20,000 each. The remaining 16 lots, which are mostly unbuildable, have a total value of \$30,000. Even though they are no longer owned by WMSI, they are included in the mortgage which WMSI gave the bank to secure the loan to build the new plant.

According to the staff audit, the Utility recorded the purchase of the lots in the general ledger based on the land value found in tax records. The tax records assessed each of the lots at \$20,000 for tax purposes. WMSI used this assessed value to determine the amount for 8 lots (lots 12-19) needed for the storage tank construction project at \$160,000 ($\$20,000 \times 8$). According to the Utility, the remaining 16 lots were sold to Brown Management Group, Inc. (BMG) on October 28, 2013, for \$30,000.

In its response to an audit request, the Utility stated that BMG sold 4 of the 16 lots back to WMSI for \$10,000 on May 10, 2016 to be used for pipe storage. These lots consisted of 2 wetland lots (Lots 4 and 5) and 2 upland lots (Lots 6 and 7). On August 17, 2016, the Utility notified the Commission that the remaining 12 lots that were sold to BMG have now been sold back to WMSI. Therefore, all of the 24 lots are now owned by the Utility. The Utility

demonstrated that the lots were sold back to WMSI at the same amount as they were sold to BMG.

In considering the valuation of the land, staff recognizes the Utility's cost-saving efforts based on the original proposed amount of \$425,000. Staff also recognizes the fact that the land purchased for \$190,000 had an appraised value as of March 25, 2013 of \$544,500. At this point in time, all of the 24 lots are owned by the Utility. Therefore, given the fact that, in order to get the 8 lots needed for the storage tank project, the Utility had to make a bulk purchase of all 24 lots, staff believes the purchase price of \$190,000 should be included in the true-up calculation. Staff further believes that this amount reflects a savings of \$235,000 (\$425,000 -\$190,000) for the customers.

Further, staff believes there is a real possibility for future gain on the sale of any lots that are not being used by the Utility. Thus, staff recommends that the Utility should notify the Commission of any future sale, transfer, or reassignment of the remaining 12 lots to any person or entity within 60 days of such a transaction. At the time that it notifies the Commission, the Utility should also submit all documentation regarding the transaction, including, but not limited to, the market value of the land and calculation of any gain on sale.

Rates

Due to the low percentage increase, staff recommends the rates remain unchanged. In addition, staff recommends service availability charges remain unchanged. Staff compared the recommended adjustments to the accounts used to develop the service availability charge with the costs used to develop the Utility's current main extension and plant capacity charges. The change in the average cost per equivalent residential connection to connect to the water system is de minimus (0.46 percent increase for the main extensions and 0.48 percent decrease for the treatment facilities). The existing service availability charges are within the guidelines pursuant to Rule 25-30.580, Florida Administrative Code. Therefore, staff recommends the service availability charges remain unchanged.

In addition to the above discussion regarding any adjustments to the revenue requirement based on the true-up of costs associated with the pro forma plant project previously authorized by the Commission, staff recommends that the escrow account associated with this docket be closed. Pursuant to Order No. PSC-12-0641-PCO-WU, issued December 4, 2012, the Commission granted staff administrative authority to authorize all payments from an established escrow account for the Florida Department of Environmental Protection loan, as they became due. By closing the docket, the escrow account should be closed resulting in no need for the Commission to be an agent for the escrow account. In accordance with the Order, staff believes that any remaining funds in the escrow account should be released to the Utility. Further, while the escrow account will be closed, and the Commission will no longer be an agent for the collection and disbursement of these funds, the Utility remains responsible for making payments to DEP and Ameris Bank.

Conclusion

Based on the above, staff recommends a true-up adjustment to decrease land and plant by \$6,006. Accordingly, staff recommends corresponding adjustments to increase accumulated

depreciation and depreciation expense both by \$5,969. The resulting revenue requirement based on the true-up adjustments is a revenue increase of \$5,547 or 0.29 percent.

Staff also recommends that the Utility should notify the Commission of any future sale, transfer, or reassignment of the remaining 12 lots to any person or entity within 60 days of such a transaction. At the time that it notifies the Commission, the Utility should also submit all documentation regarding the transaction, including, but not limited to, the market value of the land and its calculation of any gain on sale. The Utility should also submit its proposal as to how this transaction should be treated for ratemaking purposes. Due to the low percentage increase, staff recommends the rates remain unchanged. In addition, staff recommends service availability charges remain unchanged. Finally, by closing the docket, the escrow account should be closed resulting in no need for the Commission to be an agent for the escrow account. Staff believes that any remaining funds in the escrow account should be released to the Utility. The true-up analysis is reflected on the attached Schedule 1.

Issue 2: Is WMSI in substantial compliance with Order No. PSC-12-0641-PCO-WU; and, if not, should WMSI be ordered to show cause why it is not in substantial compliance with Order No. PSC-12-0641-PCO-WU?

Recommendation: Yes, WMSI is in substantial compliance with Order No. PSC-12-0641-PCO-WU, and should not be ordered to show cause. (Leathers)

Staff Analysis: On December 4, 2012, the Commission issued Order No. PSC-12-0641-PCO-WU (Order), which granted in part and denied in part WMSI's Motion to Allow Withdrawals from Escrow. In the Order, the Commission addressed WMSI's proposal to sell 12 of 24 bank-owned lots it purchased for its water storage tank and related improvements. Specifically, the Commission ordered "that if or when the remaining unused lots are sold, the proceeds from the sale shall be deposited in the Proposed Agency Action escrow account for final disposition by [the Commission]."

Based on information WMSI filed on February 11, 2016 and May 5, 2016, in response to staff's data requests, it appeared that WMSI did not deposit the proceeds of the October 28, 2013 sale of 16 of the 24 aforementioned lots into the Proposed Agency Action escrow account for final disposition by the Commission as ordered. However, information filed by WMSI on June 13, 2016, in response to staff's data request, indicated that the transaction had essentially been reversed.

On August 16, 2016, by letter, staff notified WMSI that it may have acted in violation of the Order and requested that WMSI provide any mitigating information or circumstances related to the apparent violation. WMSI filed its response on August 17, 2016, stating that the intent of the Order was to ensure that the proceeds of the sale of the unused lots would be used to replenish the account because the escrow funds were used to purchase the 24 aforementioned lots. WMSI maintained that no sale, within the meaning and intent of the Order, of the pertinent lots had occurred on October 28, 2013, because the 16 lots were conveyed to BMG, a wholly-owned, non-regulated subsidiary. As such, WMSI submitted that it has remained in compliance with the purpose and intent of the Order as the lots remained within the control of WMSI. However, due to staff's inquiries, WMSI opted to have the lots reconveyed by BMG to WMSI.

Based on the above, staff believes that WMSI made a substantial effort to comply with the Order by having its subsidiary reconvey the lots to WMSI. As such, staff believes WMSI is in substantial compliance with the Order and should not be ordered to show cause for non-compliance.

Issue 3: Should this docket be closed?

Recommendation: If a protest is filed within 21 days of the issuance date of the Order, the docket should remain open pending resolution of the protest. If no timely protest is filed, a consummating order should be issued and the docket should be closed. (Leathers)

Staff Analysis: If a protest is filed within 21 days of the issuance date of the Order, the docket should remain open pending resolution of the protest. If no timely protest is filed, a consummating order should be issued and the docket should be closed.

Water Management Services, Inc.			Schedule No. 1						
True-up Schedule			Docket No. 110200-WU						
			A	B	C	D =	E	F	G
			Proforma Plant Approved Amount (1)	Proforma Plant Per Utility Amount	Proforma Plant Per Staff Amount	Land & Plant True-Up Difference	Service Life	Accum Depr True-Up Difference	Depr Exp True-Up Difference
<u>Line No.</u>	<u>Acct. No.</u>	<u>Account Name</u>							
1	303	Land	\$443,432	\$190,000	\$190,000	(\$253,432)	N/A	N/A	N/A
2	304	Structures and Improvements	336,085	751,652	577,991	241,906	32	(7,560)	7,560
3	309	Supply Mains	164,690	329,277	258,927	94,237	35	(2,692)	2,692
4	310	Power Generation Equipment	141,951	169,935	137,835	(4,116)	20	206	(206)
5	311	Pumping Equipment	655,150	554,714	554,714	(100,436)	20	5,022	(5,022)
6	320	Water Treatment Plant	63,261	50,541	50,541	(12,720)	22	578	(578)
7	330	Distribution Reservoirs and Standing pipes	831,246	833,780	833,780	2,534	37	(68)	68
8	331	Transmission and Distribution Mains	811,282	1,024,987	826,237	14,955	43	(348)	348
9	346	Communication Equipment	43,520	75,647	54,586	11,066	10	(1,107)	1,107
10		Total Approved Pro Form Land & Plant	<u>\$3,490,617</u>	<u>\$3,980,533</u>	<u>\$3,484,611</u>	<u>(\$6,006)</u>		<u>(\$5,969)</u>	<u>\$5,969</u>
11		<u>Calculation of Revenue Requirement True-Up Difference</u>							
12		Land and Net Plant True-Up Difference				(\$11,975)			
13		Approved Overall Cost of Capital				5.61%			
14		Land and Net Plant True-Up Return Difference				(\$672)			
15		Plus: Depreciation Expense				5,969			
16		Revenue Requirement True-Up Difference with RAFs				<u>\$5,547</u>			
17		<u>Calculation of Across-the-Board Rate Percentage Change</u>							
18		Revenue Requirement True-Up Difference with RAFs				\$5,547			
19		Revenue requirement per Order No. PSC-13-0197-FOF-WU				<u>\$1,905,203</u>			
20		Across-the-Board Rate Percentage Increase/(Decrease)				<u>0.29%</u>			
21		Notes:							
22		(1) Plant Approved Amounts found in Order No. PSC-13-0197-FOF-WU, issued on May 16, 2013, and Order No. PSC-12-0435-PAA-WU, issued on August 22, 2012.							