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# 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-**

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**DATE:** December 21, 2016

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Accounting and Finance (D. Smith, Mouring)  
Division of Economics (Hudson, Johnson) *CAS AT*  
Division of Engineering (Thompson) *IT*  
Office of the General Counsel (Corbari) *TP* *B-5* *CRB* *W*

**RE:** Docket No. 140175-WU – Application for staff-assisted rate case in Pasco County by Crestridge Utilities, LLC.

**AGENDA:** 01/05/17 – Regular Agenda – Proposed Agency Action for Issues 1 and 2 - Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Brisé

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

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## Case Background

Crestridge Utilities, LLC. (Crestridge or Utility) is a Class C water utility serving approximately 614 customers in Pasco County. Crestridge's service territory is located in the Southwest Florida Water Management District (SWFWMD) and is in a water use caution area. Crestridge's application in the instant docket shows total gross revenue of \$100,193, with a net operating loss of \$84,564.

Crestridge filed its application for a staff-assisted rate case (SARC) on September 10, 2014, and subsequently completed the Commission's filing requirements. November 7, 2014, was established as the official filing date in this case. Prior to the instant proceeding, rates were last

established for this Utility in 1992, as a result of a staff-assisted rate case.<sup>1</sup> Rate base was last established for this Utility when it was transferred in 2014.<sup>2</sup> On December 30, 2015, the Commission approved Phase I rates for Crestridge.<sup>3</sup> The Commission also approved Phase II rates, upon staff verifying that all pro forma approved had been completed and the Utility submitting documentation of the final costs.<sup>4</sup>

On October 4, 2016, Crestridge filed for a limited proceeding to recover costs associated with recent additional capital improvements.<sup>5</sup> In light of the budget underruns for the approved Phase II projects, and the scope of the capital improvements sought in the limited proceeding, the Utility requested that the additional items included in the limited proceeding be subsumed in the current proceeding as part of the Phase II rate adjustment. Thus, on November 23, 2016, the Utility withdrew its request for a limited proceeding.<sup>6</sup> The Commission has jurisdiction in this case pursuant to Section 367.0814, Florida Statutes (F.S.).

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<sup>1</sup> Order No. PSC-93-0012-FOF-WU, issued January 5, 1993, in Docket No. 920417-WU, *In re: Application for staff-assisted rate case in Pasco County by Crestridge Utility Corporation.*

<sup>2</sup> Order No. PSC-15-0420-PAA-WU, issued October 5, 2015, in Docket No. 140174-WU, *In re: Application for approval of transfer of Certificate No. 117-W from Crestridge Utility Corporation to Crestridge Utilities, L.L.C., in Pasco County.*

<sup>3</sup> Order No. 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.*

<sup>4</sup> *Id.*

<sup>5</sup> Document No. 07969-16 in Docket No. 160218-WU, *In re: Application for a Limited proceeding for Crestridge Utilities, LLC in Pasco, County, Florida.*

<sup>6</sup> Document No. 08981-16 in Docket No. 160218-WU.

### Discussion of Issues

**Issue 1:** Should the Commission approve Crestridge’s requested Phase II increase for pro forma items?

**Recommendation:** Yes. The Commission should approve a Phase II revenue requirement associated with pro forma and additional items. The Utility’s Phase II revenue requirement is \$188,170, which equates to a 2.81 percent increase over the approved Phase I revenue requirement. (D. Smith, Lee)

**Staff Analysis:** By Order No. PSC-15-0592-PAA-WU, the Commission approved a list of pro forma items for Phase II implementation. Based on the estimated costs and after adjusting for retirements, the increase in the Utility Plant in Service (UPIS) balance was found to be \$10,370. The Order further required that implementation of the Phase II rates was conditioned upon the Utility completing the pro forma items within 12 months of the Order becoming final, and it submitting a copy of the final invoices and payment documentation for staff’s review.

As stated in the Case Background, while the Commission granted Crestridge permission to implement the Phase II rates once staff verified that all pro forma was completed and documentation provided, Crestridge has requested recovery of additional capital improvement costs, which requires Commission approval.

#### Phase II Pro Forma Items Addressed in Order No. PSC-15-0592-PAA-WU

As required by Order No. PSC-15-0592-PAA-WU, the Utility submitted a copy of the final invoices and payment documentation for implementation of the approved Phase II rates. Based on the invoiced amounts shown in the table below, the adjustment to UPIS is \$7,959, or \$2,411 less than the estimated cost for these items.

**Table 1-1  
 Phase II Pro Forma Adjustments**

Description	Plant Account	Estimated Cost (A)	Actual Cost (B)	Associated Retirement (C)	Net Change in UPIS
New Computer and Printer	340	\$264	\$231	(\$0)	\$231
New Portable Meter	334	\$565	\$0	(\$0)	\$0
Check Valve at Well #2	311	\$800	\$771	(\$578)	\$193
Replumb at Well #2	311	\$1,800	\$176	(\$132)	\$44
Repaint at Well #2 & #4	304	\$400	\$2,585	(\$1,939)	\$646
Roof at Well #2 & #4	304	\$8,000	\$2,835	(\$2,126)	\$709
Air Relief Valve at Well #2	311	\$200	\$0	(\$0)	\$0
Check Valve at Well #4	311	\$800	\$535	(\$401)	\$134
Replumb at Well #4	311	\$1,800	\$1,079	(\$809)	\$270

Description	Plant Account	Estimated Cost (A)	Actual Cost (B)	Associated Retirement (C)	Net Change in UPIS
Gate Valve at Well #4	311	\$1,500	\$434	(\$326)	\$108
Tank Replacement	330	\$22,862	\$22,496	(\$16,872)	\$5,624
<b>Total</b>		<b>\$38,991</b>	<b>\$31,142</b>	<b>(\$23,183)</b>	<b>\$7,959</b>

\*Source: Document Nos. 08268-16 and 08634-16

The Utility did not purchase the portable meter because it was no longer needed. The extent of the work required for replumbing at well number 2 and the gate valve upgrade at well number 4 was reduced and resulted in a lower cost than estimated. For the repaint work, the Utility added stucco at the pump houses, which resulted in a higher cost than estimated. The Utility was able to acquire the roof upgrades at a lower cost than estimated. In addition, costs for the air relief valve were included as part of the new well motor installation. Staff has reviewed documentation showing the completion of these projects and verified the invoices and receipts.

Commission practice is to use 75 percent of the cost of the replacement as the retirement value when the original cost is not known.<sup>7</sup> Table 1-1 above outlines staff's recommended adjustments to UPIS and retirements by plant account.

### **Additional Capital Improvement Items**

As discussed in the Case Background, the Utility is requesting additional capital improvements not previously approved for recovery in its Phase II rates. The Utility is requesting these additional improvements be considered in this proceeding in light of the necessity of the items and coming in under budget for the approved Phase II projects. Staff believes it is reasonable to consider the additional items in this proceeding because it will reduce regulatory lag and rate case expense by mitigating the need for an additional limited proceeding.

The following additional items were originally filed as a limited proceeding<sup>8</sup> and combined into this proceeding. The Utility stated that, in its most recent Department of Environmental Protection inspection, a leak in well number 2 was noted as a deficiency. The Utility resolved the deficiency by replacing well number 2's motor and pump. The Utility determined that it would also replace well number 4's motor and pump at the same time, because both units were in need of replacement. In addition, the Utility believed that a single outage, requiring a boiled water notice, to complete the repairs would minimize the inconvenience to its customers. The Utility also claimed that, by upgrading both wells at once, it saved its customers money on the bids for the electrical equipment. By September 2016, the Utility had replaced the motors, the pumps, and the electrical equipment in well numbers 2 and 4, which have in-service dates of 1975 and 1976 respectively. The Utility also upgraded its electrical equipment to ensure that the new equipment was properly protected with efficient electrical upgrades. Staff recommends that,

<sup>7</sup> Order No. PSC-16-0256-PAA-WU, issued June 30, 2016, in Docket No. 150199-WU, *In re: Application for staff-assisted rate case in Lake County by Raintree Waterworks, Inc.*

<sup>8</sup> Docket No. 160218-WU, *In re: Application for a Limited proceeding for Crestridge Utilities, LLC in Pasco County, Florida.*

given the age and the condition of the motors, the pumps and the need for supporting electrical equipment for well numbers 2 and 4, the project is reasonable.

The Utility also completed replumbing for well number 3 on September 6, 2016. This was done in order to use well 3 as a back-up well to supply customers with water while upgrades were being made to well number 2 and well number 4. For the replumb of well number 3, the Utility stated that the cost given was for the replacement of a failed check valve and the original galvanized piping. The well has been out of service since being struck by lightning in 2013; however, the Utility eventually plans to return the well to service in the future. The Utility intends to replace the destroyed tank, replumb from the new check valve to the new tank, and update the electrical panels for well number 3 in order to return the well to service. These improvements will be addressed in a future proceeding. Staff recommends that, given the need for well number 3 as a back-up water supply during the completion of the upgrades to the other wells, as well as the Utility's plans of returning well number 3 to service in the future, the project was reasonable.

The Utility is requesting \$29,673 for the total cost of the equipment and installation, including \$21,042 for the new motors and pumps, and \$7,533 for the electrical equipment for well numbers 2 and 4, \$898 for the well number 3 replumb, and \$200 for well testing. Based on the proposals for the motors, pumps, and electrical equipment for well numbers 2 and 4, the Utility saved a total of \$1,086. For the motors and pumps, the Utility only sought one bid for each well. The Utility states that Pope's Water Systems, Inc., the company from which it sought a bid, is the original well installer and has been servicing these wells since their in-service date. The Utility also asserts that there is no other company in the area capable of accurately completing this project. For these reasons, the Utility asserts that it uses this company exclusively to ensure adequate functionality with the wells. Staff notes that this company is not an affiliate or a subsidiary of the Utility. For the electrical equipment, the Utility received two bids and selected the lowest cost option. Given the age of the equipment to be replaced, and the cost savings to customers by upgrading both wells at once, staff recommends that these costs are reasonable and Crestridge should be allowed to recover the costs at this time.

As stated above, for retirements, it is Commission practice to use 75 percent of the cost of the replacement as the retirement value when the original cost is not known. Table 1-2 outlines staff's recommended adjustments to UPIS and retirements by plant account.

**Table 1-2  
 Adjustments for Additional Items**

<b>Description</b>	<b>Plant Account</b>	<b>UPIS (A)</b>	<b>Retirement (B)</b>	<b>Net Change in UPIS</b>
Well #2: New Motor and Pump	311	\$11,091	(\$8,318)	\$2,773
Well #2: Electrical Equipment	311	\$3,624	(\$2,718)	\$906
Well #4: New Motor and Pump	311	\$9,952	(\$7,464)	\$2,488
Well #4: Electrical Equipment	311	\$3,909	(\$2,932)	\$977
Well #3: Replumb	311	\$898	(\$674)	\$224
Well Testing	630	\$200	(\$150)	\$50
<b>Total</b>		<b>(\$29,674)</b>	<b>(\$22,256)</b>	<b>\$7,418</b>

\*Source: Document Nos. 08268-16 and 08634-16

Staff's net adjustment for Crestridge based on Phase II pro forma items of \$7,959, and additional items of \$7,418, results in an increase of \$15,377 to UPIS and a corresponding decrease to Accumulated Depreciation of \$42,468. In addition, staff adjusted depreciation expense to reflect the pro forma additions and retirements resulting in an increase of \$771. Also, staff increased Taxes Other Than Income by \$231 to reflect Regulatory Assessment Fees (RAFs) of 4.5 percent on the change in revenues. Staff's total adjustment to operating expenses, including additional RAFs, is \$1,002, resulting in total operating expenses of \$176,792.

The Utility's Phase II revenue requirement should be \$188,170, representing a 2.81 percent increase over the approved Phase I revenue requirement. Although the additional items result in a higher recommended Phase II revenue increase over the 2.04 percent previously approved by the Commission,<sup>9</sup> staff believes that it is reasonable to consider the additional items in this proceeding because it will reduce regulatory lag and rate case expense by mitigating the need for an additional limited proceeding.

Phase II rate base is shown on Schedule No. 1-A. The capital structure for Phase II is shown on Schedule No. 2. The revenue requirement is shown on Schedule No. 3-A. The resulting rates are shown on Schedule No. 4.

<sup>9</sup> Order No. PSC-15-0592-PAA-WU.



**Issue 2:** What is the appropriate rate structure and rates for Phase II?

**Recommendation:** The Phase II rate increase of 2.95 percent should be applied as an across-the-board increase to the existing Phase I rates. The rates, as shown on Schedule No. 4, should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date that the notice was given within 10 days of the date of the notice. (Johnson)

**Staff Analysis:** The recommended Phase II revenue, less miscellaneous service revenues, would result in an increase of 2.95 percent (\$5,138) over the approved Phase I revenue requirement (\$183,032).<sup>10</sup> The calculation is as follows:

**Table 2-1  
 Percentage Phase II Rate Increase**

		Water
1.	Phase I Revenue Requirement	\$183,032
2.	Less Miscellaneous Service Revenues	(\$8,837)
3.	Phase I Service Revenue Requirement	\$174,195
4.	Phase II Revenue Increase	\$5,138
5.	% Service Rate Increase (Line 4/Line 3)	2.95%

Staff recommends a Phase II rate increase of 2.95 percent, applied as an across-the-board increase to the existing Phase I rates. The rates, as shown on Schedule No. 4, should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date that the notice was given within 10 days of the date of the notice.

<sup>10</sup> Order No. PSC-15-0592-PAA-WU.

**Issue 3:** Should the recommended rates be approved for Crestridge 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 for Phase II should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility. Crestridge 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 Clerk's office 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. (D. Smith)

**Staff Analysis:** This recommendation proposes an increase in 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. Crestridge 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 \$3,436. 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; and,
- 2) No monies in the escrow account may be withdrawn by the Utility without the prior written authorization of the Commission Clerk, or his or her designee;
- 3) The escrow account shall be an interest bearing account;
- 4) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 5) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility;
- 6) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 7) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 8) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to *Cosentino v. Elson*, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;
- 9) The account must specify by whom and on whose behalf such monies were paid.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the Utility. Irrespective of the form of security chosen by the Utility, an account of all monies received as a result of the rate increase should be maintained by the Utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

The Utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission Clerk's office no later than the 20th of 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 4:** Should this docket be closed?

**Recommendation:** No. Except for the granting of temporary rates in the event of protest, which is final, 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 will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once the above actions are completed, this docket will be closed administratively. (Corbari)

**Staff Analysis:** Except for the granting of temporary rates in the event of protest, which is final, 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 will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once the above actions are completed, this docket will be closed administratively.

<b>CRESTRIDGE UTILITIES, LLC</b>		<b>SCHEDULE NO. 1-A</b>	
<b>TEST YEAR ENDED 09/30/14</b>		<b>DOCKET NO. 140175-WU</b>	
<b>SCHEDULE OF WATER RATE BASE (PHASE II)</b>			
<b>DESCRIPTION</b>	<b>PHASE I BALANCE</b>	<b>STAFF ADJUSTMENTS TO UTIL. BAL.</b>	<b>BALANCE PER STAFF</b>
UTILITY PLANT IN SERVICE	\$225,181	\$15,378	\$240,559
LAND & LAND RIGHTS	6,000	0	6,000
NON-USED AND USEFUL COMPONENTS	0	0	0
CIAC	(86,055)	0	(86,055)
ACCUMULATED DEPRECIATION	(163,013)	42,468	(120,545)
AMORTIZATION OF CIAC	86,055	0	86,055
WORKING CAPITAL ALLOWANCE	<u>19,305</u>	<u>0</u>	<u>19,305</u>
WATER RATE BASE	<u>\$87,473</u>	<u>\$57,846</u>	<u>\$145,319</u>

<b>CRESTRIDGE UTILITIES, LLC</b>		<b>SCHEDULE NO. 1-B</b>
<b>TEST YEAR ENDED 09/30/14</b>		<b>DOCKET NO. 140175-WU</b>
<b>ADJUSTMENTS TO RATE BASE (PHASE II)</b>		
		<b><u>WATER</u></b>
<b><u>UTILITY PLANT IN SERVICE</u></b>		
To reflect pro forma plant additions and retirements.		<u>\$15,378</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>		
To reflect pro forma plant additions and retirements.		<u>\$42,468</u>

CRESTRIDGE UTILITIES, LLC							SCHEDULE NO. 2		
TEST YEAR ENDED 09/30/14							DOCKET NO. 140175-WU		
SCHEDULE OF CAPITAL STRUCTURE (PHASE II)									
CAPITAL COMPONENT	PHASE I BALANCE	STAFF SPECIFIC ADJUST- MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST- MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED	
								COST	COST
1. COMMON EQUITY	\$22,113	\$0	\$22,113	\$5,334	\$27,447	18.89%	11.16%		2.11%
2. LONG-TERM DEBT	60,694	30,000	90,694	21,877	112,571	77.46%	7.17%		5.56%
3. SHORT-TERM DEBT (Truck)	3,818	0	3,818	921	4,739	3.26%	5.00%		0.16%
4. PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%		0.00%
5. CUSTOMER DEPOSITS	563	0	563	0	563	0.39%	2.00%		0.01%
6. DEFERRED INCOME TAXES	<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>
7. TOTAL	<u>\$87,188</u>	<u>\$30,000</u>	<u>\$117,188</u>	<u>\$28,132</u>	<u>\$145,319</u>	<u>100.00%</u>			<u>7.83%</u>
<b>RANGE OF REASONABLENESS</b>						<b>LOW</b>	<b>HIGH</b>		
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>		
OVERALL RATE OF RETURN						<u>7.64%</u>	<u>8.02%</u>		

CRESTRIDGE UTILITIES, LLC			SCHEDULE NO. 3-A		
TEST YEAR ENDED 09/30/14			DOCKET NO. 140175-WU		
SCHEDULE OF WATER OPERATING INCOME (PHASE II)					
	PHASE I	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$183,032</u>	<u>\$0</u>	<u>\$183,032</u>	<u>\$5,138</u> 2.81%	<u>\$188,170</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	\$154,442	\$0	\$154,442	\$0	\$154,442
3. DEPRECIATION (NET)	4,923	771	5,694	0	5,694
4. TAXES OTHER THAN INCOME	16,424	0	16,424	231	16,655
5. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
6. TOTAL OPERATING EXPENSES	<u>\$175,789</u>	<u>\$771</u>	<u>\$176,561</u>	<u>\$231</u>	<u>\$176,792</u>
7. OPERATING INCOME/(LOSS)	<u>\$7,243</u>		<u>\$6,471</u>		<u>\$11,379</u>
8. WATER RATE BASE	<u>\$87,473</u>		<u>\$145,319</u>		<u>\$145,319</u>
9. RATE OF RETURN	<u>8.28%</u>		<u>4.45%</u>		<u>7.83%</u>



Docket No. 140175-WU  
Date: December 21, 2016

<b>CRESTRIDGE UTILITIES, LLC</b>		<b>SCHEDULE NO. 3-B</b>
<b>TEST YEAR ENDED 09/30/14</b>		<b>DOCKET NO. 140175-WU</b>
<b>ADJUSTMENTS TO OPERATING INCOME (PHASE II)</b>		
<b>DEPRECIATION EXPENSE</b>		<b><u>WATER</u></b>
To reflect appropriate depreciation expense per Rule 25-30.140 F.A.C..		<u>\$771</u>

<b>CRESTRIDGE UTILITIES, LLC</b>	<b>SCHEDULE NO. 4</b>	
<b>MONTHLY WATER RATES</b>	<b>DOCKET NO. 140175-WU</b>	
	<b>UTILITY CURRENT RATES</b>	<b>STAFF RECOMMENDED PHASE II RATES</b>
<b><u>Residential and General Service</u></b>		
Base Facility Charge by Meter Size		
5/8"X3/4"	\$11.73	\$12.08
3/4"	\$17.60	\$18.12
1"	\$29.33	\$30.20
1-1/2"	\$58.65	\$60.40
2"	\$93.84	\$96.64
3"	\$187.68	\$193.28
4"	\$293.25	\$302.00
6"	\$586.50	\$604.00
Charge per 1,000 gallons - Residential		
0 - 3,000 gallons	\$3.85	\$3.96
Over 3,000 gallons	\$7.65	\$7.88
Charge per 1,000 gallons - General Service		
	\$4.90	\$5.04
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>		
3,000 Gallons	\$23.28	\$23.96
5,000 Gallons	\$38.58	\$39.72
10,000 Gallons	\$76.83	\$79.12

# 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-**

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**DATE:** December 21, 2016

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Accounting and Finance (Passett, Mouring) *PD*  
Division of Economics (Hudson, Johnson) *CAS SH CS*  
Division of Engineering (Lee, Thompson) *IT TB*  
Office of the General Counsel (Corbari) *KFC* *CRETA* *PD*

**RE:** Docket No. 140177-WU – Application for staff-assisted rate case in Pasco County by Holiday Gardens Utilities, LLC.

**AGENDA:** 01/05/17 – Regular Agenda – Proposed Agency Action for Issues 1 and 2 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Brisé

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

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### Case Background

Holiday Gardens Utilities, LLC. (Holiday Gardens or Utility) is a Class C water utility serving approximately 456 customers in Pasco County. Holiday Gardens' service territory is located in the Southwest Florida Water Management District (SWFWMD) and is in a water use caution area. Holiday Gardens' application in the instant docket shows total gross revenue of \$77,847 with a net operating loss of \$182.

Holiday Gardens filed its application for a staff-assisted rate case (SARC) on September 10, 2014, and subsequently completed the Commission's filing requirements. November 7, 2014, was established as the official filing date in this case. Prior to the instant proceeding, rates were last established for this Utility in 1992, as a result of a staff-assisted rate case. Rate base was last

established for this Utility when it was transferred in 2014.<sup>1</sup> On December 29, 2015, the Commission approved Phase I rates for Holiday Gardens.<sup>2</sup> The Commission also approved Phase II rates, upon staff verifying that all pro forma approved had been completed and the Utility submitting documentation of the final costs.<sup>3</sup>

The Utility is requesting recent capital improvements not previously approved for recovery in Phase II rates be considered by the Commission in this proceeding, in lieu of filing a limited proceeding. While the Commission approved Phase II rates for Holiday Gardens, the Utility's request for recovery of additional capital improvement costs not previously approved, requires Commission approval. The Commission has jurisdiction in this case pursuant to Section 367.0814, Florida Statutes (F.S.).

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<sup>1</sup> Order No. PSC-15-0422-PAA-WU, issued October 6, 2015, in Docket No. 140176-WU, *In re: Application for approval of transfer of Certificate No. 116-W from Holiday Gardens Utilities, Inc. to Holiday Gardens Utilities, LLC, in Pasco County.*

<sup>2</sup> Order No. 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.*

<sup>3</sup> *Id.*

### Discussion of Issues

**Issue 1:** Should the Commission approve Holiday Gardens requested Phase II increase for pro forma items?

**Recommendation:** Yes. The Commission should approve a Phase II revenue requirement associated with pro forma and additional items. The Utility’s Phase II revenue requirement is \$136,693, which equates to a 1.02 percent increase over the approved Phase I revenue requirement. (Passett, Lee)

**Staff Analysis:** By Order No. PSC-15-0588-PAA-WU, the Commission approved a list of pro forma items for Phase II implementation. Based on the estimated costs and after adjusting for retirements, the increase in the Utility Plant in Service (UPIS) balance was \$4,749. The Order further required that implementation of the Phase II rates was conditioned upon the Utility completing the pro forma items within 12 months of the Order becoming final, and it submitting a copy of the final invoices and payment documentation for staff’s review.

As stated in the Case Background, while the Commission granted Holiday Gardens permission to implement the Phase II rates once staff verified that all pro forma was completed and documentation provided, Holiday Gardens has requested recovery of additional capital improvement costs, which requires Commission approval.

#### Phase II Pro Forma Items Addressed in Order No. PSC-15-0588-PAA-WU

As required by Order No. PSC-15-0588-PAA-WU, the Utility submitted a copy of the final invoices and payment documentation for implementation of the approved Phase II rates. Based on the invoiced amounts shown in the table below, the adjustment to UPIS is \$1,673, or \$3,076 less than the estimated cost for these items.

**Table 1-1  
 Phase II Pro Forma Adjustments**

Description	Plant Account	Estimated Cost (A)	Actual Cost (B)	Associated Retirement (C)	Net Change in UPIS
New Computer and Printer	340	\$196	\$172	\$0	\$172
New Portable Meter	334	\$565	\$0	\$0	\$0
Replumb at Well #1 & #2	311	\$3,600	\$490	(\$368)	\$122
Air Relief Valve at Well #1	311	\$200	\$0	\$0	\$0
Repaint at Well #1 & #2	304	\$400	\$1,844	(\$1,383)	\$461
Roof at Well #1 & #2	304	\$8,000	\$1,890	(\$1,418)	\$472
Flow Meter at Well #1	334	\$1,500	\$1,472	(\$1,104)	\$368

Description	Plant Account	Estimated Cost (A)	Actual Cost (B)	Associated Retirement (C)	Net Change in UPIS
Gate Valve at Well #2	311	\$750	\$107	(\$80)	\$27
Air Compressor at Well #2	311	\$1,500	\$202	(\$152)	\$50
<b>Total</b>		<b>\$16,711</b>	<b>\$6,178</b>	<b>(\$4,505)</b>	<b>\$1,673</b>

\*Sources: Document Nos. 08633-16 and 07952-16

The Utility did not purchase the portable meter because it was no longer needed. The extent of the work required for replumbing at well numbers 2 and 4, and gate valve and air compressor upgrades at well number 2, was reduced, which resulted in lower costs than estimated. The air relief valve was included as part of the new well motor installation. For the repaint work, the Utility added stucco at the pump houses which resulted in higher cost than estimated. In addition, for the roof upgrades, the Utility was able to acquire a lower cost than estimated. Staff has reviewed documentation showing the completion of these projects and verified the invoices and receipts of all completed items.

It is Commission practice to use 75 percent of the cost of the replacement as the retirement value when the original cost is not known.<sup>4</sup> Table 1-1 above, outlines staff's recommended adjustments to UPIS and retirements by plant account.

### Additional Capital Improvement Items

As discussed in the Case Background, the Utility is requesting additional capital improvements not previously approved for recovery in its Phase II rates. The Utility is requesting these additional improvements be considered in this proceeding in light of the necessity of the items and coming in under budget for the approved Phase II projects. Staff believes it is reasonable to consider the additional items in this proceeding because it will reduce regulatory lag and rate case expense by mitigating the need for an additional limited proceeding.

**Table 1-2  
 Adjustments for Additional Items**

Description	Plant Account	UPIS (A)	Retirement (B)	Net Change in UPIS
Electrical Repair and Update for Well #1	311	\$4,080	(\$3,060)	\$1,020
Electrical Repair and Update for Well #2	311	\$4,080	(\$3,060)	\$1,020
<b>Total</b>		<b>\$8,160</b>	<b>(\$6,120)</b>	<b>\$2,040</b>

\*Sources: Document Nos. 08633-16 and 07952-16

<sup>4</sup> Order No. PSC-16-0256-PAA-WU, issued June 30, 2016, in Docket No. 150199-WU, *In re: Application for staff-assisted rate case in Lake County by Raintree Waterworks, Inc.*

Staff has calculated the total UPIS amount for the Utility based on Phase II pro forma items of \$1,673 (\$6,178-\$4,505), and the additional items of \$2,040 (\$8,160-\$6,120), for a combined total of \$3,713.

Tables 1-1 and 1-2 summarize the Phase II pro forma plant items and associated costs. Staff's net adjustment to the Phase II UPIS balance is an increase of \$3,713 and a decrease to Accumulated Depreciation of \$9,779. In addition, staff adjusted depreciation expense to reflect the pro forma additions and retirements resulting in an increase of \$233. Also, staff increased Taxes Other Than Income by \$62 to reflect Regulatory Assessment Fees (RAFs) of 4.5 percent on the change in revenues. Staff's total adjustment to operating expenses, including additional RAFs, is \$295 resulting in total operating expenses of \$130,981.

The Utility's Phase II revenue requirement should be \$136,693, representing a 1.02 percent increase over the approved Phase I revenue requirement. Staff notes that, even with the inclusion of the additional items, the resulting revenue increase of 1.02 percent is lower than the 1.18 percent increase previously approved by the Commission.<sup>5</sup> Staff believes it is reasonable to consider the additional items in this proceeding because it will reduce regulatory lag and rate case expense by mitigating the need for an additional limited proceeding.

Phase II rate base is shown on Schedule No. 1-A. The capital structure for Phase II is shown on Schedule No. 2. The revenue requirement is shown on Schedule No. 3-A. The resulting rates are shown on Schedule No. 4.

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<sup>5</sup> Order No. PSC-15-0588-PAA-WU.



**Issue 2:** What is the appropriate rate structure and rates for Phase II?

**Recommendation:** The Phase II rate increase of 1.07 percent should be applied as an across-the-board increase to the existing Phase I rates. The rates, as shown on Schedule No. 4, should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date that the notice was given within 10 days of the date of the notice. (Johnson)

**Staff Analysis:** The recommended Phase II revenue, less miscellaneous service revenues, would result in an increase of 1.07 percent (\$1,383) over the Phase I revenue requirement (\$135,310). The calculation is as follows:

**Table 2-1  
 Percentage Phase II Rate Increase**

		<u>Water</u>
1.	Phase I Revenue Requirement	\$135,310
2.	Less Miscellaneous Service Revenues	( <u>\$5,886</u> )
3.	Phase I Service Revenue Requirement	\$129,424
4.	Phase II Revenue Increase	<u>\$1,383</u>
5.	% Service Rate Increase (Line 4/Line 3)	1.07%

Staff recommends a Phase II rate increase of 1.07 percent, applied as an across-the-board increase to the existing Phase I rates. The rates, as shown on Schedule No. 4, should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date that the notice was given within 10 days of the date of the notice

**Issue 3:** Should the recommended rates be approved for Holiday Gardens 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 for Phase II should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility. Holiday Gardens 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 Clerk's office 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. (Passett)

**Staff Analysis:** This recommendation proposes an increase in 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. Holiday Gardens 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 \$925. 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; and,
- 2) No monies in the escrow account may be withdrawn by the Utility without the prior written authorization of the Commission Clerk, or his or her designee;
- 3) The escrow account shall be an interest bearing account;
- 4) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 5) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility;
- 6) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 7) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 8) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to *Cosentino v. Elson*, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;
- 9) The account must specify by whom and on whose behalf such monies were paid.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the Utility. Irrespective of the form of security chosen by the Utility, an account of all monies received as a result of the rate increase should be maintained by the Utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

The Utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission Clerk's office no later than the 20th of 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 4:** Should this docket be closed?

**Recommendation:** No. Except for the granting of temporary rates in the event of protest, which is final, 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 will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once the above actions are completed, this docket will be closed administratively. (Corbari)

**Staff Analysis:** Except for the granting of temporary rates in the event of protest, which is final, 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 will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once the above actions are completed, this docket will be closed administratively.

<b>HOLIDAY GARDENS UTILITIES, LLC</b>		<b>SCHEDULE NO. 1-A</b>	
<b>TEST YEAR ENDED 09/30/14</b>		<b>DOCKET NO. 140177-WU</b>	
<b>SCHEDULE OF WATER RATE BASE (PHASE II)</b>			
<b>DESCRIPTION</b>	<b>PHASE I BALANCE</b>	<b>STAFF ADJUSTMENTS TO UTIL. BAL.</b>	<b>BALANCE PER STAFF</b>
UTILITY PLANT IN SERVICE	\$190,273	\$3,713	\$193,986
LAND & LAND RIGHTS	2,414	0	2,414
NON-USED AND USEFUL COMPONENTS	0	0	0
CIAC	(85,630)	0	(85,630)
ACCUMULATED DEPRECIATION	(149,305)	9,779	(139,525)
AMORTIZATION OF CIAC	85,630	0	85,630
WORKING CAPITAL ALLOWANCE	<u>14,345</u>	<u>0</u>	<u>14,345</u>
WATER RATE BASE	<u>\$57,727</u>	<u>\$13,492</u>	<u>\$71,220</u>

<b>HOLIDAY GARDENS UTILITIES, LLC</b>		<b>SCHEDULE NO. 1-B</b>
<b>TEST YEAR ENDED 09/30/14</b>		<b>DOCKET NO. 140177-WU</b>
<b>ADJUSTMENTS TO RATE BASE (PHASE II)</b>		
		<b><u>WATER</u></b>
<b><u>UTILITY PLANT IN SERVICE</u></b>		
To reflect pro forma plant additions and retirements.		<u>\$3,713</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>		
To reflect pro forma plant additions and retirements.		<u>\$9,779</u>

HOLIDAY GARDENS UTILITIES, LLC							SCHEDULE NO. 2		
TEST YEAR ENDED 09/30/14							DOCKET NO. 140177-WU		
SCHEDULE OF CAPITAL STRUCTURE (PHASE II)									
CAPITAL COMPONENT	PHASE I BALANCE	STAFF SPECIFIC ADJUST- MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST- MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED	
								COST	COST
1. COMMON EQUITY	\$7,500	\$0	\$7,500	\$7,663	\$15,163	21.29%	11.16%	2.38%	
2. LONG-TERM DEBT	24,544	0	24,544	25,078	49,622	69.67%	7.50%	5.23%	
3. SHORT-TERM DEBT (Truck)	2,827	0	2,827	2,888	5,715	8.02%	5.00%	0.40%	
4. PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%	
5. CUSTOMER DEPOSITS	720	0	720	0	720	1.01%	2.00%	0.02%	
6. DEFERRED INCOME TAXES	<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>	
7. TOTAL	<u>\$35,591</u>	<u>\$0</u>	<u>\$35,591</u>	<u>\$35,629</u>	<u>\$71,220</u>	<u>100.00%</u>		<u>8.02%</u>	
<b>RANGE OF REASONABLENESS</b>						<b><u>LOW</u></b>	<b><u>HIGH</u></b>		
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>		
OVERALL RATE OF RETURN						<u>7.81%</u>	<u>8.24%</u>		

HOLIDAY GARDENS UTILITIES, LLC			SCHEDULE NO. 3-A		
TEST YEAR ENDED 09/30/14			DOCKET NO. 140177-WU		
SCHEDULE OF WATER OPERATING INCOME (PHASE II)					
	PHASE I	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$135,310</u>	<u>\$0</u>	<u>\$135,310</u>	<u>\$1,383</u> 1.02%	<u>\$136,693</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	\$114,763	\$0	\$114,763	\$0	\$114,763
3. DEPRECIATION (NET)	2,876	233	3,108	0	3,108
4. TAXES OTHER THAN INCOME	13,048	0	13,048	62	13,110
5. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
6. TOTAL OPERATING EXPENSES	<u>\$130,686</u>	<u>\$233</u>	<u>\$130,919</u>	<u>\$62</u>	<u>\$130,981</u>
7. OPERATING INCOME/(LOSS)	<u>\$4,624</u>		<u>\$4,391</u>		<u>\$5,712</u>
8. WATER RATE BASE	<u>\$57,727</u>		<u>\$71,220</u>		<u>\$71,220</u>
9. RATE OF RETURN	<u>8.01%</u>		<u>6.17%</u>		<u>8.02%</u>



Docket No. 140177-WU  
Date: December 21, 2016

<b>HOLIDAY GARDENS UTILITIES, LLC</b>		<b>SCHEDULE NO. 3-B</b>
<b>TEST YEAR ENDED 09/30/14</b>		<b>DOCKET NO. 140177-WU</b>
<b>ADJUSTMENTS TO OPERATING INCOME (PHASE II)</b>		
<b>DEPRECIATION EXPENSE</b>		<b><u>WATER</u></b>
To reflect appropriate depreciation expense per Rule 25-30.140 F.A.C..		<u>\$233</u>

<b>HOLIDAY GARDENS UTILITIES, LLC</b>	<b>SCHEDULE NO. 4</b>	
<b>MONTHLY WATER RATES</b>	<b>DOCKET NO. 140177-WU</b>	
	<b>UTILITY CURRENT RATES</b>	<b>STAFF RECOMMENDED PHASE II RATES</b>
<b><u>Residential and General Service</u></b>		
Base Facility Charge by Meter Size		
5/8"X3/4"	\$9.97	\$10.08
3/4"	\$14.96	\$15.12
1"	\$24.93	\$25.20
1-1/2"	\$49.85	\$50.40
2"	\$79.76	\$80.64
3"	\$159.52	\$161.28
4"	\$249.25	\$252.00
6"	\$498.50	\$504.00
Charge per 1,000 gallons - Residential		
0 - 3,000 gallons	\$3.26	\$3.29
Over 3,000 gallons	\$5.16	\$5.22
Charge per 1,000 gallons - General Service		
	\$3.91	\$3.95
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>		
3,000 Gallons	\$19.75	\$19.95
5,000 Gallons	\$30.07	\$30.39
10,000 Gallons	\$55.87	\$56.49

# 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-**

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**DATE:** December 21, 2016

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Engineering (Lewis, Knoblauch) CKL  
Division of Accounting and Finance (Andrews, Fletcher) DA EK  
Division of Economics (Friedrich, Hudson) MF SH PO BS  
Office of the General Counsel (Trierweiler) WT JSC

**RE:** Docket No. 160169-WU – Application for authority to transfer water system and Certificate No. 450-W from Pine Harbour Water Utilities, LLC to Pine Harbour Waterworks, Inc. in Lake County.

**AGENDA:** 01/05/17 – Regular Agenda – Proposed Agency Action for Issues 2, 3, 4, and 5 - Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Patronis

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

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## Case Background

On July 13, 2016, Pine Harbour Waterworks, Inc. (PHWI, Applicant, or Buyer) filed an application for the transfer of Certificate No. 450-W from Pine Harbour Water Utilities, LLC (PHWUL, Utility, or Seller) in Lake County. The service area is located in the St. Johns River Water Management District which has enacted district wide irrigation restrictions. According to the Utility's 2015 Annual Report, it serves approximately 64 water customers and has operating revenue of \$22,395, which designates it as a Class C utility. Wastewater treatment is provided by septic tanks.

The Utility has been under Commission jurisdiction since December 9, 1986, when it was known as Pine Harbour.<sup>1</sup> Certificate No. 450-W was granted to Mr. Earl W. Stockwell in 1990 and was subsequently transferred to Mr. Jim C. Branham in 1991.<sup>2</sup> Upon Mr. Branham's death on April 14, 2007, the Utility became a part of his estate. On May 11, 2007, the Circuit Court for Lake County, Florida appointed Ms. Sandra Wesson as personal representative of the Estate of Jim C. Branham. During the probate of Mr. Branham's Estate, the Court granted Ms. Wesson authority to manage and operate the Utility as Pine Harbour Water Utilities. The certificate was subsequently transferred to PHWUL on October 6, 2008.<sup>3</sup> There have been no further certification actions since that time. The current rates and charges for utility service were approved by the Commission in 2010.<sup>4</sup>

This recommendation addresses the transfer of the water system, and the determination of the net book value of the water system at the time of transfer. On August 15, 2016, PHWI waived the 60-day statutory time frame for the Commission's decision on the proposed service charges as set forth in Section 367.091(6), Florida Statutes (F.S.).<sup>5</sup> The Commission has jurisdiction pursuant to Sections 367.071 and 367.091, F.S.

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<sup>1</sup>Water certificate issued pursuant to Order No. 15285, issued October 22, 1985, in Docket No. 850417-WU, *In re: Application of Earl W. Stockwell for a certificate to provide water service to the Pine Harbour Subdivision in Lake County, Florida pursuant to the provisions of Section 367.041, Florida Statutes.*

<sup>2</sup>Order No. 24273, issued March 21, 1991, in Docket No. 900525-WU, *In Re: Application for transfer of Certificate No. 450-W from Mr. Earl W. Stockwell to Pine Harbour Water Utilities, Inc. in Lake County, Florida.*

<sup>3</sup>Order PSC-08-0645-FOF-WU, issued October 6, 2008, in Docket No. 080269-WU - *In re: Application for authority to transfer water Certificate No. 450-W, held by Pine Harbour Water Utilities, from Jim C. Branham to Pine Harbour Water Utilities, LLC, in Lake County.*

<sup>4</sup>Order PSC-10-0328-CO-WU, issued May 21, 2010, in Docket No. 090429-WU - *In re: Request for approval of imposition of miscellaneous service charges, delinquent payment charge and meter tampering charge in Lake County, by Pine Harbour Water Utilities, LLC.*

<sup>5</sup>See Document No. 06657-16 filed on August 15, 2016.

## Discussion of Issues

**Issue 1:** Should the transfer of Pine Harbour Water Utilities, LLC water system and Certificate No. 450-W to Pine Harbour Waterworks, Inc. be approved?

**Recommendation:** Yes. The transfer of the water system and Certificate No. 450-W is in the public interest and should be approved effective the date of the Commission vote. The resultant order should serve as the Buyer's certificate and should be retained by the Buyer. The existing rates and charges should remain in effect until a change is authorized by the Commission in a subsequent proceeding. The tariffs reflecting the transfer should be effective for services rendered or connections made on or after the stamped approval date on the tariffs pursuant to Rule 25-30.475, F.A.C. PHWUL will be responsible for paying RAFs through June 29, 2016, and the Buyer will be responsible for paying RAFs after June 29, 2016, and all future years. The Buyer should be responsible for filing the 2016 Annual Report and all future Annual Reports. (Lewis, Knoblauch, Andrews, Friedrich,)

**Staff Analysis:** On July 13, 2016, Pine Harbour Waterworks, Inc. filed an application for the transfer of Certificate No. 450-W from Pine Harbour Water Utilities, LLC in Lake County. The application is in compliance with Section 367.071, F.S., and Commission rules concerning applications for transfer of certificates. The sale occurred on June 29, 2016, contingent upon Commission approval, pursuant to Section 367.071(1), F.S.

### Noticing, Territory, and Land Ownership

On August 16, 2016, staff notified PHWI that its application was not in compliance with the noticing provisions set forth in Section 367.071, F.S., and Rule 25-30.030, Florida Administrative Code (F.A.C.) PHWI filed a corrected notice on September 9, 2016. No objections to the transfer were filed, and the time for doing so has expired. The application contains a description of the water service territory which is appended to this recommendation as Attachment A. The application also contains a copy of a quit claim deed that was executed on June 21, 2016, as evidence that the Applicant owns the land upon which the water treatment facilities are located pursuant to Rule 25-30.037(2)(q), F.A.C.

### Purchase Agreement and Financing

Pursuant to Rule 25-30.037(2)(i), and (j), F.A.C., the application contains a statement regarding financing and a copy of the purchase agreement, which includes the purchase price, terms of payment, and a list of the assets purchased. There are no customer deposits, guaranteed revenue contracts, developer agreements, customer advances, leases, or debt of PHWUL that must be disposed of with regard to the transfer. According to the purchase agreement, the total purchase price for the assets is \$34,000 with \$30,600 paid at closing and the final payment of \$3,400 being paid within 30 days of Commission approval of the transfer. According to the Buyer, the sale took place on June 29, 2016, subject to Commission approval, pursuant to Section 367.071(1), F.S.

### **Facility Description and Compliance**

The water treatment system consists of one well with a 6,000 gallon steel hydro pneumatic tank, a 10,000 gallon ground storage tank, and a liquid chlorination system used for disinfection. The last Florida Department of Environmental Protection (DEP) sanitary survey was conducted on September 16, 2015, and there was one deficiency, which has been corrected. On October 20, 2015, DEP deemed the Utility was in compliance with applicable rules.

### **Technical and Financial Ability**

Pursuant to Rule 25-30.037(2)(1), F.A.C., the application contains statements describing the technical and financial ability of the Applicant to provide service to the proposed service area. According to the application, the Buyer has considerable Florida-specific expertise in private utility ownership. The President and Vice President have over 30 and 38 years, respectively, of experience operating or owning water utilities, including a number of utilities previously regulated by the Commission. In addition, the directors are part owners of other systems regulated by the Commission, including Harbor Waterworks, Inc.,<sup>6</sup> Lakeside Waterworks, Inc.,<sup>7</sup> LP Waterworks, Inc.,<sup>8</sup> Raintree Waterworks, Inc.,<sup>9</sup> Brendenwood Waterworks, Inc.,<sup>10</sup> Country Walk Utilities, Inc.,<sup>11</sup> Lake Idlewild Utility Company,<sup>12</sup> Black Bear Reserve Water Corporation,<sup>13</sup> and several of the systems previously owned by Aqua Utilities Florida, Inc.<sup>14</sup> The

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<sup>6</sup>Order No. PSC-12-0587-PAA-WU, issued October 29, 2012, in Docket No. 120148-WU, *In re: Application for approval of transfer of Harbor Hills Utility, L.P. water system and Certificate No. 522-W in Lake County to Harbor Waterworks, Inc.*

<sup>7</sup>Order No. PSC-13-0425-PAA-WS, issued September 18, 2013, in Docket No. 120317-WS, *In re: Application for approval to transfer water and wastewater system Certificate Nos. 567-W and 494-S in Lake County from Shangri-La by the Lake Utilities, Inc. to Lakeside Waterworks, Inc.*

<sup>8</sup>Order No. PSC-14-0130-PAA-WS, issued March 17, 2014, in Docket No. 130055-WS, *In re: Application for approval of transfer of LP Utilities Corporation's water and wastewater systems and Certificate Nos. 620-W and 533-S, to LP Waterworks, Inc., in Highlands County.*

<sup>9</sup>Order No. PSC-14-0692-PAA-WU, issued December 15, 2014, in Docket No. 140121-WU, *In re: Application for approval of transfer of Certificate No. 539-W from Raintree Harbor Utilities, LLC to Raintree Waterworks, Inc. in Lake County.*

<sup>10</sup>Order No. PSC-14-0691-PAA-WU, issued December 15, 2014, in Docket No. 140120-WU, *In re: Application for approval of transfer of Certificate No. 339-W from Brendenwood Utilities, LLC. to Brendenwood Waterworks, Inc. in Lake County.*

<sup>11</sup>Order No. PSC-14-0495-PAA-WU, issued September 17, 2014, in Docket No. 130294-WU, *In re: Application for transfer of water systems and Certificate No. 579-W in Highlands County from Holmes Utilities, Inc. to Country Walk Utilities, Inc.*

<sup>12</sup>Order No. PSC-15-0140-PAA-WU, issued March 23, 2015, in Docket No. 140170-WU, *In re: Application for approval of transfer of Certificate No. 531-W from W.B.B. Utilities, Inc. to Lake Idlewild Utility Company in Lake County.*

<sup>13</sup>Order No. PSC-16-0169-PAA-WU, issued April 28, 2016, in Docket No. 150166-WU, *In re: Application for transfer of water system and Certificate No. 654-W in Lake County from Black Bear Reserve Water Corporation to Black Bear Waterworks, Inc.*

<sup>14</sup>Order Nos. PSC-14-0300-PAA-WS, issued June 11, 2014, in Docket No. 130171-WS, *In re: Application for approval of transfer of certain water and wastewater facilities and Certificate Nos. 507-W and 441-S of Aqua Utilities Florida, Inc. to The Woods Utility Company in Sumter County*; PSC-14-0315-PAA-WS, issued June 13, 2014, in Docket No. 130172-WS, *In re: Application for approval of transfer of certain water and wastewater facilities and Certificate Nos. 501-W and 435-S of Aqua Utilities Florida, Inc. to Sunny Hills Utility Company in Washington County*; PSC-14-0327-PAA-WU, issued June 25, 2014, in Docket No. 130173-WU, *In re: Application for approval of transfer of certain water and wastewater facilities and Certificate No. 053-W of Aqua Utilities Florida, Inc.'s to Lake Osborne Waterworks, Inc. in Palm Beach County*; PSC-14-0326-PAA-WU, issued June 25,

application also indicates that both the President and Vice President have controlled service delivery to more than 850 water and wastewater facilities within Florida during their careers. Further, the application indicates that the President has secured the services of U.S. Water Services Corporation to provide contract operating service, as well as, billing and collection services. Staff also reviewed the personal financial statements of the three primary shareholders, which includes the President and Vice President.<sup>15</sup> Based on the above, staff believes the Buyer has demonstrated the technical and financial ability to provide service to the existing service territory.

### **Rates and Charges**

The Utility's rates and charges were last approved in an original certificate case in 1986.<sup>16</sup> Subsequently, the rates were amended by several price index and pass through adjustments. The Utility's existing rates are shown on Attachment B. Rule 25-9.044(1), F.A.C., provides that, in the case of a change of ownership or control of a utility, the rates, classifications, and regulations of the former owner must continue unless authorized to change by this Commission. Therefore, staff recommends that the Utility's existing rates and charges remain in effect until a change is authorized by this Commission in a subsequent proceeding.

### **Regulatory Assessment Fees and Annual Reports**

Staff has verified that the Utility is current on the filing of Annual Reports and RAFs through December 31, 2015. PHWUL will be responsible for paying RAFs through June 29, 2016, and the Buyer will be responsible for paying RAFs after June 29, 2016, and all future years. The Buyer should be responsible for filing the 2016 Annual Report and all future Annual Reports.

### **Conclusion**

Based on the foregoing, staff recommends that the transfer of the water system and Certificate No. 450-W is in the public interest and should be approved effective the date of the Commission vote. The resultant order should serve as the Buyer's certificate and should be retained by the Buyer. The existing rates and charges should remain in effect until a change is authorized by the Commission in a subsequent proceeding. The tariffs reflecting the transfer should be effective for services rendered or connections made on or after the stamped approval date on the tariffs pursuant to Rule 25-30.475, F.A.C.

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2014, in Docket No. 130174-WU, *In re: Application for approval of transfer of certain water facilities and Certificate No. 002-W of Aqua Utilities Florida, Inc. to Brevard Waterworks, Inc. in Brevard County*; PSC-14-0314-PAA-WS, issued June 13, 2014, in Docket No. 130175-WS, *In re: Application for approval of transfer of certain water and wastewater facilities and Certificate Nos. 422-W and 359-S of Aqua Utilities Florida, Inc. to HC Waterworks, Inc. in Highlands County*; and PSC-14-0299-PAA-WS, issued June 11, 2014, in Docket No. 130176-WS, *In re: Application for approval of transfer of certain water and wastewater facilities and Certificate Nos. 507-W and 441-S of Aqua Utilities Florida, Inc. to Jumper Creek Utility Company in Sumter County*.

<sup>15</sup>Document No. 04826-16 (Confidential), in Docket No. 160169-WU.

<sup>16</sup>Order No. 16936, issued December 6, 1986, in Docket No. 850417-WU *In re: Application of Earl W. Stockwell for a certificate to provide water service to the Pine Harbour Subdivision in Lake County, Florida, pursuant to the provisions of Section 367.041, Florida Statutes*



**Issue 2:** What are the appropriate initial customer deposits for Pine Harbour Waterworks, Inc. water service?

**Recommendation:** The appropriate water initial customer deposit should be \$56 for the residential 5/8" x 3/4" meter size. The initial customer deposits for all other residential meter sizes should be two times the average estimated bill for water service. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C. (Friedrich)

**Staff Analysis:** Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for a utility and, ultimately, the general body of ratepayers. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.<sup>17</sup> Currently, initial customer deposits are not in place. Based on the average water demand, the appropriate initial customer deposit should be \$56 to reflect an average residential customer bill for two months.

Based on the above, staff recommends that the appropriate water initial customer deposit should be \$56 for the residential 5/8" x 3/4" meter size. The initial customer deposits for all other residential meter sizes should be two times the average estimated bill for water service. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C.

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<sup>17</sup>Order Nos. PSC-13-0611-PAA-WS, issued November 19, 2013, in Docket No. 130010-WS, *In re: Application for increase in water rates in Lee County and wastewater rates in Pasco County by Ni Florida, LLC.*, and PSC-14-0016-TRF-WU, issued January 6, 2014, in Docket No. 130251-WU, *In re: Application for approval of miscellaneous service charges in Pasco County, by Crestridge Utility Corporation.*

**Issue 3:** Should the Commission approve Pine Harbour Waterworks, Inc.'s request to implement a convenience charge for customers who opt to pay their water bill by debit or credit card online or by telephone?

**Recommendation:** Yes. PHWI's request to implement a convenience charge of \$2.60 for customers who opt to pay their water bill by debit or credit card online or by way of telephone should be approved. The charge should be effective for services rendered 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. PHWI should provide proof of the date that the notice was given within 10 days of the date of the notice. (Friedrich)

**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. Currently, PHWI accepts and processes credit card payment transactions online through a website. As indicated in PHWI's request, the payments are processed by Opus 21 Management Solutions, PHWI's outside vendor, which utilizes its merchant with TD Bank. PHWI has been absorbing the transaction costs, and has not passed on these costs to its customers. Therefore, PHWI is requesting to amend its tariff sheet to include a \$2.60 convenience fee to recover the cost incurred for the bank and credit card company fee, debit or credit card processing by telephone or online, and PHWI staff time required for processing the transactions. As required by Section 367.091, F.S., PHWI's cost analysis breakdown for its requested charge is shown below, in table 4-1.

**Table 4-1  
Convenience Charge Cost Justification**

<b>Activity</b>	<b>Cost</b>
Bank and credit card company fee	\$1.60
1-Transact gateway fee per transaction (Opus21)	\$.60
Telephonic processing fee (TD Bank)	\$.10
Authorization fee (TD Bank)	\$.05
Monthly telephonic account	\$.07
Accounting staff	\$.09
Clerical staff	\$.09
Total	\$2.60

The Commission recently approved a convenience charge of \$2.60 for Brevard Waterworks, Inc., LP Waterworks, Inc., and Lakeside Waterworks, Inc., among others.<sup>18</sup> The aforementioned

<sup>18</sup>Order Nos. PSC-15-0188-TRF-WU, issued May 6, 2015, in Docket No. 150065-WU, *In re: Request for approval of amendment to tariff for miscellaneous service charges in Brevard County, by Brevard Waterworks, Inc.*; PSC-15-0180-TRF-WS, issued May 6, 2015, in Docket No. 150063-WS, *In re: Request for approval of amendment to tariff for miscellaneous service charges in Highlands County by LP Waterworks, Inc.*; PSC-15-0184-TRF-WS, issued

Utilities, as well as PHWI, are all managed by U.S. Water Corporation and the administrative costs for the convenience charge are the same. Staff believes that PHWI's requested convenience charge of \$2.60 is reasonable. The requested charge benefits the customers by allowing them to expand their payment options. Furthermore, this fee will insure PHWI's remaining customers do not subsidize those customers who choose to pay using this option.

### **Conclusion**

Based on the above, staff recommends that PHWI's request to implement a convenience charge of \$2.60 for customers who opt to pay their water bill by debit or credit card should be approved. The charge should be effective for services rendered 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. PHWI should provide proof of the date that the notice was given within 10 days of the date of the notice.

**Issue 4:** Should Pine Harbour Waterworks, Inc. be authorized to collect Non-Sufficient Funds Charges (NSF)?

**Recommendation:** Yes. PHWI should be authorized to collect NSF charges. Staff recommends that PHWI 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. PHWI should provide proof of the date the notice was given within 10 days of the date of the notice. (Friedrich)

**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 PHWI 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 five percent of the face amount of the check, whichever is greater.

Approval of NSF charges is consistent with prior Commission decisions.<sup>19</sup> 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, PHWI should be authorized to collect NSF charges for its water system. Staff recommends that PHWI 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. PHWI should provide proof of the date the notice was given within 10 days of the date of the notice.

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<sup>19</sup>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 5:** What is the appropriate net book value for the Pine Harbour Water Utilities, LLC water system for transfer purposes and should an acquisition adjustment be approved?

**Recommendation:** The net book value of the water system for transfer purposes is \$23,698 as of June 29, 2016. An acquisition adjustment should not be included in rate base. Within 90 days of the date of the final order, PHWI should be required to notify the Commission in writing, that it has adjusted its books in accordance with the Commission's decision. The adjustments should be reflected in PHWI's 2016 Annual Report when filed. (Andrews)

**Staff Analysis:** Rate base was last established as of April 12, 1990.<sup>20</sup> The purpose of establishing net book value (NBV) for transfers is to determine whether an acquisition adjustment should be approved. The NBV does not include normal ratemaking adjustments for used and useful plant or working capital. The NBV has been updated to reflect balances as of June 29, 2016. Staff's recommended NBV, as described below, is shown on Schedule No. 1.

#### **Utility Plant in Service (UPIS)**

The general ledger reflected water utility plant in service (UPIS) balance of \$130,485. Staff reviewed UPIS additions since the last rate case proceeding and has decreased UPIS by \$43,924 to reflect unsupported plant additions. Therefore, staff recommends that the UPIS balance as of June 29, 2016, should be \$86,561.

#### **Land**

The general ledger reflected a land balance of \$5,000. In Order No. 24273, issued March 21, 1991, the Commission established the value of the land to be \$5,000. There have been no additions to land purchased since that order was issued. Therefore, staff recommends a land balance of \$5,000, as of June 29, 2016.

#### **Accumulated Depreciation**

The general ledger reflected an accumulated depreciation balance of \$104,887. Based on the UPIS adjustment discussed earlier, staff calculated the appropriate accumulated depreciation balance to be \$67,863. As a result, accumulated depreciation should be decreased by \$37,024 to reflect an accumulated depreciation balance of \$67,683 as of June 29, 2016.

#### **Contributions-in-Aid-of-Construction (CIAC) and Accumulated Amortization of CIAC**

As of June 29, 2016, the general ledger reflected a CIAC balance of \$0; and an accumulated amortization of CIAC balance of \$0. The CIAC balance should be \$56,883, and it is fully amortized based on the Commission approved balances in Order No. 24273. As such, staff increased CIAC and accumulated amortization of CIAC by \$56,883 to reflect the appropriate Commission approved balance. Therefore, staff recommends a CIAC balance of \$56,883 and an accumulated amortization of CIAC balance of \$56,883 as of June 29, 2016.

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<sup>20</sup>Order No. 24273, issued March 21, 1991, in Docket No. 900525-WU, *In re: Application for a transfer of Certificate No. 450-W from Earl W. Stockwell (Pine Harbour) to Pine Harbour Water Utilities in Lake County.*

### **Net Book Value**

The general ledger reflected a NBV of \$30,598. Based on the adjustments described above, staff recommends that the NBV is \$23,698. Staff's recommended NBV and the National Association of Regulatory Utility Commissioners, Uniform System of Accounts (NARUC USOA) balance for UPIS and accumulated depreciation are shown on Schedule No. 1, as of June 29, 2016.

### **Acquisition Adjustment**

An acquisition adjustment results when the purchase price differs from the NBV of the assets at the time of the acquisition. The utility assets were purchased for \$34,000. As stated above, staff has determined the appropriate NBV total to be \$23,698. Pursuant to Rule 25-30.0371, F.A.C., a positive acquisition adjustment may be appropriate when the purchase price is greater than the NBV, and a negative acquisition adjustment may be appropriate when the purchase price is less than NBV. However, pursuant to Rule 25-30.0371(2), F.A.C., a positive acquisition adjustment shall not be included in rate base unless there is proof of extraordinary circumstances. The Buyer did not request a positive acquisition adjustment. As such, staff recommends that no positive acquisition adjustment be approved.

### **Conclusion**

Based on the above, staff recommends that the NBV of PHWUL's water system for transfer purposes is \$23,698 as of June 29, 2016. No acquisition adjustment should be included in rate base. Within 90 days of the date of the final order, the Buyer should be required to notify the Commission in writing, that it has adjusted its books in accordance with the Commission's decision. The adjustments should be reflected in PHWI's 2016 Annual Report when filed.

**Issue 6:** Should this docket be closed?

**Recommendation:** The docket should remain open pending staff's verification that the revised tariff sheets and customer notice have been filed by Pine Harbour Waterworks, Inc. and approved by staff. If a protest is filed within 21 days of the issuance date of the Order, the tariff sheets should remain in effect with the charges held subject to refund pending resolution of the protest. If no timely protest is filed, a consummating order should be issued and, once staff verifies that the notice of the charge has been given to customers, the docket should be administratively closed. (Trierweiler)

**Staff Analysis:** The docket should remain open pending staff's verification that the revised tariff sheets and customer notice have been filed by Pine Harbour Waterworks, Inc. and approved by staff. If a protest is filed within 21 days of the issuance date of the Order, the tariff sheets should remain in effect with the charges held subject to refund pending resolution of the protest. If no timely protest is filed, a consummating order should be issued and, once staff verifies that the notice of the charges has been given to customers, the docket should be administratively closed.

**Pine Harbour Waterworks, Inc.  
Lake County  
Description of Water Territory**

The following described lands located in a portion of Section 6, Township 19 South, Range 26 East, Lake County. From the N.E. corner of Section 6, run West along the North line of Section 6 a distance 2,720 more or less to the Point of Beginning (P.O.B.). From the P.O.B. continue North 89°29'45" West, 975.50 feet to the Southerly Right-of-way of State Road 44; thence South 54°12'40" West along said Southerly Right of-way, 44.47 feet to the Easterly Right-of-way of District road No. 5-5942 (Woodlyn Road); thence South 00°34'55" West, along said Easterly Right-of-way 992.43 feet; thence south 89°53'30" East, 1562.90 feet; thence North 00°06'30" East, 188.00 feet; thence North 27°55'02" West, 198.70 feet ; thence North 29°53'30" West I 00.00 feet; thence North 26°38'55", 243.02 feet; thence North 62°39'26" West, 297.75 feet; thence North 06°55'19" West, 209.76 feet to the P.O.B.



**FLORIDA PUBLIC SERVICE COMMISSION**

**Authorizes  
Pine Harbour Waterworks, Inc.  
Pursuant to  
Certificate Number 450-W**

To provide water service in Lake County in accordance with the provisions of Chapter 367, Florida Statutes, and the Rule, regulations, and Orders of this Commission in the territory described by the Orders of this Commission. This authorization shall remain in force and effect until superseded, suspended, cancelled or revoked by Order of this Commission.

<u>Order Number</u>	<u>Date Issued</u>	<u>Docket Number</u>	<u>Filing Type</u>
Order No. 15285	10/22/1985	850417-WU	Original Certificate
Order No. 24273	03/21/1991	900525-WU	Transfer of Certificate
PSC-08-0645-FOF-WU	10/06/2008	080269-WU	Transfer of Certificate
*	*	160169-WU	Transfer of Certificate

**\* Order Numbers and dates to be provided at time of issuance**

**Pine Harbour Water Utilities, LLC**

**Monthly Water Rates**

**Residential**

Base Facility Charge by Meter Size

5/8" x 3/4"	\$17.28
3/4"	\$25.92
1"	\$43.22
1 1/2"	\$86.41
2"	\$138.27
3"	\$276.51
4"	\$432.04
Charge Per 1,000 gallons – Residential Service	\$2.17

**Miscellaneous Service Charges**

	<u>Business Hours</u>	<u>After Hours</u>
Initial Connection Charge	\$22.00	\$43.00
Normal Reconnection Charge	\$22.00	\$43.00
Violation Reconnection Charge	\$22.00	\$43.00
Premises Visit Charge (in lieu of disconnection)	\$22.00	\$43.00
Late Payment		\$5.00
NSF Check Charge	Pursuant to Section 68.065,F.S.	
Meter Tampering Charge		Actual Cost
Investigation of Meter Tampering Charge		\$50.00

**Service Availability Charges**

**Meter Installation Charge**

All meter sizes	\$82.00
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**Pine Harbour Water Utilities, LLC.**

**Water System**

**Schedule of Net Book Value as of June 29, 2016**

<b>Description</b>	<b>Balance Per Utility</b>	<b>Adjustments</b>	<b>Staff Recommendation</b>
Utility Plant in Service	\$130,485	(\$43,924)	\$86,561
Land & Land Rights	5,000	0	5,000
Accumulated Depreciation	(104,887)	37,024	(67,863)
CIAC	0	(56,883)	(56,883)
Amortization of CIAC	<u>0</u>	<u>56,883</u>	<u>56,883</u>
Total	<u>\$30,598</u>	<u>(\$6,900)</u>	<u>\$23,698</u>

**Explanation of Staff's Recommended  
Adjustments to Net Book Value as of June 29, 2016  
Water System**

<b>Explanation</b>	<b>Amount</b>
A. Utility Plant in Service To reflect appropriate amount of utility plant in service.	<u>(\$43,924)</u>
B. Accumulated Depreciation To reflect appropriate amount of accumulated depreciation.	<u>\$37,024</u>
C. Contributions-in-Aid-of-Construction (CIAC) To reflect appropriate CIAC.	<u>(\$56,883)</u>
D. Accumulated Amortization of CIAC To reflect appropriate amount of accumulated amortization of CIAC.	<u>\$56,883</u>
Total Adjustments to Net Book Value as of June 29, 2016.	<u>(\$6,900)</u>

**Pine Harbour Water Utilities, LLC  
Water System**

**Schedule of Staff Recommended Account Balances as of June 29, 2016**

<b>Account</b>			<b>Accumulated</b>
<b>No.</b>	<b>Description</b>	<b>UPIS</b>	<b>Depreciation</b>
301	Organization	\$500	(\$381)
304	Structures & Improvements	2,869	(584)
307	Wells & Springs	7,763	(6,613)
309	Supply Mains	6,885	(2,690)
311	Pumping Equipment	16,314	(16,314)
320	Water Treatment Equipment	350	(350)
330	Distribution Reservoirs & Standpipes	15,811	(11,328)
331	Transmission & Distribution Mains	22,468	(17,904)
333	Services	5,692	(4,871)
334	Meters & Meter Installations	3,362	(3,362)
335	Hydrants	<u>4,547</u>	<u>(3,466)</u>
	<b>Total</b>	<b><u>\$86,561</u></b>	<b><u>(\$67,863)</u></b>

# 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-**

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**DATE:** December 21, 2016

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Economics (Whitchurch, Guffey, Coston) *SKG*  
Office of the General Counsel (Trierweiler) *WKT JCO WRE WPH GS*

**RE:** Docket No. 160211-EU – Joint petition to approve territorial agreement in Columbia, Lafayette, Suwannee, and Hamilton Counties by Suwannee Valley Electric Cooperative and Duke Energy Florida, LLC.

**AGENDA:** 01/05/17 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Brisé

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

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2016 DEC 21 AM 8:28  
COMMISSION  
CLERK

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## Case Background

On September 14, 2016, Suwannee Valley Electric Cooperative (SVEC) and Duke Energy Florida, LLC (DEF) filed a joint petition for approval of an amended territorial agreement (proposed agreement) in Columbia, Lafayette, Suwannee, and Hamilton Counties. The proposed agreement is Attachment 1 to the petition, while the maps and written descriptions delineating the area to be served by the proposed agreement are provided in the petition as Exhibits A and D, respectively. Due to the volume of the exhibits, they have not been attached to this recommendation.

The Commission approved the existing territorial agreement between SVEC and DEF in 1995.<sup>1</sup> The existing agreement was for a term of 20 years and ended March 14, 2015. Since then there have been two Commission-approved extensions to allow the joint petitioners time to finalize negotiations. The first extension expired March 14, 2016,<sup>2</sup> and the second extended the agreement until September 14, 2016.<sup>3</sup> The joint petitioners have negotiated the proposed agreement, which delineates their respective service boundaries in Columbia, Lafayette, Suwannee, and Hamilton Counties, for a 20-year term. The proposed agreement also consolidates an expired territorial agreement in Hamilton County which was issued August 1990 and expired in August 2010.<sup>4</sup> If approved, the agreement will result in the transfer of 29 commercial customers and 102 residential customers from DEF to SVEC. Additionally, the agreement will result in the transfer of 11 commercial customers and 57 residential customers from SVEC to DEF. The transfers will be implemented when it is operationally feasible for both parties to serve the total 199 impacted customers. The transfers will be implemented no later than 36 months after the Commission's approval. The Commission has jurisdiction over this matter pursuant to Section 366.04, Florida Statutes (F.S.).

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<sup>1</sup> Order No. PSC-95-0351-FOF-EU, issued March 14, 1995, in Docket No. 940331-EU, *In re: Petition to resolve territorial dispute with Florida Power Corporation.*

<sup>2</sup> Order No. PSC-15-0128-PAA-EU, issued March 20, 2015, in Docket No. 150039-EU, *In re: Joint petition to reopen and extend the term of existing territorial agreement in Columbia, Lafayette, Madison, and Suwannee Counties.*

<sup>3</sup> Order No. PSC-16-0193-PAA-EU, issued May 17, 2016, in Docket No. 160056-EU, *In re: Joint petition to reopen and extend the term of existing territorial agreement in Columbia, Lafayette, Madison, and Suwannee Counties.*

<sup>4</sup> Order No. 23310, issued August 6, 1990, in Docket No. 890780-EU, *In re: Petition of Suwannee Valley Electric Cooperative, Inc. to resolve territorial disputes with Florida Power Corporation in Hamilton County.*



### Discussion of Issues

**Issue 1:** Should the Commission approve the proposed territorial agreement between SVEC and DEF?

**Recommendation:** Yes. The proposed agreement is an extension of the existing agreement set to expire in 2016, and consolidates the previously expired agreement for Hamilton County. It is in the public interest and will enable SVEC and DEF to better serve their current and future customers. (Whitchurch, Guffey, Coston)

**Staff Analysis:** Pursuant to Section 366.04(2)(d), F.S. and Rule 25-6.0440(2), Florida Administrative Code (F.A.C.), the Commission has jurisdiction to approve territorial agreements between, and among, rural electric cooperatives, municipal electric utilities, and investor-owned utilities. Unless the Commission determines that the agreement will cause a detriment to the public interest, the agreement should be approved.<sup>5</sup>

Through the proposed agreement, the joint petitioners desire to continue and consolidate two existing agreements and clarify the territorial boundaries within Columbia, Lafayette, Suwannee, and Hamilton Counties. This will allow the petitioners to more reliably and economically serve customers. The proposed agreement modifies the territorial boundaries to eliminate split parcels, which results in the transfer of 199 customers between the utilities. Madison County has been removed from this proposed agreement due to the fact that DEF does not share any territorial boundaries with SVEC in the county.

The petitioners negotiated the proposed agreement for a 20-year term with the condition that after the expiration date, the agreement will remain in effect until and unless either party provides a written notice at least 12 months prior to termination. Pursuant to Section 1.9 of the proposed agreement, the effective date of the agreement will be the date on which a final Order is issued by the Commission, provided no timely protests are filed.

In accordance with Rule 25-6.0440(1)(d), F.A.C., the petitioners state that the 199 impacted customers pursuant to the proposed agreement were notified by mail of the transfer and provided a description of the difference in rates between DEF and SVEC.<sup>6</sup> As of August 2016, the rate comparison for a non-demand commercial customer, using 1,500 kilowatt-hours, was \$171.22 for DEF and \$180.00 for SVEC. As of August 2016, the rate comparison for a residential customer, using 1,000 kilowatt-hours, was \$108.48 for DEF and \$121.00 for SVEC. Both parties will apply any deposits of the impacted customers to their last electric bill and will directly refund any surplus. The joint petitioners expect that the customer transfers will be completed within 36 months of the agreement's effective date and will notify the Commission in writing if additional time is needed.

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<sup>5</sup> Utilities Commission of the City of New Smyrna Beach v. Florida Public Service Commission, 469 So. 2d 731 (Fla. 1985).

<sup>6</sup> Petition Exhibit E.

After the notification of transfer and rate changes are sent, customer feedback is encouraged and expected. With regard to this proposed agreement, the petitioners state that SVEC has not received any feedback, questions, or concerns from the customers and DEF has received feedback from three customers. All three customers desired to remain with DEF and raised concerns about reliability of service, higher rates, vegetation management, and comparative restoration times with SVEC during Hurricane Hermine. DEF has personally contacted all three customers and provided information on how to submit comments to the Public Service Commission. The Commission has received feedback from one customer on November 8, 2016.<sup>7</sup> This customer also cited reliability of service and higher rates as concerns with the proposed agreement.

Section 3.4 (Compensation for Transferred Customers) of the proposed agreement allows for the compensation of lost revenue due to the transfer of customers. Compensation only applies to the number of customers affected by modifications to the territorial boundaries, and the party losing the customers will be compensated for the loss of revenue by the receiving party. In total SVEC is estimated to pay DEF approximately \$260,412 in lost revenue and DEF is estimated to pay SVEC approximately \$111,535. These estimates are reasonable in light of current rates. However, the final compensation amounts will depend on the approval date of this agreement. Compensation is intended to be provided within 60 days of the provided invoice.

In accordance with section 3.5 (Compensation for Transferred Facilities) of the proposed agreement, SVEC may elect to purchase electric distribution facilities used exclusively for providing electric service to the transferred customers. To determine the facilities' value, DEF will use a common engineering cost estimation methodology such as the Handy-Whitman index. In response to staff's data request, joint petitioners believe that the net purchase of facilities to be transferred will not exceed \$100,000. The actual amount will depend on approval of this agreement.

The joint petitioners assert that the proposed agreement will avoid duplication of services and wasteful expenditures and will protect the public health and safety from potentially hazardous conditions. The joint petitioners believe and represent that the Commission's approval of the proposed agreement is in the public interest.

**Conclusion:** After review of the petition, the proposed agreement, and responses to staff's data request, staff believes that the proposed agreement is in the public interest and will enable SVEC and DEF to better serve their current and future customers. Merging the two prior agreements, clarifying boundary lines, and removing Madison County from the language, allows the proposed agreement to be used more efficiently and to better serve customers' interests. The proposed agreement eliminates any potential uneconomic duplication of facilities and will not cause a decrease in the reliability of electric service. Despite concerns of cost and service issues raised by individual customers, customers as a whole will benefit overall by these transfers. The transfer of 199 customers helps avoid the duplication of services, maintain lower rates, enhance safety and reliability, and reduce restoration times. As such, staff recommends that the Commission should approve the proposed territorial agreement between SVEC and DEF.

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<sup>7</sup> Document No. 08730-16, filed November 8, 2016, in Docket 160211-EU, *In re: Joint petition to approve territorial agreement in Columbia, Lafayette, Suwannee, and Hamilton Counties.*

**Issue 2:** Should this docket be closed?

**Recommendation:** If no protest is filed by a person whose substantial interests are affected within 21 days of the issuance of the Order, this docket should be closed upon the issuance of a Consummating Order. (Trierweiler)

**Staff Analysis:** If no protest is filed by a person whose substantial interests are affected within 21 days of the issuance of the Order, this docket should be closed upon the issuance of a Consummating Order.