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 September 7, 2017

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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-

DATE: August 24, 2017

TO: Office of Commission Clerk (Stauffer)

FROM: Office of Industry Development and Market Analysis (S. Deas) *DD. CH 17*
Office of the General Counsel (S. Cuello) *SM*

RE: Application for Certificate of Authority to Provide Telecommunications Service

AGENDA: 9/7/2017 - Consent Agenda - Proposed Agency Action - Interested Persons May Participate

SPECIAL INSTRUCTIONS: None

Please place the following Application for Certificate of Authority to Provide Telecommunications Service on the consent agenda for approval.

<u>DOCKET NO.</u>	<u>COMPANY NAME</u>	<u>CERT. NO.</u>
20170112-TX	Uniti Fiber LLC	8910

The Commission is vested with jurisdiction in this matter pursuant to Section 364.335, Florida Statutes. Pursuant to Section 364.336, Florida Statutes, certificate holders must pay a minimum annual Regulatory Assessment Fee if the certificate is active during any portion of the calendar year. A Regulatory Assessment Fee Return Notice will be mailed each December to the entity listed above for payment by January 30.

State of Florida



Public Service Commission

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

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

DATE: August 24, 2017

TO: Office of Commission Clerk (Stauffer)

FROM: Office of Industry Development and Market Analysis (S. Deas) *S.D.* *CH 17*
Office of the General Counsel (R. Trice) *RT* *TK*

RE: Application for Certificate of Authority to Provide Pay Telephone Service

AGENDA: 9/7/2017 - Consent Agenda - Proposed Agency Action - Interested Persons May Participate

SPECIAL INSTRUCTIONS: None

Please place the following Application for Certificate of Authority to Provide Pay Telephone Service on the consent agenda for approval.

<u>DOCKET NO.</u>	<u>COMPANY NAME</u>	<u>CERT. NO.</u>
20170159-TC	Network Communications International Corp. d/b/a NCIC Inmate Communications	8911

The Commission is vested with jurisdiction in this matter pursuant to Section 364.335, Florida Statutes. Pursuant to Section 364.336, Florida Statutes, certificate holders must pay a minimum annual Regulatory Assessment Fee if the certificate is active during any portion of the calendar year. A Regulatory Assessment Fee Return Notice will be mailed each December to the entity listed above for payment by January 30.

Item 2

State of Florida



Public Service Commission

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

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

DATE: August 24, 2017

TO: Office of Commission Clerk (Stauffer)

FROM: Office of Industry Development & Market Analysis (Williams) *CW JA CH*
Office of the General Counsel (Page) *PHH SML.*

RE: Docket No. 20170039-TP – Request for submission of proposals for relay service, beginning in March 2018, for the deaf, hard of hearing, deaf/blind, or speech impaired, and other implementation matters in compliance with the Florida Telecommunications Access System Act of 1991.

AGENDA: 09/07/17 – Regular Agenda – Participation is Limited to Commissioners and Staff

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: Current contract with Sprint expires on February 28, 2018.

SPECIAL INSTRUCTIONS: Anticipate the need for sign language interpreters and assisted listening devices. Please place at the beginning of the agenda to reduce interpreter costs.

Case Background

The Telecommunications Access System Act of 1991 (TASA), Chapter 427, Part II, Florida Statutes (F.S.), requires the Florida Public Service Commission (Commission) to select a relay service provider and oversee the administration of the relay system. The Commission currently contracts with Sprint Communications Company, L.P. (Sprint) for the provision of relay service. The existing Florida relay service provider contract expires February 28, 2018. On February 28, 2017, Sprint provided notice to the Commission that, when the existing contract in Florida expires, it did not intend to extend the relay provider contract into the option periods at its

current price. Staff informed Sprint that any change in price for the relay service could only be effected through the Request for Proposals (RFP) process.

At the May 4, 2017 Agenda Conference, the Commission approved the issuance of the RFP. Accordingly, a Notice of Request for Proposals (Notice) was published in the Florida Administrative Register on May 16, 2017. Staff also posted a link to the RFP on the home page of the Commission's website under Hot Topics and placed it on the Florida Department of Management Services' Vendor Bid System. The deadline for filing proposals was June 16, 2017.

A proposal review committee (PRC) was established which consisted of nine members, one from the TASA Advisory Committee and eight members from Commission staff. Two of the staff members served as accountants reviewing the financial information of the companies. Five staff members, plus the TASA member, reviewed and scored the technical aspects of the proposals. A staff member was selected by the Director of the then Office of Telecommunications to serve as the PRC Chairman. To remain independent, the PRC Chairman did not participate in the scoring of the financial or technical proposals. The role of the PRC Chairman was to coordinate and oversee the procurement process, to gather materials from references specified in the proposals, to interface with the RFP respondents regarding clarifications and questions about their proposals, and to tabulate scores to identify the winning proposal.

Two companies, Hamilton Telecommunications (Hamilton) and Sprint submitted price and technical proposals. Evaluation of the proposals began with a pass/fail evaluation of 32 technical and two financial aspects of the proposals. This was followed by an evaluation of 36 technical aspects of the proposals, with an assignment of numerical scores for each of the 36 technical items. The price proposals were submitted in sealed envelopes separate from the companies' technical proposals and were opened in the Office of the Commission Clerk on July 24, 2017, after the technical scoring was completed. As previously approved by the Commission, a weight of 50 percent was applied to the technical aspect of the proposals and a weight of 50 percent was applied to the price aspect of the proposals.

This recommendation addresses which provider the Commission should select as the relay service provider. The Commission has jurisdiction pursuant to Section 427.704, F.S.

Discussion of Issues

Issue 1: Who should be awarded the Florida relay service provider contract?

Recommendation: Based upon the RFP evaluation process, staff recommends that the Commission select Sprint as the relay service provider and direct the Commission's Executive Director or designee to: (1) issue the attached letter of intent to Sprint and Hamilton Relay (Attachment A); (2) provide notice on the Florida Department of Management Services Vendor Bid System of the Commission's decision to award a three-year contract to Sprint to provide the statewide telecommunications relay service in Florida; and (3) finalize and sign a contract with Sprint to provide the Florida Relay Service. (Williams, Page)

Staff Analysis: The RFP encompassed the criteria in Section 427.704(3)(a), F.S., for the selection of the provider of the telecommunications relay service by the Commission. Section E of the RFP, entitled "The Evaluation Method to be Used and Filing Checklist," provides specific instructions and guidelines for the evaluation of the proposals. In accordance with the instructions, each RFP respondent's weighted percentage score for its technical proposal and its price proposal were added together to determine the proposal with the highest score.

Evaluation of Proposals

The PRC evaluated the technical proposals using a pass/fail criterion for some items and a point rating system for other items. Each proposal successfully advanced beyond the pass/fail section. After evaluating the pass/fail items, the evaluators scored the technical items and the technical scores were calculated. The price proposals were not opened until after the technical evaluations were completed.

The evaluators received specific forms on which to record their evaluations. The forms included an affidavit that each evaluator signed accepting the conflict of interest provisions in Section 427.704(3)(c), F.S. Also, each page of the forms included a place for the evaluator to indicate the date the evaluation was performed, a signature line, and a place to score the points or enter a pass/fail, whichever was appropriate for the item under evaluation.

Assignment of Points

Each technical evaluator independently assigned points within the RFP allotted range to 36 items. The items rated had maximum point values ranging from 25 to 200 points. The total points from each evaluator were added together to produce the total technical score for each proposal.

The technical and price proposals were evaluated, as described in Section E of the RFP, using a weighting of 50% for the technical and 50% for the price (broken down into 18.14% for Telecommunications Relay Service (TRS) and 31.86% for Captioned Telephone (CapTel) service). The weighted percentage scores for the technical proposal and the price proposal were then added together to produce a total score for each proposal. Table 1-1 below shows the results of the scoring.

**TABLE 1-1
 Summary of the Technical and Price Proposals**

	Hamilton	Sprint
Total Technical Points	14,886.3	15,365.6
Highest Technical Score – Sprint	15,365.6	
Technical Evaluation (Bidder's score/highest possible score) X 0.5	0.3970	0.4097
Price Per Minute for TRS	\$1.89	\$1.35
Lowest Price – Sprint	\$1.35	
Price Evaluation for TRS (Lowest Price/Bidder's Price) X 0.1814	0.1296	0.1814
Price Per Minute for Captioned Telephone	\$1.55	\$1.69
Lowest Price – Hamilton	\$1.55	
Price Evaluation for Captioned Telephone (Lowest Price/Bidder's Price) X 0.3186	0.3186	0.2922
Total Score (Technical Evaluation + Price Evaluation)	0.8452	0.8833

Analysis of the Scoring

As shown in Table 1-1, Sprint received the highest technical rating with 15,365.6 points. Hamilton received 14,886.3 total points. Four of the six technical evaluators scored Sprint the highest, with two evaluators scoring Hamilton the highest. Sprint offered the lowest price per session minute for TRS at \$1.35. Hamilton's TRS price per session minute was \$1.89. Hamilton offered the lowest price per minute for captioned telephone at \$1.55. Sprint's captioned telephone price per minute was \$1.69.¹

¹ Sprint's proposal results in rate increases for TRS and CapTel service over current Sprint contract rates. Staff estimates that Florida Telecommunications Relay, Inc.'s Relay Provider Expense for Fiscal Year 2017-2018 will increase by approximately \$80,500.00 based on application of the new rates and minutes of use projections for March 1, 2018 through June 30, 2018 taken from FTRI's budget proposal in Docket No. 140029-TP.

Highlights of Sprint's Proposal

- **Sprint will continue to route all FRS calls to Sprint's Gold Star Communications Assistants (CA)** as it does in the current contract. Sprint acknowledges in its proposal that all relay CAs receive continuous training and are routinely evaluated to monitor service quality. However, Sprint explains that it takes several years of training and experience for a CA to reach Gold Star status. Further, Sprint explains that its training and quality assurance programs are designed to develop increasing numbers of Gold Star CAs. Sprint's commitment to routing Florida relay calls to Gold Star CAs should have a positive impact on communication between Florida TRS consumers and CAs, resulting in higher attainment on service quality measurements.
- **Sprint provides TRS from six relay centers and CapTel from eight centers** to meet its requirements and goals to provide reliable and cost-effective service. Some of the relay centers are operated by Sprint directly and some are operated by subcontractors which include Communication Services for the Deaf (CSD), which is a non-profit organization dedicated to serving the Deaf and Hard-of-Hearing community, and CapTel, Inc. (CTI), which has a long history of providing advanced assistive technology. Sprint currently does not operate a TRS center in Florida, but does provide CapTel service through its subcontractors in Orlando and Tampa. Sprint further states in its proposal that it has strategically placed many of its call centers in central locations to minimize the impact of hurricanes, tornadoes, and other catastrophes.
- **Sprint will continue to assign a Florida Relay Quality Assurance (QA) Manager** to oversee all areas of training, quality assurance, monthly testing, and customer feedback in Florida. Sprint QA managers coordinate all training and policies with the call center supervisors and trainers to maintain quality standards. Sprint QA managers and the call center training teams meet weekly to discuss changes and concerns, and how to address them.
- **Sprint will maintain an in-state Customer Relationship Manager** to lead the Consumer Input program, coordinate outreach efforts with the Florida Telecommunications Relay, Inc. (FTRI), and address relay user issues. The position also serves as a liaison between the QA manager, the Sprint Operations team, and the Commission.
- **Sprint will continue to conduct monthly TRS and CapTel Quality Compliance Testing** using an experienced third-party evaluator. In addition to Sprint's internal testing, Sprint has committed to use an independent company to evaluate Sprint's service quality. In its proposal, Sprint states that it will continue to engage Cositics LLC as its independent third-party tester to perform monthly testing.
- **Sprint commits to increase minutes provided for Relay Conference Captioning (RCC) Service** from 15,000 minutes to 30,000 minutes at no charge. In its proposal, Sprint explains that it doubled its RCC service offering free minutes as a result of increased demand from RCC users. Staff also received feedback from some RCC users on the benefits of the service. RCC provides live, real-time online captioning of meetings,

phone calls, and multi-party teleconference calls. RCC requires an Internet-connected computer, or laptop/tablet with high-speed Internet connection and is supported on mobile devices. As conference call participants speak, the CA transcribes the conversation over the internet to the RCC user. The RCC user can speak or type responses. Transcripts are also available at no additional charge.

Conclusion

Of the two proposals, the one with the highest total score is Sprint (see Table 1-1). As required by Section E of the RFP, staff recommends that the Commission contract with Sprint to provide the Florida Relay service for the next three years (March 2018 - February 2021) with the option of four additional one-year periods upon mutual agreement.

Based upon the RFP evaluation process, staff recommends that the Commission select Sprint as the relay service provider and direct the Commission's Executive Director or designee to: (1) issue the attached letter of intent to Sprint and Hamilton Relay (Attachment A); (2) provide notice on the Florida Department of Management Services Vendor Bid System of the Commission's decision to award a three-year contract to Sprint to provide the statewide telecommunications relay service in Florida; and (3) finalize and sign a contract with Sprint to provide the Florida Relay Service.

FINALIZATION OF THE CONTRACT

After the Commission vote on this recommendation, the Commission will post the notice of its decision on the Florida Department of Management Services Vendor Bid System. Persons will have 72 hours after the posting of the notice to protest the decision. In addition, the attached letter of intent (Attachment A) to contract with Sprint for relay service will be sent by certified mail to the two bidders. If no protest is filed in accordance with Section 120.57(3), Florida Statutes, using the electronic posting as the start date, staff should be directed to work with Sprint to finalize contract language and incorporate Sprint's response to the RFP, along with the RFP, as the contract. The contract is to be signed by an authorized Sprint representative, and the Commission's Executive Director or designee. Two originals would be signed so each party has an original signed contract.

Issue 2: Should this docket be closed?

Recommendation: No. This docket should remain open for the life of the contract. (Page)

Staff Analysis: This docket will address all matters related to the relay service throughout the life of the contract. Therefore, this docket should remain open for the life of the contract.

September xx, 2017

DELIVERED VIA E-MAIL AND
CERTIFIED MAIL – RETURN RECEIPT REQUESTED

(ADDRESSEE)

Dear (addressee):

It is the intent of the Florida Public Service Commission to award a three year contract as provider of the statewide telecommunications relay system in Florida to Sprint Communications Company, L.P. (Sprint). Please accept our sincere appreciation for participating in the Request for Proposals process.

You are reminded that pursuant to Section 120.57(3), Florida Statutes (F.S.), any party choosing to file a protest of the Commission's intent to award the contract to Sprint must file a notice of protest in writing within 72 hours after the decision is posted on the Florida Department of Management Services Vendor Bid System. The party is then required by Section 120.57(3), F.S., to file a formal written protest within 10 days after filing the notice of protest. Such formal written protest shall state with particularity the facts and law upon which the protest is based. Failure to file a protest within the time prescribed in Section 120.57(3), F.S., or failure to post the bond or other security required by law within the time allowed for filing a bond shall constitute a waiver of proceedings under Chapter 120, F.S..

All documents should be filed in Docket No. 20170039-TP and addressed to Ms. Carlotta Stauffer, Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, Attention: Pamela Page.

Sincerely,

Executive Director or Designee

Item 2A

State of Florida



Public Service Commission

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

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

DATE: August 31, 2017

TO: Office of Commission Clerk (Stauffer)

FROM: Office of Industry Development and Market Analysis (Williams, Fogleman) *CFW*
Office of the General Counsel (Page) *JHP SML* *JF* *CH*

RE: Docket No. 20140029-TP – Request for submission of proposals for relay service, beginning in June 2015, for the deaf, hard of hearing, deaf/blind, or speech impaired, and other implementation matters in compliance with the Florida Telecommunications Access System Act of 1991.

AGENDA: 09/07/17 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: October 1, 2017 – Effective date of Florida Telecommunications Relay, Inc., budget. Notification of any change in the Telecommunications Access System surcharge must be made to carriers prior to October 1, 2017 under staff's recommendation.

SPECIAL INSTRUCTIONS: Anticipate the need for sign language interpreters and assisted listening devices. Please place near beginning of agenda to reduce interpreter costs.

Case Background

Section 427.701(1), Florida Statutes (F.S.), provides that the Commission shall establish, implement, and oversee the administration of the statewide telecommunications access system for the deaf, hard of hearing, deaf/blind or speech impaired. Pursuant to Section 427.704(2), F.S., Florida Telecommunications Relay Inc. (FTRI), a nonprofit corporation formed by the local

exchange telephone companies, was designated by the Commission to serve as the Telecommunications Access System Administrator.

The Commission has an oversight role for FTRI pursuant to Section 427.704(1), F.S. On July 26, 2017, the Commission issued Proposed Agency Action Order No. PSC-2017-0292-PAA-TP establishing the 2017/2018 budget for FTRI. The Commission adjusted certain line items in FTRI's proposed budget, filed March 1, 2017, and reduced the Florida Relay System (FRS) surcharge from \$0.11 to \$0.10. Any person whose substantial interests were affected by the proposed action could file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code (F.A.C.).

On August 16, 2017, Mr. Chris Littlewood submitted a customer contact petitioning the Commission to reconsider the Notice of Proposed Agency Action Order No. PSC-2017-0292-PAA-TP. Pursuant to Rules 25-22.029(4) and 25-22.0376(5), F.A.C., the Commission will not entertain a motion for reconsideration of a notice of proposed agency action. On August 18, 2017, staff sent a letter to Mr. Littlewood asking that he inform the Commission whether the August 16, 2017 customer contact should be considered as a petition for formal proceedings. On August 23, 2017, Mr. Littlewood re-filed the August 16, 2017 customer contact with an electronic message stating that he wished the Commission to consider his August 16, 2017 customer contact as a petition for formal proceedings.

This recommendation addresses Mr. Littlewood's petition for formal proceedings and the appropriate disposition of Order No. PSC-2017-0292-PAA-TP. The Commission has jurisdiction pursuant to Chapter 427, F.S.

Discussion of Issues

Issue 1: Should the Commission dismiss Mr. Littlewood's petition for formal proceedings?

Recommendation: Yes. The Commission should dismiss Mr. Littlewood's petition for formal proceedings with prejudice for failure to meet the pleading requirements outlined in Rule 28-106.201, F.A.C., and for failure to state a cause of action over which the Commission has jurisdiction. PAA Order PSC-2017-0292-PAA-TP should be made final and effective and companies should be directed to begin charging the \$0.10 surcharge by October 1, 2017. (Page)

Staff Analysis: When the Commission issues an order as proposed agency action, any person whose substantial interests are affected by the action proposed in the order may file a petition within 21 days. The petition must meet the requirements outlined in Rule 28-106.201, F.A.C.

Mr. Littlewood's petition for formal proceedings, although timely, fails to meet the requirements outlined in Rule 28-106.201, F.A.C., on filing a petition for formal proceedings and fails to state a cause of action over which the Commission has jurisdiction. Thus, staff recommends that Mr. Littlewood's request for formal proceedings should be dismissed with prejudice and Order No. PSC-2017-0292-PAA-TP should be made final.

Pleading Requirements for Formal Proceedings

Rule 25-22.029(3), F.A.C., states that one whose substantial interests may or will be affected by the Commission's proposed action may file a petition for a Section 120.569 or 120.57, F.S., hearing, in the form provided by Rule 28-106.201, F.A.C. Order No. PSC-2017-0292-PAA-TP contains a notice of further proceedings or judicial review that states that a petition for formal proceeding must be filed in the form provided by Rule 28-1-6.201. F.A.C.

Uniform Rule 28-106.201, F.A.C., Initiation of Proceedings, requires that all petitions for a formal hearing must contain the following:

- (a) The name and address of each agency affected and each agency's file or identification number, if known;
- (b) The name and address, any e-mail address, any facsimile number, and telephone number of the petitioner, if the petitioner is not represented by an attorney or qualified representative, and an explanation of how the petitioner's substantial interests will be affected by the agency determination;
- (c) A statement of when and how the petitioner received notice of the agency decision;
- (d) A statement of all the disputed issues of material fact. If there are none, the petition must so indicate;
- (e) A concise statement of the ultimate facts alleged, including the specific facts the petitioner contends warrant reversal or modification of the agency's proposed action;

- (f) A statement of the specific rules or statutes the petitioner contends require reversal or modification of the agency's proposed action, including an explanation of how the alleged facts relate to the specific rules or statutes; and
- (g) A statement of the relief sought by the petitioner, stating precisely the action petitioner wishes the agency to take with respect to the agency's proposed action.

Mr. Littlewood's petition, styled as a motion for reconsideration,¹ is a request that the Commission consider the expansion of services provided by FTRI to the deaf, hard of hearing, deaf/blind or speech impaired. Mr. Littlewood does not seek any relief related to the FTRI 2017/2018 budget, but only submits a general request that the Commission consider expanding the services provided by the Florida relay system. He asserts that the Commission should consider the "appropriate expanded services of telecommunications relay as appropriate for current technologies under Florida Statute 427.701(1)."

The petition does not contain a concise statement of the ultimate facts alleged, including the specific facts Mr. Littlewood contends warrant reversal or modification of Order No. PSC-2017-0292-PAA-TP. He makes no claim that any rule, order or statute has been violated. No specific facts were alleged by Mr. Littlewood to support his request for expanded services provided by the Florida relay system.

There is no statement of the specific rules or statutes that he contends require reversal or modification of Order No. PSC-2017-0292-PAA-TP. There is no explanation of how any alleged facts relate to specific rules or statutes relevant to the FTRI budget. Mr. Littlewood fails to identify, cite, or reference with specificity any rule, order, or statute which would require the reversal or modification of the PAA Order establishing FTRI's annual budget and reducing the surcharge from \$0.11 to \$0.10.

Mr. Littlewood appears to accept the budget and surcharge decrease established by the Commission. He states in his petition that "My concern is not so much the reduction in surcharge to \$0.10 whereas fiscally appropriate as it is the lack of attention to the changing needs of services." There is no claim that the Commission should in any manner change the FTRI budget or take any action with regard to the amount of the surcharge, only a request that it should be suspended while further investigation into the expansion of relay services is complete.

Section 120.569 (c), F.S., mandates that the Commission dismiss a petition if it is not in substantial compliance with the requirements of Rule 28-106.201, F.A.C. When Mr. Littlewood submitted his August 16, 2017 customer contact, he did not satisfy the requirements of Rule 28-106.201, F.A.C.

Dismissal With Prejudice

Section 120.569(2)(c) F.S., states that dismissal of a petition shall, at least once, be without prejudice to the filing of a timely amended petition curing the defect, unless it conclusively appears from the face of the petition that the defect cannot be cured. Even if Mr. Littlewood's

¹ Rules 25-22.029 and 25-22.0376(5), F.A.C., state that the Commission will not entertain a motion for reconsideration of a notice of proposed agency action.

petition were to comply with the Uniform rule on initiating formal proceedings, the nature of the action he requests would not state a cause under the Commission's jurisdiction and therefore this defect cannot be cured. Normally, pro se litigants are given some latitude when seeking to litigate before an agency, but because staff does not believe his request can be cured, staff believes dismissal is the correct result.

Mr. Littlewood's filing asks the Commission to suspend the surcharge for consideration of services to digital and Internet Protocol (IP) equipment that is otherwise prohibited by existing Florida Statutes. He also mentions more "current wireless technologies" and video relay services. Chapter 364, F.S., grants the Commission's jurisdiction to regulate telecommunications service. The authority of the Commission to regulate telecommunications service is limited by Section 364.011, F.S., which exempts telecommunication services such as wireless telecommunications, and Voice Over Internet Protocol from the Commission's regulatory jurisdiction. Mr. Littlewood seeks services through the relay program for which the Commission has no jurisdiction. Thus, his petition for formal proceedings should be dismissed with prejudice because it fails to state a cause of action under the Commission's jurisdiction.

Conclusion

The Commission should dismiss Mr. Littlewood's petition for formal proceedings with prejudice for failure to meet the pleading requirements outlined in Rule 28-106.201, F.A.C., and for failure to state a cause of action over which the Commission has jurisdiction. PAA Order 2017-0292-PAA-TP should be made final and effective and companies should be directed to begin charging the \$0.10 surcharge by October 1, 2017.

Issue 2: Should this docket be closed?

Recommendation: No. The docket should remain open to address all matters related to relay service throughout the life of the current relay contract. (Page)

Staff Analysis: The docket should remain open to address all matters related to relay service throughout the life of the current relay contract.

Item 3

State of Florida



Public Service Commission

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

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

DATE: August 24, 2017

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Andrews, Norris)
Office of the General Counsel (Mapp)

Handwritten initials: Bof, ALM, and other illegible signatures.

RE: Docket No. 20160075-WU – Joint application for authority to transfer assets and Certificate No. 623-W in Orange and Lake Counties from Oak Springs, LLC to Oak Springs MHC, LLC.

AGENDA: 09/07/17 – Regular Agenda – Participation at the Commission’s Discretion

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On April 5, 2016, Oak Springs MHC, LLC (OSMHC, Applicant, or Buyer) filed an application for the transfer of Certificate No. 623-W from Oak Springs, LLC (Seller) in Orange and Lake Counties. The service area is located in the St. Johns River Water Management District (SJRWMD). Water use restrictions have been imposed district wide to encourage conservation. According to the Utility’s 2016 Annual Report, it serves approximately 310 residential customers and three general service customers, and for 2016, experienced an operating loss of \$19,004.

The water system serving the Oak Springs community has been operating as a part of a mobile home community with no separate charge for water service since 1973. The Seller had been providing water and wastewater service solely to the mobile home rental community tenants as a part of the lot rent, and was therefore exempt from Commission regulation pursuant to Section

367.022(5), Florida Statutes (F.S.)¹ To promote water conservation, in 2004, the Seller was required by the SJRWMD to form a private utility capable of charging for water use. On November 9, 2004, the Seller was granted Certificate No. 623-W to operate a water utility.² The rates and charges for utility service were approved by the Commission in 2004. Wastewater service continues to be provided as part of the lot rent.

On July 13, 2017, the Commission voted to approve the transfer of assets and Certificate No. 623-W from Oak Springs, LLC to Oak Springs MHC, LLC and set net book value. Following the Commission's vote, an error was discovered within Issue 2 of that recommendation, regarding the appropriate accumulated depreciation of meters and meter installations.

This recommendation addresses corrections to the accumulated depreciation of meters and meter installations and the resulting correct net book value. The Commission has jurisdiction pursuant to Sections 367.071, 367.091, and 367.121, F.S.

¹ Oak Springs was granted an exemption from Commission regulation pursuant to Order No. PSC-96-1246-FOF-WS, issued October 7, 1996, in Docket No. 960589-WS, *In re: Request for Exemption from Florida Public Service Commission Regulation from Provision of Water and Wastewater Service in Lake County by Oak Springs Manufactured Home Community.*

² Order No. PSC-1120-PAA-WU, issued November 9, 2005, in Docket No. 040515-WU, *In re: Application for certificate to operate water utility in Orange and Lake Counties by Oak Springs, LLC.*

Discussion of Issues

Issue 1: Should the Commission reconsider, on its own motion, its vote on Issue 2, regarding calculation of net book value?

Recommendation: Yes, the Commission, on its own motion, should reconsider a limited portion of its vote on Issue 2 with respect to accumulated depreciation of meters and meter installations and the resulting net book value. If the Commission approves staff's recommendation, staff will incorporate this correction into the final order. (Andrews, Mapp)

Staff Analysis: As a general rule, administrative agencies have inherent or implied power, comparable to that possessed by courts, to rehear or reopen a cause and reconsider its action or determination therein where the proceeding is in essence a judicial one.³ This power, however, must be exercised before an appeal from the original order is filed or before such an order has become final by the lapse of time to file a timely notice of appeal.⁴ An administrative tribunal has the power, upon its own motion or by request, to correct or amend any orders still under its control, provided the parties will not suffer by reason of the correction or amendment.⁵ Since the final order has not yet issued, staff believes the utility will not be prejudiced by this correction, since it will still have an opportunity to request reconsideration or appeal once the final order is issued

Calculation Error

On July 13, 2017, the Commission voted to approve Issue 2, which pertains to the appropriate net book value (NBV). The NBV for the water system reflects a recalculation of accumulated depreciation. There was an inadvertent formula error within staff's calculation of accumulated depreciation. The accumulated depreciation of meters and meter installations was listed as \$59,718, when in fact it should have been \$56,690, resulting in a \$3,028 overstatement of accumulated depreciation. Correction of this error results in lower accumulated depreciation and a higher NBV of \$109,978. Staff notes that the change in NBV has no effect on the Commission's vote to not include an acquisition adjustment. The corrected NBV is shown on Schedule No. 1, with the corrections highlighted.

A similar error also affected the amount that represented the NBV per the Utility. The summary schedule of NBV in staff's previous recommendation, Schedule No. 2, Page 1 of 3, reflects an incorrect total of \$113,607 in the column labeled "Balance Per Utility" due to a formula error. The balances of the NBV components reflected in that column should total \$109,857 (\$444,857 + \$3,750 - \$338,750), which is consistent with the Utility's transfer application. The incorrect figure of \$113,607 was also cited in the analysis of Issue 2. Although this does not affect the calculation of NBV, staff believes the correction provides clarity. Therefore, staff recommends the inclusion of this additional correction. This correction is reflected in Schedule No. 1, Page 1 of 3, with the correction also highlighted.

³ Reich v. Dept. of Health, 868 So. 2d 1275 (Fla. 1st DCA 2004); Smull v. Town of Jupiter, 854 So. 2d 780 (Fla. 4th DCA 2003).

⁴ Id.

⁵ Boyd v. Southeastern Tel. Co. 105 So. 2d. 889 (Fla. 1958) (citing State v. Seaboard Air Line Ry. Co., 111 So. 391 (Fla. 1927)).

Conclusion

Based on the above, the Commission, on its own motion, should reconsider a limited portion of its vote on Issue 2 with respect to accumulated depreciation of meters and meter installations and the resulting net book value. If the Commission approves staff's recommendation, staff will incorporate this correction into the final order.

Issue 2: Should this docket be closed?

Recommendation: Once all requirements of the Commission's July 13, 2017, vote have been met, this docket may be closed administratively. (Mapp)

Staff Analysis: Once all requirements of the Commission's July 13, 2017, vote have been met, this docket may be closed administratively.

Oak Springs, LLC. Water System Schedule

Water System

Schedule of Net Book Value as of May 31, 2015

Description	Balance Per	Adjustments	Staff
	Utility		Recommendation
Utility Plant in Service	\$444,857	\$0	\$444,857
Land & Land Rights	3,750	(1,017)	2,733
Accumulated Depreciation	<u>(338,750)</u>	<u>1,138</u>	<u>(337,612)</u>
Total	<u>\$109,857</u>	<u>\$121</u>	<u>\$109,978</u>

**Explanation of Staff's Recommended
Adjustments to Net Book Value as of May 31, 2015
Water System**

Explanation	Amount
A. Land & Land Rights To reflect appropriate amount of land & land rights.	<u>(\$1,017)</u>
B. Accumulated Depreciation To reflect appropriate amount of accumulated depreciation.	<u>\$1,138</u>
Total Adjustments to Net Book Value as of May 31, 2015.	<u>\$121</u>

Oak Springs, LLC
Water System
Schedule of Staff Recommended Account Balances as of May 31, 2015

Account No.	Description	UPIS	Accumulated Depreciation
301	Organization	\$10,000	\$0
304	Structures & Improvements	1,198	(1,198)
307	Wells & Springs	88,110	(88,110)
309	Supply Mains	3,754	(3,754)
310	Power Generation Equipment	48,627	(26,055)
311	Pumping Equipment	36,900	(904)
320	Water Treatment Equipment	19,325	(19,325)
330	Distribution Reservoirs & Standpipes	61,889	(35,217)
331	Transmission & Distribution Lines	62,738	(59,718)
333	Services	32,810	(32,810)
334	Meters and Meter Installations	65,256	(56,690)
335	Hydrants	10,850	(10,431)
336	Backflow Prevention Devices	3,400	(3,400)
	Total	<u>\$444,857</u>	<u>(\$337,612)</u>

Item 4

State of Florida



Public Service Commission

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

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

DATE: August 24, 2017

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Mtenga, Ellis)
Division of Economics (Morgan) *CM* *WRL* *9/24/17* *W* *JB*
Office of the General Counsel (Cuello) *SAC* *TU*

RE: Docket No. 20170149-EI – Petition to approve modifications to neighborhood weatherization and energy education, awareness and agency outreach programs, by Tampa Electric Company.

AGENDA: 09/07/17 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On August 11, 2015, the Commission issued an order approving Tampa Electric Company's (TECO or Utility) Demand-Side Management (DSM) Plan.¹ The DSM plan included TECO's Neighborhood Weatherization Program which was originally approved and implemented in March 2008 and the Energy Education, Awareness and Agency Outreach Conservation Program (Agency Outreach Program) which was originally approved and implemented in March 2010. The Neighborhood Weatherization Program is designed to assist low income families in reducing their energy usage. The goal of the program is to provide and install conservation measures at no

¹Order No. PSC-15-0323-PAA-EG, issued August 11, 2015, in Docket No. 150081-EG, *In re: Petition for Approval of Demand-Side Management plan of Tampa Electric Company.*

Docket No. 20170149-EI

Date: August 24, 2017

cost to the customer. The Agency Outreach Program allows for the delivery of energy efficiency kits that will help educate consumers on practices that help reduce energy consumption.

On June 29, 2017, TECO petitioned the Commission for approval to modify its Neighborhood Weatherization and Agency Outreach programs to replace the Compact Fluorescent Lamps (CFLs) currently included as components of the energy efficiency kits for a specified number of Light Emitting Diode Lamps (LEDs). This modification occurred because the vendor that packages the energy efficiency kits for these programs no longer procures CFLs due to a decrease in the price of LEDs.

The Commission has jurisdiction over this matter pursuant to Sections 366.80 through 366.83 and 403.519, Florida Statutes (F.S.), collectively known as the Florida Energy Efficiency and Conservation Act (FEECA).

Discussion of Issues

Issue 1: Should the Commission approve TECO's petition to modify the Utility's Neighborhood Weatherization and Energy Education, Awareness and Agency Outreach DSM programs?

Recommendation: Yes. The change from CFLs to LEDs reflects changing technologies and allows TECO's programs to continue to advance the policy objectives of FEECA. The programs are still directly monitorable, yield measurable results, and continue to be reasonably cost-effective for education programs. The program participation standards were submitted concurrently with the program descriptions. Staff has reviewed these standards and recommends that they are sufficient. Therefore, staff recommends that costs associated with the modified programs be eligible for cost recovery through TECO's Energy Conservation Cost Recovery factor. (Mtenga, Morgan)

Staff Analysis: The criteria used to review the appropriateness of DSM programs are: (1) whether the program advances the policy objectives of FEECA and its implementing rules; (2) whether the program is directly monitorable and yields measureable results; and (3) whether the program is cost-effective.² Staff has reviewed TECO's petition for approval of modifications to its Neighborhood Weatherization and Agency Outreach programs and they appear to be consistent with these criteria.

Program Description

TECO requests the Commission's approval to modify its Utility's Neighborhood Weatherization and Agency Outreach programs to replace CFLs with LEDs. TECO states that the vendor who packages the energy efficiency kits for the programs will no longer be procuring CFLs for their energy efficiency kits due to a decrease in the price of LEDs. The proposed change would decrease the number of lamps provided in the Neighborhood Weatherization Program from eight CFLs to six LEDs, and it will keep the number of lamps provided in the Agency Outreach Program the same at four lamps. If approved, TECO will transition to the LEDs once the supply of CFLs has been fully exhausted, which is projected to be around the beginning of 2018.

FEECA Policy Objectives/ Program Monitoring and Evaluation

FEECA emphasizes reducing the growth rate of peak demand and reducing and controlling the growth rates of electricity consumption. The change from CFLs to LEDs does not fundamentally change TECO's programs and no changes have been made to existing programs monitoring. In the overall summer and winter demand (kW) and annual energy (kWh) savings evaluations for both the Neighborhood Weatherization and the Agency Outreach programs, the proposed LEDs provide similar demand and energy savings that were originally provided by the current CFLs. The overall summer and winter demand (kW) and annual energy (kWh) savings for each of the programs modified are provided below in Tables 1-1 and 1-2.

²Order No. 22176, issued November 14, 1989, in Docket No. 890737-PU, *In re: Implementation of section 366.80-85 Florida Statutes, Conservation Activities of Electric and Natural Gas Utilities.*

**Table 1-1
 Estimated Program Savings per Participant: Neighborhood Weatherization**

	Summer Demand (kW)	Winter Demand (kW)	Annual Energy (kWh)
CFLs	0.241	0.337	1,222
LEDS	0.245	0.339	1,255

Source: TECO's petition for approval of modifications to programs

**Table 1-2
 Estimated Program Savings per Participant: Agency Outreach**

	Summer Demand (kW)	Winter Demand (kW)	Annual Energy (kWh)
CFLs	0.025	0.046	342
LEDs	0.027	0.049	377

Source: TECO's petition for approval of modifications to programs

Cost-Effectiveness Review

Pursuant to Rule 25-17.008, Florida Administrative Code, TECO provided a cost-effectiveness analysis of the programs using the Participant test, the Rate Impact Measure (RIM) test, and the Total Resource Cost (TRC) test. The Participant test analyzes the cost and benefits from a program participant's point of view. The RIM test ensures that all ratepayers will benefit from a proposed DSM program, not just the program participants. The TRC test measures the overall economic efficiency of a DSM program from a social perspective. Each test estimates the benefits and costs and the program is determined to be cost-effective if the ratio of benefits to costs is greater than one. Staff has reviewed the assumptions associated with TECO's program savings and recommends that they are reasonable. Tables 1-3 and 1-4 below, show the results for the cost-effectiveness for the existing CFLs and the proposed LEDs.

**Table 1-3
 Cost-Effectiveness Test Results: Neighborhood Weatherization**

	Participant Test	RIM Test	TRC Test
CFLs	36,560	0.66	6.93
LEDs	36,448	0.63	6.14

Source: Staff's Data Request No. 3 and TECO's petition for modifications to programs

**Table 1-4
 Cost-Effectiveness Test Results: Agency Outreach**

	Participant Test	RIM Test	TRC Test
CFLs	591	0.70	4.14
LEDs	651	0.69	4.01

Source: Staff's Data Request No. 3 and TECO's petition for modifications to programs

Based on these cost-effective results, the proposed program modifications would continue to pass the Participants test and the TRC test, but fail the RIM test which is similar to the previously approved programs. Because these programs are educational in nature, it may not be possible for such programs to pass cost-effectiveness tests due to the difficulty in measuring the amount of savings. Educational programs are intended to inform ratepayers about behaviors and the impact of electricity consuming devices. Therefore, staff believes that the program is beneficial in meeting the goals of FEECA.

Conclusion

The change from CFLs to LEDs reflects changing technologies and allows TECO's programs to continue to advance the policy objectives of FEECA. The programs are still directly monitorable, yield measurable results, and continue to be reasonably cost-effective for education programs. The program participation standards were submitted concurrently with the program descriptions. Staff has reviewed these standards and recommends that they are sufficient. Therefore, staff recommends that costs associated with the modified programs be eligible for cost recovery through TECO's Energy Conservation Cost Recovery factor.

Issue 2: Should this docket be closed?

Recommendation: Yes. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the PAA Order, a Consummating Order should be issued and the docket should be closed. (Cuello)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the PAA Order, a Consummating Order should be issued and the docket should be closed.

Item 5

State of Florida



Public Service Commission

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

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

DATE: August 24, 2017

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (M. Watts) *MT*
Division of Accounting and Finance (Andrews, Norris) *REG*
Division of Economics (Bruce) *ALM*
Office of the General Counsel (Taylor) *BO*

RE: Docket No. 20160193-WU – Application for approval of transfer of certain water facilities and Certificate No. 619-W from McLeod Gardens Water Company to McLeod Gardens Utilities, LLC, in Polk County.

AGENDA: 09/07/17 – Regular Agenda – Proposed Agency Action for Issues 2, 3, 4, and 5 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On August 25, 2016, McLeod Gardens Utilities, LLC (McLeod Gardens, Applicant, or Buyer) filed an application for a transfer of majority ownership control (TMOC) for Certificate No. 619-W from McLeod Gardens Water Company (MGWC, Utility, or Seller) in Polk County. After reviewing the application and following discussions with the Applicant, staff determined that the Applicant should have filed for a transfer rather than a TMOC. Therefore, on October 31, 2016, the Applicant filed a corrected application. The service area is located in the Southwest Florida Water Management District which has enacted year-round water conservation measures. According to the Utility's 2016 Annual Report, it is a Class C utility serving approximately 90

water customers with a net operating loss of \$13,200. Wastewater treatment is provided by septic tanks.

MGWC has been under the Florida Public Service Commission's (Commission) jurisdiction since May 14, 1996, when Polk County transferred jurisdiction to the Commission. On November 27, 2001, MGWC was granted Certificate No. 619-W to operate a water utility.¹ There have been no certification actions since that time. The rates and charges for utility service were most recently approved by the Commission in 2002.²

This recommendation addresses the transfer of the water system, the net book value of the water system at the time of transfer, the need for an acquisition adjustment, and additional requested charges. On November 17, 2016, McLeod Gardens waived the 60-day statutory timeframe for the Commission's decision on the proposed credit card convenience charges as set forth in Section 367.091(6), Florida Statutes (F.S.). The Utility subsequently withdrew its request for a convenience charge. On August 17, 2017, McLeod Gardens requested a meter-tampering charge and a non-sufficient fund charge. The Commission has jurisdiction pursuant to Sections 367.071 and 367.091, F.S.

¹Order No. PSC-01-2317-PAA-WU, issued November 27, 2001, in Docket No. 001381-WU, *In re: Application for certificate to operate water utility in Polk County by Tevalo, Inc. d/b/a McLeod Gardens Water Company.*

²Order No. PSC-02-1733-PAA-WU, issued December 9, 2002, in Docket No. 011677-WU, *In re: Application for staff-assisted rate case in Polk County by Tevalo, Inc. d/b/a McLeod Gardens Water Company.*

Discussion of Issues

Issue 1: Should the transfer of Certificate No. 619-W in Polk County from McLeod Gardens Water Company to McLeod Gardens Utilities, LLC be approved?

Recommendation: Yes. The transfer of the water system and Certificate No. 619-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 Buyer should be responsible for filing the 2017 Annual Report, and all future annual reports and Regulatory Assessment Fees (RAFs). (M. Watts, Bruce, Andrews)

Staff Analysis:

On August 25, 2016, McLeod Gardens Utilities, LLC filed an application for the transfer of Certificate No. 619-W from McLeod Gardens Water Company in Polk 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 September 1, 2016, contingent upon Commission approval, pursuant to Section 367.071(1), F.S.

Noticing, Territory, and Land Ownership

McLeod Gardens provided notice of the application pursuant to Section 367.071, F.S., and Rule 25-30.030, Florida Administrative Code (F.A.C.). 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 contains a copy of a warranty deed that was executed on September 1, 2016, as evidence that the Applicant owns the land upon which the water treatment facilities are located pursuant to Rule 25-30.037(2)(s), F.A.C.

Purchase Agreement and Financing

Pursuant to Rules 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 the Utility that must be disposed of with regard to the transfer. According to the purchase agreement, the total purchase price for the assets is \$20,300 paid at closing. According to the purchase agreement, the sale closed on September 1, 2016, subject to Commission approval, pursuant to Section 367.071(1), F.S.

Facility Description and Compliance

The water treatment system consists of two wells, a steel hydropneumatic storage tank with a storage capacity of 10,000 gallons, and a liquid hypochlorination system used for disinfection. The last Polk County Health Department (PCHD) sanitary survey was conducted on March 20, 2017, on behalf of the Florida Department of Environmental Protection (DEP). There were three deficiencies noted, which have been corrected. Therefore, the system appears to be in compliance with the DEP rules.

Technical and Financial Ability

Pursuant to Rules 25-30.037(2)(l) and (m), F.A.C., the application contains statements describing the technical and financial ability of the Applicant to provide service to the proposed service area. As referenced in McLeod Gardens' February 1, 2017 response to staff's December 28, 2016 deficiency letter, the owner of McLeod Gardens was appointed to the Citrus County Water and Wastewater Authority, the local regulatory body for Citrus County, where he served for seven years. The owner also served as the "Class C" representative for the Governors Study Committee for Investor Owned Water and Wastewater Utility Systems in 2013. He attends yearly training classes through the Florida Rural Water Association and completed the National Association of Regulatory Utility Commissioners (NARUC) Utility Rate School in 2001. He owns, is the receiver of, or is the manager of, a total of seven Class C water and wastewater facilities that are regulated by the Commission. The owner stated that he will be using current Florida Utility Services personnel for billing and customer service.

Staff reviewed the financial statements of the Buyer. According to the application, the Buyer is able to provide any necessary capital investment to the Utility. 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 a staff-assisted rate case in 2002.³ In addition, the Utility had two price indexes that became effective on July 11, 2012, and August 1, 2013, respectively. The Utility's miscellaneous service charges were approved in Docket No. 001381-WU.⁴ The Utility's existing and recommended rates and charges are shown on Schedule No. 1. 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, 2016. The Buyer is responsible for filing the 2017 Annual Report and all future annual reports and RAFs.

Conclusion

Based on the foregoing, staff recommends that the transfer of the water system and Certificate No. 619-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 Buyer should be responsible for filing the 2017 Annual Report, and all future annual reports and RAFs.

³Order No. PSC-02-1733-PAA-WU, issued December 9, 2002, in Docket No. 011677-WU, *In re: Application for staff-assisted rate case in Polk County by Tevalo, Inc. d/b/a McLeod Gardens Water Company.*

⁴Order No. PSC-01-2317-PAA-WU, issued November 27, 2001, in Docket No. 001381-WU, *In re: Application for certificate to operate water utility in Polk County by Tevalo, Inc. d/b/a McLeod Gardens Water Company.*

Issue 2: What is the appropriate net book value for the McLeod Gardens water system for transfer purposes?

Recommendation: The net book value of the water system for transfer purposes is \$43,566, as of September 1, 2016. Within 90 days of the date of the final order, McLeod Gardens Utilities, LLC 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 McLeod Gardens Utilities, LLC's 2017 Annual Report when filed. (Andrews)

Staff Analysis: Rate base was last established for the Utility as of December 31, 2003.⁵ 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 Utility's NBV has been updated to reflect balances as of September 1, 2016. Staff's recommended NBV, as described below, is shown on Schedule No. 1.

Utility Plant in Service (UPIS)

The Utility's general ledger reflected a UPIS balance of \$135,446, as of September 1, 2016. Staff reviewed UPIS additions since the last rate case proceeding, and as a result, has increased UPIS by \$103,194. Therefore, staff recommends that the Utility's UPIS balance as of September 1, 2016, should be \$238,640.

Land

The Utility's general ledger reflected a land balance of \$0 as of September 1, 2016. In Order No. PSC-02-1733-PAA-WU, issued December 9, 2002, the Commission established the value of the land to be \$7,000. As a result, land should be increased by \$7,000. Therefore, staff recommends a land balance of \$7,000, as of September 1, 2016.

Accumulated Depreciation

The Utility's general ledger reflected accumulated depreciation balance of \$113,256, as of September 1, 2016. Staff calculated the appropriate accumulated depreciation balance to be \$138,698. As a result, accumulated depreciation should be increased by \$25,442 to reflect an accumulated depreciation balance of \$138,698, as of September 1, 2016.

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

As of September 1, 2016, the Utility's general ledger reflected a CIAC balance of \$23,965, and an accumulated amortization of CIAC balance of \$11,648. Staff increased CIAC by \$99,031 and accumulated amortization of CIAC by \$47,972, to reflect appropriate Commission-ordered adjustments. Therefore, staff recommends a CIAC balance of \$122,996 and accumulated amortization of CIAC balance of \$59,620, as of September 1, 2016.

⁵Order No. PSC-02-1733-PAA-WU, issued December 9, 2002, in Docket No. 011677-WU, *In re: Application for a staff-assisted rate case in Polk County by Tevalo, Inc. d/b/a McLeod Gardens Water Company.*

Net Book Value

The Utility's general ledger reflected a NBV of \$9,873. Based on the adjustments described above, staff recommends a NBV of \$43,566, as of September 1, 2016. Staff's recommended NBV and the National Association of Regulatory Utility Commissioners, Uniform System of Accounts (NARUC USOA) balances for UPIS and accumulated depreciation are shown on Schedule No. 2, as of September 1, 2016.

Conclusion

Based on the above, staff recommends that the NBV of McLeod Gardens Utilities, LLC for transfer purposes is \$43,566, as of September 1, 2016. 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 McLeod Gardens Utilities, LLC's 2017 Annual Report when filed.

Issue 3: Should an acquisition adjustment be recognized for ratemaking purposes?

Recommendation: Yes. Pursuant to Rule 25-30.0371(3), F.A.C., a negative acquisition adjustment of \$14,553 should be recognized for ratemaking purposes. Beginning with the date of the issuance of the order approving the transfer, 50 percent of the negative acquisition, which is \$7,277 should be amortized over a 7-year period and the remaining 50 percent should be amortized over the remaining 13-year life of the assets in accordance with Rule 25-30.0371(4)(b)2., F.A.C. (Andrews)

Staff Analysis: An acquisition adjustment results when the purchase price differs from the original cost of the assets (net book value) adjusted to the time of the acquisition. Pursuant to Rule 25-30.0371(3), F.A.C., if the purchase price is equal to or less than 80 percent of net book value, a negative acquisition adjustment shall be included in rate base and will be equal to 80 percent of net book value less the purchase price. Pursuant to Rule 25-30.0371(4)(b)2., F.A.C., if the purchase price is equal to or less than 50 percent of the net book value, then 50 percent of the negative acquisition adjustment is amortized over a 7-year period and 50 percent amortized over the remaining life of the assets, beginning with the date of the issuance of the order approving the transfer of assets. Staff calculated the remaining life of the applicable assets to be 13 years.

The calculation of McLeod Garden's acquisition adjustment is shown below in Table 3-1.

Table 3-1
Calculation of Negative Acquisition Adjustment

Net book value as of September 1, 2016	\$43,566
80 percent of net book value	\$34,853
Purchase price	\$20,300
Negative acquisition adjustment	\$14,553

Therefore, staff recommends that, pursuant to Rule 25-30.0371(3), F.A.C., a negative acquisition adjustment of \$14,553 shall be recognized for ratemaking purposes, as of September 1, 2016. Beginning with the date of the issuance of the order approving the transfer, 50 percent of the negative acquisition adjustment, which is \$7,277, shall be amortized over a 7-year period and the remaining 50 percent shall be amortized over the 13-year remaining life of the assets in accordance with Rule 25-30.0371(4)(b)2., F.A.C.

Issue 4: Should McLeod Gardens be authorized to collect Non-Sufficient Funds Charges (NSF)?

Recommendation: Yes. McLeod Gardens should be authorized to collect NSF charges. McLeod Gardens should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved NSF charges. The approved charges should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. McLeod Gardens should provide proof of noticing within 10 days of rendering its approved notice. (Bruce)

Staff Analysis: Section 367.091, F.S., authorizes the Commission to approve NSF charges. Staff recommends that McLeod Gardens 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.⁶ 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 the ratepayers. As such, McLeod Gardens should be authorized to collect NSF charges. The Applicant should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved NSF charges. The approved charges should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Applicant should provide proof of noticing within 10 days of rendering its approved notice.

⁶Order No. PSC-17-0092-PAA-WU, issued March 13, 2017, in Docket No. 160144-WU, *In re: Application for transfer of Certificate No. 288-W in Pasco County from Orangeland Water Supply to Orange Land Utilities, LLC.*

Issue 5: Should McLeod Gardens' requested meter tampering charge be approved?

Recommendation: Yes. McLeod Gardens' request to implement a \$50 meter tampering charge should be approved. McLeod Gardens should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved meter tampering charges. The approved charge should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. McLeod Gardens should provide proof of noticing within 10 days of rendering its approved notice. (Bruce)

Staff Analysis: Currently, the Applicant does not have a meter tampering charge. In addition, it has not experienced any issues with meter tampering. However, consistent with sister utilities,⁷ McLeod Gardens would like to implement a meter tampering charge. McLeod Gardens requested a \$50 meter tampering charge to cover the cost of a service representative making a special premises visit to determine if there has been tampering of the meter. Rule 25-30.320(2)(i), F.A.C., provides that a customer's service may be discontinued without notice in the event of tampering with the meter or other facilities furnished or owned by the utility. Rule 25-30.320(2)(j), F.A.C., provides that a customer's service may be discontinued in the event of an unauthorized or fraudulent use before restoring service. The rule also allows the utility to require the customer to reimburse the utility for all changes in piping or equipment necessary to eliminate the illegal use and to pay an amount reasonably estimated as the deficiency in revenue resulting from the customer's fraudulent use before restoring service.

Pursuant to Rule 25-30.345, F.A.C., a utility may charge a reasonable charge to defray the cost of restoring service that was discontinued for proper cause as specified in Rule 25-30.320, F.A.C. The Commission has previously approved a meter tampering charge of \$50 for sister utilities of McLeod Gardens.⁸ The Applicant's request to implement a meter tampering charge of \$50 was accompanied with the appropriate cost justification pursuant to Section 367.091, F.S. Staff recommends this charge should be approved because it is reasonable and consistent with prior Commission decisions. However, the charge is appropriate only where an investigation reveals evidence of meter tampering.

Based on the above, staff recommends that McLeod Gardens' request to implement a \$50 meter tampering charge should be approved. The Applicant should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved meter tampering charges. The approved charge should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Applicant should provide proof of noticing within 10 days of rendering its approved notice.

⁷Order No. PSC-14-0016-TRF-WU, in Docket No. 130251-WU, dated January 6, 2014, *In re: Application for approval of miscellaneous service charges in Pasco County, by Crestridge Utility Corporation*. Order No. PSC-17-0092-PAA-WU, in Docket No. 160144-WU, dated March 13, 2017, *In re: Application for transfer of Certificate No. 288-W in Pasco County from Orangeland Water Supply to Orange Land Utilities, LLC*.

⁸*Id.*

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 McLeod Gardens Utilities, LLC, and approved by staff. If no timely protest is filed to the proposed agency action, 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. (Taylor)

Staff Analysis: The docket should remain open pending staff's verification that the revised tariff sheets and customer notice have been filed by McLeod Gardens Utilities, LLC, and approved by staff. If no timely protest is filed to the proposed agency action, 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.

McLeod Gardens Utilities, LLC
Water Territory Description
Polk County

McLeod Gardens:

In Section 13, Township 29 South, Range 25 East:

The South 891 feet of the NE 1/4 of the SE 1/4 of said Section 13, LESS the South 40 feet thereof for Bomber Road.

In Section 18, Township 29 South, Range 26 East:

The NW 1/4 of the SW 1/4 of said Section 18, LESS the South 40 feet thereof for Bomber Road.

FLORIDA PUBLIC SERVICE COMMISSION

**Authorizes
McLeod Gardens Utilities, LLC.
Pursuant to
Certificate Number 619-W**

To provide water service in Polk County in accordance with the provisions of Chapter 367, Florida Statutes, and the Rules, 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>
PSC-01-2317-PAA-WU	11/27/2001	001381-WU	Original Certificate
*	*	160193-WU	Transfer of Certificate

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

**McLeod Gardens Utilities, LLC
Monthly Water Rates**

Residential and General Service

Base Facility Charge by Meter Size

5/8" x 3/4"	\$10.86
3/4"	\$16.29
1"	\$27.14
1 1/2"	\$54.28
2"	\$86.85
3"	\$173.71
4"	\$271.41
6"	\$542.83
Charge Per 1,000 gallons	\$2.72

Initial Customer Deposits

Residential Service and General Service

5/8" x 3/4"	\$70.00
Over 5/8" x 3/4"	2 times average estimated bill

Miscellaneous Service Charges

	<u>Business Hours</u>
Initial Connection Charge	\$15.00
Normal Reconnection Charge	\$15.00
Violation Reconnection Charge	\$15.00
Premises Visit Charge (in lieu of disconnection)	\$10.00
Late Payment Charge	\$3.00

Service Availability Charges

Meter Installation Charge

5/8" x 3/4"	\$115
-------------	-------

Plant Capacity Charge

Residential – per ERC	\$275
-----------------------	-------

**McLeod Gardens Utilities, LLC Water System Schedule
Water System
Schedule of Net Book Value as of September 1, 2016**

Description	Balance Per Utility	Adjustments	Staff Recommended
Utility Plant in Service	\$135,446	\$103,194 A	\$238,640
Land & Land Rights	0	7,000 B	7,000
Accumulated Depreciation	(113,256)	(25,442) C	(138,698)
CIAC	(23,965)	(99,031) D	(122,996)
Amortization of CIAC	<u>11,648</u>	<u>47,972</u> E	<u>59,620</u>
Total	<u>\$9,873</u>	<u>\$33,693</u>	<u>\$43,566</u>

**Explanation of Staff's Recommended
Adjustments to Net Book Value as of September 1, 2016
Water System**

Explanation	Amount
A. Utility Plant In Service To reflect appropriate amount of utility plant in service.	<u>\$103,194</u>
B. Land and Land Rights To reflect appropriate amount of land.	<u>\$7,000</u>
C. Accumulated Depreciation To reflect appropriate amount of accumulated depreciation.	<u>(\$25,442)</u>
D. Contributions-in-Aid-of-Construction (CIAC) To reflect appropriate amount of CIAC.	<u>(\$99,031)</u>
E. Accumulated Amortization of CIAC To reflect appropriate amount of accumulated amortization of CIAC.	<u>\$47,972</u>
Total Adjustments to Net Book Value as of December 31, 2014.	<u>\$33,693</u>

McLeod Gardens Utilities, LLC

Water System

Schedule of Staff Recommended Account Balances as of September 1, 2016

Account			Accumulated
No.	Description	UPIS	Depreciation
304	Structures & Improvements	\$2,250	(\$1,580)
307	Wells & Springs	13,348	(9,410)
309	Supply Mains	8,101	(3,856)
310	Pumping Generating Equipment	15,183	(9,966)
311	Pumping Equipment	30,056	(18,928)
320	Water Treatment Equipment	895	(895)
320	Chlorination Equipment	18,365	(17,257)
330	Distribution Reservoirs	31,582	(18,681)
331	Transmission & Distribution Mains	64,725	(28,756)
333	Services	23,798	(11,109)
334	Meters & Meter Installations	19,507	(13,558)
335	Hydrants	10,258	(4,388)
339	Other Plant and Misc. Equipment	<u>572</u>	<u>(311)</u>
	Total	<u>\$238,640</u>	<u>(\$138,698)</u>

Item 6

State of Florida



Public Service Commission

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

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

DATE: August 24, 2017

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (M. Watts, King) *MWA*
Office of the General Counsel (Janjic) *TS*

RE: Docket No. 20170171-WS – Resolution of the Board of County Commissioners of Leon County declaring Leon County subject to the provisions of Section 367, Florida Statutes.

AGENDA: 09/07/17 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On June 20, 2017, the Board of County Commissioners of Leon County (County) passed and adopted Resolution No. R17-12 (Resolution, Attachment A), transferring regulation of the privately-owned, for profit water and wastewater utilities in the County to the Florida Public Service Commission (Commission). Effective upon the adoption of the resolution, all non-exempt water and wastewater systems in the County became subject to the provisions of Chapter 367, Florida Statutes (F.S.). Therefore, the effective date of the transfer of jurisdiction is June 20, 2017. This recommendation addresses the acknowledgement of that Resolution. The Commission has jurisdiction pursuant to Section 367.171, F.S.

Discussion of Issues

Issue 1: Should the Commission acknowledge Resolution No. R17-12 by the Board of County Commissioners of Leon County?

Recommendation: Yes. The Commission should acknowledge Resolution No. R17-12 by the County Commissioners of Leon County, effective June 20, 2017. All non-exempt, privately-owned water and wastewater utilities in Leon County should be directed to comply with the provisions of Chapter 367, F.S. (M. Watts, Janjic)

Staff Analysis: On June 20, 2017, the Board of County Commissioners of Leon County passed and adopted Resolution No. R17-12, which transfers jurisdiction over the County's privately-owned water and wastewater utilities to the Commission. The Resolution contained a list of the privately-owned water and wastewater utilities, which were regulated by Leon County on June 20, 2017. In addition, staff has contacted the County requesting information on each utility's current rates, charges, and territory served. Since they are now subject to Chapter 367, F.S., each utility must continue to collect the rates and charges for water and wastewater service, which were being collected on June 20, 2017, until changed by the Commission.

Staff has contacted the Florida Department of Environment Protection (DEP) to advise it of the Resolution, and to obtain a list of all privately-owned water and wastewater facilities in Leon County, which the DEP monitors for environmental compliance. The utilities identified by the County and the DEP will receive a letter from Commission staff advising them of the transfer of jurisdiction and providing them with information to determine whether or not they are exempt from Commission regulation pursuant to Section 367.022, F.S.

Entities which are not exempt from Commission regulation will receive instruction for filing an application for grandfather certificates. The resulting applications will be processed in individual dockets. These applicants will also be advised of their responsibility to file an annual report for 2017, pursuant to Rule 25-30.110, Florida Administrative Code (F.A.C.), as well as their responsibility to remit Annual Regulatory Assessment Fees (RAFs) effective the date a certificate is issued pursuant to Rule 25-30.120, F.A.C. The applicants will also be advised of their right to file for a pass-through of RAFs, should they not be currently collecting RAFs, or if they are collecting a lesser amount than they would be paying to the Commission. Seminole Waterworks, Inc., one of the utilities now subject to the Commission's jurisdiction, filed for a grandfather certificate and pass-through RAFs in Docket No. 20170155-WU, *In re: Application for grandfather water certificate in Leon County and application for pass through increase of regulatory assessment fees, by Seminole Waterworks, Inc.*

Staff recommends that the Commission acknowledge Resolution No. R17-12 by the County Commissioners of Leon County, effective June 20, 2017. All non-exempt, privately-owned water and wastewater utilities in Leon County should be directed to comply with the provisions of Chapter 367, F.S.

Issue 2: Should this docket be closed?

Recommendation: Since there are no pending issues in this docket, the docket should be closed upon the issuance of a final order. (Janjic)

Staff Analysis: Since there are no pending issues in this docket, the docket should be closed upon the issuance of a final order.



Leon County

Board of County Commissioners

501 South Monroe Street, Tallahassee, Florida 32301
(850) 606-5302 www.leoncountylfl.gov

FILED 7/19/2017
DOCUMENT NO. 05906-2017
FPSC - COMMISSION CLERK

Commissioners
JOHN E. DAILEY
District 3
Chairman
NICK MADDOX
At-Large
Vice Chairman
BILL PROCTOR
District 1
JIMBO JACKSON
District 2
BRYAN DESLOGE
District 4
KRISTIN DOZIER
District 5
MARY ANN LINDLEY
At-Large
VINCENT S. LONG
County Administrator
HERBERT W.A. THIELE
County Attorney

July 13, 2017

Carlotta Stauffer, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399

Ms. Stauffer, in accordance with Section 367.171, Florida Statutes, Leon County is invoking the jurisdiction of the Florida Public Service Commission over water and wastewater systems. As a charter county, Leon County retained its regulatory authority over water and wastewater systems when the Public Service Commission was created. However, the Board of County Commissioners has determined that it is in the best interest of Leon County that water and wastewater systems be regulated by the Public Service Commission, which has adequate resources to regulate those systems.

On June 20, 2017, the Leon County Board of County Commissioners passed a resolution transferring its regulatory power over water and wastewater systems to the Florida Public Service Commission. Enclosed you will find a certified copy of the Board's Resolution to the Public Service Commission.

Sincerely,

A handwritten signature in cursive script, appearing to read "Vincent S. Long".

Vincent S. Long
County Administrator

CC:
Herb Thiele, County Attorney, Leon County
Scott Ross, Director, Leon County Office of Financial Stewardship
Tony Park, Director, Leon County Department of Public Works

RECEIVED-FPSC
2017 JUL 19 AM 8:25
COMMISSION
CLERK

RESOLUTION NO. R17- 12

A RESOLUTION OF THE LEON COUNTY BOARD OF COUNTY COMMISSIONERS INVOKING THE JURISDICTION OF THE FLORIDA PUBLIC SERVICE COMMISSION OVER WATER AND WASTEWATER SYSTEMS; PROVIDING AN EFFECTIVE DATE.

WHEREAS, the Leon County Board of County Commissioners (the "Board") currently regulates water and wastewater systems under its authority as a charter county and Chapter 367, Florida Statutes; and

WHEREAS, Chapter 367, Florida Statutes, details the procedure by which the County may transfer this regulatory power to the Public Service Commission for a minimum period of 10 years; and

WHEREAS, the Board has determined that it is in the best interest of Leon County that water and wastewater systems be regulated by the Public Service Commission, which has adequate resources to regulate those systems; and

WHEREAS, pursuant to Section 125.66, Florida Statutes (2016), the Board has advertised a public hearing to review the transfer of regulatory jurisdiction of water and wastewater systems to the Public Service Commission;

NOW, THEREFORE, BE IT RESOLVED by the Board of County Commissioners of Leon County, Florida, that:

1. The Board hereby invokes the jurisdiction of the Florida Public Service Commission pursuant to Section 367.171, Florida Statutes, effective immediately.
2. The County Administrator shall immediately notify and provide a certified copy of this Resolution to the Public Service Commission.

DONE AND ADOPTED by the Board of County Commissioners of Leon County, Florida, on
this the 20th day of June, 2017.

LEON COUNTY, FLORIDA



BY:
John E. Dailey, Chairman
Board of County Commissioners

ATTEST:

GWENDOLYN MARSHALL, CLERK OF
COURT AND COMPTROLLER
LEON COUNTY, FLORIDA

BY:
Clerk

A Certified Copy
Attest:

Gwendolyn Marshall
Clerk & Comptroller
Leon County, Florida



By:
Deputy Clerk

APPROVED AS TO FORM:
OFFICE OF THE COUNTY ATTORNEY
LEON COUNTY, FLORIDA

BY:
Herbert W.A. Thiele
County Attorney

Item 7

State of Florida



Public Service Commission

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

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

DATE: August 24, 2017

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (M. Watts) *JWA*
Division of Accounting and Finance (Mick, Norris) *AM*
Division of Economics (Friedrich) *MF*
Office of the General Counsel (Mapp) *KEM*

TS
BS
CRM
ALM

RE: Docket No. 20170018-SU – Application to transfer wastewater system and Certificate No. 137-S in Brevard County from Colony Park Development Utilities, LLC to Merritt Island Utility Company, Inc.

AGENDA: 09/07/17 – Regular Agenda – Proposed Agency Action for Issues 2 and 3 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On January 19, 2017, Merritt Island Utility Company, Inc. (MIU, Applicant, or Buyer) filed an application for the transfer of Certificate No. 137-S from Colony Park Development Utilities, LLC (CPDU or Utility) in Brevard County. According to the Utility's 2015 Annual Report, CPDU is a Class C utility serving approximately 300 wastewater customers, with an operating loss of \$11,671. Water service is provided by the City of Cocoa.

Mobile Home Investors, Inc. was initially granted a certificate to operate a wastewater system in existence in 1974.¹ In 1976, the Florida Public Service Commission (Commission) approved the transfer of the wastewater system and Certificate No. 137-S to Colony Park Utilities, Inc.² In 2003³ and 2007,⁴ the Utility was granted transfers of majority organizational control, and in 2014 the wastewater system and Certificate No. 137-S were transferred to CPDU.⁵ In each of these transactions, the sale included both the Utility and the Colony Park mobile home park.

In February 2016, a potential buyer of the mobile home park contacted Commission staff regarding the regulatory requirements for the wastewater utility. The potential buyer related that he was not interested in the Utility, but he stated CPDU would not sell the mobile home park without the system. Staff advised him of the Commission's rules regarding water and wastewater utility transfers. He subsequently purchased the park and the wastewater system, and began seeking a buyer for the wastewater system, which he registered with the Florida Department of State as Colony Waste Services, LLC (CWS or Seller). While looking for a buyer, CWS took over the management of the wastewater system. MIU purchased the wastewater system from CWS on December 22, 2016, contingent upon Commission approval, and filed the application for transfer of the system. The rates and charges for Utility service were approved by the Commission in 2008.⁶

This recommendation addresses the transfer of the wastewater system, the net book value of the wastewater system at the time of transfer, and the need for an acquisition adjustment. The Commission has jurisdiction pursuant to Sections 367.071 and 367.091, F.S.

¹Order No. 6365, issued December 2, 1974, in Docket No. 73391-S, *In re: Application of MOBILE HOME INVESTORS, INC., for a certificate to operate an existing sewer utility in Brevard County, Florida.*

²Order No. 7296, issued June 28, 1976, in Docket No. 750664-S, *In re: Application of MOBILE HOME INVESTORS, INC., and COLONY PARK UTILITIES, INC. for approval of the transfer of assets and Certificate No. 137-S from the former to the latter. (Section 367.071, Florida Statutes).*

³Order No. PSC-03-0320-FOF-SU, issued March 6, 2003, in Docket No. 020930-SU, *In re: Application for transfer of majority organizational control of Colony Park Utilities, Inc. holder of Certificate No. 137-S in Brevard County, from Robert Warren, Lenore Warren, William Warren, and Carol Kendall to Eileen Rogow, Arthur Rogow, and Philip Young.*

⁴Order No. PSC-07-0420-FOF-SU issued May 14, 2007, in Docket No. 060636-SU, *In re: Application for transfer of majority organizational control of Colony Park Utilities, Inc., holder of Certificate No. 137-S in Brevard County from Eileen Rogow to Michael Abramowitz.*

⁵Order No. PSC-14-0673-PAA-SU, issued December 5, 2014, in Docket No. 120285-SU, *In re: Application to transfer wastewater facilities and Certificate No. 137-S in Brevard County from Colony Park Utilities, Inc. to Colony Park Development Utilities, LLC.*

⁶Order No. PSC-08-0760-PAA-SU, issued November 17, 2008, in Docket No. 080104-SU, *In re: Application for staff-assisted rate case in Brevard County by Colony Park Utilities, Inc.*

Discussion of Issues

Issue 1: Should the transfer of Certificate No. 137-S in Brevard County from Colony Park Development Utilities, LLC to Merritt Island Utility Company, Inc. be approved?

Recommendation: Yes. The transfer of the wastewater system and Certificate No. 137-S 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, Florida Administrative Code (F.A.C.). CPDU paid all Regulatory Assessment Fees (RAFs) through March 2016, and CWS paid RAFs through December 31, 2016. The Buyer should be responsible for paying RAFs after December 31, 2016, and all future years. The Buyer has filed the 2016 Annual Report, and should be responsible for filing all future annual reports. (Friedrich, M. Watts, Mick)

Staff Analysis: On January 19, 2017, MIU filed an application for the transfer of Certificate No. 137-S from CWS to MIU in Brevard County. The filing also contained an application for transfer of Certificate No. 137-S from CPDU to CWS. The transfer of Certificate No. 137-S from CPDU to CWS was not approved at the time that MIU purchased the system; therefore, staff recommends transferring Certificate No. 137-S from CPDU to MIU. The application is in compliance with Section 367.071, F.S., and Commission rules concerning applications for transfer of certificates. The sale to MIU occurred on December 22, 2016, contingent upon Commission approval, pursuant to Section 367.071(1), F.S.

Noticing, Territory, and Land Ownership

MIU provided notice of the application pursuant to Section 367.071, F.S., and Rule 25-30.030, F.A.C. No objections to the transfer were filed, and the time for doing so has expired. The application also contains a description of the wastewater service territory which is appended to this recommendation as Attachment A. The application contains a copy of a special warranty deed that was executed on December 22, 2016, as evidence that the Applicant owns the land upon which the wastewater treatment facilities are located pursuant to Rule 25-30.037(2)(s), 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 CWS that must be disposed of with regard to the transfer. According to the purchase agreement, the total purchase price for the assets is \$35,000 with \$5,000 paid prior to closing, and \$30,000 paid at closing. According to the Buyer, the sale took place on December 22, 2016, subject to Commission approval, pursuant to Section 367.071(1), F.S.

Facility Description and Compliance

The wastewater treatment system consists of a 70,000-gallon per day annual average daily flow wastewater system, consisting of aeration, secondary clarification, chlorination and aerobic digestion of solids. The effluent is disposed of in percolation ponds. The collection system consists of four and six inch polyvinylchloride mains with two lift stations. The last Florida Department of Environmental Protection (DEP) compliance evaluation inspection was conducted on February 3, 2016, and there were two deficiencies, which have been corrected. On March 4, 2016, the DEP deemed the Utility to be in compliance; therefore, the system appears to be in compliance with the DEP rules.

Technical and Financial Ability

Pursuant to Rules 25-30.037(2)(l) and (m), F.A.C., the application contains statements describing the technical and financial ability of the Buyer to provide service to the proposed service area. The President and Vice President have over 30 and 38 years, respectively, of experience operating or owning water and wastewater 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.,⁷ Lakeside Waterworks, Inc.,⁸ LP Waterworks, Inc.,⁹ Raintree Waterworks, Inc.,¹⁰ Brendenwood Waterworks, Inc.,¹¹ Country Walk Utilities, Inc.,¹² Lake Idlewild Utility Company,¹³ Black Bear Reserve Water Corporation,¹⁴ and several of the systems previously owned by Aqua Utilities Florida, Inc.¹⁵ The

⁷Order 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.*

⁸Order 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.*

⁹Order 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.*

¹⁰Order 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.*

¹¹Order 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.*

¹²Order 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.*

¹³Order 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.*

¹⁴Order 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.*

¹⁵Order 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*

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 owner, who also serves as the president.¹⁶ 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 evaluated in 2003 and 2008.¹⁷ In 2013, the rates were subsequently reduced to reflect the expiration of the amortization of rate case expense approved in 2008. The Utility's existing rates and charges are shown on Schedule No. 2, which is attached to this recommendation. 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 payment of RAFs through December 31, 2016. The Buyer will be responsible for paying RAFs after December 31, 2016, and all future years. The Buyer has filed the 2016 Annual Report, and should be responsible for filing all future annual reports.

Conclusion

Based on the foregoing, staff recommends that the transfer of the wastewater system and Certificate No. 137-S 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. The Buyer should be responsible for

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, 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.

¹⁶ Document No. 01941-17 (Confidential), in Docket No. 20170018-SU.

¹⁷ Order Nos. PSC-08-0760-PAA-SU, issued November 17, 2008, in Docket No. 080104-SU, *In re: Application for staff-assisted rate case in Brevard County by Colony Park Utility, Inc.* and PSC-03-0320-FOF-SU, issued March 6, 2003, in Docket No. 020930-SU, *In re: Application for transfer of majority organizational control of Colony Park Utilities, Inc. holder of Certificate No. 137-S in Brevard County, from Robert Warren, and Carol Kendall to Eileen Rogow, Arthur Rogow, and Philip Young.*

paying RAFs after December 31, 2016, and all future years. The Buyer should be responsible for filing all future annual reports.

Issue 2: What is the appropriate net book value for the Merritt Island wastewater system for transfer purposes?

Recommendation: The net book value of the wastewater system for transfer purposes is \$43,969 as of December 22, 2016. Within 90 days of the date of the final order, MIU 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 MIU's 2017 Annual Report when filed. (Mick)

Staff Analysis: Rate base was last established as of September 27, 2012.¹⁸ 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 December 22, 2016. Staff's recommended NBV, as described below, is shown on Schedule No. 1. The Seller did not have general ledgers; therefore, audit staff utilized annual reports.

Utility Plant in Service (UPIS)

The 2015 Annual Report reflected a wastewater utility plant in service (UPIS) balance of \$138,494. Staff determined that there have been no new plant additions since the last rate case proceeding. UPIS has been increased by \$28,282 to reflect unrecorded Commission-ordered adjustments per the last order. Therefore, staff recommends that the UPIS balance as of December 22, 2016, should be \$166,776.

Land

The 2015 Annual Report reflected a land balance of \$30,506. In the last order, the Commission established the value of the land to be \$30,479. There have been no additions to land purchased since that order was issued. Therefore, staff recommends a land balance of \$30,479, as of December 22, 2016. This represents a reduction of \$27 for land.

Accumulated Depreciation

The 2015 Annual Report reflected an accumulated depreciation balance of \$169,417. Based on the UPIS adjustment discussed earlier, staff calculated the appropriate accumulated depreciation balance to be \$153,286. As a result, accumulated depreciation should be decreased by \$16,131 to reflect an accumulated depreciation balance of \$153,286 as of December 22, 2016.

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

The 2015 Annual Report reflected a CIAC balance of \$0 and an accumulated amortization of CIAC balance of \$0. The CIAC balance should be \$23,500, and it is fully amortized based on the Commission-approved balances in the last order. As such, staff increased CIAC and accumulated amortization of CIAC by \$23,500 to reflect the appropriate Commission-approved balances. Therefore, staff recommends a CIAC balance of \$23,500 and an accumulated amortization of CIAC balance of \$23,500 as of December 22, 2016.

¹⁸Order No. PSC-14-0673-PAA-SU, issued December 5, 2014, in Docket No. 120285-SU, *In re: Application to transfer wastewater facilities and Certificate No. 137-S in Brevard County from Colony Park Utilities, Inc. to Colony Park Development Utilities, LLC.*

Net Book Value

The 2015 Annual Report reflected a negative NBV of \$417. Based on the adjustments described above, staff recommends that the NBV is \$43,969. Staff's recommended NBV and the National Association of Regulatory Utility Commissioners, Uniform System of Accounts (NARUC USOA) balance for UPIS and accumulated depreciation as of December 22, 2016, are shown on Schedule No. 1.

Conclusion

Based on the above, staff recommends that the NBV of MIU's wastewater system for transfer purposes is \$43,969 as of December 22, 2016. A negative acquisition adjustment should be included in rate base, and is addressed in Issue 3. 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 MIU's 2017 Annual Report when filed.

Issue 3: Should an acquisition adjustment be recognized for ratemaking purposes?

Recommendation: Yes. Pursuant to Rule 25-30.0371(3), F.A.C., a negative acquisition adjustment of \$175 should be recognized for ratemaking purposes. Beginning with the date of the issuance of the order approving the transfer, the negative acquisition adjustment should be amortized over a seven-year period, in accordance with Rule 25-30.0371(4)(b)1, F.A.C. (Mick)

Staff Analysis: An acquisition adjustment results when the purchase price differs from the original cost of the assets (net book value) adjusted to the time of the acquisition. Pursuant to Rule 25-30.0371(3), F.A.C., if the purchase price is equal to or less than 80 percent of net book value, a negative acquisition adjustment shall be included in rate base and will be equal to 80 percent of net book value less the purchase price. Pursuant to Rule 25.30.0371(4)(b)1, F.A.C., if the purchase price is greater than 50 percent of net book value, the negative acquisition adjustment shall be amortized over a seven-year period from the date of issuance of the order approving the transfer of assets. The calculation of the acquisition adjustment is shown below in Table 3-1.

Table 3-1
Calculation of Negative Acquisition Adjustment

Net book value as of December 22, 2016	\$43,969
80 percent of net book value	\$35,175
Purchase price	\$35,000
Negative acquisition adjustment	\$175

Therefore, staff recommends that, pursuant to Rule 25-30.0371(3), F.A.C., a negative acquisition adjustment of \$175 shall be recognized for ratemaking purposes. Beginning with the date of issuance of the order approving the transfer, the negative acquisition adjustment should be amortized over a seven-year period, in accordance with Rule 25-30.0371(4)(b)1, F.A.C.

Issue 4: Should this docket be closed?

Recommendation: If no protest to the proposed agency action is filed by a substantially affected person within 21 days of the date of the issuance of the order, a consummating order should be issued and the docket should be closed administratively upon Commission staff's verification that the revised tariff sheets have been filed and the Buyer has notified the Commission in writing that it has adjusted its books in accordance with the Commission's decision. (Mapp)

Staff Analysis: If no protest to the proposed agency action is filed by a substantially affected person within 21 days of the date of the issuance of the order, a consummating order should be issued and the docket should be closed administratively upon Commission staff's verification that the revised tariff sheets have been filed and the Buyer has notified the Commission in writing that it has adjusted its books in accordance with the Commission's decision.

Merritt Island Utility Company, Inc.

Brevard County

Description of Wastewater Territory

In Township 23 South, Range 36 East, Brevard County, Florida

Section 15

Commence at the Southeast corner of said Section 15 for a Point of Beginning. Thence run North 0°39'04" West along the East line of said Section 15, 1236.97 feet; thence North 89°35'04" West, 477.46 feet; thence South 00°38'31" West, 25.00 feet; thence South 68°21'32" West, 84.30 feet; thence South 76°38'12" West, 83.63 feet; thence South 89°20'56" West, 234.00 feet; thence South 00°39'04" East, 150.00 feet; thence North 89°20'56" East, 5.00 feet; thence South 00°39'04" West, 489.79 feet; thence South 87°45'45" West, 358.30 feet; thence South 2°14'15" East, 150 feet to a point on the South boundary of St. Charles Avenue; thence Westerly 30 feet, more or less; thence South 2°14'15" East, 400 feet, more or less, to a point on the South boundary of said Section 15, thence North 87°45'45" East along the South boundary of said Section 15, 1250 feet, more or less, to the Point of Beginning.

Section 14

Commence at the Southwest corner of said Section 14; thence run North 0°39'04" West along the West boundary of Section 14, 320 feet, more or less, to the Point of Beginning which is also the Southwest corner of the aforesaid parcel; thence North 0°39'04" West along the West line of said parcel, a distance of 947.98 feet; thence North 87°05'16" East, a distance of 710.58 feet; thence North 0°48'54" West, a distance of 10 feet to the North line of said parcel; thence North 89°11'06" East along the North line of said parcel, a distance of 569.57 feet; thence South 2°00'25" East, a distance of 985.11 feet to a point on the South line of said parcel; thence South 89°13'32" West along the South line of said parcel, a distance of 1302.88 feet to the Point of Beginning.

FLORIDA PUBLIC SERVICE COMMISSION

Authorizes

Merritt Island Utility Company, Inc.

Pursuant to

Certificate Number 137-S

to provide wastewater service in Brevard County in accordance with the provisions of Chapter 367, Florida Statutes, and the Rules, 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>
6365	12/02/1974	73391-S	Original Certificate
7296	06/28/1976	750664-S	Transfer
PSC-03-0320-FOF-SU	03/06/2003	020930-SU	Transfer of Majority Organizational Control
PSC-07-0420-FOF-SU	05/14/2007	060636-SU	Transfer of Majority Organizational Control
PSC-14-0673-PAA-SU	12/05/2014	120285-SU	Transfer
*	*	20170018-SU	Transfer

***Order Number and date to be provided at time of issuance**

Merritt Island Utility Company, Inc.

Monthly Wastewater Rates

Residential Service

Base Facility Charge- All Meter Sizes	\$10.75
Charge per 1,000 gallons	\$2.87
6,000 gallon cap	

General Service

Base Facility Charge by Meter Size	
5/8" x 3/4"	\$10.75
3/4"	\$16.12
1"	\$26.87
1 1/2"	\$53.73
2"	\$85.97
3"	\$171.93
4"	\$268.64
6"	\$537.28
Charge per 1,000 gallons	\$3.44

Colony Park Mobile Home Park

Base Facility Charge	\$1,289.47
Charge per 1,000 gallons	\$3.44
720,000 gallon cap	

Miscellaneous Service Charges

Initial Connection Charge	\$15.00
Normal Reconnection Charge	\$15.00
Violation Reconnection Charge	Actual Cost
Premises Visit Charge (in lieu of disconnection)	\$10.00

**Merritt Island
Wastewater System
Schedule of Net Book Value as of December 22, 2016**

Description	Balance Per	Adjustments	Staff
	Utility		Recommendation
Utility Plant in Service	\$138,494	\$28,282	\$166,776
Land & Land Rights	30,506	(27)	30,479
Accumulated Depreciation	(169,417)	16,131	(153,286)
CIAC	0	(23,500)	(23,500)
Amortization of CIAC	<u>0</u>	<u>23,500</u>	<u>23,500</u>
Total	<u>(\$417)</u>	<u>\$44,386</u>	<u>\$43,969</u>

**Explanation of Staff's Recommended
Adjustments to Net Book Value as of December 22, 2016
Wastewater System**

Explanation	Amount
A. Utility Plant in Service To reflect appropriate amount of utility plant in service.	<u>\$28,282</u>
B. Land To reflect appropriate amount of land.	<u>(\$27)</u>
C. Accumulated Depreciation To reflect appropriate amount of accumulated depreciation.	<u>\$16,131</u>
D. Contributions-in-Aid-of-Construction (CIAC) To reflect appropriate CIAC.	<u>(\$23,500)</u>
E. Accumulated Amortization of CIAC To reflect appropriate amount of accumulated amortization of CIAC.	<u>\$23,500</u>
Total Adjustments to Net Book Value as of December 22, 2016.	<u>\$44,386</u>

**Merritt Island
Wastewater System**

Schedule of Staff Recommended Account Balances as of December 22, 2016

Account			Accumulated
No.	Description	UPIS	Depreciation
	Composite Account	\$57,354	(\$57,354)
351	Organization	0	0
354	Structures & Improvements	30,157	(22,399)
360	Collection Sewers - Force	28,128	(24,958)
363	Services to Customers	500	(383)
364	Flow Measuring Devices	3,500	(3,500)
370	Receiving Wells	13,066	(12,567)
371	Pumping Equipment	3,536	(1,861)
380	Treatment and Disposal Equipment	27,546	(27,546)
389	Other Plant and Miscellaneous Equipment	1,789	(1,519)
393	Tools, Shop, and Garage Equipment	<u>1,200</u>	<u>(1,200)</u>
	Total	<u>\$166,776</u>	<u>(\$153,286)</u>

Item 8

State of Florida



FILED 8/24/2017
DOCUMENT NO. 07258-2017
FPSC - COMMISSION CLERK

Public Service Commission

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

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

DATE: August 24, 2017

TO: Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk

FROM: Phillip O. Ellis, Public Utilities Supervisor, Division of Engineering *POE* *TJS*

RE: Docket No. 20160165-SU-Application for staff-assisted rate case in Gulf County by ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.

On July 10, 2017, Staff was made aware of an error in the recommendation originally filed in this Docket. At the July 13, 2017 Commission Conference, the Commission voted to defer this item to the September 7, 2017 Commission Conference. Attached for filing is the revised recommendation in the above-named docket. The revisions correct the error and subsequent fall out schedules.

EXE Approval _____

A handwritten signature in blue ink, consisting of several loops and a long horizontal stroke.

POE:tj

Attachment

State of Florida



Public Service Commission

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

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

DATE: August 24, 2017

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Ellis)
Division of Accounting and Finance (Brown)
Division of Economics (Friedrich)
Office of the General Counsel (Murphy)

Handwritten initials and signatures:
POE, MF, SJH, RD, CM, TT, ALM, and several illegible signatures.

RE: Docket No. 20160165-SU – Application for staff-assisted rate case in Gulf County by ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.

AGENDA: 09/07/17 – Regular Agenda – Proposed Agency Action – Except Issue Nos. 17, 18, and 19 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Polmann

CRITICAL DATES: 12/09/2017 (15-Month Statutory Deadline (SARC))

SPECIAL INSTRUCTIONS: None

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Case Background

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc. (Beaches or Utility) is a Class C wastewater-only utility operating in Gulf County, Florida. The Utility currently serves approximately 316 residential and 4 general service wastewater customers, and has 45 prepaid connections. Water service is provided by the City of Port St. Joe.

By Order No. 17638, issued June 2, 1987, the Commission granted Certificate No. 422-S to Gulf Aire Properties, Inc. d/b/a Gulf Aire Wastewater Treatment Plant (Gulf Aire) for its wastewater system.¹ The Commission amended the certificate by Order No. 19621, issued July 7, 1988, to include additional territory, and amended it a second time by Order No. 25275, issued October 30, 1991, to correct, add, and delete territory.² The Utility was transferred from Gulf Aire to Beaches by Order No. PSC-02-1299-PAA-SU, issued on September 23, 2002.³

The Utility's last rate case was a staff-assisted rate case (SARC) approved in 1987.⁴ The petition for a SARC in the instant case was filed on July 12, 2016. The test year selected was July 1, 2015, through June 30, 2016. According to the Beaches 2015 Annual Report, total gross revenues were \$130,792 and total operating expenses were \$137,247.

The customer meeting was held on March 9, 2017, in Port St. Joe, Florida, to receive customer questions and comments concerning the Utility's rate case and quality of service. The Commission has jurisdiction pursuant to Sections 367.081, 367.0812, 367.0814, and 367.091, Florida Statutes (F.S.). At the Commission Conference held on July 13, 2017, the Commission deferred the item to the September 7, 2017 Agenda.

¹Order No. 17638, issued June 2, 1987, in Docket No. 861336-SU, *In re: Application of Gulf Aire Properties, Inc. d/b/a Gulf Aire Wastewater treatment Plant for sewer certificate in Gulf County.*

²Order No. 19621, issued July 7, 1988, in Docket No. 880621-SU, *In re: Application of Gulf Aire Wastewater Treatment Plant for amendment of Certificate No. 422-S in Gulf County*; and Order No. 25275, issued October 30, 1991, in Docket No. 910660-SU, *In re: Application of Gulf Aire Wastewater Treatment Plant (Gulf Aire Properties, Inc.) for amendment of Certificate No. 422-S for addition and deletion of territory in Gulf County.*

³Order No. PSC-02-1299-PAA-SU, issued September 23, 2002, in Docket No. 011379-SU, *In re: Application for transfer of Certificate No. 422-S in Gulf County from Gulf Aire Properties d/b/a Gulf Aire Wastewater Treatment Plant to ESAD Enterprises, Inc. d/b/a Beaches Sewer System.*

⁴Order No. 17812, issued July 7, 1987 in Docket No. 861569-SU, *In re: Application of Gulf Aire Properties, Inc. d/b/a Gulf Aire Wastewater Treatment Plant for staff assistance on an increase in sewer rates in Gulf County.*

Discussion of Issues

Issue 1: Is the quality of service provided by Beaches Sewer Systems, Inc. satisfactory?

Recommendation: Yes, the quality of service provided by Beaches Sewer Systems, Inc. should be considered satisfactory. The Utility's wastewater treatment plant (WWTP) and related facilities are in substantial compliance with DEP's requirements and is working towards full compliance. (Ellis)

Staff Analysis: Pursuant to Section 367.081(2)(a)1, F.S., in water and wastewater rate cases, the Commission shall consider the overall quality of service provided by a utility. Rule 25-30.433(1), Florida Administrative Code (F.A.C.), provides for the evaluation of three separate components of the utility's operations. The components evaluated are (1) the quality of the utility's product; (2) the operational conditions of the utility's plant and facilities; and (3) the utility's attempt to address customer satisfaction. The Rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Florida Department of Environmental Protection (DEP) and the county health department over the preceding three year period shall be considered. In addition, customer comments or complaints received by the Commission are also reviewed.

Quality of Utility's Product

Environmental jurisdiction of Beaches' wastewater facilities is under the DEP. To evaluate Beaches' product quality, staff reviewed the Utility's compliance with the DEP environmental requirements regarding effluent quality. For the period of August 2016 through May of 2017, a review of the Utility's discharge monitoring reports shows all testing of effluent quality is currently within the DEP standards.

Operating Condition of the Utility's Plant and Facilities

Beaches is a wastewater service only utility. Staff conducted a site visit to inspect the facility on March 9, 2017. Several components of the system were noted by staff to be in disrepair, in need of replacement, or in need of additional equipment. These items are included in the list of pro forma projects discussed in Issue 16.

On May 3, 2017, the DEP conducted an inspection of the Beaches WWTP and noted several areas of non-compliance such as out of date chemicals and no receipt for flow meter calibration that have already been corrected by the Utility. The only remaining item of concern to be addressed by the Utility is the failure to rotate and rest the percolation ponds as described in the WWTP's permit. This concern was previously noted in the prior DEP inspection conducted on August 29, 2016. As noted above, the Utility has proposed pro-forma projects to address this concern.

The Utility's Attempt to Address Customer Satisfaction

The final component of the overall quality of service that must be assessed is the Utility's attempt to address customer satisfaction. As part of staff's evaluation of customer satisfaction, staff held a customer meeting in Port St. Joe, Florida, on March 9, 2017, to receive customer comments concerning Beaches' quality of service. Only one customer attended the customer meeting, and the customer provided general comments regarding wastewater systems. The

customer also expressed general concerns regarding the long-term sustainability of a small wastewater system such as Beaches. However, the customer did not express any complaints or dissatisfaction with the system or the customer service.

Staff requested copies of any complaints filed with Beaches during the test year as well as the previous four years. None were received by the Utility. In addition, staff requested copies of all complaints filed with the DEP for the test year and four years prior; none were received.

A review of the Commission's complaint tracking system revealed no complaints against the Utility in the five-year period from July 1, 2011, through June 30, 2016, and one customer complaint filed after the test year on January 31, 2017. The complaint expressed concerns regarding deteriorating infrastructure and safety, noting that children were observed at a lift station. The Utility's response noted that its lift stations and other facilities are locked to prevent access, and the Utility planned on posting additional "No Trespassing" signs and discussing the matter with local law enforcement.

During the processing of the rate case, four letters were received. Three letters, including one with nine names listed, expressed concerns regarding the amount of the increase and included various suggestions on how the increase could be handled and the need to explore efficiencies. In the fourth letter, a customer expressed concern that the WWTP, which is located adjacent to the customer's back yard, was causing standing water to collect in the yard. Utility representatives went to the customer's home and demonstrated that the standing water was not related to the WWTP.

Summary

The Utility's WWTP and related facilities are in substantial compliance with the DEP's requirements. However, several components of the system appear to be in need of replacement. These items are included in the list of pro forma projects discussed in Issue 16 which would facilitate the Utility working towards full compliance with the DEP. Based on this fact and the discussion above, staff recommends that the quality of service provided by Beaches should be considered satisfactory.

Issue 2: What are the used and useful percentages (U&U) of the Beaches Sewer Systems, Inc. wastewater treatment plant and wastewater collection system?

Recommendation: Beaches' WWTP should be considered 64.3 percent U&U. The wastewater collection system should be considered 90.5 percent U&U. There appears to be no excessive infiltration and inflow (I&I), therefore staff is not recommending an adjustment be made to operating expenses for chemicals and purchased power. (Ellis)

Staff Analysis: Beaches' WWTP is a single treatment plant facility permitted by the DEP at 70,000 gallons per day (gpd) annual average daily flow. The Utility reports having 52 manholes and 3 lift stations in its system. In addition the wastewater collection system consists of 16,033 linear feet of 8-inch gravity main and 1,650 linear feet of 6-inch gravity main.

Infiltration and Inflow (I&I)

Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider I&I. Every wastewater collection system experiences I&I. Typically, infiltration is a result of groundwater entering the wastewater collection system through broken or defective pipes and joints. Inflow is the result of water entering the collection system through manholes or lift stations.

The maximum allowable amount for infiltration is 500 gpd per inch of pipe diameter per mile of pipe length. This amount is calculated from each of the two sizes of pipe in the Utility's wastewater collection system. Using the pipe lengths and diameters given above, the infiltration allowance is calculated to be 4,775,555 gallons per year.

In addition, 10 percent of the total gallons sold to customers is allowed for inflow. Water usage data was acquired from the City of Port St. Joe for the purpose of this calculation. Ten percent of the water sold is 1,251,702 gallons. Therefore, the total I&I allowance is 6,027,257 gallons per year.

Next, the amount of wastewater expected to be returned from the system is calculated. This figure is determined by summing 80 percent of water sold to residential users with 90 percent of water sold to non-residential users. Using the data from the City of Port St. Joe, the amount calculated for expected return is 10,013,614 gallons per year. In order to find the total amount of wastewater allowed, the I&I allowance and the expected return are summed, yielding 16,040,871 gallons per year. Finally, this total is compared to the total wastewater actually treated during the test year, which in this case is 14,384,700 gallons. The total wastewater treated does not exceed the total wastewater allowed. Therefore, there is no excessive I&I.

Used and Useful Percentages

Wastewater Treatment Plant

Pursuant to Rule 25-30.432, F.A.C., the U&U analysis for the Utility's WWTP is based on the customer demand compared with the permitted plant capacity, with consideration given for growth and I&I. The formula for calculating U&U for the WWTP is (average daily flow + growth – excessive I&I) / permitted plant capacity.

A linear regression analysis of the historical growth pattern yields a growth of 184 gpd. Based on the Utility's monthly operating reports the annual average daily flow is 44,829 gpd, and the permitted plant capacity is 70,000 gpd. There is no excessive I&I. Therefore, the WWTP is 64.3 percent U&U.

Wastewater Collection System

The U&U analysis for the water collection system is given by (test year connections + growth) / capacity of the system. There were 320 connections in the test year. However, the Utility also has 45 prepaid customers (customers which have paid for connecting to the system but have not yet done so). This brings the total customer count to 365. The growth is calculated to be 1.5 equivalent residential connections (ERCs) over the five-year statutory growth period. The system capacity is 405 ERCs. Therefore, the wastewater collection system is 90.5 percent U&U.

Summary

Beaches' WWTP should be considered 64.3 percent U&U. The wastewater collection system should be considered 90.5 percent U&U. There appears to be no excessive infiltration and inflow, therefore staff is not recommending an adjustment be made to operating expenses for chemicals and purchased power.

Issue 3: What is the appropriate average test year rate base for Beaches Sewer Systems, Inc.?

Recommendation: The appropriate average test year rate base for Beaches is \$94,842. (Brown)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service, land, Contributions-In-Aid-of-Construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. Rate base was last established as of December 1, 2000, in Docket No. 011379-SU.⁵ Staff selected the test year ended June 30, 2016, for the instant case. Commission audit staff determined that the Utility's books and records are not currently consistent with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). A summary of each component of wastewater rate base and the recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

The Utility recorded \$616,024 in UPIS. Audit staff reconciled the beginning balances from Order No. PSC-02-1299-PAA-SU to the general ledger, and determined that the Utility had not made prior ordered adjustments. Staff reduced UPIS by \$191,682 to address the prior Commission-ordered adjustments and removed \$83,849 for items that were unsupported by the Utility. The unsupported items included the removal of \$41,697 from Account 391 – Transportation Equipment for purchased vehicles.

The Utility subsequently provided staff with a mileage estimate related to its day-to-day operations.⁶ For purposes of this rate case, staff believes the estimate is sufficient to support the inclusion of a vehicle for the Utility's use as discussed below. As of April 14, 2017, the Utility owned the following vehicles: a 2010 Cadillac SRX, a 2014 Chevrolet Silverado 2500 HD LTZ Crew Cab, and a 2015 Chevrolet Silverado 1500 LT Crew Cab.⁷ The Cadillac was purchased prior to the test year, the 2015 Silverado was purchased during the test year (December 2015), and the 2014 Silverado was purchased after the test year (August 2016). Staff notes that the 2014 and 2015 Silverados were purchased at a time when the Utility asserts that it did not have the resources necessary to perform certain plant maintenance items. Additionally, the Utility represented to staff that the Cadillac was to be sold by June 2017.⁸ Even with the sale of this vehicle, staff questions the need for multiple Utility vehicles, especially when the President and Vice-President of the Utility, as well as the contract plant operator, are part-time employees. Staff believes that one vehicle is necessary for the Utility to operate effectively and should be included in plant. As such, staff believes the appropriate amount of Transportation Equipment is \$41,406, which represents the cost of the 2015 Silverado purchased during the test year.⁹

⁵Order No. PSC-02-1299-PAA-SU, issued September 23, 2002, in Docket No. 011379-SU, *In re: Application for transfer of Certificate No. 422-S in Gulf County from Gulf Aire Properties d/b/a Gulf Aire Wastewater Treatment Plant to ESAD Enterprises, Inc. d/b/a Beaches Sewer System.*

⁶Document No. 08522-2016, filed October 28, 2016.

⁷Document No. 04224-2017, filed April 14, 2017.

⁸Ibid.

⁹The \$41,406 was derived from information included in the December 29, 2015, purchase order and reflects the truck's retail price plus tax, title, and fees less any rebates and trade-in.

Corresponding adjustments to accumulated depreciation and depreciation expense are also necessary to appropriately reflect this UPIS addition. Additionally, while there appears to be outstanding loans on several of the Utility’s vehicles, only one of the loans was included in the Utility’s capital structure.¹⁰ Based on the discussion above, staff included the loan related to the 2015 Silverado in the Utility’s capital structure. In Issue 6, staff recommends using the Utility’s mileage estimate and the IRS standard mileage rate to develop an appropriate amount of transportation expense. This expense includes standard maintenance, repairs, taxes, gas, insurance, and registration fees.

Staff also increased UPIS by \$1,864 (net of retirements) for major repairs at the plant originally expensed to Account 775. The repairs being capitalized include a new pump, control panel, and a blower. The Utility originally booked these costs as expenses, but staff believes these items should be capitalized as they are non-recurring and extend the useful life of the plant. UPIS was also increased by \$2,934 for the purchase of a storage building located at the wastewater treatment plant. The Utility’s additional plant items and adjustments to UPIS are shown in Table 3-1 below.

**Table 3-1
 Additional Plant Items**

Description	UPIS
Reclassified from O&M Expense	
Repair Pump and Control Panel	\$4,840
Retirement	(3,630)
Replace Blower	2,617
Retirement	(1,963)
Total Reclassified	<u>\$1,864</u>
Plant Addition (After Test Year)	
Storage Building for WWTP	\$2,934
Total Plant Addition	<u>\$2,934</u>

Source: Utility responses to staff data requests.

Based on the plant additions described above, staff believes the following corresponding adjustments should also be made as shown in Table 3-2 below.

**Table 3-2
 Corresponding Adjustments**

Description	Accum. Depr.	Depr. Exp.	Prop. Taxes
Repair Pump and Control Panel	\$3,585	\$45	\$17
Replace Blower	\$1,919	\$44	\$9
Storage Building for WWTP	(\$109)	\$109	\$41
Utility Vehicle	(\$6,901)	\$6,901	\$0
Total	<u>(\$1,506)</u>	<u>\$7,098</u>	<u>\$67</u>

Source: Utility responses to staff data requests.

¹⁰In Issue 4, staff removed this \$2,958 loan from the capital structure because the vehicle was sold.

The adjustments to depreciation expense and property taxes are addressed in Issue 6, while accumulated depreciation is addressed later in this issue.

Staff also increased UPIS by \$199 for a 2012 addition that was not booked, reclassified \$939 from Account 351 to Account 390 for the purchase of a copier, and made a \$21,735 averaging adjustment. Staff's recommended adjustments result in a net decrease to UPIS of \$250,862. Therefore, staff recommends a UPIS balance of \$365,162.

Land & Land Rights

The Utility recorded a test year land balance of \$14,364. Audit staff verified that the land is owned by the Utility and determined that the land where the lift station is located was purchased since Order No. PSC-02-1299-PAA-SU. As a result, staff added \$7,500 for the lift station land. Staff recommends a land and land rights balance of \$21,864.

Non-Used and Useful (non-U&U) Plant

The Utility did not record a test year non-U&U plant balance. As discussed in Issue 2, the WWTP should be considered 64.3 percent U&U. Beaches' wastewater collection systems were calculated as 90.5 percent U&U.

Application of the U&U percentage to the average plant balances and associated average accumulated depreciation balances results in a net decrease of \$2,021 for wastewater non-U&U components. Therefore, staff's recommended non-U&U plant balance is \$2,021.

Contributions In Aid of Construction (CIAC)

The Utility recorded CIAC balances of \$247,554. Commission audit staff found that a previous audit adjustment to increase CIAC by \$31,996 had not been made and identified a \$1,500 variance between the general ledger and staff audit calculations that increased CIAC. As such, staff recommends a CIAC balance of \$281,050.

Accumulated Depreciation

The Utility recorded \$509,117 in accumulated depreciation. Staff calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff's calculation includes a previously ordered adjustment of \$66,607 that was not made by the Utility and the removal of \$135,915 for the reserve for transportation equipment cost. Staff also made adjustments to accumulated depreciation of the following amounts: a decrease of \$5,504 (\$3,585 + \$1,919) for plant repairs reclassified from Account 775, an increase of \$109 to reflect an adjustment for additional plant (storage building), and an increase of \$6,901 to reflect an adjustment for the Utility's new vehicle. Finally, staff reduced accumulated depreciation by \$753 to reflect an averaging adjustment. As such, staff recommends an accumulated depreciation balance of \$307,348.

Accumulated Amortization of CIAC

Beaches recorded an amortization of CIAC balance of \$188,335. An adjustment has been made to reflect a previously ordered adjustment increasing accumulated amortization of CIAC by \$34,296. Staff calculated amortization of CIAC using composite depreciation rates, and recommends that it be increased by \$40,006. In addition, staff believes that CIAC should be fully

amortized no later than early 2018. As such, accumulated amortization of CIAC should be increased by \$18,413, which results in the Utility's CIAC becoming fully amortized. Because the CIAC is reflected as being fully amortized, no averaging adjustment is necessary in this case. Staff's total adjustment to accumulated amortization of CIAC is an increase of \$92,715, resulting in an accumulated amortization of CIAC balance of \$281,050.

Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Staff also removed the unamortized balance of rate case expense of \$523 pursuant to Section 367.081(9), F.S.¹¹ Applying this formula, staff recommends a working capital allowance of \$17,186 ($\$137,486/8$), based on O&M expense of $\$137,486$ ($\$138,009 - \523).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base for Beaches is \$94,842. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

¹¹Section 367.081(9), F.S., which became effective July 1, 2016, states, "A utility may not earn a return on the unamortized balance of the rate case expense. Any unamortized balance of rate case expense shall be excluded in calculating the utility's rate base." Therefore, staff excluded rate case expense from the working capital calculations.

Issue 4: What is the appropriate return on equity and overall rate of return for Beaches Sewer Systems, Inc. ?

Recommendation: The appropriate return on equity (ROE) is 11.16 percent with a range of 10.16 percent to 12.16 percent. The appropriate overall rate of return is 5.35 percent. (Brown)

Staff Analysis: According to the staff audit, the Utility’s test year capital structure reflected negative common equity of \$55,737, long term debt of \$217,870, and customer deposits of \$2,166. Staff adjusted the negative equity amount to zero consistent with Commission practice and removed a \$2,958 loan for a vehicle that the Utility no longer owns. Staff also added the \$41,406 loan associated with the purchase of a new Utility vehicle in December 2015. After the test year and during the course of this staff-assisted rate case, the Utility also incurred several new obligations which are detailed below in Table 4-1.

**Table 4-1
 New Loan Obligations**

Lender (Date of Loan)	Amount	Int. Rate
Centennial Bank (10/25/16)	\$10,412	7.50%
Frank J. Seifert (12/31/16)	\$13,000	5.00%
Gulf Coast Property Services (12/31/16)	\$20,000	5.00%
Donna M. Seifert (12/31/16)	\$28,400	5.00%

Source: Utility response to Staff Report, Document No. 02928-17.

The resulting long-term debt is \$266,730 (\$217,870 - \$2,958 + \$41,406 + \$10,412) and short-term debt is \$61,400 (\$13,000 + \$20,000 + \$28,400). The long-term debt balance is comprised of multiple notes at different rates, which equates to a weighted average cost rate of 5.43 percent, as detailed below in Table 4-2.

**Table 4-2
 Long-Term Debt – Weighted Average**

Loan	Amount	% of Total	Int. Rate	Weighted Cost
Centennial Bank (Purchase of Utility)	\$214,912	80.57%	5.50%	4.43%
Ally Financial (New Vehicle – 12/29/15)	\$41,406	15.52%	4.56%	0.71%
Centennial Bank (10/25/16)	\$10,412	3.90%	7.50%	0.29%
Total	<u>\$266,730</u>	<u>100.00%</u>		<u>5.43%</u>

Source: Audit Report and Utility responses to staff data requests.

The weighted average cost rate for the short-term debt shown in Table 4-1 above, which is comprised of the three December 31, 2016 promissory notes, is 5.00 percent.

Staff also removed \$1,995 in customer deposits based on the Utility's assertion, and subsequent documentation, that no new deposits will be collected (unless the customers is renting their residence) and all deposits will be refunded for customers that have moved, or issued as a credit memo for current customer.¹² The Utility refunded or issued credit memos for customer deposits in December 2016.¹³ The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE for the Utility is 11.16 percent based on the Commission-approved leverage formula currently in effect.¹⁴ Staff recommends an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 5.35 percent. The ROE and overall rate of return are shown on Schedule No. 2.

¹²Document No. 00581-2017, filed January 18, 2017.

¹³Document No. 04224-2017, filed April 14, 2017.

¹⁴Order No. PSC-17-0249-PAA-WS, issued June 26, 2017, in Docket No. 170006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081 (4)(j), F.S.*

Issue 5: What are the appropriate test year revenues for Beaches Sewer Systems, Inc.?

Recommendation: The appropriate test year revenues for Beaches are \$131,256. (Friedrich)

Staff Analysis: Beaches recorded total test year revenues of \$131,149. The wastewater revenues included \$124,237 of service revenues, \$2,132 of miscellaneous revenues, and \$4,780 of guaranteed revenues. Based on staff's review of the Utility's billing determinants and the service rates that were in effect during the test year, staff determined test year service revenues should be \$124,324. This results in an increase of \$87 (\$124,324 - \$124,237) to service revenues. In addition, staff made adjustments to miscellaneous revenues. Staff determined miscellaneous revenues should be \$2,160. Staff's audit findings revealed that the Utility was charging a normal reconnection charge of \$14.64 when their approved tariff rate is \$15.00 for this charge. This results in an increase of \$28 (\$2,160 - \$2,132) to miscellaneous revenues. Staff also determined that guaranteed revenues should be \$4,772, resulting in a decrease of \$8 (\$4,780 - \$4,772) to Beaches recorded guaranteed revenues during the test year. Based on the above, the appropriate test year revenues for Beaches' wastewater system are \$131,256.

Issue 6: What is the appropriate amount of operating expense for Beaches Sewer Systems, Inc.?

Recommendation: The appropriate amount of operating expense for Beaches is \$166,348. (Brown, Ellis)

Staff Analysis: Beaches recorded operating expense of \$146,044 for the test year ended June 30, 2016. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff made several adjustments to the Utility’s operating expenses as summarized below.

Salaries and Wages – Officers, Directors, and Majority Stockholders (703)

Beaches recorded salaries and wages – officers, directors, and majority stockholders expense of \$58,274. In response to the staff audit report, the Utility reflected salaries of \$32,400 for the President and \$19,800 for the Vice-President.¹⁵ The Utility also included \$3,993 for payroll taxes and a total of \$2,000 for director’s fees. As such, total salaries and wages according to the Utility are \$58,193 (\$32,400 + \$19,800 + \$3,993 + \$2,000). The three-year average for salaries and wages is \$44,667 based on amounts reported in the Utility’s 2013-2015 Annual Reports. Staff notes that the Vice-President’s salary reflects an increase from January 1, 2016, through the end of the test year, June 30, 2016. Staff believes that to get an accurate picture of test year salaries, the increase to the Vice-President’s salary should be applied to all 12 months. Since six months were already included in the Utility’s calculation, an additional six months should be added. This results in a \$9,000 increase (\$1,500 x 6 months), bringing the Vice-President’s salary to \$28,800, and total salaries to \$61,200. The Utility also made several additional changes to requested salaries after the test year as illustrated below in Table 6-1.

**Table 6-1
 Change in Salaries**

Position	Utility TY	Staff TY	Utility 7/1/2016	Utility 1/1/2017
President	\$32,400	\$32,400	\$48,000	\$48,000
Vice-President	<u>19,800</u>	<u>28,800</u>	<u>36,000</u>	<u>30,000</u>
Total	<u>\$52,200</u>	<u>\$61,200</u>	<u>\$84,000</u>	<u>\$78,000</u>
Increase over staff’s TY (%)			37.25%	27.45%

Source: Utility responses to Audit Report and staff data requests.

In support of its salary requests, the Utility argued that the increases approved by the board of directors are both fair and reasonable, and based on what the city and other utility companies in the area are paying.¹⁶ Staff notes that Beaches’ board of directors is comprised of the President,

¹⁵Document No. 08522-2016, filed October 28, 2016.

¹⁶The Utility used salary information from Lighthouse Utilities Company, Inc. (a large Class B water utility) and St. Joe Natural Gas Company, Inc., which are both regulated by the Commission, see Document Nos. 08522-2016, filed October 28, 2016, 09065-2016, filed November 30, 2016, and 02928-2017, filed September 3, 2017.

the Vice-President, and their spouses. According to information provided by the Utility, the President works approximately 31.5 hours per week dealing with customer billing and mail. The Vice-President works approximately 12.5 hours per week assisting the plant operator, monitoring the plant, and working with contractors.

Staff believes that the Utility's requested salaries, which represent a 27.45 percent increase over staff's test year salaries, are unreasonable and have not been fully supported. The Utility's primary reason for the increase in salaries is that they are low compared to other utilities in the area. While this does appear to be the case, the Utility is not comparing itself with similarly sized and staffed utilities, or utilities within the same industry. As such, staff does not believe the Utility's customers should be burdened with such a significant increase absent additional justification.

Instead of accepting the Utility's requested salary levels, staff believes it is more appropriate to use its revised test year amount of \$61,200 for salaries. This amount reflects changes to salaries that the Utility instituted during the test year and appears reasonable given the fact that the Utility's last rate case was approved in July 1987.¹⁷ Moreover, according to the Utility the President and Vice-President are responsible for everything from taking out the trash to fixing a stopped up air line. As such, staff recommends salaries and wages of \$61,200.

Staff made no increase to the amount of officer's salaries and wages expense for directors' fees of \$2,000. The Utility's board of directors now consists of four directors who meet twice a year. Beaches' board of directors is currently comprised of the President, the Vice-President, and their spouses. Prior to March 1, 2016, the Utility had two board members that met twice a year and received \$1,000 each annually. Staff believes it is excessive to have four directors for a small wastewater utility that has no full-time employees. As such, staff recommends directors' fees for the President and Vice-President be held to \$1,000 each annually, for a total of \$2,000.

Staff first reduced salaries included in the Utility's general ledger by \$81 (\$58,274 - \$58,193) to reflect the difference between what was booked versus what was supported. Next, staff reduced salaries by \$3,993 to move payroll taxes to taxes other than income (TOTI). Then, staff increased salaries by \$9,000 to reflect the increase to salaries discussed above. Staff's adjustment to salaries results in a net increase of \$4,926 (\$9,000 - \$3,993 - \$81). Staff also increased TOTI by \$842 to reflect the appropriate amount of payroll taxes. Therefore, staff recommends salaries and wages – officers, directors, and majority stockholders expense of \$63,200 (\$58,274 + \$4,926).

Sludge Removal Expense (711)

In the Staff Report, staff increased this account by \$650 to reflect actual supporting documentation (invoice) and the belief that the Utility conducted sludge removal once every other year. The Utility subsequently stated that sludge removal will need to be done at least four times per year. Beaches produced invoices reflecting a total of \$1,950 for sludge removal that occurred during a nine month period between June 15, 2016, and March 1, 2017, and indicated to staff that this expense would be incurred again in May or June 2017. Based on supporting

¹⁷The Commission has not approved an index or pass-through increase for the Utility since September 1998.

documentation, the average sludge removal expense would be \$650 per quarter, or \$2,600 (\$650 x 4) per year. Therefore, staff is recommending sludge removal expense of \$2,600.

Purchased Power (715)

The Utility recorded purchased power expense of \$8,335. Commission audit staff determined that the purchased power expense was understated. Therefore, staff increased this expense by \$260 to reflect the correct test year balances. Staff recommends purchased power expense of \$8,595.

Chemicals (718)

The Utility recorded chemicals expense of \$2,752. Beaches' actual test year chemicals expense was \$2,752 therefore, no adjustments are necessary. Staff believes that the amount is appropriate and includes all required testing. Staff recommends chemicals expense for the test year of \$2,752.

Contractual Services – Billing (730)

The Utility recorded contractual services – billing expense of \$18,545. Audit staff decreased this account by \$18,545, reallocating \$5,000 to contractual services – accounting (732), \$1,545 to contractual services – testing (735), and \$12,000 to contractual services – other (736).

Contractual Services – Accounting (732)

Staff increased this account by \$5,000 to reflect the reclassification from Account 730. Staff reviewed support documentation which included two invoices for \$2,500 each, one in September 2015, and another in May 2016. Each invoice reflected the preparation of Beaches' corporate tax return. Because staff utilized a test year from July 1, 2015, through June 30, 2016, the cost associated with both returns was captured in the Utility's test year. While staff believes that the Utility should be able to recover the cost associated with the annual preparation of its corporate tax return, the allowed recovery should include the expense of one return per year, not two. Therefore, staff removed the \$2,500 duplicative cost associated with one of the returns and recommends accounting expense of \$2,500.

Contractual Services – Testing (735)

Staff increased this account by \$1,545 to reflect testing expense supported by actual documentation. This amount was reclassified from Account 730. Therefore, staff recommends testing expense of \$1,545.

Contractual Services - Other (736)

Staff increased this account by \$12,000 to reflect the appropriate amount of contractual services-other expense supported by documentation. This amount was reclassified from Account 730 and represents the contractual services for the operator of the wastewater plant at \$1,000 per month. In response to the Staff Report, the Utility included a revised contract for the plant operator which provides that as of July 15, 2017, the plant operator will be paid \$1,100 per month (\$13,200 per year).¹⁸ Since the change is known and measurable and has already gone into effect,

¹⁸Document No. 02928-2017, dated March 3, 2017. The filing also included a detailed division of responsibilities and duties for the plant operator.

staff believes the revised amount should be included in O&M expenses. Therefore, staff recommends contractor operator expense of \$13,200.

The Utility also provided documentation showing costs related to Beaches' WWTP permit renewal with the DEP. According to support documentation, the Utility paid a total of \$2,000 for Engineering Solutions International to prepare and submit the permit renewal. This renewal takes place every five years. While the invoice was dated October 2014, which is outside the test year, staff believes the expense should be amortized and included here due to its recurring nature. As such, staff has included \$400 ($\$2,000 / 5 \text{ yrs.}$) for DEP permit renewal. Therefore, staff recommends contractual services - other expense of \$13,600 ($\$13,200 + \400).

Rent Expense (740)

The Utility recorded rent expense of \$7,200. The Utility provided a copy of its lease in response to Staff's First Data Request. The lease calls for \$600 a month in rent, which includes insurance, repairs, utilities, and all furniture, computers, software, etc. This amount has not changed since 2012, based on the Utility's 2012-2015 Annual Reports. As such, staff made no adjustments. Therefore, staff recommends rent expense of \$7,200.

Transportation Expense (750)

Beaches did not record transportation expense for the test year. As discussed in Insurance Expense (755) below, staff removed the entire amount related to vehicle insurance. However, staff believes that the Utility should be allowed to recover utility-related expenses associated with the vehicle added to UPIS in Issue 3. In its place, staff recommends using the Utility's mileage estimates and IRS standard mileage rates to develop an appropriate amount of transportation expense.¹⁹ Staff believes that the Utility's mileage estimate is reasonable based on normal operations. According to the IRS, the standard mileage rate for business includes the fixed and variable costs of operating a vehicle for business purposes. These costs would include standard maintenance, repairs, taxes, gas, insurance, and registration fees. As a result, staff increased transportation expense by \$10,178 ($19,025 \text{ miles} \times \$0.535/\text{per mile}$).

Insurance Expense (755)

The Utility recorded vehicle insurance expense of \$5,856 for the test year. The recorded expense provided insurance coverage for three Utility vehicles. As discussed in Issue 3, staff recommends that transportation equipment costs be adjusted to include one vehicle for Utility operations. As such, staff removed the entire amount related to vehicle insurance here, but believes it has provided an appropriate alternate amount as part of its calculation of Transportation Expense (750), above. According to the IRS, the standard mileage rate for business includes the fixed and variable costs of operating a vehicle for business purposes, including vehicle insurance. As such, staff believes that insurance is accurately reflected as part of Transportation Expense (750) and removed \$5,856 from insurance expense.

In response to the Staff Report, the Utility provided a copy of its commercial general liability policy renewal with a premium of \$2,335 per year.²⁰ The premium associated with this general

¹⁹The IRS standard mileage rate for business is 53.5 cents per mile for 2017.

²⁰Document No. 02928-2017, filed March 3, 2017.

liability policy does not appear to have been previously included in the Utility's insurance expense. As such, staff believes that \$2,335 should be included in insurance expense. This represents a net reduction of \$3,521 ($-\$5,856 + \$2,335$). Therefore, staff recommends insurance expense of \$2,335.

Regulatory Commission Expense (765)

The Utility did not record regulatory commission expense for the test year. The Utility is required by Rule 25-22.0407, F.A.C., to provide notices of the customer meeting and notices of final rates in this case to its customers. For noticing, staff estimated \$300 for postage expense, \$214 for printing expense, and \$31 for envelopes. This results in \$545 for the Phase I noticing requirement. Staff also estimated \$150 for postage expense, \$61 for printing expense, and \$15 for envelopes for the Phase II notice. This results in \$226 for the Phase II noticing requirement. The Utility also paid a \$1,000 rate case filing fee. In response to a staff data request, the Utility notified staff that it had spent \$319 to obtain water usage information from the municipal water system.²¹ Staff believes that since the cost was incurred as a result of a staff request, the Utility should be allowed to recover it here. Based on the above, staff recommends total rate case expense of \$2,090 ($\$545 + \$226 + \$1,000 + \319), which amortized over four years is \$523. Therefore, staff recommends regulatory commission expense of \$523.

Bad Debt Expense (770)

Beaches recorded bad debt expense of \$2,971 for the test year. This amount reflects the actual bad debt expense per the Utility's records. While staff would typically calculate an appropriate amount of bad debt expense based on a three-year average, the Utility's 2013, 2014, and 2015 annual reports reflected no bad debt. Instead, staff believes the Utility's bad debt expense as recorded is reasonable and likely to be representative of the Utility's bad debt expense going forward. As such, staff made no adjustments to bad debt expense. Therefore, staff recommends bad debt expense of \$2,971.

Miscellaneous Expense (775)

The Utility recorded miscellaneous expense of \$27,928. Staff recommends the following adjustments to miscellaneous expense:

²¹Document No. 00104-2017, filed January 4, 2017.

**Table 6-2
 Adjustments Made to Miscellaneous Expense**

	Adjustment Description	Amount
1.	To reflect appropriate test year cell phone expense.	(\$136)
2.	To remove meals with association representative.	(98)
3.	To reflect appropriate test year postage expense.	41
4.	To remove plant items that were incorrectly expensed. (Issue 3)	(7,457)
5.	To remove duplicate phone bill.	(48)
6.	To remove water bill late fees.	(20)
7.	To remove gift card purchase.	(200)
	Total	<u>(\$7,918)</u>

Source: Utility records, Audit Response, responses to staff data requests, and Audit Control No. 16-222-1-1.

During this docket, the Utility also requested the following pro forma expense items that were not included in the miscellaneous expense adjustments listed above.

**Table 6-3
 Pro Forma Expense Items**

	Description	Amount
1.	Landscaping to address customer complaints regarding the plant and ponds.	\$2,500
2.	Clear the ponds of vegetation, add sand.	\$5,800
3.	Sand and grit removal from the wastewater treatment plant.	<u>\$19,010</u>
	Total	<u>\$27,310</u>

Source: Responses to staff data requests.

These items are addressed in additional detail as part of the Phase II discussion in Issue 16. As such, staff's total adjustments decrease this account by \$7,918. Therefore, staff recommends miscellaneous expense of \$20,010 (\$27,928 - \$7,918).

Operation and Maintenance Expenses Summary

Based on the above adjustments, staff recommends that the O&M expense balance is \$138,009. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A through 3-C.

Depreciation Expense (Net of Amortization of CIAC)

The Utility's records reflect test year depreciation of \$7,306 and CIAC amortization of \$6,407, for a net depreciation expense of \$899 (\$7,306 - \$6,407). Audit staff recalculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff decreased depreciation expense by \$3,404 to reflect the appropriate depreciation expense. Staff included depreciation expense for the plant repair that is being capitalized as addressed in Issue 3; this adjustment results in an increase in depreciation expense of \$89. Staff also calculated

depreciation expense of \$109 for the additional plant the Utility has requested and \$6,901 for the new Utility vehicle, also addressed in Issue 3. In addition, staff decreased depreciation expense by \$385 to reflect the non-U&U portion of the test year depreciation expense. This results in additional depreciation expense of \$3,310 ($-\$3,404 + \$89 + \$109 + \$6,901 - \385). As such, staff recommends depreciation expense of \$10,616 ($\$7,306 + \$3,310$).

Beaches recorded amortization of CIAC expense as \$6,407 during the test year. As discussed in Issue 3, the Utility's CIAC will become fully amortized in early 2018. Consequently, the CIAC amortization expense will also end at that time. In order to reflect removal of the CIAC amortization expense going forward, staff increased this account by \$6,407 to zero out the test year balance. Staff's adjustments result in a net depreciation expense of \$10,616 ($\$10,616 - \0). Therefore, staff recommends net depreciation expense of \$10,616.

Taxes Other Than Income (TOTI)

Beaches recorded taxes other than income (TOTI) of \$13,284 for the test year. Staff recommends the following adjustments to TOTI as shown in Table 6-4 below.

**Table 6-4
 Adjustments Made to TOTI**

	Adjustment Description	Amount
1.	To reflect appropriate test year RAFs.	(\$100)
2.	To reflect appropriate test year property tax.	(2,242)
3.	To reflect actual test year filing fees.	(150)
4.	To reclassify payroll taxes from Acct. 703.	3,993
5.	To reflect additional payroll taxes from salary increase.	842
6.	To reflect property tax associated with plant reclassified from Acct. 775.	26
7.	To reflect property tax associated with pro forma plant.	41
	Total	<u>\$2,411</u>

Source: Utility records, Audit Response, responses to staff data requests, and Audit Control No. 16-222-1-1

Staff's total adjustment to test year TOTI is an increase of \$2,411.

In addition, as discussed in Issue 8, revenues have been increased by \$45,092 to reflect the change in revenue required to cover expenses and allow an opportunity to earn the recommended rate of return. As a result, TOTI should be increased by \$2,029 to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$17,724.

Operating Expenses Summary

The application of staff's recommended adjustments to Beaches' test year operating expenses results in operating expenses of \$166,348. Operating expenses are shown on Schedule Nos. 3-A. The related adjustments are shown on Schedule Nos. 3-B and 3-C.

Issue 7: Should the Commission utilize the operating ratio methodology as an alternative method of calculating the revenue requirement for Beaches Sewer Systems, Inc. and, if so, what is the appropriate margin?

Recommendation: Yes. The Commission should utilize the operating ratio methodology for calculating the revenue requirement for Beaches. The margin should be 7.25 percent of O&M expense. (Brown)

Staff Analysis: Section 367.0814(9), F.S., provides that the Commission may, by rule, establish standards and procedures for setting rates and charges of small utilities using criteria other than those set forth in Sections 367.081(1), (2)(a), and (3), F.S. Rule 25-30.456, F.A.C., provides an alternative to a staff-assisted rate case as described in Rule 25-30.455, F.A.C. As an alternative, utilities with total gross annual operating revenue of less than \$275,000 per system may petition the Commission for staff assistance using alternative rate setting.

Beaches did not petition the Commission for alternative rate setting under the aforementioned rule, but staff believes the Commission should employ the operating ratio methodology to set rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the Utility's rate base, the revenue requirement is based on Beaches' O&M expenses plus a margin. This methodology has been applied in cases in which the traditional calculation of the revenue requirement would not provide sufficient revenue to protect against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU,²² the Commission, for the first time, utilized the operating ratio methodology as an alternative means for setting rates. This order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expense. This criterion was applied again in Order No. PSC-97-0130-FOF-SU.²³ Recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-17-0144-PAA-WU.²⁴

By Order No. PSC-96-0357-FOF-WU, the Commission established criteria to determine whether to utilize the operating ratio methodology for those utilities with low or non-existent rate base. The qualifying criteria established by Order No. PSC-96-0357-FOF-WU and how they apply to the Utility are discussed below:

- 1) Whether the Utility's O&M expense exceeds rate base. The operating ratio method substitutes O&M expense for rate base in calculating the amount of return. A utility generally would not benefit from the operating ratio method if rate base exceeds O&M expense. In the instant case, rate base is less than the level of O&M expense. The

²²Order No. PSC-96-0357-FOF-WU, issued March 13, 1996, in Docket No. 950641-WU, *In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.*

²³Order No. PSC-97-0130-FOF-SU, issued February 10, 1997, in Docket No. 960561-SU, *In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.*

²⁴Order No. PSC-17-0144-PAA-WU, issued April 27, 2017, in Docket No. 160143-WU, *In re: Application for staff-assisted rate case in Hardee County by Charlie Creek Utilities, LLC.*

Utility's primary risk resides with covering its operating expense. Based on staff's recommendation, the adjusted rate base for the test year is \$94,842, while adjusted O&M expenses are \$138,009.

- 2) Whether the Utility is expected to become a Class B utility in the foreseeable future. Pursuant to Section 367.0814(9), F.S., the alternative form of regulation being considered in this case only applies to small utilities. Beaches is a Class C utility and the recommended revenue requirement of \$176,348 is below the threshold level for Class B status. The Utility's service area has not had any significant growth in the last five years. Therefore, it appears the Utility will not become a Class B utility in the foreseeable future.
- 3) Quality of service and condition of plant. As discussed in Issue 1, the quality of service should be considered satisfactory.
- 4) Whether the Utility is developer-owned. The current Utility owner is not a developer.
- 5) Whether the Utility operates treatment facilities or is simply a distribution and/or collection system. The issue is whether or not purchased water and/or wastewater costs should be excluded in the computation of the operating margin. Beaches operates a wastewater treatment plant.

Based on staff's review of the Utility's situation relative to the above criteria, staff recommends that Beaches is a viable candidate for the operating ratio methodology.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, the Commission determined that a margin of 10 percent shall be used unless unique circumstances justify the use of a greater or lesser margin. The important question is not what the return percentage should be, but what level of operating margin will allow the Utility to provide safe and reliable service and remain a viable entity. The answer to this question requires a great deal of judgment based upon the particular circumstances of the Utility.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenue for the Utility to cover its interest expense. Beaches interest expense is not a concern in this case.

Second, the operating ratio method recognizes that a major issue for small utilities is cash flow; therefore, the operating ratio method focuses more on cash flow than on investment. In the instant case, the Utility's primary risk resides with covering its operating expense. A traditional calculation of the revenue requirement may not provide sufficient revenue to protect against potential variances in revenues and expenses. Under the rate base methodology, the return to Beaches would be \$5,070. Staff does not believe this would provide the necessary financial cushion to successfully operate this Utility.

Third, if the return on rate base method was applied, a normal return would generate such a small level of revenue that in the event revenues or expenses vary from staff's estimates, Beaches could be left with insufficient funds to cover operating expenses. Therefore, the margin should provide adequate revenue to protect against potential variability in revenues and expenses. If the Utility's operating expenses increase or revenues decrease, Beaches may not have the funds required for day-to-day operations. Using a 10 percent margin in this docket produces an operating margin of \$13,801, which is above the suggested cap of \$10,000. As such, staff recommends a 7.25 percent margin in this case, resulting in a \$10,000 operating margin.

In conclusion, staff believes the above factors show that the Utility needs a higher margin of revenue over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide Beaches with adequate cash flow to provide some assurance of safe and reliable service, staff recommends application of the operating ratio methodology at a margin of 7.25 percent of O&M expense for determining the revenue requirements.

Issue 8: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$176,348 resulting in an annual increase of \$45,092 (34.35 percent). (Brown)

Staff Analysis: Beaches should be allowed an annual increase of \$45,092 (34.35 percent). This will allow the Utility the opportunity to recover its expenses as well as a 7.25 percent margin on O&M expenses. The calculations are shown below in Table 8-1.

**Table 8-1
Wastewater Revenue Requirement**

Adjusted O&M Expense	\$138,009
Operating Margin (%)	<u>7.25%</u>
Operating Margin (\$10,000 Cap)	\$10,000
Adjusted O&M Expense	138,009
Depreciation Expense (Net)	10,616
Taxes Other Than Income	15,695
Test Year RAFs	<u>2,029</u>
Revenue Requirement	\$176,348
Less Adjusted Test Year Revenues	<u>131,256</u>
Annual Increase	<u>\$45,092</u>
Percent Increase	<u>34.35%</u>

Issue 9: What is the appropriate rate structure and rate for Beaches Sewer Systems, Inc.?

Recommendation: Staff recommends a monthly flat rate for residential and general wastewater service of \$43.03 per month as shown on Schedule No. 4. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered or connections made on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility should provide proof of noticing within 10 days of rendering its approved notice. (Friedrich)

Staff Analysis: Beaches is located in Gulf County and currently provides wastewater service to approximately 316 residential and 4 general service customers. The Utility's current rate structure for residential and general service customers consists of a monthly flat rate of \$32.20. The customers served by this Utility receive their water from the City of Port St. Joe. Staff asked the Utility for water data in order to evaluate the Utility's current rate structure and possible alternatives. The Utility provided one month of water data of its customers. However, the Utility expressed that there would be additional costs incurred for obtaining water usage data from the city to bill for wastewater. Therefore, staff does not believe it would be cost effective to bill based on the metered water usage and believes maintaining the Utility's current flat rate structure is appropriate. As a result, the recommended increase, excluding miscellaneous revenues, should be applied across the board to the existing monthly flat rate. The appropriate miscellaneous revenues to exclude should reflect the incremental increase in the Utility's miscellaneous service and late payment charges. Staff's calculation is shown below in Table 9-1.

Table 9-1
Percentage Service Rate Increase

1. Total Test Year Revenues	\$131,256
2. Less: Test Year Miscellaneous Revenues	<u>\$2,160</u>
3. Test Year Revenues from Service Rates	\$129,096
4. Revenue Increase	\$45,092
5. Less: Incremental Increase in Miscellaneous Revenues	<u>\$1,687</u>
6. Adjusted Revenue Increase	\$43,405
7. Percentage Service Rate Increase (Line 6/ Line 3)	33.64%

Based on the above, staff recommends a monthly flat rate for residential and general wastewater service of \$43.03 per month as shown on Schedule No. 4. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered or connections made on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility should provide proof of noticing within 10 days of rendering its approved notice.

Issue 10: What are the appropriate miscellaneous service charges for Beaches Sewer Systems, Inc.?

Recommendation: The miscellaneous service charges identified in Table 10-4 are appropriate and should be approved. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved miscellaneous service charges. The approved charges should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility should provide proof of noticing within 10 days of rendering its approved notice. (Friedrich)

Staff Analysis: The Utility’s current miscellaneous service charges are shown in Table 10-4. The Utility is requesting updated miscellaneous service charges to reflect current costs. Section 367.091, F.S., authorizes the Commission to change miscellaneous service charges. Staff’s recommended miscellaneous service charges reflect the hourly salaries of the administrative and field employees and the average distance traveled by the field employee to administer miscellaneous services during normal and after hours. The after hours transportation cost is less than the cost during normal business hours because the residence of the field employee is closer to the Utility’s service territory than the Utility’s office. This is reflected in Tables 10-1, 10-2, and 10-3 in staff’s transportation calculations. Staff’s recommended miscellaneous service charges are rounded to the nearest ten cents and are summarized below in Table 10-4.

Initial Connection Charge

The initial connection charge is levied for service initiation at a location where service did not exist previously. A Beaches’ representative makes one round trip when performing the service of an initial connection. Based on labor and transportation to and from the customer’s property, staff recommends initial connection charges of \$25.70 for normal hours and \$27.70 for after hours. Staff’s calculation is shown below in Table 10-1.

**Table 10-1
 Initial Connection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Administrative Labor \$22.66/hr x 1/4hr	\$5.67	Administrative Labor \$22.66/hr x 1/4hr	\$5.67
Field Labor \$31.64/hr x 1/3hr	\$10.55	Field Labor \$47.46/hr x 1/3hr	\$15.82
Transportation \$0.535/mile x 17.6 miles-to/from	\$9.42	Transportation \$0.535/mile x 11.6 miles-to/from	\$6.21
Total	\$25.64	Total	\$27.70

Source: Utility’s cost justification documentation.

Normal Reconnection Charge

A normal reconnection charge is levied subsequent to a customer requested disconnection. A normal reconnection requires two trips, which includes one to turn service off and the other to turn service on.

Based on labor and transportation to and from the customer’s property or premises, staff recommends that the normal reconnection charge should be \$46.00 for normal hours and \$47.50 for after hours. Staff’s calculations are shown below in Table 10-2.

**Table 10-2
 Normal Reconnection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Administrative Labor \$22.66/hr x 1/4hr x 2	\$11.33	Administrative Labor \$22.66/hr x 1/4hr x 2	\$11.33
Field Labor \$31.64/hr x 1/4hr x 2	\$15.82	Field Labor \$47.46/hr x 1/4hr x 2	\$23.73
Transportation \$0.535/mile x 17.6 miles-to/from x 2	\$18.83	Transportation \$0.535/mile x 11.6 miles-to/from x 2	\$12.41
Total	\$45.98	Total	\$47.47

Source: Utility’s cost justification documentation

Violation Reconnection Charge

The violation reconnection charge is levied prior to reconnection of an existing customer after discontinuance of service for cause according to subsection 25-30.320(2), F.A.C., including a delinquency in bill payment. Violation reconnection charges are at the tariffed rate for water and actual cost for wastewater. Therefore, staff recommends this charge should remain at the Utility’s actual cost to administer and process a violation reconnection.

Premises Visit Charge

The premises visit charge is levied when a service representative visits the premises at the customer’s request for complaint resolution and the problem is found to be the customer’s responsibility. In addition, the premises visit charge can be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. A premises visit requires one round trip.

Based on labor and transportation to and from the customer’s premises, staff recommends premises visit charges of \$25.70 for normal hours and \$27.70 for after hours. Staff’s calculations are shown below in Table 10-3.

**Table 10-3
 Premises Visit Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Administrative Labor \$22.66/hr x 1/4hr	\$5.67	Administrative Labor \$22.66/hr x 1/4hr	\$5.67
Field Labor \$31.64/hr x 1/3 hr	\$10.55	Field Labor \$47.46/hr x 1/3 hr	\$15.82
Transportation \$0.535/mile x 17.6 miles-to/from	\$9.42	Transportation \$0.535/mile x 11.6 miles-to/from	\$6.21
Total	\$25.64	Total	\$27.70

Source: Utility's cost justification documentation.

The Utility's current and staff's recommended miscellaneous service charges are shown below in Table 10-4.

**Table 10 - 4
 Miscellaneous Service Charges**

	Current	Staff Recommended	
	Normal and After Hours	During Hours	After Hours
Initial Connection Charge	\$15.00	\$25.70	\$27.70
Normal Reconnection Charge	\$15.00	\$46.00	\$47.50
Violation Reconnection Charge	Actual Cost	Actual Cost	
Premises Visit Charge	\$10.00	\$25.70	\$27.70

Conclusion

Based on the above, the recommended miscellaneous service charges identified in Table 10-4 are appropriate and should be approved. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved miscellaneous service charges. The approved charges should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility should provide proof of noticing within 10 days of rendering its approved notice.

Issue 11: Should Beaches Sewer Systems, Inc. be authorized to collect Non-Sufficient Funds Charges (NSF)?

Recommendation: Yes. Beaches should be authorized to collect NSF charges. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved NSF charges. The approved charges should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility should provide proof of noticing within 10 days of rendering its approved notice. (Friedrich)

Staff Analysis: Section 367.091, F.S., authorizes the Commission to approve NSF charges. Staff believes that Beaches 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.²⁵ Furthermore, NSF charges place the cost on the cost-causer, rather than requiring that the costs associated with the return of the NSF checks to be spread across the general body of ratepayers. As such, Beaches should be authorized to collect NSF charges. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved NSF charges. The approved charges should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility should provide proof of noticing within 10 days of rendering its approved notice.

²⁵Order 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 12: What is the appropriate late payment charge to be implemented by Beaches Sewer Systems, Inc.?

Recommendation: The appropriate late payment charge to be implemented by Beaches should be \$5.43. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved late payment charge. The approved charge should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility should provide proof of noticing within 10 days of rendering its approved notice. (Friedrich)

Staff Analysis: The Utility requested a \$5.41 late payment charge to recover the cost of supplies and labor associated with processing late payment notices. The Utility's request for a late payment charge was accompanied by its reason for requesting the charge, as well as the cost justification required by Section 367.091, F.S. Beaches' labor cost of \$4.83 accounts for the office personnel time to review and process a delinquent account. The provided justification by Beaches also included costs for supplies and postage for printing and sending out late payment notices. The Utility requested recovery of \$0.47 for postage, but staff recommends the Utility recover the full cost of a postage stamp, which is \$0.49. The cost basis for the late payment charge is shown below in Table 12-1.

Table 12-1
Late Payment Charge Cost Justification

Activity	Cost
Labor	\$4.83
Supplies	0.11
Postage	0.49
Total Cost	\$5.43

Source: Utility's cost justification documentation

Since the 1990s, the Commission has approved late payment charges ranging from \$2.00 to \$7.15.²⁶ The purpose of this charge is to provide an incentive for customers to make timely payments and to place the cost burden of processing delinquent accounts solely upon those who are cost causers.

Based on the above, the appropriate late payment charge to be implemented by Beaches should be \$5.43. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved late payment charge. The approved charge should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility should provide proof of noticing within 10 days of rendering its approved notice.

²⁶Order Nos. PSC-17-0092-PAA-WU, in Docket No. 160144-WU, dated March 13, 2017, *In re Application for transfer of Certificate No. 288-W in Pasco County from Orangeland Water Supply to Orange Land Utilities, LLC*; PSC-17-0091-FOF-SU, in Docket No. 150071-SU, dated March 13, 2017, *In re Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

Issue 13: Should Beaches Sewer System's, Inc. existing service availability charges be revised, and if so, what are the appropriate charges?

Recommendation: Yes. Beaches' existing wastewater service availability charges should be revised in part. A main extension charge of \$375 per ERC should be approved. The recommended service availability charge should be based on an estimated 240 gallons per day (gpd) of treated wastewater. The Utility's existing customer connection and plant capacity charges should be continued. The Utility should file revised tariff sheets and a proposed customer notice. Beaches should provide notice to property owners who have requested service in the 12 months prior to the month the SARC application was filed. The approved charges should be effective for connections made on or after the stamped approval date on the tariff sheets. The Utility should provide proof of noticing within 10 days of rendering its approved notice. (Friedrich)

Staff Analysis: Beaches' current service availability charges, which were approved in 1988, include a customer connection charge of \$100, a main extension charge of \$100, and a plant capacity charge of \$300. If a customer connects in an area where the lines were constructed by the developer and donated to the Utility, the customer is not required to pay the main extension charge.

Rule 25-30.580, F.A.C., establishes guidelines for designing a Utility's service availability policy. Pursuant to the rule, the maximum amount of contributions-in-aid-of construction (CIAC), net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of the Utility's facilities and plant when the facilities and plant are at their designed capacity. The minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the sewage collection systems.

A customer connection charge is designed to recover the cost of installing a connection from the Utility's wastewater line to a customer's property. Staff recommends no change to the Utility's existing customer connection charge.

However, staff believes the Utility's existing main extension charge should be revised to reflect the average historical cost of the existing sewage collection system. The cost of the sewage collection system is \$151,242 and the lines have a design capacity of 403 ERCs. Therefore, staff recommends a main extension charge of \$375, consistent with the guidelines in Rule 25-30.580, F.A.C. This charge is not applicable in areas of the Utility's service territory where the lines were donated to the Utility.

As previously discussed, the Utility receives guaranteed revenues from approximately 45 property owners. Consistent with prior Commission decisions, a developer or property owner who pays guaranteed revenues is not required to pay additional service availability charges if there is an increase prior to the date of connection.²⁷ Therefore, upon connection, those property owners who have paid guaranteed revenues will not be required to pay the incremental increase in the main extension charge.

²⁷Order No. 16625, in Docket No. 861171-WS, dated September 23, 1986, *In re: Petition of Edward L. Keohane for Declaratory Statement*.

The Utility's current contribution level is approximately 21 percent and Beaches is approximately 90 percent built out. Staff does not recommend any change to the Utility's existing plant capacity charge because the current charge reflects the average cost per ERC of the Utility's treatment facilities. Although these charges are unlikely to result in a significant increase in the Utility's overall contribution level, staff does not recommend requiring future connections to pay more than their fair share of the cost of the Utility's investment in its treatment facilities. The Utility's existing and staff's recommended service availability charges are shown below in Table 13-1.

Table 13-1
Service Availability Charges

Charge Type	Current	Staff Recommended
Customer Connection (Tap-in) Charge	\$100.00	\$100.00
Main Extension Charge	\$100.00	\$375.00
Plant Capacity Charge	\$300.00	\$300.00

Based on the above, Beaches' existing wastewater service availability charges should be revised in part. A main extension charge of \$375 per ERC should be approved. The recommended service availability charge should be based on an estimated 240 gallons per day (gpd) of treated wastewater. The Utility's existing customer connection and plant capacity charges should be continued. The Utility should file revised tariff sheets and a proposed customer notice. Beaches should provide notice to property owners who have requested service in the 12 months prior to the month the SARC application was filed. The approved charges should be effective for connections made on or after the stamped approval date on the tariff sheets. The Utility should provide proof of noticing within 10 days of rendering its approved notice.

Issue 14: Should Beaches Sewer System's, Inc. guaranteed revenue charge be revised?

Recommendation: Yes. Beaches' guaranteed revenue charge should be revised. Staff's recommended guaranteed revenue charge is \$11.79 per ERC. The Utility should file revised tariff sheets and a proposed customer notice. Beaches should provide notice to property owners who have requested service beginning 12 months prior to the month the application was filed to the present, as well as all property owners currently paying the guaranteed revenue charge. The approved charge should be effective for connections made on or after the stamped approval date on the tariff sheets. The Utility should provide proof of noticing within 10 days of rendering its approved notice. (Friedrich)

Staff Analysis: Beaches' current guaranteed revenue charge of \$8.82 per ERC for each was approved in 1988.²⁸ Pursuant to Rule 25-30.515(9), F.A.C., the guaranteed revenue charge is designed to cover the Utility's costs including, but not limited to the cost of operation, maintenance, depreciation, and any taxes, and to provide reasonable return to the Utility for facilities, a portion of which may not be used and useful to the Utility of existing customers. This charge is designed to help the Utility recover a portion of its cost from the time capacity is reserved until a customer begins to pay monthly service charges. In addition, the Utility should only begin to collect the guaranteed revenue charge upon the payment of the applicable service availability charges. The Commission has found that a guaranteed revenue charge locks in the amount of service availability charges notwithstanding a Commission approved change in service availability charges prior to the time of connection.²⁹

In the past, the Commission has, on occasion, based guaranteed revenue charges on the Utility's approved BFC to reflect the fixed costs associated with the reserved capacity.³⁰ However, Beaches bills customers a monthly flat rate for wastewater service; therefore, staff believes it is appropriate to apply the recommended revenue increase of 33.64 percent, as calculated in Issue 9, across the board to the Utility's existing guaranteed revenue charge.

Based on the above, Beaches' guaranteed revenue charge should be revised. Staff's recommended guaranteed revenue charge is \$11.79 per ERC. The Utility should file revised tariff sheets and a proposed customer notice. Beaches should provide notice to property owners who have requested service beginning 12 months prior to the month the application was filed to the present, as well as all property owners currently paying the guaranteed revenue charge. The approved charge should be effective for connections made on or after the stamped approval date on the tariff sheets. The Utility should provide proof of noticing within 10 days of rendering its approved notice.

²⁸Order No. 19435, in Docket No. 880596-SU, dated June 6, 1988, *In re: Request for approval of a special service availability contract between Gulf Aire Properties, Inc. d/b/a Gulf Aire Wastewater Treatment Plant, and C.M. Parker and Cecil G. Costin, Jr. in Gulf County.*

²⁹Order No. 16625, in Docket No. 861171-WS, dated September 23, 1986, *In re: Petition of Edward L. Keohane for Declaratory Statement.*

³⁰Order No. PSC-99-0513-FOF-WS, in Docket No. 980214-WS, dated March 12, 1999, *In re: Application for rate increase in Duval, St. Johns and Nassau Counties by United Water Florida Inc.*

Issue 15: Should the Utility be required to discontinue the collection of Allowance for Funds Prudently Invested (AFPI) for the collection system?

Recommendation: Yes. Staff recommends that the Utility should be required to discontinue the collection of AFPI charges for the collection system and the tariff for AFPI should be canceled. (Friedrich)

Staff Analysis: Pursuant to Rule 25-30.434, F.A.C, AFPI is a mechanism which allows a Utility the opportunity to earn a fair rate of return on prudently constructed plant held for future use from the future customers to be served by that plant in the form of a charge paid by those customers. Further, the Rule prescribes that the Utility can continue to collect AFPI until all projected ERCs included in the calculation of the charge have been added. Beaches' AFPI charges for the collection system were approved on December 26, 1989. The Utility was authorized to collect the charge from 185 additional ERCs.

At the time the charges were approved the Utility was serving approximately 120 customers. Currently, the Utility serves approximately 320 customers; therefore, it appears that the additional 185 ERCs have connected to the Utility. Based on the above, staff recommends that the Utility should be required to discontinue the collection of AFPI charges for the collection system and the tariff for AFPI should be canceled.

Date: August 24, 2017

Issue 16: Should the Commission approve a Phase II increase for pro forma items for Beaches Sewer Systems, Inc.?

Recommendation: No. Staff believes that a final decision on the amount of the Phase II revenue requirement and rates should be made after the Utility has completed the Phase II pro forma projects and the costs have been evaluated. The Utility should complete the pro forma items within 12 months of the issuance of the consummating order. After this period, the Utility should be required to submit within 60 days a copy of the final invoices and cancelled checks for all Phase II pro forma plant and O&M items to staff. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing. Once the required information has been submitted by the Utility and evaluated by staff, a recommendation regarding the appropriate amount of the Phase II revenue requirement and rates should be considered by the Commission. (Brown, Ellis)

Staff Analysis: The Utility requested recognition of several pro forma plant items in the instant case which totaled \$130,092. Staff identified three pro forma items, totaling \$27,390, which should be reclassified as pro forma expense. Staff's preliminary adjustments are reflected in Table 16-1. The remaining \$102,702 (\$130,092 - \$19,010 - \$5,880 - \$2,500) in pro forma plant items, and any preliminary staff adjustments to those items, are also reflected in Table 16-1 below. The Utility anticipates that all pro forma projects listed below will be completed no later than July 30, 2018.³¹

Table 16-1
Pro Forma Items

Description	Per Utility	Staff Recom.	Staff Adj.	Reason for Staff Adjustment
Pro Forma O&M				
Landscaping	\$2,500	\$0	(\$2,500)	No bid provided.
Clear Ponds of Vegetation	5,880	4,152	(1,728)	Reduced hourly rate included in bid.
Sand and Grit Removal	19,010	19,010	0	
Total Pro Forma O&M	\$27,390	\$23,162	(\$4,228)	
Pro Forma Plant				
Purchase of Portable Generator	\$31,560	\$23,756	(\$7,804)	Used lower of two provided bids.
Replace Lift Station Pump (Hwy 98)	12,200	12,200	0	
Replace Lift Station Pump (Americus)	14,000	14,000	0	
Replace Control Panel (Americus)	2,581	2,581	0	
Replace of Rail System (Americus)	6,500	0	(6,500)	Included in Americus pump bid.
Purchase of Second Blower	2,617	2,617	0	
Replace Piping at WWTP/Ponds	14,500	0	(14,500)	No bids provided.
Repair Fencing at WWTP	10,744	7,864	(2,880)	Reduced hourly rate included in bid.
Install Electrical Hookup for Generator	4,000	4,000	0	
Repair to Clarifier at WWTP	4,000	0	(4,000)	No bid provided.
Total Pro Forma Plant	\$102,702	\$67,018	(\$35,684)	
Total	\$130,092	\$90,180	(\$39,912)	

Source: Utility responses to staff data requests.

³¹Document No. 04224-2017, filed April 14, 2017.

Staff requested the Utility provide multiple bids and/or quotes for each pro forma project on several occasions, yet was only provided with one bid for many of the projects. Staff notes that several of the bids date to late 2014 and early 2015, while several other much needed pro forma items have no bids. Beaches indicated that it had difficulty finding companies or persons to provide quotes and perform specific jobs. During the site visit, staff observed the condition of Beaches' plant and believes the majority of the pro forma projects are warranted.

Pro Forma Expense

Beaches requested three pro forma expense items, totaling \$27,390, which are summarized in the table above and discussed in additional detail below.

Landscaping

The Utility requested \$2,500 to install landscaping at the WWTP and lift stations. The Utility did not provide any bids describing the nature of the work to be performed, or a cost breakdown of materials and labor to justify the expense. Absent additional support documentation, staff removed the expense from Phase II consideration.

Pond Clearing

The Utility has also requested the inclusion of \$5,880 to clear the ponds of vegetation, add sand, and apply a growth inhibitor to prevent unwanted vegetation in the future. Staff notes that the Beaches' DEP permit requires the Utility to rotate ponds weekly. According to the Utility, that has become increasingly difficult due to the growth of vegetation and the deficient lines. As with the fencing bid included in pro forma plant below, staff takes issue with the hourly labor rate included in the Gulf Coast Property Services, LLC bid for the vegetation clearing. Staff notes the single bid for the project comes from the same company that provided the fencing bid. It also happens to be the same company that provides the Utility's grounds keeping services and is owned by the Utility's Vice-President. Staff believes the labor rate of \$65/hour is excessive given the type of work to be performed. While not directly analogous to the contractual relationships between Ni Florida and Utility Group of Florida, LLC (UGF), or several other utilities' relationship with U.S. Water Services Corporation (USWS), staff believes a similar situation exists here. Staff compared the labor rates charged under the UGF and USWS service agreements for general maintenance or labor to review the reasonableness of the rate included in the bid here. The rate was \$30 per hour for UGF and \$52 per hour for USWS, which result in an average hourly rate of \$41 per hour. As such, staff applied an average labor rate of \$41 per hour instead of \$65 per hour here and in the pro forma fencing project. This reduces the labor component of the bid from \$4,680 (72 hrs. x \$65/hr.) to \$2,952 (72 hrs. x \$41/hr.). All other portions of the bid appear reasonable. As such, staff recommends pro forma pond clearing expense of \$4,152 amortized over five years, or \$830 per year (\$4,152 / 5 years).

Sand and Grit Removal

In addition, the Utility requested \$19,010 for sand and grit removal from the wastewater treatment plant. According to the Utility, this has not been done since the current owner took over approximately 17 years ago. As a result, this has caused the Utility's air lines to become clogged. The Utility believes that once done, this project will not need to be done again for at least five more years. The Utility has estimated that one half of the project will be completed by August 30, 2017, and the other half by July 30, 2018. Staff believes that the project is necessary

to avoid additional repairs at the plant. As such, staff recommends pro forma sand and grit removal expense of \$19,010 amortized over five years, or \$3,802 per year ($\$19,010 / 5$ years).

Accordingly, staff recommends preliminary pro forma O&M expense of \$23,162 ($\$4,152 + \$19,010$) amortized over five years, or \$4,632 per year ($\$830 + \$3,802$).

Pro Forma Plant

The Utility also requested \$102,702 in pro forma plant projects for consideration. Staff made several adjustments to the Utility's request as described below.

Generators

The Utility currently has no generators to provide power to the WWTP or lift station pumps in the event of a power outage. Due to the high cost of this type of equipment, staff recommends that a single generator which can be moved to the particular location is required by Beaches. Staff utilized the lowest bid provided by the Utility for the cost of the portable generator.

Lift Station Pumps

The Utility states that the pumps at lift stations Americus and Highway 98 are in need of replacement due to their excessive age and poor condition. The cost for the pumps were obtained from bids provided by Beaches. Staff observed during its site visit the control panel and rail system at the Americus lift station. The rail system used for servicing the pump has completely rusted away and the control panel is in poor condition. The Utility provided a bid for replacing the pump at Americus which included the cost of installing a rail system, so staff did not include the separate cost of the rail system in the list of pro forma items.

Blower

The WWTP currently has a single blower in place; however, the DEP regulations require a backup blower in the event of a failure of the primary blower. The cost for the second blower was based on the invoice provided from the purchase of the primary blower.

Piping

The Utility indicated that in order to operate the ponds per DEP requirements, piping needs to be lowered to facilitate flows to different ponds. However, after requesting bids in at least two data requests for the WWTP piping, the Utility provided none. No bids or formal estimates were received for the pond piping either. Therefore, the replacement of the piping was not included in the pro forma items.

Fencing

The Utility states that fencing around the WWTP is in need of repair. Only one bid was provided by Beaches. The company providing the single bid is the same company that provided the bid for clearing the ponds of vegetation and is owned by the Utility's Vice-President. The recommended pro forma expense for cleaning the ponds is discussed earlier in this issue. As with the pond cleaning, the recommended amount for labor was adjusted from \$65 per hour to a more reasonable \$41 per hour.

Electrical Equipment

The Utility states that the electrical equipment at the WWTP must be upgraded in order to connect the portable generator when required by a power outage. Staff recommends this pro forma item is necessary, and has based the cost on a bid provided by the Utility.

Clarifier

Although the Utility states that repairs to the clarifier at the WWTP are needed, Beaches did not provide any bid or formal estimate of the cost of the repairs. Without proper documentation, staff is unable to include in pro forma the requested amount for this work.

Conclusion

Although multiple bids were not provided, staff believes the supported pro forma items recommended above to be reasonable based on the analysis of each item. Accordingly, staff recommends preliminary pro forma plant of \$67,018. However, staff anticipates that the final costs associated with the Utility's pro forma expense and plant items will likely be higher than currently reflected due to the age of several of the bids.

As such, staff believes a Phase II revenue requirement associated with the pro forma expense and plant items is appropriate for a number of reasons. First, it assures that the pro forma items are completed prior to the Utility's recovery of the investment in rates. In addition, addressing the pro forma items in a single case saves additional rate case expense to the customers because the Utility would not need to file another rate case or limited proceeding to seek recovery for these items. The Commission has approved a phased-in approach in Docket Nos. 140177-WU, 140175-WU, 130265-WU, 110238-WU, and 110165-SU.³²

However, due to concerns with the age of some bids, staff is recommending that a final decision on the amount of the Phase II revenue requirement and rates should be made after the Utility has completed the Phase II pro forma O&M and plant items listed above and the costs have been evaluated by staff. The Utility should complete the pro forma items within 12 months of the issuance of the consummating order. After this period, the Utility should be required to submit within 60 days a copy of the final invoices and cancelled checks for all Phase II pro forma O&M and plant items. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing. Once the required information has been submitted by the Utility and evaluated by staff, a recommendation regarding the appropriate amount of the Phase II revenue requirement and rates should be considered by the Commission.

³²Order Nos. 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*; 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*; PSC-14-0626-PAA-WU, issued October 29, 2014, in Docket No. 130265-WU, *In re: Application for staff-assisted rate case in Charlotte County by Little Gasparilla Water Utility, Inc.*; PSC-12-0533-PAA-WU, issued October 9, 2012, in Docket No. 110238-WU, *In re: Application for staff-assisted rate case in Polk County by Sunrise Utilities, LLC*; and PSC-12-0410-PAA-SU, issued August 13, 2012, in Docket No. 110165-WU, *In re: Application for staff-assisted rate case in Highlands County by Utility Corporation of Florida, Inc.*

Issue 17: What is the appropriate amount by which rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense?

Recommendation: The wastewater rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If Beaches files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Friedrich, Brown)

Staff Analysis: Beaches' wastewater rates should be reduced immediately following the expiration of the four-year rate case expense recovery period by the amount of the rate case expense previously included in the rates, pursuant to 367.081(8), F.S. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs which is \$547 for wastewater. Using the Utility's current revenues, expenses, and customer base, the reduction in revenues will result in the rate decrease shown on Schedule No. 4.

Beaches should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 18: Should the recommended rates be approved for Beaches Sewer Systems, Inc. on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility. Beaches should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Brown)

Staff Analysis: This recommendation proposes an increase in wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, staff recommends that the recommended rates be approved as temporary rates. Beaches 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.

Beaches 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 \$30,282. 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.

Should the recommended rates be approved by the Commission on a temporary basis, Beaches should maintain a record of the amount of the security, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 19: Should the Utility be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision?

Recommendation: Yes. The Utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Beaches should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Brown)

Staff Analysis: The Utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Beaches should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Issue 20: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open (1) for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, (2) for the Utility to provide proof that the adjustments for all applicable NARUC USOC primary accounts have been made, and (3) for the Commission to address Phase II of this docket. (Murphy)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open (1) for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, (2) for the Utility to provide proof that the adjustments for all applicable NARUC USOC primary accounts have been made, and (3) for the Commission to address Phase II of this docket.

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 06/30/16		DOCKET NO. 20160165-SU	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$616,024	(\$250,862)	\$365,162
LAND & LAND RIGHTS	14,364	7,500	21,864
NON-USED AND USEFUL COMPONENTS	0	(2,021)	(2,021)
CIAC	(247,554)	(33,496)	(281,050)
ACCUMULATED DEPRECIATION	(509,117)	201,769	(307,348)
AMORTIZATION OF CIAC	188,335	92,715	281,050
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>17,186</u>	<u>17,186</u>
WASTEWATER RATE BASE	<u>\$62,052</u>	<u>\$32,790</u>	<u>\$94,842</u>

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc. TEST YEAR ENDED 06/30/16 ADJUSTMENTS TO RATE BASE	SCHEDULE NO. 1-B DOCKET NO. 20160165-SU
	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
1. To reflect previously ordered Commission adjustment.	(\$191,682)
2. To reflect removal of unsupported items.	(83,849)
3. To reflect plant that was not booked.	199
4. To reflect major plant repairs previously placed in Acct. 775.	1,864
5. To reflect adjustment for additional plant.	2,934
6. To reflect the purchase of Utility vehicle.	41,406
7. To reflect an averaging adjustment.	<u>(21,735)</u>
Total	<u>(\$250,862)</u>
<u>LAND & LAND RIGHTS</u>	
To reflect the Utility's purchase of land.	<u>\$7,500</u>
<u>NON-USED AND USEFUL PLANT</u>	
1. To reflect non-used and useful plant.	(\$69,232)
2. To reflect non-used and useful accumulated depreciation.	<u>67,211</u>
Total	<u>(\$2,021)</u>
<u>CIAC</u>	
1. To reflect previously ordered Commission adjustment.	(\$31,996)
2. To reflect appropriate CIAC.	<u>(1,500)</u>
Total	<u>(\$33,496)</u>
<u>ACCUMULATED DEPRECIATION</u>	
1. To reflect previously ordered Commission adjustment.	\$66,607
2. To reflect removal of the reserve for transportation costs.	135,915
3. To reflect major plant repairs previously placed in Acct. 775.	5,504
4. To reflect adjustment for additional plant.	(109)
5. To reflect the purchase of Utility vehicle.	(6,901)
6. To reflect an averaging adjustment.	<u>753</u>
Total	<u>\$201,769</u>
<u>AMORTIZATION OF CIAC</u>	
1. To reflect previously ordered Commission adjustment.	\$34,296
2. To reflect appropriate amortization of CIAC.	40,006
3. To fully amortize CIAC.	<u>18,413</u>
Total	<u>\$92,715</u>
<u>WORKING CAPITAL ALLOWANCE</u>	
To reflect 1/8 of test year O & M expenses.	<u>\$17,186</u>

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.						SCHEDULE NO. 2		
TEST YEAR ENDED 06/30/16						DOCKET NO. 20160165-SU		
SCHEDULE OF CAPITAL STRUCTURE								
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	(\$55,737)	\$55,737	\$0					
2. RETAINED EARNINGS	0	0	0					
3. PAID IN CAPITAL	0	0	0					
4. OTHER COMMON EQUITY	0	0	0					
TOTAL COMMON EQUITY	(\$55,737)	\$55,737	\$0	\$0	\$0	0.00%	11.16%	0.00%
5. LONG TERM DEBT	\$217,870	\$48,460	\$266,730	(\$189,773)	\$76,956	81.14%	5.43%	4.41%
6. SHORT-TERM DEBT	0	61,400	61,400	(43,685)	17,715	18.68%	5.00%	0.93%
7. PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%
TOTAL LONG TERM DEBT	\$217,870	\$110,260	\$328,130	(\$233,458)	\$94,671	99.82%		
8. CUSTOMER DEPOSITS	\$2,166	(\$1,995)	\$171	\$0	\$171	0.18%	2.00%	0.00%
9. TOTAL	\$164,299	\$164,002	\$328,301	(\$233,458)	\$94,842	100.00%		5.35%
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>	
OVERALL RATE OF RETURN						<u>5.35%</u>	<u>5.35%</u>	

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc. TEST YEAR ENDED 06/30/16 SCHEDULE OF WASTEWATER OPERATING INCOME						SCHEDULE NO. 3-A DOCKET NO. 20160165-SU
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE		REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$131,149</u>	<u>\$107</u>	<u>\$131,256</u>	<u>\$45,092</u> 34.35%		<u>\$176,348</u>
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$131,861	\$6,148	\$138,009	\$0		\$138,009
3. DEPRECIATION	7,306	3,310	10,616	0		10,616
4. AMORTIZATION	(6,407)	6,407	0	0		0
5. TAXES OTHER THAN INCOME	13,284	2,411	15,695	2,029		17,724
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>		<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$146,044</u>	<u>\$18,275</u>	<u>\$164,319</u>	<u>\$2,029</u>		<u>\$166,348</u>
8. OPERATING INCOME/(LOSS)	<u>(\$14,895)</u>		<u>(\$33,063)</u>			<u>\$10,000</u>
9. WASTEWATER O&M EXPENSE	<u>\$131,861</u>		<u>\$138,009</u>			<u>\$138,009</u>
10. OPERATING RATIO						<u>7.25%</u>

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc. TEST YEAR ENDED 06/30/16 ADJUSTMENTS TO OPERATING INCOME		SCHEDULE NO. 3-B DOCKET NO. 20160165-SU Page 1 of 2
		<u>WASTEWATER</u>
OPERATING REVENUES		
1.	To reflect the appropriate test year revenues.	<u>\$107</u>
OPERATION AND MAINTENANCE EXPENSES		
2.	Salaries and Wages - Officers (703)	
a.	To reflect appropriate salaries and wages.	(\$81)
b.	To reclassify payroll taxes.	(3,993)
c.	To reflect pro forma salaries and wages.	<u>9,000</u>
	Subtotal	<u>\$4,926</u>
3.	Sludge Removal Expense (711) To reflect amortized portion of sludge hauling expense from test year.	<u>\$2,600</u>
4.	Purchased Power (715) To reflect appropriate purchased power incurred during test year.	<u>\$260</u>
5.	Contractual Services - Billing (730) To reclassify expenses to appropriate accounts.	<u>(\$18,545)</u>
6.	Contractual Services -Accounting (732)	
a.	To reflect contractual service expense reclassified from Acct. 730.	\$5,000
b.	To reflect appropriate contractual service expense.	<u>(2,500)</u>
	Subtotal	<u>\$2,500</u>
7.	Contractual Services - Testing (735) To reflect appropriate contractual service expense reclassified from Acct. 730.	<u>\$1,545</u>
8.	Contractual Services - Other (736)	
a.	To reflect contractual service expense reclassified from Acct. 730.	\$12,000
b.	To reflect increase in expense for contract operator.	1,200
c.	To reflect appropriate engineering expense for DEP permit renewal.	<u>400</u>
	Subtotal	<u>\$13,600</u>
9.	Transportation Expense (750) To reflect appropriate transportation expense.	<u>\$10,178</u>

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc. TEST YEAR ENDED 06/30/16 ADJUSTMENTS TO OPERATING INCOME		SCHEDULE NO. 3-B DOCKET NO. 20160165-SU Page 2 of 2
10.	Insurance Expenses (755)	
	a. To remove vehicle insurance expense.	(\$5,856)
	b. To reflect previously unrecorded general liability insurance expense.	<u>2,335</u>
	Subtotal	<u>(\$3,521)</u>
11.	Regulatory Commission Expense (765)	
	To reflect 4-year amortization of rate case expense (\$2,090/4).	<u>\$523</u>
12.	Miscellaneous Expense (775)	
	To reflect appropriate miscellaneous expense.	<u>(\$7,918)</u>
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$6,148</u>
	DEPRECIATION EXPENSE	
1.	To reflect appropriate depreciation expense per staff audit.	(\$3,404)
2.	To reflect major plant repairs previously placed in Acct. 775.	89
3.	To reflect adjustment for additional plant.	109
4.	To reflect the purchase of Utility vehicle.	6,901
5.	To reflect non-used & useful depreciation expense.	<u>(385)</u>
	Total	<u>\$3,310</u>
	AMORTIZATION	
	To reflect appropriate amortization expense.	<u>\$6,407</u>
	TAXES OTHER THAN INCOME	
1.	To reflect the appropriate test year RAFs.	(\$100)
2.	To reflect appropriate test year utility property taxes.	(2,242)
3.	To reflect appropriate state filing fees.	(150)
4.	To reflect appropriate payroll taxes.	3,993
5.	To reflect payroll taxes associated with salary increase.	842
6.	To reflect property tax adjustment for major plant repairs previously placed in Acct. 775.	26
7.	To reflect property tax adjustment for additional plant.	<u>41</u>
	Total	<u>\$2,411</u>

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 06/30/16		DOCKET NO. 20160165-SU	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(703) SALARIES AND WAGES - OFFICERS	58,274	4,926	63,200
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED WASTEWATER	0	0	0
(711) SLUDGE REMOVAL EXPENSE	0	2,600	2,600
(715) PURCHASED POWER	8,335	260	8,595
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	2,752	0	2,752
(720) MATERIALS AND SUPPLIES	0	0	0
(730) CONTRACTUAL SERVICES - BILLING	18,545	(18,545)	0
(732) CONTRACTUAL SERVICES - ACCOUNTING	0	2,500	2,500
(735) CONTRACTUAL SERVICES - TESTING	0	1,545	1,545
(736) CONTRACTUAL SERVICES - OTHER	0	13,600	13,600
(740) RENTS	7,200	0	7,200
(750) TRANSPORTATION EXPENSE	0	10,178	10,178
(755) INSURANCE EXPENSE	5,856	(3,521)	2,335
(765) REGULATORY COMMISSION EXPENSE	0	523	523
(770) BAD DEBT EXPENSE	2,971	0	2,971
(775) MISCELLANEOUS EXPENSE	<u>27,928</u>	<u>(7,918)</u>	<u>20,010</u>
	<u>\$131,861</u>	<u>\$6,148</u>	<u>\$138,009</u>

ESAD ENTERPRISES d/b/a BEACHES SEWER SYSTEMS, INC.		SCHEDULE NO. 4	
TEST YEAR ENDED 06/30/16		DOCKET NO. 20160165-SU	
MONTHLY WASTEWATER RATE			
	UTILITY CURRENT RATE	STAFF RECOMMENDED PHASE I RATE	4 YEAR RATE REDUCTION
<u>Residential & General Service</u>			
Flat Rate	\$32.20	\$43.03	\$0.13

Item 9

State of Florida



Public Service Commission

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

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

DATE: August 24, 2017

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Ollila) *S.O. EAD PO*
Office of the General Counsel (Janjic) *OTJSC*

RE: Docket No. 20170074-EI – Petition for approval of 2017 revisions to underground residential distribution tariffs, by Gulf Power Company.

AGENDA: 09/07/17 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 11/30/17 (8-Month Effective Date)

SPECIAL INSTRUCTIONS: None

RECEIVED-FPSC
2017 AUG 24 AM 8:31
COMMISSION
CLERK

Case Background

On March 31, 2017, Gulf Power Company (Gulf or Company) filed a petition for approval of 2017 revisions to its underground residential distribution (URD) tariffs. The URD tariffs apply to new residential subdivisions and represent the additional costs Gulf incurs to provide underground distribution service in place of overhead service. The proposed (legislative version) URD tariffs are contained in Attachment A to the recommendation. Gulf's current charges were approved in Order No. PSC-15-0274-TRF-EI (2015 Order).¹

The Commission suspended Gulf's proposed tariffs in Order No. PSC-17-0193-PCO-EI.² Gulf responded to staff's first data request on June 2, 2017, and to staff's second data request on July

¹ Order No. PSC-15-0274-TRF-EI, issued July 6, 2015, in Docket No. 150112-EI, *In re: Request by Gulf Power Company to modify its underground residential differential tariffs.*

² Order No. PSC-17-0193-PCO-EI, issued May 19, 2017, in Docket No. 170074-EI, *In re: Petition for approval of 2017 revisions to underground residential distribution tariffs, by Gulf Power Company.*

Docket No. 20170074-EI

Date: August 24, 2017

14, 2017. The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Should the Commission approve Gulf's proposed URD tariffs and associated charges?

Recommendation: Yes, the Commission should approve Gulf's proposed URD tariffs and associated charges, as shown in Attachment A, effective September 7, 2017. (Ollila)

Staff Analysis: Rule 25-6.078, Florida Administrative Code (F.A.C.), defines investor-owned utilities' (IOU) responsibilities for filing updated URD tariffs. Gulf filed the instant petition pursuant to subsection (3) of the rule, which requires IOUs to seek Commission approval of updated URD tariff charges if the utility's per-lot cost differentials between overhead and underground service based on current material and labor costs, vary by more than 10 percent from the existing Commission-approved differentials. All IOUs are required to file supporting data and analyses for URD tariffs at least once every three years.

The URD tariffs provide standard charges for underground service in new residential subdivisions and represent the additional costs, if any, the utility incurs to provide underground service in place of standard overhead service. The cost of standard overhead construction is recovered through base rates from all ratepayers. In lieu of overhead construction, customers have the option of requesting underground facilities. Any additional cost is paid by the customer as contribution-in-aid-of construction (CIAC). Typically, the URD customer is the developer of a subdivision.

Gulf's URD charges are based on two standard model subdivisions: a 210-lot low density subdivision and a 176-lot high density subdivision. While actual construction may differ from the model subdivisions, the model subdivisions are designed to reflect average overhead and underground subdivisions.

Table 1-1 shows the current and proposed URD differentials for the low and high density subdivisions. The charges shown are per-lot charges. Gulf's URD tariffs also provide for reduced charges if the customer chooses to supply and/or install the primary and secondary trench and duct system.

Table 1-1
Comparison of URD Differential per Lot

	Current Differential	Proposed Differential
Low Density	\$402	\$498 ³
High Density	\$521	\$562

Source: 2015 Order and 2017 Petition

As shown in Table 1-1, the proposed URD differentials show an increase for both model subdivisions. The calculations of the proposed URD charges include updated labor and material costs, as well as updated operational costs.

³ \$498 is calculated as follows: \$720 (Table 1-2) - \$222 (Table 1-3) = \$498.

Updated Labor and Material Costs

The installation costs of both overhead and underground facilities include the labor and material costs to provide primary, secondary, and service distribution lines, as well as transformers. The cost to provide overhead service also includes poles. The cost to provide underground service includes the cost of trenching and backfilling.

Gulf stated, in response to staff's data request, that there have not been any design changes to either the low or high density subdivision since 2015. The mix of Gulf employee and contractor labor remains the same as it was in 2015. Gulf employees perform most overhead construction activities while contractor labor is used for underground construction. Both Gulf and contractor labor rates increase as specified in their respective contracts.

Total labor and material costs increased from 2015 to 2017 by a larger amount for underground construction than for overhead construction, resulting in an increase in the differential. The driver of the increase is material cost. Gulf explained in its response to staff's data request that since 2015 the cost of underground material outpaced the cost of material used in overhead construction. As an example, Gulf stated that the cost of underground padmount transformers increased while the cost of overhead transformers remained stable.

Loading factors increased from 2015 to 2017. The Stores Handling loading factor increased from 4 percent in 2015 to 17 percent in this filing because of a higher volume of transmission material purchases. The Stores Handling factor includes supervision, labor, and expenses incurred for stores-related activities such as the operation of general storerooms. Gulf explained that the increase in the Engineering loading factor from 48 to 52 percent is due to increases in its engineering labor rate.

Table 1-2 below compares total 2015 and 2017 per-lot labor and material costs for the two subdivisions.

**Table 1-2
 Labor and Material Costs per Lot**

	2015 Costs	2017 Costs	Difference
Low Density			
Underground Labor/Material Costs	\$2,307	\$2,460	\$153
Overhead Labor/Material Costs	\$1,715	\$1,740	\$25
Per lot Differential	\$592	\$720	\$128
High Density			
Underground Labor/Material Costs	\$1,895	\$1,976	\$81
Overhead Labor/Material Costs	\$1,331	\$1,352	\$21
Per lot Differential	\$564	\$624	\$60

Source: 2015 Order and 2017 Petition

Updated Operational Costs

Rule 25-6.078(4), F.A.C., requires that the differences in net present value (NPV) of operational costs between overhead and underground systems, including average historical storm restoration

costs over the life of the facilities, be included in the URD charge. The inclusion of the operational cost is intended to capture longer term costs and benefits of undergrounding.

Operational costs include operations and maintenance costs and capital costs and represent the cost differential between maintaining and operating an underground versus an overhead system over the life of the facilities. The inclusion of the storm restoration cost in the URD differential lowers the differential, since an underground distribution system generally incurs less damage than an overhead system as a result of a storm and, therefore, less restoration costs when compared to an overhead system. Gulf’s operational costs, last updated for the 2015 filing, represent a five-year average (2012 – 2016). The methodology used by Gulf in this filing for calculating the NPV of operational costs was approved in Order No. PSC-12-0531-TRF-EI.⁴

Gulf’s NPV calculation used a 32-year life of the facilities and a 6.69 percent discount rate. Staff notes that operational costs may vary among IOUs as a result of differences in size of service territory, miles of coastline, regions subject to extreme winds, age of the distribution system, or construction standards.

Table 1-3 below compares the 2015 and 2017 NPV calculations of operational and storm restoration cost differentials between overhead and underground systems on a per lot basis. As Table 1-3 shows, there are small differences in the differentials from 2015 to 2017.

**Table 1-3
 NPV of Operational Costs Differential per Lot**

	2015 Calculation	2017 Calculation	Difference
Low Density			
Underground NPV – Operational Costs	\$436	\$416	(\$20)
Overhead NPV- Operational Costs	\$626	\$638	\$12
Per lot Differential	(\$190)	(\$222)	(\$32)
High Density			
Underground NPV – Operational Costs	\$274	\$261	(\$13)
Overhead NPV – Operational Costs	\$317	\$323	\$6
Per lot Differential	(\$43)	(\$62)	(\$19)

Source: 2015 Order and 2017 Petition

Other Proposed Tariff Changes

In addition to the proposed tariff changes discussed above, Gulf proposed modifications to the reduced URD charges paid by customers who either supply and install the primary and secondary trench and duct system (system) or who only install the system. In addition, Gulf proposed modifications to the charges that apply when a three-phase lift station for sewage is requested in a new residential subdivision. Finally, Gulf proposed modifications to binding cost estimates for URD conversions.

⁴ Order No. PSC-12-0531-TRF-EI, issued October 4, 2012, in Docket No. 120075-EI, *In re: Request by Gulf Power Company to modify its underground residential differential tariffs.*

Conclusion

Staff has reviewed Gulf's proposed URD tariffs and associated charges, its accompanying work papers, and responses to staff's data requests. Staff believes the proposed URD tariffs and associated charges are reasonable. Staff recommends approval of Gulf's proposed URD tariffs and associated charges, as shown in Attachment A, effective September 7, 2017.

Issue 2: Should this docket be closed?

Recommendation: If Issue 1 is approved and a protest is filed within 21 days of the issuance of the order, the tariffs should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Janjic)

Staff Analysis: If Issue 1 is approved and a protest is filed within 21 days of the issuance of the order, the tariffs should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.



Section No. IV
~~Thirteenth~~Fourteenth Revised Sheet No. 4.25
 Canceling ~~Twelfth~~Thirteenth Revised Sheet No. 4.25

PAGE	EFFECTIVE DATE <u>June 18, 2015</u>
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- 6.2.8 DAMAGE TO COMPANY'S EQUIPMENT. The Applicant shall be responsible to ensure that the Company's distribution facilities once installed, are not damaged, destroyed, or otherwise disturbed during the construction of the project. This responsibility shall extend not only to those in his employ, but also to his subcontractors. Should damage occur, the Applicant shall be responsible for the full cost of repairs.
- 6.2.9 PAYMENT OF CHARGES. The Company shall not be obligated to install any facilities until payment of applicable charges, if any, has been completed.

6.3 UNDERGROUND DISTRIBUTION FACILITIES FOR
 NEW RESIDENTIAL SUBDIVISIONS

- 6.3.1 AVAILABILITY. After receipt of proper application and compliance by the Applicant with applicable Company rules and procedures, the Company will install underground distribution facilities to provide single phase service to new residential subdivisions of five (5) or more building lots.
- 6.3.2 CONTRIBUTION BY APPLICANT.
 (a) Prior to such installations, the Applicant and the Company will enter into an agreement outlining the terms and conditions of installation, and the Applicant will be required to pay the Company in advance the entire cost as described below:

<u>Option</u>	<u>Low Density Subdivision (\$ per lot)</u>	<u>High Density Subdivision (\$ per lot)</u>
1. Gulf supplies and installs all primary, secondary, and service trench, duct, and cable.	\$402 <u>498</u>	\$521 <u>562</u>
2. Applicant installs primary and secondary trench and duct system. Gulf supplies primary and secondary duct and supplies and installs service duct. Gulf supplies and installs primary, secondary, and service cable.	\$299 <u>307</u>	\$384 <u>428</u>
3. Applicant supplies and installs primary and secondary trench and duct. Gulf supplies primary and secondary cable. Gulf supplies and installs service duct and cable.	\$99 <u>181</u>	\$289 <u>327</u>

All construction done by the Applicant must meet the Company's specifications. All installations must be approved by the Company's authorized representative.

- (b) The Applicant is required to pay a charge per foot and a cost differential for transformers and services (see "Three Phase Lift Station" charts below) for three phase commercial loads requiring 120/240 volt open delta, 120/208 volt wye, or 277/480 volt wye service in new residential subdivisions for each three phase service. This average cost will be added to the advanced payment in 6.3.2(a) above.

ISSUED BY: S. W. Connally, Jr.



Section No. IV
~~Seventeenth~~^{Eighteenth} Revised Sheet No. 4.26
 Canceling ~~Sixteenth~~^{Seventeenth} Revised Sheet No. 4.28

PAGE	EFFECTIVE DATE
	June 18, 2016

6.3.2 (continued)

THREE PHASE LIFT STATION
 COSTS TO PROVIDE 3 PH SVC TO LIFT STATION W/IN TYPICAL SUBDIVISION - OPTION 1

CUSTOMER REQUEST: 120/208 or 277/480

MOTOR SIZE	AVAILABLE UNDERGROUND FACILITIES		
	SINGLE PHASE	TWO PHASES	THREE PHASES
< 5HP	\$21,862 ^{\$21,700} per ft plus 3ph padmount tx, pad, and ug service minus one oh transformer, cutout, arrester, and service	\$45,301 ^{\$45,151} per ft plus 3ph padmount tx, pad, and ug service minus one oh transformer, cutout, arrester, and service	\$0 cost per ft plus 3ph padmount tx, pad, and ug service minus one oh transformer, cutout, arrester, and service
5HP < X < 25HP	\$8,088 ^{\$8,88} per ft plus 3ph padmount tx, pad, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service	\$10,841 ^{\$10,80} per ft plus 3ph padmount tx, pad, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service	\$0 cost per ft plus 3ph padmount tx, pad, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service
> 25HP	\$4,604 ^{\$4,51} per ft plus 3ph padmount tx, pad, and ug service minus 3 oh transformers, 3 cutouts, 3 arresters, cluster mt, and service	\$2,422 ^{\$2,38} per ft plus 3ph padmount tx, pad, and ug service minus 3 oh transformers, 3 cutouts, 3 arresters, cluster mt, and service	\$0 cost per ft plus 3ph padmount tx, pad, and ug service minus 3 oh transformers, 3 cutouts, 3 arresters, cluster mt, and service

CUSTOMER REQUEST: 120/240 OPEN DELTA

MOTOR SIZE	AVAILABLE UNDERGROUND FACILITIES		
	SINGLE PHASE	TWO PHASES	THREE PHASES
< 5HP	\$11,041 ^{\$10,90} per ft plus 2 padmount tx, 2 pads, and ug service minus one oh transformer, cutout, arrester, and service	\$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus one oh transformer, cutout, arrester, and service	\$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus one oh transformer, cutout, arrester, and service
5HP < X < 25HP	\$2,082 ^{\$2,15} per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service	\$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service	\$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service
> 25HP	\$2,082 ^{\$2,15} per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service	\$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service	\$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service

ISSUED BY: S. W. Connally, Jr.



Section No. IV
~~Fifth~~Sixth Revised Sheet No. 4.26.1
 Canceling ~~Fourth~~Fifth Revised Sheet No. 4.26.1

PAGE	EFFECTIVE DATE
	June 18, 2015

6.3.2 (continued)

THREE PHASE LIFT STATION
COSTS TO PROVIDE 3 PH SVC TO LIFT STATION W/IN TYPICAL SUBDIVISION - OPTION 2

CUSTOMER REQUEST: 120/208 or 277/480

MOTOR SIZE	AVAILABLE UNDERGROUND FACILITIES		
	SINGLE PHASE	TWO PHASES	THREE PHASES
< 5HP	\$21,1420.68 per ft plus 3ph padmount tx, pad, and ug service minus one oh transformer, cutout, arrester, and service	\$44,0014.78 per ft plus 3ph padmount tx, pad, and ug service minus one oh transformer, cutout, arrester, and service	\$0 cost per ft plus 3ph padmount tx, pad, and ug service minus one oh transformer, cutout, arrester, and service
5HP < X < 25HP	\$8,283.16 per ft plus 3ph padmount tx, pad, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service	\$10,4210.41 per ft plus 3ph padmount tx, pad, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service	\$0 cost per ft plus 3ph padmount tx, pad, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service
> 25HP	\$3,793.78 per ft plus 3ph padmount tx, pad, and ug service minus 3 oh transformers, 3 cutouts, 3 arresters, cluster mt, and service	\$2,021.97 per ft plus 3ph padmount tx, pad, and ug service minus 3 oh transformers, 3 cutouts, 3 arresters, cluster mt, and service	\$0 cost per ft plus 3ph padmount tx, pad, and ug service minus 3 oh transformers, 3 cutouts, 3 arresters, cluster mt, and service

CUSTOMER REQUEST: 120/240 OPEN DELTA

MOTOR SIZE	AVAILABLE UNDERGROUND FACILITIES		
	SINGLE PHASE	TWO PHASES	THREE PHASES
< 5HP	\$10,7410.57 per ft plus 2 padmount tx, 2 pads, and ug service minus one oh transformer, cutout, arrester, and service	\$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus one oh transformer, cutout, arrester, and service	\$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus one oh transformer, cutout, arrester, and service
5HP < X < 25HP	\$4,751.81 per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service	\$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service	\$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service
> 25HP	\$4,751.81 per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service	\$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service	\$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service

ISSUED BY: S. W. Connally, Jr.



Section No. IV
~~Fourth~~ Revised Sheet No. 4.26.2
Canceling ~~Fourth~~Fifth Revised Sheet No. 4.26.2

PAGE	EFFECTIVE DATE
	June 18, 2015

6.3.2 (continued)

THREE PHASE LIFT STATION
COSTS TO PROVIDE 3 PH SVC TO LIFT STATION W/IN TYPICAL SUBDIVISION - OPTION 3

CUSTOMER REQUEST: 120/208 or 277/480

MOTOR SIZE	AVAILABLE UNDERGROUND FACILITIES		
	SINGLE PHASE	TWO PHASES	THREE PHASES
< 5HP	\$48,841.26 per ft plus 3ph padmount tx, pad, and ug service minus one oh transformer, cutout, arrester, and service	\$42,841.43 per ft plus 3ph padmount tx, pad, and ug service minus one oh transformer, cutout, arrester, and service	\$0 cost per ft plus 3ph padmount tx, pad, and ug service minus one oh transformer, cutout, arrester, and service
5HP < X < 25HP	\$6,735.44 per ft plus 3ph padmount tx, pad, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service	\$2,169.05 per ft plus 3ph padmount tx, pad, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service	\$0 cost per ft plus 3ph padmount tx, pad, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service
> 25HP	\$4,261.07 per ft plus 3ph padmount tx, pad, and ug service minus 3 oh transformers, 3 cutouts, 3 arresters, cluster mt, and service	\$2,770.61 per ft plus 3ph padmount tx, pad, and ug service minus 3 oh transformers, 3 cutouts, 3 arresters, cluster mt, and service	\$0 cost per ft plus 3ph padmount tx, pad, and ug service minus 3 oh transformers, 3 cutouts, 3 arresters, cluster mt, and service

CUSTOMER REQUEST: 120/240 OPEN DELTA

MOTOR SIZE	AVAILABLE UNDERGROUND FACILITIES		
	SINGLE PHASE	TWO PHASES	THREE PHASES
< 5HP	\$2,449.21 per ft plus 2 padmount tx, 2 pads, and ug service minus one oh transformer, cutout, arrester, and service	\$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus one oh transformer, cutout, arrester, and service	\$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus one oh transformer, cutout, arrester, and service
5HP < X < 25HP	\$2,490.46 per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service	\$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service	\$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service
> 25HP	\$2,490.46 per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service	\$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service	\$0 cost per ft plus 2 padmount tx, 2 pads, and ug service minus 2 oh transformers, 2 cutouts, 2 arresters, and service

ISSUED BY: S. W. Connally, Jr.



Section No. IV
~~Ninth~~Tenth Revised Sheet No. 4.28
Canceling ~~Eighth~~Ninth Revised Sheet No. 4.28

PAGE	EFFECTIVE DATE
	June 18, 2015

6.5 OTHER UNDERGROUND DISTRIBUTION FACILITIES

6.5.1 APPLICABILITY. This subpart applies to requests for underground facilities addressing the conversion of existing overhead facilities. In order for the Company to take action pursuant to a request for conversion:

- (1) the conversion area must be at least two contiguous city blocks or 1000 feet in length;
- (2) all electric services to the real property on both sides of the existing overhead primary lines must be part of the conversion; and
- (3) all other existing overhead utility facilities (e.g. telephone, CATV, etc.) must also be converted to underground facilities.

6.5.2 NON-BINDING COST ESTIMATES. An Applicant may obtain a non-binding estimate of the charges the Applicant would be obligated to pay in order for the Company to provide underground distribution facilities. This non-binding estimate will be provided to the Applicant without any charge or fee upon completion of the Application for Underground Cost Estimate set forth in Section VII of this tariff, Standard Contract Forms, at Sheet No. 7.43.

6.5.3 BINDING COST ESTIMATES. An Applicant, upon payment of a non-refundable deposit and completion of the Application for Underground Cost Estimate set forth in Section VII of this tariff, Standard Contract Forms, at Sheet No. 7.43, may obtain an estimate of the charges for underground distribution facilities, which estimate the Company would be bound to honor as provided below. The deposit amount, which approximates the engineering costs for underground facilities associated with preparing the requested estimate, shall be calculated as follows:

<u>Conversion</u>	
Urban Commercial	\$4,6495.227 per overhead primary mile
Urban Residential	\$7,5648.510 per overhead primary mile
Rural Residential	\$6,4396.905 per overhead primary mile
210 Lot Subdivision	\$6,8146.550 per overhead primary mile
176 Lot Subdivision	\$10,46611.452 per overhead primary mile

ISSUED BY: S. W. Connally, Jr.

Item 10

State of Florida



Public Service Commission

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

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

DATE: August 24, 2017

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Higgins) *DH*
Office of the General Counsel (Brownless) *wbm* *mm* *sa* *jon*

RE: Docket No. 20170097-EI – Petition for approval of a new depreciation class and rate for energy storage equipment, by Florida Power & Light Company.

AGENDA: 09/07/17 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On May 1, 2017, Florida Power & Light Company (FPL or Company) filed a request for approval of a new depreciation classification and depreciation rate for the accounting of its energy storage equipment. The Company's request, in accordance with Rule 25-6.0436(3)(b), Florida Administrative Code (F.A.C.), requires that: "[u]pon establishing a new account or subaccount classification, each utility shall request Commission approval of a depreciation rate for the new plant category."

Pursuant to Rule 25-6.0436(3)(a), F.A.C., electric utilities are required to maintain depreciation rates and accumulated depreciation reserves in accounts or subaccounts in accordance with the

Docket No. 20170097-EI

Date: August 24, 2017

Uniform System of Accounts for Public Utilities and Licensees, as found in the Code of Federal Regulations, which is incorporated by reference in Rule 25-6.014(1), F.A.C.¹

In December 2016, the Company received Commission authorization to implement a 50 megawatt (MW) battery storage pilot program (Battery Storage Pilot).² This authorization is pursuant to the terms of the Company's Stipulation and Settlement Agreement (2016 Settlement) which resolved all issues in FPL's 2016 rate case and associated dockets.³ Currently, the Company does not specifically classify nor have an authorized depreciation rate for the types of equipment required to effectuate its planned Battery Storage Pilot or any other energy storage endeavors.

Staff is not aware of any public comments or concerns on this matter.

The Commission has jurisdiction in this matter pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes (F.S.).

¹ Code of Federal Regulations, Title 18, Subchapter C, Part 101, for Major Utilities, as revised April 1, 2013.

² Order No. PSC-16-0560-AS-EI, issued December 15, 2016, in Docket No. 160021-EI, *In re: Petition for rate increase by Florida Power & Light Company*; Docket No. 160061-EI, *In re: Petition for approval of 2016-2018 storm hardening plan, by Florida Power & Light Company*; Docket No. 160062-EI, *In re: 2016 depreciation and dismantlement study by Florida Power & Light Company*; and Docket No. 160088-EI, *In re: Petition for limited proceeding to modify and continue incentive mechanism, by Florida Power & Light Company*.

³ *Id.*

Discussion of Issues

Issue 1: Should the Commission establish an annual depreciation rate applicable to energy storage equipment for FPL?

Recommendation: Yes. Staff recommends that an annual depreciation rate of 10 percent applicable to FPL's energy storage equipment be approved. (Higgins)

Staff Analysis: As outlined in its petition, FPL does not currently maintain a stand-alone classification, nor does it have a specifically-authorized depreciation rate, for investments related to energy storage. The Company is requesting authorization to record and depreciate energy storage-related investments by plant function in Federal Energy Regulatory Commission (FERC) Accounts; 348 - Energy Storage Equipment – Production, 351 - Energy Storage Equipment – Transmission, and 363 - Energy Storage Equipment – Distribution. These accounts were originally established by the FERC in 2013, by Order No. 784, with the primary purpose of accounting for energy storage investments based on how specific assets are used in providing electric service.⁴

Requested Depreciation Parameters

The Company has requested Commission approval of a 10-year average service life (ASL), and a zero percent net salvage level (NS), for depreciating its energy storage equipment. An annual depreciation rate of 10 percent is computed by using these parameters.⁵

Industry-wide depreciation data and regulatory guidance regarding energy storage equipment is limited. However, through data request responses, FPL provided documentation detailing regulatory approvals of ASL and NS values similar to its proposals that are applicable to other electric utilities operating in the United States; namely, Consolidated Edison of New York (ConEd) and Pacific Gas & Electric (PG&E).⁶ With respect to the ConEd decision, the New York Public Service Commission authorized an ASL of either 10 or 15 years (depending on the specific project), and a zero percent NS level.⁷ The California Public Utility Commission authorized an ASL of 15 years, and a zero percent NS level applicable to PG&E's energy storage equipment.⁸

⁴ U.S. Federal Energy Regulatory Commission, Order No. 784, issued July 18, 2013, in Docket Nos. RM11-24-000 and AD10-13-000, *In re: Third-Party Provision of Ancillary Services; Accounting and Financial Reporting for New Electric Storage Technologies*.

⁵ Rule 25-6.0436(1)(e), F.A.C., and Rule 25-6.0436(1)(m), F.A.C., specify the Commission's depreciation rate formulae and methodologies.

⁶ See FPL's Responses to Staff's First Data Request, No. 8, and Staff's First Request for Production of Documents, No. 1.

⁷ State of New York Public Service Commission, Order Approving Electric and Gas Rate Plans, issued January 25, 2017, CASE 16-E-0060, *In re: Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Electric Service*.

⁸ Public Utilities Commission of the State of California, Decision 17-05-013, issued May 11, 2017, Application 15-09-001, *In re: Application of Pacific Gas and Electric Company for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2017 (U39M)*.

Further supporting its request, FPL held consultations with its engineering subject matter experts, as well as energy storage equipment manufacturers, to arrive at the proposed 10-year ASL and zero percent NS level. FPL contends its proposal is reasonable given the newness of the technology and an industry-wide lack of available retirement and salvage data.

Given the fact that utility-scale energy storage equipment/technology is in its infancy phase of development and application, staff believes the Company, in proposing an ASL at the bottom-end of a 10- to 15-year range represents a measured and reasonable approach in life estimation. Further, the Commission will have future opportunities based on existing rules to evaluate FPL's depreciation data associated with useful lives and net salvage levels and to order modifications as appropriate.⁹ Staff also believes the Company's account classifications outlined in its petition, to which any newly-established depreciation rate would apply, comport with recent accounting guidance from the FERC.

Staff notes that any depreciation rate the Commission finds appropriate will initially be used for accounting purposes only and will have no impact on base rates during the term of the Company's 2016 Settlement.¹⁰

For the reasons outlined in this analysis, staff recommends that an annual depreciation rate of 10 percent, applicable to FPL's newly-established Account 348 - Energy Storage Equipment – Production, Account 351 - Energy Storage Equipment – Transmission, and Account 363 - Energy Storage Equipment – Distribution, be approved.

⁹ Rule 25-6.0436(4)(a), F.A.C., requires investor-owned electric companies to file a depreciation study for Commission review at least once every four years from submission of the previous study and/or pursuant to Commission order.

¹⁰ Pursuant to the terms of the 2016 Settlement Agreement, approved by Order No. PSC-16-0560-AS-EI, ¶ 18, FPL: “will pursue cost recovery for the Battery Storage Pilot in its next general base rate case . . .”.

Issue 2: If the Commission approves staff's recommendation in Issue 1, should any transfers of plant investments and associated book reserves be authorized as part of this docket?

Recommendation: Yes. Staff recommends the Commission authorize book transfers from Account 362 - Station Equipment to Account 348 - Energy Storage Equipment – Production and Account 363 - Energy Storage Equipment – Distribution in the aggregate amounts detailed in Tables 2-2 and 2-3. (Higgins)

Staff Analysis: FPL has requested the Commission authorize the transfer of certain investment and corresponding reserve amounts related to energy storage equipment presently on FPL's books.¹¹ These investments, which are listed in Table 2-1 below, are FPL's Community Storage facilities, Florida Bay Everglades National Park facilities, Miami Open Tennis Stadium facilities, and South West facilities. These assets are currently recorded to FERC Account 362 – Station Equipment, and are being depreciated at the authorized rate of 1.9 percent for this account.¹²

The energy storage equipment listed in Table 2-1 was deployed as part of the Company's participation in the "White House Summit on Scaling Renewable Energy and Storage." The Summit, which was held in 2016, was essentially for the purposes of exchanging ideas and exploring ways to "scale-up" and/or "grid-scale" energy storage technologies. Staff notes the Commission has previously reviewed a portion of these (Table 2-1) energy storage investments in Docket No. 160021-EI, *In re: Petition for rate increase by Florida Power & Light Company*.¹³

FPL's methodology for determining its proposed plant investment apportionments from Account 362 - Station Equipment to Account 348 - Energy Storage Equipment – Production and Account 363 - Energy Storage Equipment – Distribution, focused on how the assets are utilized on the Company's system. Specifically, if the asset is used for peak shaving, it's classified as a production investment and recorded to account 348. If an asset is used for frequency response, it's classified as a transmission investment and recorded to account 351. Assets that provide reliable energy back up can be classified as a distribution investment and recorded to account 363. If an asset serves roles across multiple functions, it is allocated on a percentage basis (by usage) accordingly.

Table 2-1 below shows the total amount of energy storage equipment investments, as well as the associated depreciation reserves FPL currently has recorded on its books.

¹¹ Rule 25-6.0436(2)(b), F.A.C., requires that: "[n]o utility shall reallocate accumulated depreciation reserves among any primary accounts and sub-accounts without prior Commission approval."

¹² Order No. PSC-16-0560-AS-EI.

¹³ See Docket No. 160021-EI, Staff's Thirty-Second Set of Interrogatories, No. 403 (Hearing Exhibit 429).

Table 2-1
Account 362 - Station Equipment

Energy Storage Assets	Plant Investment (as of April 2017)	Depreciation Reserve (as of April 2017)
Community Storage Facilities	\$500,254	\$3,326
Florida Bay Everglades N. P.	\$3,435,123	\$25,477
Miami Open Tennis Stadium	\$963,598	\$3,814
South West	\$6,080,404	\$97,793
Total*	\$10,979,379	\$130,411

Source: FPL's Response to Staff's First Data Request, No. 5 - Supplemental

*May not add due to rounding

Tables 2-2 and 2-3 detail the apportionment of investments being requested for transfer from Account 362 - Station Equipment (Table 2-1) to Account 348 - Energy Storage Equipment – Production (Table 2-2) and Account 363 - Energy Storage Equipment – Distribution (Table – 2-3).

Table 2-2
Account 348 - Energy Storage Equipment – Production

Energy Storage Assets	Plant Investment (as of April 2017)	Depreciation Reserve (as of April 2017)
Community Storage Facilities	\$250,127	\$1,663
Florida Bay Everglades N. P.	\$1,717,562	\$12,739
South West	\$5,472,364	\$88,014
Total*	\$7,440,053	\$102,415

Source: FPL's Response to Staff's First Data Request, No. 5 - Supplemental

*May not add due to rounding

Table 2-3
Account 363 - Energy Storage Equipment – Distribution

Energy Storage Assets	Plant Investment (as of April 2017)	Depreciation Reserve (as of April 2017)
Community Storage Facilities	\$250,127	\$1,663
Florida Bay Everglades N. P.	\$1,717,562	\$12,739
Miami Open Tennis Stadium	\$963,598	\$3,814
South West	\$608,040	\$9,779
Total*	\$3,539,327	\$27,995

Source: FPL’s Response to Staff’s First Data Request, No. 5 - Supplemental

*May not add due to rounding

Staff believes the transfer of plant and reserve balances associated with energy storage equipment is appropriate if the Commission establishes a new depreciation rate applicable to Account 348 - Energy Storage Equipment – Production, Account 351 - Energy Storage Equipment – Transmission, and Account 363 - Energy Storage Equipment – Distribution as recommended in Issue 1. These transfers would assist in ensuring that costs are assigned appropriately to the function for which the equipment is being used, as well as further refining cost recovery to the useful life patterns of the three energy storage (equipment) property groups.

Staff recommends the Commission authorize book transfers from Account 362 - Station Equipment to Account 348 - Energy Storage Equipment – Production and Account 363 - Energy Storage Equipment – Distribution in the aggregate amounts detailed in Tables 2-2 and 2-3.

Issue 3: If a new depreciation rate for energy storage equipment is authorized in Issue 1, what should be the effective date?

Recommendation: Staff recommends that any newly-authorized depreciation rate for energy storage equipment applicable to Account 348 - Energy Storage Equipment – Production, Account 351 - Energy Storage Equipment – Transmission, and Account 363 - Energy Storage Equipment – Distribution, become effective upon the issuance of a final Commission Order in this docket. (Higgins)

Staff Analysis: If the Commission establishes a new depreciation rate for FPL's energy storage equipment, applicable to Accounts 348 - Energy Storage Equipment – Production, Account 351 - Energy Storage Equipment – Transmission, and Account 363 - Energy Storage Equipment – Distribution, the effective date should be upon the issuance of a final Commission Order in this docket.

Issue 4: Should this docket be closed?

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

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

Item 11

State of Florida



Public Service Commission

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

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

DATE: August 24, 2017

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Sibley) *MS 8/17*
Office of the General Counsel (Taylor) *WDT 8/17*

RE: Docket No. 20170152-SU – Request for approval of a late payment charge in Volusia County, by North Peninsula Utilities Corporation.

AGENDA: 09/07/17 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 9/8/17 (60-Day Suspension)

SPECIAL INSTRUCTIONS: None

Case Background

North Peninsula Utilities Corporation (NPUC or utility) is a Class B wastewater utility operating in Volusia County. NPUC provides wastewater service to approximately 586 customers. The City of Ormond Beach provides water to the area. NPUC's 2016 Annual Report lists operating revenues of \$231,238 and a net operating loss of \$2,399. On July 11, 2017, the utility filed an application to add a late payment charge. This recommendation addresses the utility's request. The Commission has jurisdiction pursuant to Section 367.091(6), Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Should NPUC's request to implement a late payment charge be approved?

Recommendation: Yes. NPUC's request to implement a \$6.77 late payment charge should be approved. The utility should file the revised tariff sheets and a proposed customer notice to reflect the Commission-approved late payment charge. The approved charge should be effective for services rendered on or after the stamped approval date on the tariff sheet provided customers have received notice pursuant to Rule 25-30.475(1), Florida Administrative Code (F.A.C.). The utility should provide proof of noticing within 10 days of rendering the approved notice. (Sibley)

Staff Analysis: The utility requested a \$6.77 late payment charge to recover the cost of supplies and labor associated with processing late payment notices. The utility's request for a late payment charge was accompanied by its reason for requesting the charge, as well as the cost justification required by Section 367.091, F.S. NPUC's labor cost of \$6.00 accounts for the office personnel time to review and process a delinquent account. The provided justification by NPUC also included costs for supplies of \$0.28 and postage of \$0.49 for printing and sending out late payment notices. The cost basis for the late payment charge is shown in Table 1-1.

Table 1-1
Late Payment Charge Cost Justification

Activity	Cost
Labor	\$6.00
Supplies	0.28
Postage	0.49
Total Cost	<u>\$6.77</u>

Source: Utility's cost justification documentation

Since the 1990s, the Commission has approved late payment charges ranging from \$2.00 to \$7.15.¹ The purpose of this charge is to provide an incentive for customers to make timely payments and to place the cost burden of processing delinquent accounts solely upon those who are cost causers.

Based on the above, NPUC's request to implement a \$6.77 late payment charge should be approved. The utility should file the revised tariff sheets and a proposed customer notice to reflect the Commission-approved late payment charge. The approved charge should be effective for services rendered on or after the stamped approval date on the tariff sheet provided customers have received notice pursuant to Rule 25-30.475(1), F.A.C.

¹Order Nos. PSC-17-0092-PAA-WU, in Docket No. 160144-WU, dated March 13, 2017, *In re: Application for transfer of Certificate No. 288-W in Pasco County from Orangeland Water Supply to Orange Land Utilities, LLC*; PSC-17-0091-FOF-SU, in Docket No. 150071-SU, dated March 13, 2017, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

Issue 2: 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 the utility 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. (Taylor)

Staff Analysis: The docket should remain open pending staff's verification that the revised tariff sheets and customer notice have been filed by the utility 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 issued and, once staff verifies that notice of the charges has been given to customers, the docket should be administratively closed.