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 July 10, 2018

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# Item 1

State of Florida



# Public Service Commission

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

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

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**DATE:** June 27, 2018

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

**FROM:** Office of Industry Development and Market Analysis (D. Flores) *DF 9/7 CH*  
Office of the General Counsel (M. DuVal) *MD TH*

**RE:** Application for Certificate of Authority to Provide Telecommunications Service

**AGENDA:** 07/10/2018 - Consent Agenda - Proposed Agency Action - Interested Persons May Participate

**SPECIAL INSTRUCTIONS:** None

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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>
20180103-TX	WANRack, LLC	8921

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-**

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**DATE:** June 27, 2018

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

**FROM:** Office of the General Counsel (Page) *PHP*  
Division of Economics (Guffey) *SKG GFC SML ELD*

**RE:** Docket No. 20180113-EU – Petition for variance from or waiver of individual metering requirements of Rule 25-6.049(5) and (6), F.A.C., by 4000 South Ocean Property Owner, LLLP.

**AGENDA:** 07/10/18 – Regular Agenda – Proposed Agency Action - Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Clark

**CRITICAL DATES:** Commission must grant or deny the Petition by August 9, 2018, pursuant to Section 120.542(8), F.S.

**SPECIAL INSTRUCTIONS:** None

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### Case Background

On May 7, 2018, 4000 South Ocean Property Owner, LLLP (Owner), pursuant to Section 120.542, Florida Statutes (F.S.), filed a Petition for Variance or Waiver (Petition) from Rule 25-6.049(5) and (6), Florida Administrative Code (F.A.C.), on behalf of Hyde Beach House Resort and Residences (Hyde Beach House). The Owner is the developer of Hyde Beach House, an oceanfront resort condominium to be operated in Hollywood, Florida. Hyde Beach House is in Florida Power & Light Company's (FPL) service territory.

Rule 25-6.049(5), F.A.C., sets forth the conditions under which individual occupancy units in residential and commercial buildings must be metered for electricity use and establishes the criteria for exemptions to the individual metering requirement. Rule 25-6.049(5), F.A.C., also

requires that all occupancy units in condominiums be individually metered by the utility unless they meet one of the exemptions set forth in paragraphs (a) through (g) of the rule. Rule 25-6.049(6), F.A.C., states that in addition to satisfying the criteria in Rule 25-6.049(5)(g) and (6), F.A.C., the owner or developer of the condominium, the condominium association, or the customer must attest to the utility that the criteria for the exemption have been met.

The Owner seeks a waiver of the individual metering requirement for Hyde Beach House. If granted, the rule waiver would allow the installation of a single master meter to measure usage for all units in the condominium. The Owner states that although Hyde Beach House will be a condominium, the Owner contends that it will operate in a manner similar to hotels and motels, and that pursuant to subparagraph (5)(d) of Rule 25-6.049, F.A.C., individual metering is not required.

Notice of the Petition was published in the Florida Administrative Register on May 15, 2018, Vol. 44/95. The comment period expired on May 30, 2018, and no comments were received. The Commission has jurisdiction pursuant to Sections 366.05, 366.81, 366.82, 120.542, F.S.

## Discussion of Issues

**Issue 1:** Should the Commission grant the Owner's request for waiver of the requirements of Rule 25-6.049(5) and (6), F.A.C.?

**Recommendation:** Yes. The Owner has demonstrated that the purpose of the underlying statutes will be achieved by other means and the application of the rule would create both a substantial hardship and a violation of the principles of fairness. The Owner, as a master meter customer, should be put on notice that: 1) Hyde Beach House must allocate the cost of electricity to the individual condominium unit owners using a reasonable apportionment method, consistent with Rule 25-6.049(9)(a), F.A.C.; and 2) the waiver is effective for only so long as Hyde Beach House is operated and licensed as a transient occupancy facility. At such time as the condominium is no longer so operated and licensed, Hyde Beach House must inform FPL of this fact within 10 days and request that FPL install individual meters on all the occupancy units. In the event such a conversion is required, Hyde Beach House will be solely responsible for the cost of such conversion, consistent with Rule 25-6.049(7), F.A.C. (Page, Guffey)

**Staff Analysis:** The Hyde Beach House property consists of one building containing 345 units of which 265 are resort units and 77 are traditional units. The 265 resort units are restricted by the City of Hollywood Zoning Ordinance to stays of no more than 150 days in any consecutive twelve month period by the same occupant. There is no permanent residency allowed in the 265 resort units. The remaining 77 units are not restricted as to use, however, all units are sold with the intent to operate as a part of a hotel, and it is estimated that less than 10 percent of these 77 units will be used for permanent occupancy.

The Owner asserts that Hyde Beach House will be operated and licensed as a hotel condominium as defined in Section 509.242(1), F.S. Gemstone Hotels and Resorts will manage Hyde Beach House as a first class resort hotel. Pursuant to Section 509.242(1)(a), F.S., Hyde Beach House will be registered with the Florida Department of Business and Professional Regulation as a hotel. According to the Owner, Hyde Beach House will be in direct competition with hotels and motels in the area.

Rule 25-6.049(5), F.A.C., requires that utilities individually meter each separate condominium unit. The Owner seeks a waiver that would allow electricity usage by Hyde Beach House to be billed under a master meter serving all condominium units instead of an individual meter for each unit. This would allow the residential units to be billed on a single commercial account basis, instead of separate residential accounts. This consolidated approach to metering would likely result in lower electricity costs to Hyde Beach House. Although the Owner projects annual savings in the amount of \$42,809.28, staff's calculation of Hyde Beach House's estimated annual savings is approximately \$122,019 using FPL's current Commission-approved tariffs.<sup>1</sup>

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<sup>1</sup> Staff's calculation compares 342 annual residential bills (assuming 1,200kwh per bill) to one annual bill on the commercial GSLD-1 rate (assuming 1,200kwh and 900kw), using FPL's rates effective June 2018.

Date: June 27, 2018

Rule 25-6.049(5)(g), F.A.C., provides an exception to the individual metering requirement for condominiums that meet the following three criteria:<sup>2</sup> (1) the declaration of condominium requires that at least 95 percent of the units are used solely for overnight occupancy as defined in subparagraph (8)(g) of the rule; (2) a registration desk, lobby and central telephone switchboard are maintained; and (3) a record is kept for each unit showing every check-in and check-out date for the unit, including the name(s) of the individual(s) registered to occupy the unit between each check-in and check-out date. Hyde Beach House fails to satisfy all criteria for master metering stated in Rule 25-6.049(5)(g), F.A.C. The condominium documents do not require that 95 percent of the units be used solely for overnight occupancy as set forth in Rule 25-6.049(5)(g), F.A.C. The condominium documents require only 77 percent<sup>3</sup> of the units to be used solely for overnight occupancy. Hyde Beach House meets the other two criteria contained in Rule 25-6.049(5)(g)2.and 3., F.A.C., because it will have a registration desk and a registry with a check-in and check-out date.

### **Statutory Requirements for a Waiver**

Section 120.542(2), F.S., establishes the circumstances when waivers of and variances from agency rules shall be granted:

When the person subject to the rule demonstrates that the purpose of the underlying statute will be or has been achieved by other means by the person and when application of a rule would create a substantial hardship or would violate principles of fairness.

#### ***Purpose of the Underlying Statute***

Pursuant to Section 120.542, F.S., the petitioner seeking a rule waiver must demonstrate that the purpose of the underlying statute will be or has been achieved by other means. Rule 25-6.049, F.A.C., implements Sections 366.05(1), 366.81, and 366.82, F.S. Section 366.05(1), F.S., grants the Commission the authority to prescribe rate classifications and service rules and regulations to be observed by the investor-owned electric utilities. Rule 25-6.049(5) and (6), F.A.C., implements these statutes by setting forth the conditions under which individual occupancy must be metered by the utility.

Sections 366.81 and 366.82, F.S., are known collectively as the Florida Energy Efficiency and Conservation Act (FEECA) and direct the Commission to adopt goals and approve plans related to the conservation of electric energy. The requirement that individual occupancy units be individually metered serves the conservation goals of FEECA because if unit owners are responsible for costs based on their actual electricity consumption, they are more likely to conserve energy in order to minimize the cost of energy.

Staff believes that master metering also serves the intent of FEECA. Because of the nature of Hyde Beach House's operation, conservation efforts are most effectively carried out by the

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<sup>2</sup> In addition, Rule 25-6.049(5), F.A.C., provides certain exemptions from the individual metering requirement for facilities such as hospitals, nursing homes, college dormitories, convents, fraternity and sorority houses, hotels, and motels. The rule also exempts timeshare plans from the individual metering requirement.

<sup>3</sup> Staff calculations show an actual percentage rate of 77.5%.



building manager. Based on the representations of the Owner, staff believes that Hyde Beach House condominium will be operated in a manner similar to that of timeshare plans, hotels, and motels. Conservation efforts in such cases are more effectively carried out by the building manager, who can implement measures to reduce the overall electricity consumption of the facility.

If master metering is implemented, Rule 25-6.049(9)(a), F.A.C., provides that the cost of electricity may be allocated to individual occupancy units using “reasonable apportionment methods.” The Owner states that if the requested waiver is granted, the cost of electricity to Hyde Beach House will be recovered from the unit owners through a pro rata apportionment. This is the same apportionment method that will be used for other common expenses which are not consumed by and metered to individual units. Staff believes that this apportionment method is reasonable and meets the purpose of Section 366.05(1), F.S.

### ***Substantial Hardship or Violation of Principles of Fairness***

Pursuant to Section 120.542, F.S., a petition for variance or waiver must also demonstrate that application of the rule would create a substantial hardship or violate principles of fairness. Substantial hardship is defined as a demonstrated economic, technological, legal or other type of hardship to the person requesting the waiver. Principles of fairness are violated when the literal application of a rule affects a particular person in a manner significantly different from the way it affects other similarly situated persons who are subject to the rule. Staff believes that the Owner has demonstrated that when the rule is applied to Hyde Beach House, a substantial hardship occurs and there is a violation of the principles of fairness.

The Owner asserts that application of the rule will cause a substantial hardship for Hyde Beach House because it will place Hyde Beach House at a competitive disadvantage in regard to the motels and hotels with which it will compete for guests. Because motels and hotels are exempt from the individual metering requirement under paragraph (d) of Rule 25-6.049(5), F.A.C., they benefit from the lower electricity costs of master metering. The Owner states that if Hyde Beach House is required to individually meter, it will incur higher energy costs than its competitors. Staff believes that the application of the rule in this instance will result in substantial economic hardship for Hyde Beach House.

Section 120.542(2), F.S., states that principles of fairness are violated when the literal application of a rule affects a particular person in a manner significantly different from the way it affects other similarly situated persons who are subject to the rule. The Owner asserts that Hyde Beach House will operate in a manner similar to other hotels and motels in the area. Staff believes that applying the rule to Hyde Beach House in this particular instance will result in treatment that is disparate. Staff believes that the different treatment of similar facilities resulting from the application of Rule 25-6.049(6), F.A.C., to Hyde Beach House constitutes a violation of the principles of fairness as defined in Section 120.542(2), F.S.

**Conclusion:** Based upon the foregoing, staff believes that the Petition should be granted. The Owner has demonstrated that the purpose of the underlying statutes will be achieved by means other than the individual metering rule and that application of Rule 25-6.049(5) and (6), F.A.C.,

Date: June 27, 2018

would create a substantial hardship and violate principles of fairness for Hyde Beach House. Therefore, staff recommends that the requested rule waiver be granted, provided that:

- 1) Hyde Beach House allocates the cost of electricity to the individual owners using a reasonable apportionment method, consistent with Rule 25-6.049(9)(a), F.A.C.;
- 2) The waiver is effective for only so long as the condominium is operated and licensed as a transient occupancy facility. At such time as the condominium is no longer so operated and licensed, Hyde Beach House must inform FPL within 10 days and request FPL to install individual meters on all the occupancy units. In the event such a conversion to individual metering is required, Hyde Beach House will be solely responsible for the cost of such conversion, pursuant to Rule 25-6.049(7), F.A.C.

These recommended conditions are similar to those the Commission set forth in Order Nos. PSC-05-0258-PAA-EU,<sup>4</sup> PSC-04-0861-PAA-EU,<sup>5</sup> PSC-03-1472-PAA-EU,<sup>6</sup> PSC-11-0253-PAA-EU,<sup>7</sup> PSC-15-0363-PAA-EU,<sup>8</sup> and PSC-15-0565-PAA-EU<sup>9</sup> that address waivers of the individual metering requirement for condominium facilities.

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<sup>4</sup> Issued March 8, 2005, in Docket No. 20050010-EU, *In Re: Petition for variance from or waiver of metering requirement of Rule 25-6.049(5)(a), F.A.C., by Beach House Owners Association, Inc.*

<sup>5</sup> Issued September 3, 2004, in Docket No. 20040525-EU, *In Re: Petition for variance from or waiver of metering requirement of Rule 25-6.049(5)(a), F.A.C., by Jetty East Condominium Association, Inc.*

<sup>6</sup> Issued December 30, 2003, in Docket No. 20030974-EU, *In Re: Petition for variance from or waiver of individual metering requirement of Rule 25-6.049(5)(a), F.A.C., by St. Maarten at Silver Shells Condominium Association, Inc.*

<sup>7</sup> Issued June 13, 2011, in Docket No. 20110063-EU, *In Re: Petition for variance from or waiver of individual metering requirements of Rule 25-6.049(5)(a), F.A.C., by Destin Gulfgate Owners Association, Inc.*

<sup>8</sup> Issued September 8, 2015, in Docket No. 20150142-EU, *In re: Petition by Wiccan, LLC for waiver of Rule 25-6.049(5), Florida Administrative Code.*

<sup>9</sup> Issued December 15, 2015, in Docket No. 20150222-EU, *In re: Petition for variance from or waiver of Rule 25-6.049(5) and (6), F.A.C., by 4111 South Ocean Drive, LLC.* This waiver was granted to the same Owner as in this Petition. The properties are located across the street.

**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 order, this docket should be closed upon issuance of a consummating order. (Page)

**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, this docket should be closed upon issuance of a consummating order.

# Item 3

State of Florida



## Public Service Commission

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

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

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**DATE:** June 27, 2018

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

**FROM:** Office of Industry Development and Market Analysis (Williams, Bates, Fogleman, Long) *CF JB LF CH*  
Office of the General Counsel (Page) *PHP S.M.C.*

**RE:** Docket No. 20180099-TP – Commission approval of Florida Telecommunications Relay, Inc.'s 2018-2019 proposed budget.

**AGENDA:** 07/10/18 – Regular Agenda – Proposed Agency Action for Issue 1 – Issue 2 is Procedural - Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Fay

**CRITICAL DATES:** September 1, 2018 – Effective date of Florida Telecommunications Relay, Inc. budget. Notification of any change in the Telecommunications Access System Act surcharge must be made to carriers prior to September 1, 2018.

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

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### Case Background

The Telecommunications Access System Act of 1991 (TASA) established a statewide telecommunications relay system effective May 24, 1991. Section 427.701(1), Florida Statutes (F.S.), provides that the Florida Public Service Commission (Commission or FPSC) shall establish, implement, promote, and oversee the administration of the statewide telecommunications access system to provide access to telecommunications relay services by

persons who are deaf, hard of hearing or speech impaired, and those who communicate with them. It is estimated that approximately three million persons living in Florida have been diagnosed with having a hearing loss.<sup>1</sup> This system provides telecommunications service for deaf or hard of hearing persons functionally equivalent to the service provided to hearing persons.

The Florida Relay System provides deaf or hard of hearing persons access to basic telecommunications services by using a specialized Communications Assistant that relays information between the deaf or hard of hearing person and the other party to the call. The primary function of the Florida Relay System is accomplished by the deaf or hard of hearing person using a Telecommunications Device for the Deaf (TDD). The person using the TDD types a message to the Communications Assistant who in turn voices the message to the other party, or types the message to a Captioned Telephone which displays real-time captions of the conversation.

TASA provides funding for the distribution of specialized telecommunications devices and provision of intrastate relay service through the imposition of a surcharge of up to \$0.25 per landline access line per month. Accounts with over 25 access lines are billed for only 25 lines. Pursuant to Section 427.704(4)(a)1, F.S., a surcharge is collected only from landline access lines.<sup>2</sup>

Florida Telecommunications Relay, Inc. (FTRI), a non-profit corporation formed by the local exchange telephone companies, was selected by the Commission to serve as the Telecommunications Access System Act Administrator. On July 1, 1991, the local exchange telecommunications companies began collecting an initial \$0.05 per access line surcharge pursuant to Order No. 24581. Since July 1, 1991 the surcharge, which is currently \$0.10 per month, has changed to reflect FTRI's budgetary needs.

As part of its oversight responsibilities for the Florida Relay System, the Commission reviews and approves a budget submitted by FTRI on an annual basis. Attachment A is FTRI's letter to the Commission presenting its proposed budget that was approved by its Board of Directors. FTRI also compared its proposed budget to last year's Commission approved budget and estimated revenue and expenses for the current fiscal year. FTRI's estimated revenues and expenses were based on data from the first two quarters of Fiscal Year 2017/2018.

Staff sent an initial data request to FTRI on a number of issues included in its proposed Fiscal Year 2018/2019 budget. FTRI's responses to staff's data request were submitted on May 16, 2018, and are included in the docket file. Subsequently, staff also sent additional data requests to FTRI regarding the Fiscal Year 2018/2019 budget.

On May 21, 2018, FTRI filed updated third quarter financial information. With additional financial information, staff formulated new estimated budget results for Fiscal Year 2017/2018. This additional data is reflected in staff's estimate in Attachment B.

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<sup>1</sup> <http://www.floridahealth.gov/provider-and-partner-resources/fccdhh/index.html>, accessed on May 21, 2018.

<sup>2</sup> Florida Telecommunications Relay, Inc. projects a 4.8 percent decrease in landline access lines subject to the relay surcharge for Fiscal Year 2018/2019.

Docket No. 20180099-TP

Date: June 27, 2018

This recommendation addresses FTRI's proposed Fiscal Year 2018/2019 budget and what the relay surcharge should be for the upcoming fiscal year. The Commission is vested with jurisdiction pursuant to Chapter 427, F.S.

## Discussion of Issues

**Issue 1:** Should the Commission approve FTRI's proposed budget as presented in Attachment A for Fiscal Year 2018/2019, effective September 1, 2018, and should the Commission maintain the current Telecommunications Relay Service (TRS) surcharge at \$0.10 per month?

**Recommendation:** Staff recommends that the Commission reduce FTRI's proposed budget expenses for Fiscal Year 2018/2019 by \$19,823 for legal expense and by \$39,469 for insurance expense. Staff also recommends that the Commission allow FTRI to transfer \$203,746 from the Reserve Account to offset projected expense increases resulting from the new relay contract, and \$57,723 in additional expense primarily related to equipment, employee compensation, and auditing. Staff recommends that the Commission order all local exchange companies to continue billing the \$0.10 surcharge for Fiscal Year 2018/2019. Staff further recommends that the Commission order FTRI to continue to require detailed, itemized bills from its legal counsel and to continue in-house analyses for Insurance-Health/Life/Disability and Retirement expenses. Staff recommends that FTRI be ordered to provide updated results of its analyses to staff by January 31, 2019. (Williams, Bates, Fogleman, Long)

### **Staff Analysis:**

#### **Traditional Telecommunications Relay Service**

Minutes of use for traditional TRS have been declining. The traditional TRS cost to FTRI as approved in Sprint Communications Company, L.P.'s (Sprint) contract is currently \$1.35 per session minute. Sprint's projections indicate that traditional minutes will continue to decline during Fiscal Year 2018/2019. Traditional relay users are transitioning to the following services:

- Internet Protocol (IP) Relay<sup>3</sup>
- Video Relay Service (VRS)<sup>4</sup>
- Captioned Telephone (CapTel) Service<sup>5</sup>
- Internet Protocol Captioned Telephone Service<sup>6</sup>
- Internet Protocol Speech-to-Speech (STS) Service<sup>7</sup>
- Wireless Service<sup>8</sup>

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<sup>3</sup> IP Relay allows people who have difficulty hearing or speaking to communicate through an Internet connection using a computer and the Internet, rather than a Text Telephone (TTY) and a telephone.

<sup>4</sup> Video Relay Service enables persons with hearing disabilities who use American Sign Language to communicate with voice telephone users through video equipment, rather than through typed text. Video equipment links the VRS user with a TRS operator so that the VRS user and the operator can see and communicate with each other in signed conversation.

<sup>5</sup> A CapTel telephone is a telephone that displays real-time captions of a conversation.

<sup>6</sup> IP captioned telephone service allows the user to simultaneously listen to and read the text of what the other party in a telephone conversation has said, where the connection carrying the captions between the service and the user is via an IP address and routed link.

<sup>7</sup> Speech-to-Speech (STS) relay service utilizes a specially trained CA who understands the speech patterns of persons with speech disabilities and can repeat the words spoken by such an individual to the other party to the call. IP STS uses the Internet, rather than the public switched telephone network, to connect the consumer to the relay provider.

<sup>8</sup> Specifically, wireless services offer applications such as text, instant messaging, and Facetime.



### **CapTel Service**

CapTel service uses a specialized telephone that provides captioning of the incoming call for a deaf or hard of hearing person. Sprint's projections show that CapTel minutes of use will also decrease during Fiscal Year 2018/2019. The CapTel cost to FTRI as approved in the Sprint contract is currently \$1.69 per session minute.

### **Florida Telecommunications Relay Inc. Budget**

Attachment A reflects FTRI's Fiscal Year 2018/2019 proposed budget, which was reviewed and adopted by FTRI's Board of Directors prior to filing with the Commission. The proposed budget includes an increase in expenses of \$263,106 from the Fiscal Year 2017/2018 Commission approved budget. The expense increase is primarily attributable to the increase in TRS and CapTel service cost resulting from the new relay contract with Sprint that went into effect on March 1, 2018.

The FTRI 2018/2019 proposed budget projects total operating revenues of \$5,793,651 and total expenses of \$6,114,412. Based on the projected revenues and expense increase, FTRI requests that the Commission grant FTRI authority to transfer \$320,761 from the Reserve Account to offset the shortfall. FTRI also requests that the Telecommunications Relay surcharge be maintained at \$0.10 per access line for Fiscal Year 2018/2019.

The largest increase in expense in FTRI's budget is attributable to relay provider services provided by Sprint. On July 26, 2017 the Commission approved \$2,219,366 for relay provider expense for FTRI's 2017/2018 budget. However, on March 1, 2018, a new relay service contract with Sprint went into effect with higher service rates, resulting in higher actual and projected cost. FTRI's proposed relay provider expense for its 2018/2019 proposed budget is \$2,826,281, resulting in an increased cost of \$606,915 when compared to the Fiscal Year 2017/2018 Commission approved budget. Sprint's estimated Fiscal Year 2018/2019 traditional Telecommunications Relay surcharge minutes of use are 1,129,663, at a rate of \$1.35 per minute for a total of \$1,525,045. Sprint's estimated CapTel minutes of use for Fiscal Year 2018/2019 are 769,962, at a rate of \$1.69 per minute for a total of \$1,301,236.

A comparison of FTRI's Fiscal Year 2017/2018 Commission approved budget, FTRI's Fiscal Year 2017/2018 estimated actual revenues and expenses, and FTRI's Fiscal Year 2018/2019 proposed budget as filed is shown in Table 1 below.

**Table 1**  
**FTRI Budget Comparison**

	<b>Commission Approved 2017/2018</b>	<b>FTRI Estimated Actual 2017/2018</b>	<b>FTRI Proposed 2018/2019</b>
Operating Revenue:			
Surcharges	\$6,273,379	\$6,131,016	\$5,695,749
Interest Income	53,849	83,056	97,902
Total Operating Revenue	\$6,327,228	\$6,214,072	\$5,793,651
Operating Expenses:			
Relay Provider Services	\$2,219,366	\$2,622,535	\$2,826,281
Equipment & Repairs	1,335,920	1,295,308	1,040,360
Equipment Distribution & Training	773,938	700,465	705,986
Outreach	558,976	558,976	546,250
General & Administrative	963,106	939,915	995,535
Total Expenses	\$5,851,306	\$6,117,199	\$6,114,412
Annual Surplus	\$475,922	\$96,873	(\$320,761)
Reserve Account	17,337,883	17,301,477	17,398,350
Total Reserve <sup>9</sup>	\$17,813,805	\$17,398,350	\$17,077,589

Source: FTRI's Fiscal Year 2018/2019 proposed budget.

### Analysis

In its budget filing, FTRI acknowledges that access lines have decreased at the rate of 4.8 percent during the past three years (2015-2017) and believes that trend will continue as more consumers transition from landline phones to other technologies. As a result, FTRI's revenues will be reduced as the number of access lines decline, holding the surcharge constant. Continued efforts by FTRI to reduce expenses are important.

Staff developed its own estimate of FTRI's expenses for Fiscal Year 2017/2018. This data is presented in Attachment B. Staff used actual data from July 2017 through March 2018 and estimated the fourth quarter by averaging the first three quarters of the fiscal year. Staff's

<sup>9</sup> The Federal Communications Commission may mandate state funding of Video Relay Service, Internet Protocol Relay Service, and Internet Protocol Captioned Telephone Service. It is estimated that at a minimum \$32 million would be needed to adequately fund the state program. On June 8, 2018 in CG Docket No. 13-24 and CG Docket No. 03-123, the FCC released a Report and Order, Declaratory Ruling, Further Notice of Proposed Rulemaking, and Notice of Inquiry addressing, in part, whether state relay programs should be allowed or required to administer Internet Protocol Relay Service. <https://docs.fcc.gov/public/attachments/FCC-18-79A1.pdf>.

estimates were then used as one element in evaluating FTRI's proposed budget. Attachment B includes FTRI's budgeted information for comparison purposes. Below is staff's review of selected items from FTRI's proposed budget expense by category.

**Category I – Relay Services**

The relay service expenses are based on the minutes of use as projected by Sprint and relay service contract rates. Sprint's historical projections have proven to be reasonable and it has multi-state experience with such projections. As a result of the new relay contract that went into effect on March 1, 2018, the TRS rate increased from \$1.09 to \$1.35 per minute, and the CapTel rate increased from \$1.65 to \$1.69 per minute. Staff believes that the estimates for Fiscal Year 2018/2019 are reasonable and should be used for budgetary purposes.

**Category II – Equipment & Repairs**

Category II expenses reflect the purchase of equipment to be distributed to clients and the repairs that FTRI must make to keep the equipment in working order. FTRI's equipment budget reflected declines in equipment distribution, but includes equipment orders to maintain a sufficient inventory to serve its clients. FTRI used contract pricing for equipment multiplied by the number of units it plans to order over the course of the year. FTRI's proposed budget represents a \$295,560 decrease in expense when compared to the 2017/2018 Commission approved budget. After comparing FTRI's proposed budget with its own estimates for Fiscal Year 2017/2018, staff believes that FTRI's proposed budget for Category II expense is reasonable.

**Category III – Equipment Distribution & Training**

Category III reflects the cost of distribution of equipment throughout the state and the training of consumers in the use of the equipment. FTRI contracts with non-profit Regional Distribution Centers (RDCs) to perform these functions throughout Florida. Currently there are 28 RDCs.

The largest component for Category III relates to FTRI's support of the RDCs. Staff notes that FTRI added additional RDCs last year. FTRI's proposed budget reflects a \$67,952 expense reduction from the 2017/2018 Commission approved budget. The amount of funds for FTRI's contracts with RDCs vary based on the number of clients they assist. More funds are provided for connecting a new client, while fewer funds are provided to assist existing clients in the system. Staff believes FTRI's proposed budget for Category III expenses is reasonable.

**Category IV – Outreach**

FTRI's proposed Fiscal Year 2018/2019 outreach expense represents a decline from the Commission's approved outreach expense budget for Fiscal Year 2017/2018. FTRI has requested \$546,250 for outreach, a decrease of \$12,726 from last year's budget. FTRI believes that newspaper advertisements, specifically insert ads, are the most effective means of reaching eligible consumers and plans to continue this outreach strategy. In addition to newspaper insert ads, FTRI also plans to add a comprehensive digital marketing campaign to include: banner ads on websites, targeted email campaigns, and social media campaigns.

As reflected in Attachment B, staff's estimate of actual outreach expense for Fiscal Year 2017/2018 is \$529,593. Staff's methodology utilized an average of the first three quarters to establish a fourth quarter estimate. However, FTRI clarified that the fourth quarter is its peak

advertising quarter for outreach. As such, staff's methodology did not take into account FTRI's end of year peak outreach activities, which accounts for the difference between the staff estimate and FTRI's. Staff believes FTRI's proposed budget for Category IV expenses is reasonable.

#### **Category V – General & Administrative**

Category V reflects the expenses associated with FTRI's operations, such as office and furnishings, employee compensation, contracted services (auditors, attorney, and computer consultants), computers and other operating expenses (such as insurance and retirement). FTRI has proposed a budget for nine employees for the Fiscal Year 2018/2019, one less than was approved in last year's budget.

There is a direct correlation between the minutes of use and related service delivery and equipment distribution expense. As minutes of use decline and consumers substitute older equipment such as TTYs with newer technologies such as mobile devices with texting capabilities, associated expense should decrease. Although reduced minutes of use and technology substitution does not impact General and Administrative expense to the same degree, staff believes efforts to control General and Administrative expenses are of equal importance.

#### **Staff Adjustments to FTRI's Proposed Budget**

FTRI's proposed 2018/2019 budget presents reduced expenses in Categories II-IV. However, staff believes additional reductions can be made in Category V - General & Administrative expenses. In staff's analysis, staff compared actual expenses for the first three quarters and estimated the fourth quarter (using an average of the first three quarters) for Fiscal Year 2017/2018 to compare with FTRI's proposed budget. Based on this review, staff recommends the adjustment and/or continued monitoring of the following expenses:

- Legal
- Insurance-Health/Life/Disability
- Retirement

#### **Legal Fees**

Prior to the 2017/2018 budget, FTRI had a long-standing agreement for legal representation at a flat fee minimum of \$72,000 per year. FTRI has retained the same law firm for many years.<sup>10</sup> FTRI's attorney attends the board meetings and writes the minutes, reviews Requests for Proposals, reviews contracts, and advises on legal issues as they arise. In last year's budget order, the Commission stated that paying the attorney an hourly rate may be more cost effective than paying a flat fee minimum for these services. The Commission ordered:

We are not convinced that the contract amount is required to perform the regular annual non-litigation services for FTRI. Based on our review of the information provided, we find that the billable minutes associated with the services contracted may be more in line with an expense of \$36,000. We find that more detailed billing information is necessary to allow for further analysis in next year's budget. FTRI shall collect such billing information to include itemized invoices to FTRI

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<sup>10</sup> Messer Caparello in Tallahassee, Florida.

with date of services, charges for the services, hours of service, price per hour, and a detailed description of the services provided by legal counsel.<sup>11</sup>

Subsequent to the Commission's order limiting legal expenses to \$36,000, FTRI signed a legal services agreement with the attorney guaranteeing a monthly flat fee of \$3,000 per month (12 hours at \$250 per hour), with additional hours billed for specified services as needed at \$225 per hour. The current negotiated agreement was for a minimum of \$36,000, which was the upper limit of the 2017/1028 Commission-approved budget for legal expenses. Even if FTRI's counsel performed no work, FTRI would be billed the maximum amount allowed in the approved budget. As written, the contract will result in legal expenses projected by FTRI that will be \$19,823 over the 2017/2018 Commission-approved budget of \$36,000.

In its Fiscal Year 2018/2019 budget proposal, FTRI summarizes its legal expenses to date under the newly executed contract stating:

Last year the FPSC reduced this line item to \$36,000 per year. July – Dec 2017 FTRI has paid out \$27,911.30 in legal expense. FTRI conservatively expects January – June 2018 to be similar in expense and is reflected in the Year End estimate of \$55,823 basically doubling the expense from the first half of the year. FTRI has used the FYE estimate as its budget for 2018/2019.<sup>12</sup>

FTRI estimated its annual legal expenses by doubling its payments for the first six months of the Fiscal Year. However, FTRI's calculation included legal invoice payments for July 2017 through January 2018, or seven months of payments. The first six months of charges (July through December 2017) equal \$24,911.30, not \$27,911.30. Doubling the correct amount, utilizing FTRI's current approved budget, yields an annual projection for FTRI's legal expenses of \$49,823.

Similar to the previous fiscal year, and after review of supporting documents relating to legal expenses, staff continues to have concerns regarding the itemized legal expenses. To date, FTRI has provided staff with legal invoices for July 2017 through May 2018, or 11 of the possible 12 months. Based on staff's review of these legal invoices, staff believes that there are several steps FTRI can take to reduce its legal expenses.

As previously stated, FTRI's current agreement for legal services includes a monthly flat-fee minimum of \$3,000 for 12 hours of services at \$250 per hour, whether or not services are actually performed (i.e., if FTRI's counsel provides fewer than 12 hours of services, it still bills FTRI \$3,000 for that month). Any hours over 12 performed in a calendar month are billed at \$225 per hour. Utilizing this agreement has resulted in a projected amount for 2017/2018 of \$3,630 in legal fees billed by FTRI's counsel that were not attributable to work performed. Staff believes it would be in FTRI's interest to negotiate a more traditional capped "retainer" agreement in which hours are charged against the retainer as work is performed.

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<sup>11</sup> ORDER NO. PSC-2017-0292-PAA-TP

<sup>12</sup> Document No. 03000-2018 filed in Docket No. 20180099-TP.

Invoices show that FTRI paid approximately \$900 in legal fees for its counsel to draft a new contract, more lucrative than last year's Commission order on legal expenses. Staff does not believe legal fees attributable to the drafting of a fee agreement for an amount that exceeds Commission approved expenses are reasonable.

In addition, some activities billed this Fiscal Year may not be most reasonably performed by an attorney. For example, FTRI's counsel serves on the FTRI Board as its secretary, performing duties such as preparing the agenda for board meetings and transcribing minutes following the meeting. Staff's view is that since the members of the FTRI board perform their duties without compensation, the duties of the board secretary should not be compensable as a legal expense. Regardless, staff does not believe that these functions require an attorney, at the attorney's full hourly rate, to perform. FTRI staff members should be able to perform many activities such as preparing materials. If no one on the board wishes to act as secretary and take minutes, staff believes FTRI should explore less expensive ways to perform functions that do not require an attorney.

Staff recommends that FTRI's proposed Fiscal Year 2018/2019 budget line item for legal expenses be established at \$36,000, the same as last year, but with the following additional reasonable restrictions:

1. The \$36,000 budget item shall not be administered as a flat fee guaranteed retainer but instead shall be administered as a capped \$36,000 retainer to be billed against on an hourly basis only as legal services are required.
2. The hourly rate for legal services should be capped at the rate of \$250 per hour broken into increments, which are rounded to no greater than 6 minutes. Bills or invoices shall be prepared and submitted to FTRI on a monthly basis.
3. FTRI should continue to collect billing information to be used by staff and FTRI for analysis of next Fiscal Year's budget. Detailed information on the nature of each charge or a detailed description of each service provided by legal counsel should be included in all invoices. The information contained, per increment(s) of time billed, should be reasonably sufficient to identify the specific activity performed. For example, review "x" contract, review of "x" issue or "x" matter is sufficient; on the other hand, "review of pending issues/matters" is insufficient to reasonably identify the activity performed. Further, information should include itemized invoices to FTRI with date of services, charges for the services, hours of service, price per hour.

Should the attorney have knowledge or anticipate that the \$36,000 capped retainer may be exceeded due to unforeseen situations such as an emergency, FTRI shall give 90 days' notice to the Commission of this upcoming event. Staff recommends that no exceedance of the amount of the \$36,000 retainer shall occur without prior Commission approval, and FTRI is not authorized to transfer funds from other areas in Category V to subsidize overages of attorney related contracted services.

## **In-House Analyses**

### ***Insurance***

FTRI provides health, dental, vision, basic life, short-term disability, and long-term disability insurance to its employees. Employees contribute 5 percent of the premium for single coverage and 25 percent of the difference between single and dependent coverage. Last year the Commission ordered FTRI to compare the benefits it offered with those of similarly situated organizations.

In response to the Order, on April 2, 2018, FTRI filed plans for health insurance from two responding companies. FTRI stated to the Commission that it requested information from various providers, however, the companies stated that they were unable to provide like-for-like comparisons to FTRI's existing plan. FTRI stated that the plans it filed with the Commission represent what it considered to be the most comparable plans. Based on the plans filed, FTRI switched from its existing provider at the time, UHC NCTA, to the plan offered by SBG-UHC Choice Plus Platinum AUXC.

In its proposed 2018/2019 budget, filed on April 16, 2018, FTRI included a budget for insurance of \$192,496, which is an increase of 5.12 percent from Fiscal Year 2017/2018 estimated expenditures. However, FTRI's insurance budget was based on an estimate from its previous insurance provider. Since changing insurance providers, FTRI has provided a revised insurance estimate of \$153,027, a decrease of 16.4 percent from its Fiscal Year 2017/2018 estimated expenditures. Staff recommends that FTRI's proposed Fiscal Year 2018/2019 budget line item for insurance be reduced by \$39,469, to the proposed amount of \$153,027 to reflect the updated estimate provided by FTRI. Staff recommends that FTRI continue to conduct in-house analyses for Insurance expense and submit its findings to the Commission. Staff recommends that FTRI submit the results of the analyses to staff by January 31, 2019.

### ***Retirement***

Retirement expense is based on salary and related pension costs for administration of the program through FTRI's plan administrator NTCA. FTRI proposes a \$7,993 increase in retirement expense from Fiscal Year 2017/2018 estimated expenditures. The Commission authorized 10 positions for FTRI's Fiscal Year 2017/2018 budget. However, during most of Fiscal Year 2017/2018 FTRI operated with eight employees. FTRI has communicated that funding nine positions for Fiscal Year 2018/2019 is needed to perform its functions. The increase is primarily based on the number of employees increasing from eight to nine.

Currently, 11.1 percent of salaries are contributed to a retirement account for the employees. Employees are not required to pay for any of their retirement. The retirement budget is based on estimated compensation for nine employees and a three percent salary increase.

Last year the Commission ordered FTRI to conduct in-house analyses for retirement and to include quotes from other retirement plans offered by comparably-sized nonprofit and for profit entities. On April 4, 2018, in response to the Order, FTRI filed its report with the Commission. FTRI stated that it requested information from several providers. FTRI also communicated that the majority of providers stated they were unable to provide a comparable defined benefit plan.

FTRI did submit an analysis from Regions Institutional Services (Regions) on the plan design, investment returns, and administrative structure of FTRI's current Pension Plan. The analysis pointed out that the current plan boasts roughly \$2 billion in assets with over 17,000 participants. It further stated that the cooperative nature of the plan allows the assets to be pooled for investment purposes and the large asset base attracts outside managers not generally available to smaller defined benefit plans. Regions also stated that the fees charged for actuarial services would be lower than stand-alone plans, but acknowledged that it did not have data to compare this theory. Regions concluded that there are no glaring issues with FTRI's current plan design or operation.

Lastly, Regions stated that FTRI would benefit from delaying any decision until the 2017 actuarial valuation has been completed. Regions explained that it contacted several actuarial firms to design a plan review if FTRI should decide to move to a stand-alone retirement plan. As stated earlier, Regions recommends a more thorough review by an actuarial firm prior to moving from the current plan.

Staff recommends that FTRI continue to conduct in-house analyses for Retirement expenses and submit its findings to the Commission. These analyses should include price quotes from other providers for insurance and retirement plans offered by comparably-sized nonprofit and for profit entities. Staff recommends that FTRI submit the results of the analyses to staff by January 31, 2019.

### **Surcharge**

Staff recommends that the Commission order all local exchange companies to continue billing the \$0.10 monthly surcharge for Fiscal Year 2018/2019. Staff's recommended total budget includes a shortfall of \$261,469. FTRI proposed drawing from the Reserve Account to cover the shortfall in their proposed budget. Staff notes that the recommended shortfall of \$261,469 represents approximately half the projected revenue that would be generated from a \$0.01 increase in the surcharge.<sup>13</sup> Therefore, staff believes that rather than increasing the surcharge, it is appropriate to transfer the funds from the Reserve Account to cover the budgeted shortfall for Fiscal Year 2018/2019.

### **Conclusion**

Staff believes FTRI's expense reductions in Categories II-IV continue to be steps in the right direction to better position FTRI in a changing industry. However, a sustained effort is necessary for FTRI to strategically position itself in a rapidly changing environment. Staff has identified three expense line items in FTRI's proposed 2018/2019 budget that should be reduced and/or warrant further analysis. These include Legal, Insurance-Health/Life/Disability, and Retirement expenses.

Staff recommends that the Commission reduce FTRI's proposed budget expenses for Fiscal Year 2018/2019 by \$19,823 for legal expense and by \$39,469 for insurance expense. Staff also recommends that the Commission allow FTRI to transfer \$203,746 from the Reserve Account to

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<sup>13</sup> Staff projects that a \$0.01 increase in the surcharge from \$0.10 to \$0.11 would increase projected Fiscal Year 2018/2019 revenue by \$569,575.



offset projected expense increases resulting from the new relay contract, and \$57,723 in additional expense primarily related to equipment, employee compensation, and auditing. Staff recommends that the Commission order all local exchange companies to continue billing the \$0.10 surcharge for Fiscal Year 2018/2019. Staff further recommends that the Commission order FTRI to continue to require detailed, itemized bills from its legal counsel and to continue in-house analyses for Insurance-Health/Life/Disability and Retirement expenses. Staff recommends that FTRI be ordered to provide updated results of its analyses to staff by January 31, 2019. (Williams, Bates, Fogleman, Long)

**Issue 2:** Should the Commission approve the appointment of Commissioner Margaret Brown to the TASA Advisory Committee effective immediately?

**Recommendation:** Yes. Staff recommends that the Commission approve the appointment of Commissioner Margaret Brown to the TASA Advisory Committee effective immediately. (Williams, Page)

**Staff Analysis:** Pursuant to Section 427.706, F.S., the Commission shall appoint an advisory committee of up to 10 members to assist the Commission with Florida's relay system.

By statute, the advisory committee provides the expertise, experience, and perspective of persons who are deaf, hard of hearing, or speech impaired to the Commission and the administrator during all phases of the development and operation of the telecommunications access system. The advisory committee advises the Commission and the administrator on the quality and cost-effectiveness of the telecommunications relay service and the specialized telecommunications devices distribution system. Members of the committee are not compensated for their services but are entitled to per diem and travel expenses provided through the Florida Public Service Commission's Regulatory Trust Fund.

Commissioner Margret Brown was elected City Commissioner of Weston, Florida, in November of 2016. She is the Regional Executive Director of the Center for Hearing and Communications in Florida, a not-for-profit agency in Broward County, which provides hearing health care, audiological services and advocacy for the hard-of-hearing, deaf, and deaf/blind in South Florida. The Center for Hearing and Communications in Florida is the largest distributor for FTRI, providing specialized telephones for Florida residents with hearing loss. In addition, Commissioner Brown is the current president of the Deaf Service Center Association of Florida and has been serving the association since 2014.

Staff recommends that the Commission approve the appointment of Commissioner Margaret Brown to the TASA Advisory Committee effective immediately.

**Issue 3:** Should this docket be closed?

**Recommendation:** Yes. A Consummating Order should be issued for Issue 1, unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of the issuance of the proposed agency action. The docket should be closed upon issuance of the Consummating Order. (Page)

**Staff Analysis:** A Consummating Order should be issued for Issue 1, unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of the issuance of the proposed agency action. The docket should be closed upon issuance of the Consummating Order.



April 16, 2018

Mr. Curtis Williams, Regulatory Analyst IV  
Office of Telecommunications  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0866

RE: **FTRI FY 2018/2019 Budget**

Dear Mr. Williams:

I am pleased to forward a copy of the FY 2018/2019 budget for the Florida Telecommunications Relay, Inc. (FTRI). The budget was reviewed and adopted by the Board of Directors at a special meeting.

The budget adopted by the board for FY 2018/2019 maintains the surcharge at 10 cents per access line and at this level is projected to produce revenues of \$5,793,651. As reflected on the attached copy of the approved budget total expenses are projected to be \$6,114,412. A shortfall of \$320,761 will be realized. A primary cause of the shortfall may be contributed to the increased rate of TRS and CapTel services which was implemented March 2018.

Access lines have decreased at the rate of 4.8% during the past three years (2015, 2016 & 2017) and that trend is expected to continue as more consumers move from landline to other technologies. For the current budget period, it is projected that access lines will decrease by 4.8%.

Category V increases are primarily due to a proposed compensation analysis and the Accounts Payable position and associated benefits.

FTRI and its regional partners continue to reach out to meet the telecommunications access needs of residents who are deaf, hard of hearing, deaf/blind, or speech disabled. Outreach continues to be an integral part of our efforts to attract new clients and educate the general population about the Florida Relay System and the benefits this brings to our citizens as required by TASA.

Should you have questions or desire additional information, please do not hesitate to email me at [jforstall@ftri.org](mailto:jforstall@ftri.org).

Sincerely,  
  
James Forstall  
Executive Director

Enclosure

cc: FTRI Board of Directors

1820 E. Park Avenue, Suite 101 Tallahassee, FL 32312 [www.ftri.org](http://www.ftri.org)

Florida Telecommunications Relay, Inc.						
Fiscal Year 2018/2019 Budget @ .10 cents surcharge						
	2017/2018	2017/2018	2018/2019	Estimated to Budget	Budget to Budget	
	APPROVED	ESTIMATED	PROPOSED	VARIANCE	VARIANCE	
	BUDGET	REV & EXPEND	BUDGET	2017/2018	2017/2018	
				2018/2019	2018/2019	
<b>OPERATING REVENUE</b>						
1	Surcharges	6,273,379	6,131,016	5,695,749	(435,267)	(577,830)
2	Interest Income	53,849	83,056	97,902	14,846	44,053
3	NDBEDP					
	<b>TOTAL OPERATING REV</b>	<b>6,327,228</b>	<b>6,214,072</b>	<b>5,793,651</b>	<b>(420,421)</b>	<b>(533,577)</b>
<b>OTHER REVENUE/FUNDS</b>						
4	Surplus Account	17,337,883	17,301,477	17,398,350	96,873	60,467
	<b>TOTAL REVENUE</b>	<b>23,665,111</b>	<b>23,515,549</b>	<b>23,192,001</b>	<b>(323,548)</b>	<b>(473,110)</b>
<b>OPERATING EXPENSES</b>						
<b>CATEGORY I - RELAY SERVICES</b>						
5	DPR Provider	2,219,366	2,622,535	2,826,281	203,746	606,915
	<b>SUBTOTAL-CATEGORY I</b>	<b>2,219,366</b>	<b>2,622,535</b>	<b>2,826,281</b>	<b>203,746</b>	<b>606,915</b>
<b>CATEGORY II - EQUIPMENT &amp; REPAIRS</b>						
6	TDD Equipment	0	0	0	0	0
7	Large Print TDD's	0	0	0	0	0
8	VCO/HCO - TDD	4,600	4,600	4,600	0	0
9	VCO Telephone	0	0	0	0	0
10	Dual Sensory Equipment	0	0	0	0	0
11	CapTel Phone Equipment	0	0	0	0	0
12	VCP Hearing Impaired	1,249,948	1,189,572	936,572	(253,000)	(313,376)
13	VCP Speech Impaired	832	231	0	(231)	(832)
14	TellTalk Speech Aid	9,000	15,600	13,200	(2,400)	4,200
15	Jupiter Speaker phone	0	0	0	0	0
16	In-Line Amplifier	300	30	0	(30)	(300)
17	ARS Signaling Equip	2,400	475	250	(225)	(2,150)
18	VRS Signaling Equip	2,921	6,185	7,733	1,548	4,812
19	Accessories & Supplies	1,580	1,243	1,230	(13)	(350)
20	Telecomm Equip Repair	64,339	77,372	76,775	(597)	12,436
	<b>SUBTOTAL-CATEGORY II</b>	<b>1,335,920</b>	<b>1,295,308</b>	<b>1,040,360</b>	<b>(254,948)</b>	<b>(295,560)</b>
<b>CATEGORY III - EQUIPMENT DISTRIBUTION &amp; TRAINING</b>						
21	Freight-Telecomm Equip	40,442	37,908	38,034	126	(2,408)
22	Regional Distr Centers	732,996	662,089	667,484	5,395	(65,512)
23	Workshop Expense	0	0	0	0	0
24	Training Expense	500	468	468	0	(32)
	<b>SUBTOTAL-CATEGORY III</b>	<b>773,938</b>	<b>700,465</b>	<b>705,986</b>	<b>5,521</b>	<b>(67,952)</b>



**Staff's Budget Comparison**

2017/2018 APPROVED BUDGET	2017/2018 FTRI ESTIMATED	2017/2018 FPSC STAFF ESTIMATED	2018/2019 FPSC PROPOSED BUDGET	2018/2019 FTRI PROPOSED BUDGET
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**REVENUE**

Surcharge	6,273,379	6,131,016	6,131,016	5,695,749	5,695,749
Interest	53,849	83,056	83,056	97,902	97,902
<b>TOTAL OPERATING REVENUE</b>	<b>6,327,228</b>	<b>6,214,072</b>	<b>6,214,072</b>	<b>5,793,651</b>	<b>5,793,651</b>
Reserve Account	17,337,883	17,301,477	17,301,477	17,398,350	17,398,350
<b>TOTAL REVENUE</b>	<b>23,665,111</b>	<b>23,515,549</b>	<b>23,515,549</b>	<b>23,192,001</b>	<b>23,192,001</b>

**OPERATING EXPENSES**

<b>CATEGORY I - RELAY SERVICES</b>					
DPR Provider	2,219,366	2,622,535	2,622,535	2,826,281	2,826,281
<b>SUBTOTAL CATEGORY I</b>	<b>2,219,366</b>	<b>2,622,535</b>	<b>2,622,535</b>	<b>2,826,281</b>	<b>2,826,281</b>

<b>CATEGORY II - EQUIPMENT &amp; REPAIRS</b>					
TDD Equipment	-	-	-	-	-
Large Print TDD	-	-	-	-	-
VCO/HCO-TDD	4,600	4,600	6,133	4,600	4,600
VCO-Telephone	-	-	-	-	-
Dual Sensory Equipment	-	-	-	-	-
CapTel Phone Equipment	-	-	-	-	-
VCP Hearing Impaired	1,249,948	1,189,572	1,002,184	936,572	936,572
VCP Speech Impaired	832	231	493	-	-
TeliTalk Speech Aid	9,000	15,600	18,460	13,200	13,200
InferaRed/Hands Free	-	-	-	-	-
In Line Amplifier	300	30	40	-	-
ARS-Signaling Equipment	2,400	475	633	250	250
VRS-Signaling Equipment	2,921	6,185	3,461	7,733	7,733
Equipment Accessories/Supplies	1,580	1,243	61	1,230	1,230
Telecom Equipment Repair	64,339	77,372	75,348	76,775	76,775
<b>SUBTOTAL CAT II</b>	<b>1,335,920</b>	<b>1,295,308</b>	<b>1,106,813</b>	<b>1,040,360</b>	<b>1,040,360</b>

**Staff's Budget Comparison**

	2017/2018 APPROVED BUDGET	2017/2018 FTRI ESTIMATED	2017/2018 FPSC STAFF ESTIMATED	2018/2019 FPSC PROPOSED BUDGET	2018/2019 FTRI PROPOSED BUDGET
<b>CATEGORY III - EQUIPMENT DISTRIBUTION &amp; TRAINING</b>					
Freight - Telecomm Equipment	40,442	37,908	41,755	38,034	38,034
Regional Distribution Centers	732,996	662,089	665,919	667,484	667,484
Workshop Expense	-	-	-	-	-
Training Expense for RDCs	500	468	-	468	468
<b>SUBTOTAL CAT III</b>	<b>773,938</b>	<b>700,465</b>	<b>707,674</b>	<b>705,986</b>	<b>705,986</b>
<b>CATEGORY IV - OUTREACH</b>					
Outreach Expense	558,976	558,976	529,593	546,250	546,250
<b>SUBTOTAL CAT IV</b>	<b>558,976</b>	<b>558,976</b>	<b>529,593</b>	<b>546,250</b>	<b>546,250</b>
<b>CATEGORY V - GENERAL AND ADMINISTRATIVE</b>					
Advertising	658	15	20	15	15
Accounting/Audit	20,533	20,749	26,459	26,582	26,582
Legal	36,000	55,823	49,823	36,000	55,823
Consultation-Computer	5,580	5,747	7,263	5,580	5,580
Dues/Subscriptions	1,655	2,311	2,920	2,287	2,287
Office Furniture	-	-	-	-	-
Office Equipment Purchase	6,667	6,471	3,023	6,263	6,263
Office Equipment Lease	1,827	1,532	1,276	1,552	1,552
Insurance - Health/Life/Disability	175,345	183,112	180,532	153,027	192,496
Insurance-Other	10,075	10,172	9,845	10,729	10,729
Office Expense	13,719	13,029	12,151	13,029	13,029
Postage	7,541	7,490	7,799	7,490	7,490
Printing	1,514	1,114	1,123	1,114	1,114
Rent	92,062	91,205	91,513	91,205	91,205
Utilities	5,297	5,294	5,309	5,294	5,294
Retirement	73,734	70,780	67,183	78,773	78,773
Employee Compensation	445,106	411,936	422,748	441,149	441,149
Temporary Employment	-	-	-	-	-
Taxes - Payroll	30,091	29,418	30,088	31,604	31,604
Taxes - Unemployment Comp	1,725	324	760	63	63



	2017/2018 APPROVED BUDGET	2017/2018 FTRI ESTIMATED	2017/2018 FPSC STAFF ESTIMATED	2018/2019 FPSC PROPOSED BUDGET	2018/2019 FTRI PROPOSED BUDGET
Taxes - Licenses	61	61	-	61	61
Telephone	17,240	16,587	16,677	16,089	16,089
Travel & Business Expense	13,585	3,620	4,816	5,198	5,198
Equipment Maintenance	746	1,292	825	1,306	1,306
Employee Training	975	950	967	950	950
Meeting Expense	1,370	883	1,840	883	883
Miscellaneous	-	-	-	-	-
<b>SUBTOTAL CAT V</b>	<b>963,106</b>	<b>939,915</b>	<b>944,960</b>	<b>936,243</b>	<b>995,535</b>

<b>TOTAL EXPENSES</b>	<b>5,851,306</b>	<b>6,117,199</b>	<b>5,911,575</b>	<b>6,055,120</b>	<b>6,114,412</b>
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<b>REVENUES LESS EXPENSES</b>	<b>475,922</b>	<b>96,873</b>	<b>302,497</b>	<b>(261,469)</b>	<b>(320,761)</b>
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# Item 4

State of Florida



## Public Service Commission

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

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

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**DATE:** June 27, 2018

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

**FROM:** Office of Industry Development and Market Analysis (Deas, Fogleman, Wendel) *J.D. AF BMW CH*  
Office of Auditing and Performance Analysis (Casey) *AK*  
Office of the General Counsel (Murphy) *TU CM*

**RE:** Docket No. 20180118-TL – Implementation of the 689 area code overlay in the existing 407/321 area code.

**AGENDA:** 07/10/18 – Regular Agenda – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Brown

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

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### Case Background

On May 16, 2018, the Florida Public Service Commission (Commission) received Notice from Neustar Inc., the North American Numbering Plan Administrator (NANPA), that the 407 area code is expected to exhaust in the next twelve months. (Attachment A) The 407 area code serves Orange, Osceola, Seminole and parts of Lake and Volusia Counties in Central Florida. (Attachment B) Calls within this area currently require ten digit dialing as a result of a limited area code overlay (321) approved by this Commission in 1998.<sup>1</sup>

NANPA is the neutral third-party administrator responsible for forecasting the exhaust of geographic area codes and for area code relief planning. NANPA publishes its forecasted exhaust of all area codes on a semi-annual basis. This forecast is used in determining when to start the

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<sup>1</sup> Commission Order No. PSC-98-1761.

process of adding another area code. Area codes exhaust when all the prefixes (also known as central office codes) are assigned. Each area code contains 792 usable prefixes containing 10,000 numbers each. When all of these prefixes are assigned, another area code is needed.

On May 15, 2001, NANPA petitioned the Commission for approval to implement an overlay relief plan for the 407/321 Numbering Plan Areas (NPA). The petition was filed based upon NANPA's projection that the central office codes (NXX codes) for the 407/321 NPA would exhaust during the fourth quarter of 2003. On March 25, 2002, by Order No. PSC-2002-0405-FOF-TL, the Commission approved an overlay area code relief plan for the 407/321 NPA. The approved relief plan was the implementation of a third area code overlay in the existing 407/321 NPA. NANPA assigned the 689 area code to the 407/321 NPA with an implementation date of July 15, 2002. However, prior to the implementation date, new exhaust dates were posted by NANPA. Based on the new information obtained from NANPA, there were approximately two-hundred 407 NXX codes remaining in the 407/321 NPA. It was estimated that the remaining life of the 407/321 NPA would be extended for approximately 8.77 years.

On May 31, 2002, the Commission issued Order No. PSC-2002-0743-FOF-TL indefinitely suspending the implementation of the 689 overlay due to the estimated exhaust dates for the 407/321 NPA having changed significantly. Also, the Commission directed NANPA to officially inform the Commission within one year of the exhaust of available 407 NXX codes. Since the issuance of that Order, thousand-block number pooling and code reclamation number conservation measures implemented by the Commission have delayed the need for another area code in the 407/321 NPA for 16 years.<sup>2</sup>

By Order No. PSC-2002-0405-FOF-TL, the Commission also ordered that all unassigned 321 NXX codes would be reserved for assignment in Brevard County. Since that Order, NANPA inadvertently assigned 56 NXX codes outside of Brevard County. This represents approximately 7 percent of the 321 NXX codes. NANPA established processes to correct this problem and no 321 NXX codes have been assigned outside of Brevard County since 2015. Brevard County is only serviced by area code 321 and seven digit dialing is still utilized. Implementation of 689 area code will not directly affect Brevard County.

In accordance with Order No. PSC-2002-0743-FOF-TL, on May 16, 2018, NANPA notified the Commission that the current quantity of 407 NXX codes is only sufficient to meet demand for the next 12 months. Therefore, NANPA is requesting, on behalf of the industry, that the Commission lift the suspension on the implementation of the 689 overlay so that NANPA may begin the process of putting the 689 area code in place prior to the exhaust of the 407 NXX codes.

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<sup>2</sup> Thousands-block number pooling is the process by which telephone companies share a pool of telephone numbers that have the same central office code. Historically, telephone numbers have been assigned to service providers in blocks of 10,000 numbers. Thousands-block number pooling allows phone numbers to be allocated to service providers in blocks of 1,000, instead of the historical 10,000 number blocks, which conserves numbers and provides for more efficient number utilization. A uncontaminated central office code in 1,000 blocks is subject to be reclaimed and returned to inventory if it is not activated within six months of being assigned and the carrier cannot provide the Commission a reason for extension of the reclamation date.

The Commission has jurisdiction to address this issue pursuant to Section 364.16(7) and 120.80(13)(d), Florida Statutes, and 47 C.F.R. § 52.19. Section 364.16(7), Florida Statutes provides that:

In order to ensure that consumers have access to different local exchange service providers without being disadvantaged, deterred, or inconvenienced by having to give up the consumer's existing local telephone number, the commission must make sure that all providers of local exchange services have access to local telephone numbering resources and assignments on equitable terms that include a recognition of the scarcity of such resources and that are in accordance with national assignment guidelines.

Section 120.80(13)(d), Florida Statutes provides that:

Notwithstanding the provisions of this chapter, in implementing the Telecommunications Act of 1996, Pub. L. No. 104-104, the Public Service Commission is authorized to employ procedures consistent with that act.

47 C.F.R. § 52.19 which provides in part that:

(a) State commissions may resolve matters involving the introduction of new area codes within their states. Such matters may include, but are not limited to: Directing whether area code relief will take the form of a geographic split, an overlay area code, or a boundary realignment; establishing new area code boundaries; establishing necessary dates for the implementation of area code relief plans; and directing public education efforts regarding area code changes.

(b) State commissions may perform any or all functions related to initiation and development of area code relief plans, so long as they act consistently with the guidelines enumerated in this part, and subject to paragraph (b)(2) of this section. For the purposes of this paragraph, initiation and development of area code relief planning encompasses all functions related to the implementation of new area codes that were performed by central office code administrators prior to February 8, 1996. Such functions may include: Declaring that the area code relief planning process should begin; convening and conducting meetings to which the telecommunications industry and the public are invited on area code relief for a particular area code; and developing the details of a proposed area code relief plan or plans.

### Discussion of Issues

**Issue 1:** Should the Commission lift its suspension of the implementation plan for the 689 overlay of the 407/321 NPA?

**Recommendation:** Yes, Staff recommends that the Commission lift its suspension of the implementation plan for the 689 overlay of the 407/321 NPA. Staff also recommends that the Commission direct NANPA to notify the Commission of the proposed implementation date for the 689 overlay once it has been determined. (Deas, Fogleman, Wendel, Murphy, Casey)

**Staff Analysis:** By Order No. PSC-2002-0743-FOF-TL, issued on May 31, 2002, the Commission ordered that the implementation of the 689 overlay for the 407/321 NPA be suspended indefinitely. The Commission also ordered NANPA to officially inform the Commission within one year of the exhaust of available 407 NXX codes.

On May 16, 2018, NANPA informed the Commission that the 407 NXX codes exhaust projection is within 12 months. According to NANPA, as of May 14, 2018, there were 19 NXX codes available for assignment in the 407 area code. In April 2018, NANPA reported the estimated exhaust date for the 407 NXX codes as the third quarter of 2020. However, the following month, in May of 2018, NANPA reported a delta projection to reflect the estimated exhaust date as the third quarter of 2019. NANPA is requesting the Commission lift the May 2002 suspension so that it can hold industry meetings to initiate the implementation process.

Based upon the most recent NANPA projections staff recommends that the Commission lift the suspension of the implementation plan for the 689 overlay of the 407/321 NPA. Staff, also recommends that NANPA inform the Commission once the proposed implementation date for the 689 overlay has been determined.

On June 5, 2018, Mr. Albert Erdmann added correspondence to this docket regarding the 55 NXX codes inadvertently assigned outside of Brevard County. Mr. Erdmann asked that numbers with the 321 area code that were inadvertently assigned outside of Brevard County be returned to Brevard County rate centers as part of the 689 overlay process. According to NANPA all of the 321 NXX codes in question have some utilization. Thus, moving these NXX codes will impact customers. Staff has requested NANPA to provide information regarding the technical feasibility, cost, customer impact and any industry input regarding returning the 321 NXX codes to the Brevard County rate centers.

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

**Recommendation:** No. This Docket should remain open for the Commission to acknowledge the implementation date for the 689 area code overlay. (Deas, Fogleman, Wendel, Murphy, Casey)

**Staff Analysis:** This Docket should remain open for the Commission to acknowledge the implementation date for the 689 area code overlay.



May 16, 2018

Ms. Carlotta S. Stauffer  
Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399

Dear Ms. Stauffer,

On March 25, 2002, the Florida Public Service Commission (“PSC”) issued Order No. PSC-02-10405-FOF-TL in Docket No. 010743-TL specifying an all-services overlay as the relief method for the 407/321 area code. The 689 area code was assigned by NANPA with a scheduled implementation date of July 15, 2002. The 407/321 area code serves Orange, Osceola, Seminole and parts of Lake and Volusia Counties in Central Florida. The portion of the 321 area code serving Brevard County was to remain unchanged.

On May 31, 2002, the PSC, in Order No. PSC-02-0743-FOF-TL, indefinitely suspended the implementation of the 689 area code. The PSC directed the telecommunications industry, represented by NANPA, to provide notice when there is an estimated one-year supply of assignable central office codes (NXX codes) available.

This letter is to notify the PSC that the current quantity of 407 NXX codes is only sufficient to meet demand for the next 12 months. As of May 14, 2018, there were 19 codes available for assignment in the 407 area code. Therefore, the NANPA requests, on behalf of the industry, that the PSC lift the suspension on the implementation of the 689 overlay so that NANPA may begin the process of putting the 689 area code in place prior to the exhaust of the 407 NXX codes. Once the PSC notifies NANPA of a lifting of the May 2002 suspension, the NANPA will hold an industry meeting to initiate the implementation process.

If you have any questions, please feel free to contact me at 571-434-5770 ([john.manning@team.neustar](mailto:john.manning@team.neustar)) or Heidi Wayman at 571-434-5765 ([heidi.wayman@team.neustar](mailto:heidi.wayman@team.neustar)).

Sincerely,

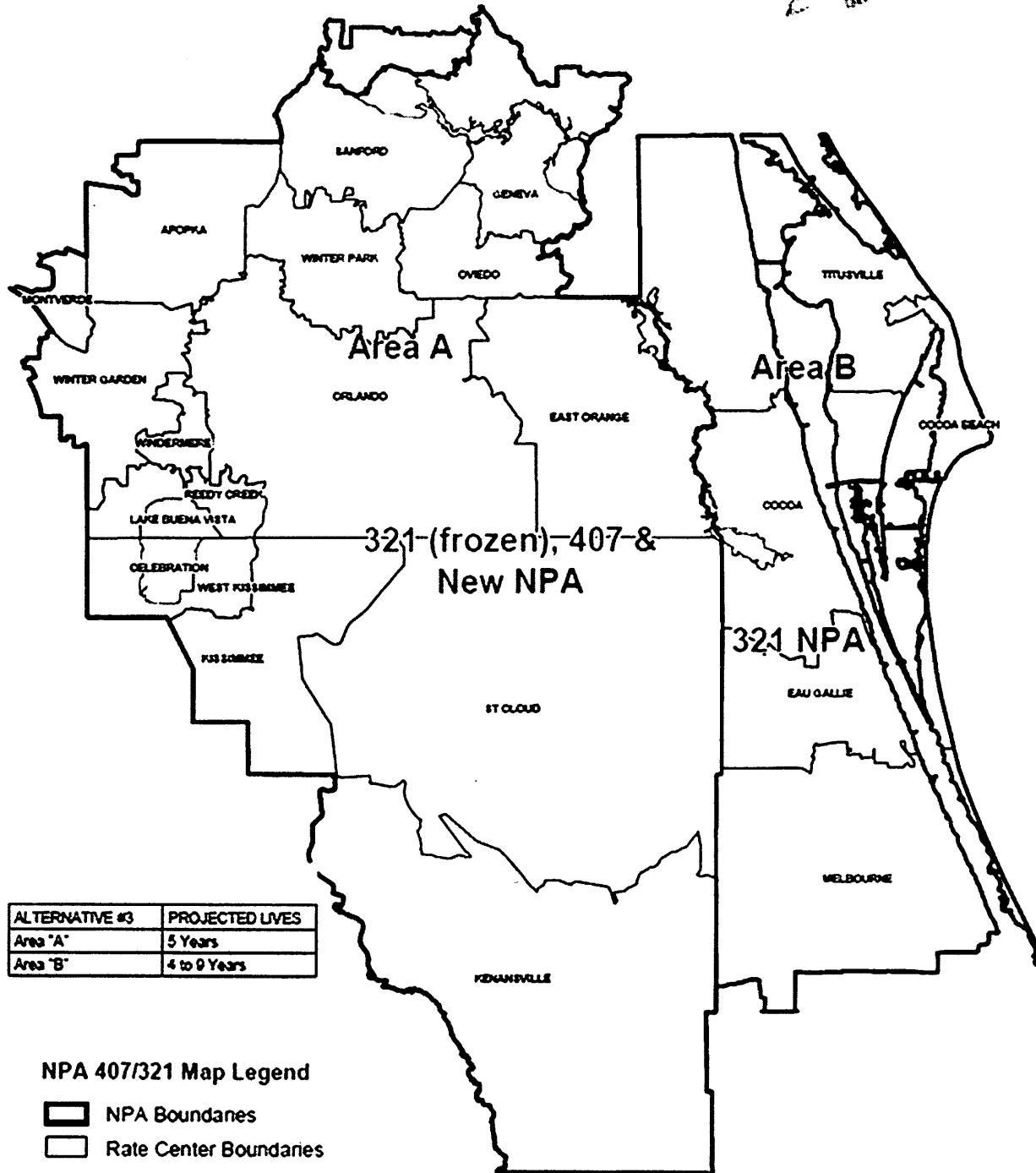
A handwritten signature in black ink that reads "John L. Manning". The signature is fluid and cursive, with a long horizontal stroke at the end.

John Manning  
Sr. Director – NANPA

cc: Greg Fogleman – Florida PSC  
Heidi Wayman – NANPA  
Brent Struthers – NANPA  
Kimberly Miller – NANPA



**NPA 407/321 Rate Center Map  
 Alternative #3  
 Freeze 321 NPA in Central Area**



ALTERNATIVE #3	PROJECTED LIVES
Area "A"	5 Years
Area "B"	4 to 9 Years

**NPA 407/321 Map Legend**  
 NPA Boundaries  
 Rate Center Boundaries

# Item 4A

State of Florida



## Public Service Commission

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

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

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**DATE:** July 2, 2018

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

**FROM:** Division of Accounting and Finance (Vogel, D. Buys, Mouring) *ALM*  
Division of Economics (Draper) *PD*  
Division of Engineering (P. Buys, Graves, King) *PD*  
Office of the General Counsel (Brownless, Dziechciarz) *mmj*

**RE:** Docket No. 20160251-EI – Petition for limited proceeding for recovery of incremental storm restoration costs related to Hurricane Matthew by Florida Power & Light Company.

**AGENDA:** 07/10/18 – Regular Agenda – Post-hearing–Participation is limited to Commissioners and Commission staff.

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Brown

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

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### Case Background

On December 29, 2016, pursuant to Section 366.076(1), Florida Statutes (F.S.), Florida Power & Light Company (FPL) filed its Petition for Limited Proceeding for Recovery of Incremental Storm Restoration Costs Related to Hurricane Matthew. On January 18, 2017, the Office of Public Counsel (OPC) was acknowledged as a party to this case by Order No. PSC-2017-0030-PCO-EI. By Order No. PSC-2017-0055-PCO-EI, issued on February 20, 2017, the Commission approved the requested 2017 Interim Storm Restoration Recovery Charge subject to a final reconciliation of actual Hurricane Matthew storm costs with the amount collected pursuant to the surcharge, and the calculation of a refund or an additional charge, if warranted. On July 12, 2017, the Florida Industrial Power Users Group (FIPUG) was granted intervention by Order No.

Docket No. 20160251-EI

Date: July 2, 2018

PSC-2017-0269-PCO-EI. On December 15, 2017, Order No. PSC-2017-0471-PCO-EI was issued establishing hearing dates and procedures to be followed in this docket.

On February 20, 2018, FPL filed a Petition for Approval of Final/actual Storm Restoration Costs and Associated True-up Process Related to Hurricane Matthew requesting approval of a final/actual Recoverable Storm Amount of \$316.7 million. The Florida Retail Federation (FRF) was granted intervention in this docket by Order No. PSC-2018-0176-PCO-EI, on April 5, 2018. OPC filed a Motion to Modify Key Activities Dates and Discovery Timeframes on April 18, 2018, which was granted by Order No. PSC-2018-0189-PCO-EI issued on April 19, 2018. Order No. PSC-2018-0245-PHO-EI (Prehearing Order) was issued on May 11, 2018, outlining procedures to be used at the scheduled May 22, 2018 final hearing. On May 15, 2018, FPL filed a Joint Motion for Approval of Settlement Agreement (Joint Motion) requesting that the Settlement Agreement entered into between OPC and FPL dated May 14, 2018, be approved.

As a result of the Settlement Agreement being filed just seven days before the scheduled final hearing in this docket, Order No. PSC-2018-0253-PCO-EI was issued cancelling the May 22, 2018 final hearing and resetting it to June 5, 2018. On May 18, 2018, FIPUG filed a response in opposition to the Settlement Agreement and reaffirmed its Prehearing Statement's litigation positions. On May 22, 2018, FRF filed its response stating that it did not support the proposed Settlement Agreement principally because it was not included in the negotiation process which produced the agreement.

A final hearing was held on June 5, 2018, in which the testimony and exhibits of FPL's witness Eduardo DeVarona and OPC witness Helmuth Schultz were stipulated into the record. FPL's witnesses Manuel B. Miranda, Kim Ousdahl and Tiffany Cohen testified in support of FPL's petition and witnesses Ousdahl and Cohen also gave testimony regarding the terms and conditions of the Settlement Agreement. Commission staff witness Donna Brown testified about her Audit Reports dated December 5, 2017, and April 4, 2018. Thirty two exhibits were admitted into the record. At the close of the hearing, FIPUG requested that it be allowed to brief whether the Settlement Agreement should be approved, as well as the 11 issues identified in the Prehearing Order. On June 20, 2018, FIPUG filed a Notice of Change of Position stating that it would no longer object to the Settlement Agreement but would take no position. Briefs were filed by FPL, OPC and FIPUG on June 28, 2018. FRF, consistent with its representation at the final hearing on June 5, 2018, did not file a brief.

The amount of storm-related revenues collected by FPL's approved interim storm restoration recovery charge is \$322.4 million. The Settlement Agreement allows FPL to recover \$294.759 million in storm costs of which \$20 million is reclassified as capital, \$1.7 million is transferred to base rate O&M expense, and \$5.99 million is an over-collection. FPL will refund \$27.69 million, including interest at the commercial paper rate. This refund will be applied to bills on Cycle Day 1 of the first month that is more than 30 days after Commission approval. The Storm Reserve Level will be restored to \$117.1 million in accord with FPL's 2012 Settlement Agreement.

At this time it is appropriate for the Commission to discuss and vote on whether to approve the May 14, 2018 Stipulation and Settlement Agreement as requested in the Joint Motion for

Docket No. 20160251-EI

Date: July 2, 2018

Approval of Settlement Agreement. The Joint Motion and Stipulation and Settlement Agreement are attached.

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Petition by Florida Power & Light  
Company for Limited Proceeding for Recovery  
of Incremental Storm Restoration Costs  
Related to Hurricane Matthew

Docket No: 20160251-EI

Date: May 15, 2018

**JOINT MOTION FOR APPROVAL OF SETTLEMENT AGREEMENT**

Florida Power & Light Company (“FPL”) and the Office of Public Counsel (“OPC”); collectively, FPL and OPC are the “Signatories”) jointly move the Florida Public Service Commission (“Commission”) to review and approve on an expedited basis the attached Stipulation and Settlement (“Agreement”) as full and complete resolution of all matters pending in Docket No. 20160251-EI (the “Proceedings”) in accordance with Section 120.57(4), Florida Statutes, and to enter a final order reflecting such approval to effectuate implementation of the Agreement. In support of this Joint Motion, the Signatories state:

1. The Signatories have been engaged in negotiations for the purpose of reaching a comprehensive stipulation and settlement of all issues pending in the Proceedings, thereby avoiding the uncertainty associated with the outcome on the issues. These negotiations have culminated in the Agreement attached hereto as Exhibit A. The Signatories request that, following the Commission’s review of this Joint Motion and the Agreement, the Commission grant the Joint Motion and approve the Agreement in order to allow for orderly implementation thereof and provide certainty to the parties and their respective constituents and customers with respect to the outcome of the Proceedings.

2. The Agreement provides, among other things:

- a. The Agreement will become effective upon Commission approval of the Settlement Agreement.

- b. FPL's claimed Recoverable Storm Amount for Hurricane Matthew is \$316.459 million (jurisdictional).
- c. FPL has collected \$322,449,167 pursuant to the authorized interim storm restoration charge.
- d. The Recoverable Storm Amount will be reduced by a total of \$21,700,000, such that the total amount to be recovered from customers is \$294,759,000.
- e. Of the \$21.7 million total reduction:
  - i. \$20 million will be reclassified as capital and added to FPL's retail Plant in Service balance in Account 364.1 - Poles, Towers and Fixtures (Wood), for all surveillance and future rate setting purposes. OPC agrees not to dispute the reasonableness or prudence of this additional \$20 million of capital in any future rate proceeding.
  - ii. \$1.7 million will be transferred to base rate O&M expense in 2018 and reflected as such on FPL's earnings surveillance reports.
- f. FPL will refund to customers \$27,690,167, plus interest at the 30-day commercial paper rate, as a one-time refund, in the manner described in FPL witness Tiffany Cohen's direct testimony filed on February 20, 2018. Exhibit 1 to the Agreement consists of a tariff sheet reflecting the refund. FPL will apply the refund tariff sheet to customer bills for one month of consumption starting no later than Cycle Day 1 of the first month that is more than 30 days after Commission approval.
- g. FPL and OPC agree that nothing in the Agreement will have precedential value.

3. Each of the Signatories agrees that it has entered into the Agreement voluntarily, that it fairly and reasonably balances the various positions of the Parties on issues in these proceedings, and that it serves the best interests of the customers they represent and the public interest in general. The Signatories believe that the Agreement is reasonable and in the public interest for several reasons, including the following:

- a. The Agreement would provide for a reasonable recovery by FPL of incremental Hurricane Matthew storm restoration costs.
- b. As a result of this settlement, FPL's customers will be refunded \$27,690,167, plus interest, as a one-time refund starting no later than Cycle Day 1 of the first month that is more than 30 days after Commission approval.

4. For these reasons, approving the Agreement is fully consistent with the Commission's long-standing policy of encouraging the settlement of contested proceedings in a manner that benefits the customers of utilities subject to the Commission's regulatory jurisdiction.

5. The Signatories to the Agreement request that the Commission rule on this Joint Motion for Approval of Settlement Agreement as soon as possible, so that FPL may implement the refund promptly.

6. FPL is authorized to represent that the Intervenors, FRF and FIPUG, take no position at this time and reserve the right to file a response within the time allowed by Rule 28-106.204(1), F.A.C.

WHEREFORE, FPL and OPC respectfully request that the Commission approve the Stipulation and Settlement attached hereto as Exhibit A.



Docket No. 20160251-EI

Date: July 2, 2018

Respectfully submitted,

R. Wade Litchfield, Vice President and  
General Counsel  
John T. Butler, Assistant General Counsel-  
Regulatory  
Kenneth M. Rubin, Senior Counsel  
Kevin I.C. Donaldson, Senior Attorney  
700 Universe Boulevard  
Juno Beach, Florida 33408-0420  
*Attorneys for Florida Power & Light  
Company*

J. R. Kelly, Public Counsel  
Patricia A. Christensen  
Office of Public Counsel  
c/o The Florida Legislature  
111 West Madison Street, Room 812  
Tallahassee, FL 32399-1400  
*Attorneys for the Citizens  
of the State of Florida*

By:   *s/ R. Wade Litchfield*  

By:   *s/ J.R. Kelly*

**CERTIFICATE OF SERVICE**

**I HEREBY CERTIFY** that a true and correct copy of the foregoing has been furnished

by electronic mail this 15th day of May, 2018, to the following parties:

Suzanne Brownless  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-1400  
sbrownle@psc.state.fl.us  
**Office of the General Counsel  
Florida Public Service Commission**

Jon C. Moyle, Jr.  
Karen A. Putnal  
Moyle Law Firm, PA  
118 North Gadsden Street  
Tallahassee, FL 32301  
jmoyle@moylelaw.com  
kputnal@moylelaw.com  
**Attorneys for Florida Industrial  
Power Users Group**

Robert Scheffel Wright  
John T. Lavia, III  
Gardner, Bist, Bowden, Bush, Dee, LaVia &  
Wright, P.A.  
1300 Thomaswood Drive  
Tallahassee, FL 32308  
schef@gbwlegal.com  
jlavia@gbwlegal.com  
**Attorneys for Florida Retail Federation**

By: *s/ R. Wade Litchfield*  
R. Wade Litchfield

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Petition by Florida Power & Light  
Company for Limited Proceeding for Recovery  
of Incremental Storm Restoration Costs  
Related to Hurricane Matthew

Docket No: 20160251-EI

Date: May 14, 2018

**STIPULATION AND SETTLEMENT**

WHEREAS, Florida Power & Light Company ("FPL" or the "Company") and the Office of Public Counsel ("OPC") have signed this Stipulation and Settlement (the "Agreement"; unless the context clearly requires otherwise, the term "Signatory" or "Signatories" means a signatory to this Agreement); and

WHEREAS, FPL incurred significant costs to enable the rapid restoration of electric service to its customers in connection with Hurricane Matthew; and

WHEREAS, on December 29, 2016, FPL petitioned the Florida Public Service Commission ("Commission") for a limited proceeding for recovery of incremental storm restoration costs related to Hurricane Matthew pursuant to the Revised Stipulation and Settlement Agreement approved by Commission in Order No PSC-13-0023-S-EI<sup>1</sup>; and

WHEREAS, on February 20, 2017, the Commission entered Order No. PSC-17-0055-PCO-EI approving FPL's interim storm restoration recovery charge of \$3.36 on a monthly 1,000 kWh residential bill effective March 1, 2017, to remain in effect for a 12-month period; and

WHEREAS, FPL has filed direct and rebuttal testimony and exhibits, and OPC has filed testimony and exhibits reflecting competing positions on cost recovery issues in this docket; and

<sup>1</sup> Docket No. 120015-EI, issued on January 14, 2013.

**EXHIBIT A**

WHEREAS, on March 15, 2018, FPL filed the Supplemental Exhibit TCC-1 of Tiffany Cohen reflecting total collections of \$322,449,167 pursuant to the authorized interim storm restoration recovery charge; and

WHEREAS, on May 2, 2018, FPL filed Exhibit KO-2 (Corrected) of Kim Ousdahl reflecting Total System Storm Losses to be Recovered from Customers ("Recoverable Storm Amount") of \$316,459,000 (jurisdictional); and

WHEREAS, the Signatories have entered into this Agreement in compromise of positions taken in accord with their rights and interests under Chapters 350, 366 and 120, Florida Statutes, as applicable, and as a part of the negotiated exchange of consideration among the Signatories to this Agreement each has agreed to concessions to the others with the expectation that all provisions of the Agreement will be enforced by the Commission as to all matters addressed herein with respect to the Signatories, upon acceptance of the Agreement as provided herein and upon approval in the public interest;

NOW THEREFORE, in consideration of the foregoing and the covenants contained herein, the Signatories hereby stipulate and agree:

1. This Agreement will become effective upon Commission approval (the "Implementation Date").
2. The Recoverable Storm Amount of \$316,459,000 (jurisdictional) will be reduced by a total of \$21,700,000 (the "Reduction"), such that the total amount to be recovered from customers (the "Reduced Recoverable Storm Amount") is \$294,759,000.
3. \$20 million of the Reduction will be reclassified as capital and added to FPL's retail Plant in Service balance in Account 364.1 - Poles, Towers and Fixtures (Wood), for all surveillance and future rate setting purposes. OPC agrees not to dispute the

reasonableness or prudence of this additional \$20 million of capital in any future rate proceeding.

4. The remaining \$1.7 million of the Reduction will be transferred to base rate O&M expense in 2018 and reflected as such on FPL's earnings surveillance reports.
5. FPL will refund to customers \$27,690,167, plus interest at the 30-day commercial paper rate, as a one-time refund, in the manner described in FPL Witness Tiffany Cohen's direct testimony filed on February 20, 2018. Attached as Exhibit 1 to this Agreement is a tariff sheet reflecting the revised base rates that will be applied in order to effect the refund.
6. FPL will apply the refund tariff sheet in Exhibit 1 to customer bills for one month of consumption starting no later than Cycle Day 1 of the first month that is more than 30 days after Commission approval.
7. The provisions of this Agreement are contingent upon approval of this Agreement in its entirety without modification. The Signatories agree that approval of this Agreement is in the public interest. No Signatory agrees, concedes or waives any position with respect to any of the issues identified in the Prehearing Order and this settlement does not specifically address any such issue. The Signatories will support approval of the Agreement and will not request or support any order, relief, outcome or result in conflict with it. No Signatory to the Agreement will request, support or seek to impose a change to any provision of the Agreement. Approval of the Agreement in its entirety will resolve all matters and issues in this docket. This docket will be closed effective on the date the Commission Order approving this


Agreement is final, and no Signatory shall seek appellate review of any order issued in this docket.

8. The resolutions contained herein are consistent with the applicable terms of the 2012 Settlement Agreement approved by Order No PSC-13-0023-S-EI.
9. The Signatories agree that nothing in this Agreement shall have any precedential value.
10. This Agreement may be executed in counterpart originals, and a scanned .pdf copy of an original signature shall be deemed an original. Any person or entity that executes a signature page to this Agreement shall become and be deemed a Signatory with the full range of rights and responsibilities provided hereunder, notwithstanding that such person or entity is not listed in the first recital above and executes the signature page subsequent to the date of this Agreement, it being expressly understood that the addition of any such additional Signatory(ies) shall not disturb or diminish the benefits of this Agreement to any current Signatory.

In Witness Whereof, the Signatories evidence their acceptance and agreement with the provisions of this Agreement by their signature.

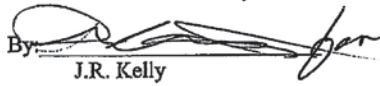
Docket No. 20160251-EI  
Date: July 2, 2018

Florida Power & Light Company  
700 Universe Boulevard  
Juno Beach, FL 33408

By:   
Eric E. Silagy  
FPL President & CEO

Docket No. 20160251-EI  
Date: July 2, 2018

Office of Public Counsel  
J.R. Kelly  
The Florida Legislature  
111 West Madison Street  
Room 812  
Tallahassee, FL 32399-1400

By:   
J.R. Kelly



**EXHIBIT 1**

**Third Revised Tariff Sheet No. 8.042  
2018 Interim Storm Restoration Recovery Refund**

FLORIDA POWER & LIGHT COMPANY

Third Revised Sheet No. 8.042  
 Cancels Second Sheet No. 8.042

**2018 Interim Storm Restoration Recovery Refund**

The following reductions are applied to the Monthly Rate of each rate schedule as indicated and are calculated in accordance with the formula specified by the Florida Public Service Commission. The 2018 Interim Storm Restoration Recovery Refund shall be applied for a period of one (1) month from the effective date of this tariff.

<u>Rate Schedule</u>	<u>¢/kWh</u>
ALL KWH -- RS-1, RTR-1	(0.318)
GS-1, GST-1	(0.295)
GSD-1, GSDT-1, HLTF-1, SDTR-1	(0.222)
GSLD-1, GSLDT-1, CS-1, CST-1, HLFT-2, SDTR-2	(0.257)
GSLD-2, GSLDT-2, CS-2, CST-2, HLFT-3, SDTR-3	(0.184)
GSLD-3, GSLDT-3, CS-3, CST-3	(0.079)
OS-2	(1.354)
MET	(0.235)
CILC-1(G)	(0.375)
CILC-1(D)	(0.201)
CILC-1(T)	(0.062)
SL-1, SL-1M, PL-1	(1.853)
OL-1	(1.661)
SL-2, SL-2M, GSCU-1	(0.133)
SST-1(T), ISST-1(T)	(0.046)
SST-1(D1), SST-1(D2) SST-1(D3), ISST-1(D)	(1.269)

Issued by: Tiffany Cohen, Director, Rates and Tariffs  
 Effective:

# 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-**

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**DATE:** June 27, 2018

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

**FROM:** Division of Engineering (Lee) *POE TB M*  
Division of Accounting and Finance (D. Smith) *ALM*  
Division of Economics (Guffey) *SKG ESN*  
Office of the General Counsel (Schrader, Crawford) *KS JSC*

**RE:** Docket No. 20180084-EI – Petition for limited proceeding for approval to include in base rates the revenue requirement for the Citrus combined cycle project, by Duke Energy Florida, LLC.

**AGENDA:** 07/10/18 – Regular Agenda – Tariff Filing – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Fay

**CRITICAL DATES:** 12/2/18 (8-Month Effective Date)

**SPECIAL INSTRUCTIONS:** None

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### Case Background

On May 27, 2014, Duke Energy Florida, LLC (DEF) filed a petition for a determination of need for the Citrus County Combined Cycle Power Plant Project (Citrus Combined Cycle Project). DEF is planning to complete the construction of the 1,640-megawatt, two-unit plant on a site adjacent to its Crystal River Energy Center in Citrus County, Florida, by December 2018. DEF was granted a determination of need for the Citrus Combined Cycle Project by the Florida Public Service Commission (Commission) by Order No. PSC-14-0557-FOF-EI.<sup>1</sup> In that proceeding, the Commission found that the Citrus Combined Cycle Project, at an estimated construction cost of

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<sup>1</sup>Order No. PSC-14-0557-FOF-EI, issued October 10, 2014, in Docket No. 20140110-EI, *In re: Petition for determination of need for Citrus County Combined Cycle Power Plant, by Duke Energy Florida, Inc.*

approximately \$1.514 billion, represented the optimal resource option to meet DEF's projected generation need.

On August 29, 2017, DEF filed a petition for a limited proceeding to approve its 2017 Second Revised and Restated Settlement Agreement (2017 Settlement). The 2017 Settlement was signed and executed by DEF, the Office of Public Counsel, the Florida Industrial Power Users Group, the Florida Retail Federation, White Springs Agricultural Chemicals, Inc. d/b/a PCS Phosphate, and the Southern Alliance for Clean Energy. The signatories to the 2017 Settlement are organizations that represent DEF's major customer groups. The Commission approved the 2017 Settlement on November 20, 2017, by Order No. PSC-2017-0451-AS-EU.<sup>2</sup> The applicable paragraphs of the 2017 Settlement are included in Attachment A.

If DEF constructs and places in service the Citrus Combined Cycle Project in 2018, Paragraph 14(a) of the 2017 Settlement provides a base rate increase referred to as the 2018 Generation Base Rate Adjustment (GBRA). As required under Paragraph 14(a) of the 2017 Settlement, DEF's initial 2018 GBRA for the Citrus Combined Cycle Project should reflect the costs used to support the need determination case.

On April 2, 2018, DEF filed the instant petition for a limited proceeding for approval to include in base rates the revenue requirement for the Citrus Combined Cycle Project. The project is expected to be placed in service in two phases: September 2018 and November 2018. Phase 1 will include the construction of Unit 1 and the associated transmission/common equipment. Phase 2 will include the construction of Unit 2. DEF is requesting that the Commission approve the estimated revenue requirement of \$200,488,588 for the entire GBRA and approve the necessary tariffs to reflect the change in base rates in October 2018 and December 2018.

DEF waived the 60-day file and suspend provision of Section 366.06(3), Florida Statutes (F.S.). The Commission has jurisdiction pursuant to Section 366.06 and 366.076, F.S.

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<sup>2</sup>Order No. PSC-2017-0451-AS-EU, issued November 20, 2017, in Docket No. 20170183-EI, *In re: Application for limited proceeding to approve 2017 second revised and restated settlement agreement, including certain rate adjustments, by Duke Energy Florida, LLC.*

## Discussion of Issues

**Issue 1:** Should the Commission approve DEF's petition to include in base rates the revenue requirement for the Citrus Combined Cycle Project?

**Recommendation:** Yes. Consistent with the 2017 Settlement, DEF's 2018 GBRA for the Citrus Combined Cycle Project reflects the costs pursuant to which the need determination was granted. (Lee, D. Smith)

**Staff Analysis:** DEF stated in its petition that the Citrus Combined Cycle Project will be placed in service in two phases: September 2018 and November 2018. DEF is requesting that the Commission approve the revenue requirement necessary for the rate increase in both phases, with an estimated retail revenue requirement totaling \$200,488,588.

As discussed in the case background, the Commission evaluated the estimated cost for the Citrus Combined Cycle Project in the need determination and the GBRA cost recovery method was set forth in the 2017 Settlement. Discussed below is staff's review of DEF's cost estimate and revenue requirement calculations. The rate impact is discussed further in Issue 2.

### Cost Estimate

Based upon Exhibit B, which DEF attached to its petition, the total operating expenses for Unit 1, Unit 2, and transmission/common equipment are \$53,006,000, \$38,811,000, and \$2,406,000, respectively, for the first year. These costs include: operating and maintenance (O&M), depreciation, property insurance, and property tax. DEF affirms that these costs are the same as those used by DEF to support its need determination case, consistent with the requirement under Paragraph 14(a) of the 2017 Settlement.<sup>3</sup>

The estimated capital cost of approximately \$1.514 billion is the same as in the need determination. DEF stated that while this is a reasonable and accurate projection, there are a variety of events that can impact the schedule and cost of the overall project. These may include skilled labor and supply availability, severe weather events, and other force majeure events.<sup>4</sup>

Paragraph 14(d) of DEF's 2017 Settlement addresses the circumstance in which DEF's actual capital cost is lower than the projected cost used to develop the initial 2018 GBRA factor. Under this circumstance, the lower actual cost will be the basis for the full revenue requirements and a one-time credit is required to be made through the Capacity Cost Recovery Clause. In addition, Paragraph 14(e) addresses the situation in which DEF's actual capital cost is higher than the projected cost used to develop the initial 2018 GBRA factor. Under this circumstance, DEF may, at its option, initiate a limited proceeding to seek to increase the 2018 GBRA factor by the corresponding incremental revenue requirement. Staff believes these measures protect customers against unwarranted cost increases over the cost used in the need determination case.

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<sup>3</sup>Document No. 03716-2018 – DEF's response to staff's second data request, No. 1.

<sup>4</sup>Document No. 03532-2018 – DEF's response to staff's first data request, No. 4.

### **Revenue Requirement Calculation**

Based on the estimated cost of the project and the commercial in-service dates for the two phases as described above, DEF calculated a revenue requirement of \$200,488,588 for the entire GBRA. DEF estimates the revenue requirement for Phase 1 to be \$123,180,439 and \$77,308,149 for Phase 2. In accordance with Paragraph 14(c) of the 2017 Settlement, DEF utilized its projected 13-month average capital structure for the first 12 months of operation, and a 10.50 percent return on equity to calculate the revenue requirement. The revenue requirement calculation also includes the recovery of O&M expenses, depreciation expense, property insurance, property tax, and income tax. Staff has verified the revenue requirement of \$200,488,588 based on the capital structure provided by DEF reflecting a projected 13-month average capital structure for the first 12 months of operation. Staff recommends that \$200,488,588 is the appropriate revenue requirement based on the 2017 Settlement.

### **Conclusion**

Consistent with the 2017 Settlement, DEF's 2018 GBRA for the Citrus Combined Cycle Project reflects the costs pursuant to which the need determination was granted. Therefore, staff recommends that DEF's petition be approved.

**Issue 2:** Should the Commission approve DEF's proposed tariffs and associated charges needed to implement the two phases of the Citrus Combined Cycle Project?

**Recommendation:** Yes. The Commission should give staff administrative authority to approve tariffs and associated charges that implement the Commission vote on Issue 1 regarding the Citrus Combined Cycle Project which will be placed in service in two phases. The tariffs and associated charges for Phase 1 should go into effect with the first billing cycle in October 2018, and the tariffs and associated charges for Phase 2 of the Citrus Combined Cycle Project should go into effect with the first billing cycle in December 2018. If the commercial in-service date of Phase 1 of the project is delayed, the tariff should become effective with the first billing cycle after Phase 1 is completed and placed in commercial service. If Phase 2 is delayed, the tariff should become effective with the first billing cycle after Phase 2 is completed and placed in commercial service. If the Commission order is protested, DEF should implement the rates subject to refund pending the results of any subsequent hearing. (Guffey)

**Staff Analysis:** As discussed in Issue 1, staff is recommending approval of a revenue requirement totaling \$200,488,588 for both phases of the Citrus Combined Cycle Project. Consistent with Paragraph 14(b) of DEF's 2017 Settlement and as shown in Exhibit C of the petition, the requested total amount will be applied as a uniform percentage to all rate classes at 6.88 percent for Phase 1 and at 4.04 percent for Phase 2. At these uniform percentage rates, a residential customer using 1,000 kWh per month will see a bill increase of \$3.59 for Phase 1 and \$2.25 for Phase 2. The combined base rate increase of \$5.84 on a 1,000 kWh bill is \$0.71 lower than the estimated increase stated in Docket No. 20140110-EI.

### **Customer Notification**

In response to staff's first data request, DEF stated that the Company will notify its customers of the rate changes via bill inserts in their August 2018 bill for Phase 1 and via bill inserts in their October 2018 bill for Phase 2.<sup>5</sup> Electronic bill customers will receive a link to the bill insert via email and the bill insert will also be posted on DEF's website.

### **Conclusion**

The Commission should give staff administrative authority to approve tariffs and associated charges that implement the Commission vote on Issue 1 regarding DEF's Citrus Combined Cycle Project which will be placed in service in two phases. The tariffs and associated charges for Phase 1 should go into effect with the first billing cycle in October 2018, and the tariffs and associated charges for Phase 2 of the Citrus Combined Cycle Project should go into effect with the first billing cycle in December 2018. If the commercial in-service date of Phase 1 of the project is delayed, the tariff should become effective with the first billing cycle after Phase 1 is completed and placed in commercial service. If Phase 2 is delayed, the tariff should become effective with the first billing cycle after Phase 2 is completed and placed in commercial service. If the Commission order is protested, DEF should implement the rates subject to refund pending the results of any subsequent hearing.

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<sup>5</sup> If the implementation of the tariff is delayed, the notice should be delayed accordingly.



**Issue 3:** Should this docket be closed?

**Recommendation:** Yes. If Issues 1 and 2 are approved and no timely protest is filed, this docket should be closed upon the issuance of a consummating order. If a protest is filed within 21 days of the issuance of the order, the tariff should remain in effect, with any revenues held subject to refund, pending resolution of the protest. (Schrader)

**Staff Analysis:** If Issues 1 and 2 are approved and no timely protest is filed, this docket should be closed upon the issuance of a consummating order. If a protest is filed within 21 days of the issuance of the order, the tariff should remain in effect, with any revenues held subject to refund, pending resolution of the protest.

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\$81,901,218 (retail), as identified in the May 1, 2017 pre-filed testimony of Christopher M. Fallon and Thomas G. Foster (which includes historical litigation costs), at issue in Docket No. 20170009-EI, the \$34 million (system) termination fee ordered by the trial court to be paid to WEC, WEC's pending appellate claims for additional cost recovery, and additional future litigation costs, through any and all appeals, for which DEF has not yet sought recovery in Docket 20170009-EI. To the extent DEF agrees to, or is obligated to pay or incur, any additional LNP-related costs of any type or nature whatsoever arising from any claim, legal action, regulatory or other proceedings before any governmental authority, transaction, or any other event whatsoever, including but not limited to any and all litigation costs, damages, regulatory costs, interest, fines, penalties, costs paid pursuant to any agreement or arbitration award, or additional termination costs ordered by the court in connection with the WEC appeal of the order issued in Civil Action No.: 3:14-cv-00141 (appellate case No. 17-1087, consolidated with 17-1151), or in any other litigation, arbitration, regulatory, or any other proceedings, whether currently pending or future, involving any party or entity whatsoever, DEF is forever barred from recovering said costs from retail customers. For clarity, it is the intent of all the Parties that, as a matter of rights between and among the Parties and as a matter of law pursuant to FPSC approval of this 2017 Second Revised and Restated Settlement Agreement, after the Effective Date or December 31, 2017, whichever is sooner, there will never be any LNP-related costs of any type or nature whatsoever recovered from DEF's retail ratepayers.

Base Rate Adjustments:

12.

- a. DEF's base rate revenue requirements will change in 2018 pursuant to

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Paragraph 14. In addition, there will be an adjustment of base rates among customer rate classes to implement the changes in the delivery voltage credit referenced in Paragraph 21 and to implement the change referenced in Paragraph 24. The tariff sheets reflecting these and other relevant changes necessary to implement this 2017 Second Revised and Restated Settlement Agreement are attached as Exhibits 3 and 4 (clean and legislative, respectively). The Parties agree that all the tariffs in Exhibits 3 and 4 will have an effective date of January 1, 2018.

b. Effective with the first billing cycle for January 2019, DEF will be allowed a multi-year increase to its base rates as reflected in the chart below:

	Total Increase	Uniform % Increase Method (1)	Uniform % Increase Method (2)
2019	\$67 million	\$50 million	\$17 million
2020	\$67 million	\$50 million	\$17 million
2021	\$67 million	\$50 million	\$17 million

**Uniform % Increase Method (1):** Amount to be recovered through a uniform percent increase to the customer, demand and energy base rate charges for all retail customer classes, but, consistent with Paragraph 21, the delivery voltage credits and IS/CS/GSLM-2 credits shall not be adjusted.

**Uniform % Increase Method (2):** Amount to be recovered through a uniform percent increase to customer charges for all retail rate classes except the interruptible and curtailable rate classes.

c. If the applicable federal or state income tax rate for DEF changes before any of the increases provided for in Paragraph 7, 12, 14, 15, 21, 24, or 37, DEF will adjust the amount of the base rate increase to reflect the new tax rate before the implementation of such increase, pursuant to the applicable methodology in Exhibit 6 (i.e. lines 1-14). Any base rate adjustments or changes that are implemented before the effective date of the Federal Corporate Income Tax Change will be adjusted as part of the overall method outlined in Paragraph 16 and Exhibit 6. The illustration of

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the methodology to be utilized for income tax changes described in this Paragraph 12 is shown in Exhibit 6. The Parties expressly agree that any proceeding to implement the base rate revenue increases associated with this Paragraph of the 2017 Second Revised and Restated Settlement Agreement shall not be a vehicle for a "rate case" type inquiry concerning the expenses, investment, or financial results of operations of the Company and shall not apply any form of earnings test or measure or consider previous or current base rate earnings.

d. Except for the base rate increases provided for in Paragraphs 7, 12, 14, 15, 21, 24, and 37, the Company shall freeze its base rates through the last billing cycle for December 2021. As a part of this base rate freeze the Company will not seek Commission approval to defer for later recovery in rates, any costs incurred or reasonably expected to be incurred from the Effective Date through and including December 31, 2021, which are of the type which traditionally or historically have been or would be recovered in base rates, unless such deferral and subsequent recovery is expressly authorized herein or otherwise agreed to by the Parties.

13. DEF shall have an authorized return on equity of 10.5% with a range of reasonableness of +/-100 basis points for the purpose of addressing earnings levels, earnings surveillance and cost recovery clauses. The applicable annual AFUDC rate will be 7.44%, as provided for in the 2013 Settlement, through year-end 2018 and then will be updated periodically consistent with Commission practice going forward.

14. a. Consistent with the 2013 Settlement, DEF was authorized to petition the Commission for a need determination for additional generation, not to exceed 1800 MW, to be placed in service in 2018. DEF filed such a petition for construction of its Citrus County Combined Cycle Units, and the Commission granted that

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determination of need in Order No. PSC-14-0557-FOF-EI. If DEF constructs and places in service the Citrus County Combined Cycle Units in 2018, DEF's base rates shall be increased by the annualized base revenue requirement for the first 12 months of operation (the "Annualized Base Revenue Requirement"). The Annualized Base Revenue Requirement shall reflect the costs pursuant to which the need determination was granted by the Commission. This base rate increase shall be referred to as the 2018 Generation Base Rate Adjustment ("GBRA"). The Intervenor Parties retain all rights to challenge DEF's actions made or taken pursuant to Subparagraphs 14.a., 14.b., and 14.e., including, but not limited to, the right to challenge the need for, or prudence of any costs associated with, the construction of any additional generation placed in service in 2018 as well as the initial 2018 GBRA factor and any subsequent revisions to it pursuant to Rule 25.22.082(15), F.A.C., but have waived the right to argue that this 2017 Second Revised and Restated Settlement Agreement prevents DEF from seeking recovery for the costs described in this Paragraph that the Commission determines to be reasonable and prudent.

b. The initial 2018 GBRA factor shall be established by the application of a uniform percentage increase to the demand and energy charges reflected in the Company's base rate schedules existing at the time of the increase, but, consistent with Paragraph 21, the delivery voltage credits and IS/CS/GSLM-2 credits shall not be adjusted. The uniform percentage increase shall be calculated using the billing determinants included in the Company's most recent projection clause filing unless otherwise agreed to by the Original Parties, with the understanding that the Intervenor Parties retain the right to challenge the accuracy and validity of the billing determinants. DEF shall begin applying the 2018 GBRA to

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meter readings made on and after the commercial in-service date(s) of the 2018  
Citrus County Combined Cycle Units.

c. The 2018 GBRA Annualized Base Revenue Requirement shall be calculated using a 10.5% ROE and DEF's projected 13-month average capital structure for the first 12 months of operation, including all specific adjustments consistent with DEF's then most recently filed December earnings surveillance report, and adjusted to include an Accumulated Deferred Income Tax ("ADIT") proration adjustment consistent with 26 C.F.R. Section 1.167(l)-1(h)(6). DEF will calculate and submit the 2018 GBRA rates for Commission approval using the billing determinants from the most recent projection clause filings.

d. In the event that the actual capital expenditures are less than the projected costs used to develop the initial 2018 GBRA factor, the lower figure shall be the new basis for the full revenue requirements and a one-time credit will be made through the CCR Clause. In order to determine the amount of this credit, a revised 2018 GBRA factor shall be computed using the same data and methodology incorporated in the initial 2018 GBRA factor, with the exception that the actual capital expenditures shall be used in lieu of the capital expenditures on which the Annualized Base Revenue Requirement was based. This credit shall be the difference between the cumulative base revenues since the implementation of the initial 2018 GBRA factor and the cumulative base revenues that would have resulted if the revised 2018 GBRA factor had been in-place during the same time period and shall be credited to customers through the CCR Clause with interest at the 30-day commercial paper rate as specified in Rule 25-6.109, F.A.C. On a going-forward basis, base rates shall be adjusted to reflect the revised 2018 GBRA factor.

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e. In the event that the actual capital expenditures are higher than the projection on which the Annualized Base Revenue Requirement was based, DEF at its option may initiate a limited proceeding pursuant to Section 366.076, F.S., limited to the issue of whether DEF has met the requirements of Rule 25-22.082(15), F.A.C. If the Commission finds that DEF has met the requirements of Rule 25-22.082(15), F.A.C., then DEF shall increase the 2018 GBRA by the corresponding incremental revenue requirement due to such additional capital costs. However, DEF's election not to seek such an increase in the 2018 GBRA shall not preclude DEF from booking any incremental costs for surveillance reporting and all regulatory purposes subject only to a finding of imprudence or disallowance by the Commission. No Party is precluded from participating in any such limited proceeding. The Original Parties expressly agree that any proceeding to recover costs associated with this Subparagraph of the 2017 Second Revised and Restated Settlement Agreement shall not be a vehicle for a "rate case" type inquiry concerning the expenses, investment, or financial results of operations of the Company and shall not apply any form of earnings test or measure or consider previous or current base rate earnings.

Solar Base Rate Adjustment:

15.

a. DEF projects that for purposes of the cost recovery set forth in this Paragraph, it will undertake construction of approximately 175 MW per calendar year of solar generation (for a maximum of 700 MW) reasonably projected to go into service during the Term of this 2017 Second Revised and Restated Settlement Agreement or within one year following expiration of the Term; provided, however, DEF will not implement a Commission-approved base rate adjustment as

# 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:** June 27, 2018

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

**FROM:** Division of Engineering (Wooten, Watts) *N POE TB*  
Division of Accounting and Finance (Andrews, Fletcher, Norris) *Boj*  
Division of Economics (Sibley) *M SH GS*  
Office of the General Counsel (Crawford, Janjic) *RT JC*

**RE:** Docket No. 20170246-SU – Application for authority to transfer facilities and Certificate No. 515-S in Polk County from West Lakeland Wastewater, Inc. to West Lakeland Wastewater, LLC. *ALM*

**AGENDA:** 07/10/18 – Regular Agenda – Proposed Agency Action for Issues 2 and 3 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Polmann

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

### Case Background

On November 16, 2017, West Lakeland Wastewater, LLC (West Lakeland, LLC) filed an application for a transfer of Certificate No. 515-S from West Lakeland Wastewater, Inc. (WLWI or Utility) in Polk County. According to the Utility's 2017 Annual Report, WLWI is a Class C utility serving approximately 310 wastewater customers, with an operating loss of \$7,104. Customers receive water from the City of Lakeland.

The Utility, previously known as ABCA, Inc., has been providing service to customers in Polk County since 1972. On January 9, 1990, the Polk County Commission granted a franchise to Ameribanc Investors Group for a system known as Village Lakeland. Polk County came under

the Florida Public Service Commission's (Commission) jurisdiction on July 11, 1996. In 1998, the Commission granted the Utility its grandfather Certificate No. 515-S for wastewater.<sup>1</sup> ABCA's Certificate was transferred to WLWI in 2001.<sup>2</sup>

By letter dated March 26, 2009, WLWI gave notice of abandonment effective June 30, 2009. On May 13, 2009, the Polk County attorney filed a Petition for Appointment of Receiver for WLWI in the Circuit Court of the Tenth Judicial Circuit which subsequently appointed Mr. Mike Smallridge as receiver for the wastewater system. On September 8, 2009, the Commission acknowledged WLWI's abandonment and the Court's appointment of Mr. Smallridge as receiver.<sup>3</sup>

On March 19, 2013, WLWI filed an application for transfer of Certificate No. 515-S from WLWI to West Lakeland, LLC.<sup>4</sup> A deficiency was noted that the Utility did not have ownership or rights to long-term use of land upon which a portion of the wastewater treatment plant was located. On September 11, 2014, WLWI withdrew its application to transfer to West Lakeland, LLC.<sup>5</sup> As referenced above, a subsequent transfer application was filed on November 16, 2017.

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

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<sup>1</sup>Order No. PSC-98-0752-FOF-SU, issued June 1, 1998, in Docket No. 19971531-SU, *In re: Application for grandfather certificate to operate wastewater utility in Polk County by ABCA, Inc.*

<sup>2</sup>Order No. PSC-01-1576-FOF-SU, issued July 30, 2001, in Docket No. 20010382-SU, *In re: Application for transfer of Certificate No. 515-S in Polk County from ABCA, Inc. to West Lakeland Wastewater, Inc.*

<sup>3</sup>Order No. PSC-09-0607-FOF-SU, as amended by PSC-09-0607A-FOF-SU, issued February 16, 2010, in Docket No. 20090154-SU, *In re: Notice of abandonment of wastewater system for The Village of Lakeland Mobile Home Park in Polk County, by West Lakeland Wastewater, Inc.*

<sup>4</sup>Document No. 01362-13, filed March 19, 2013, in Docket No. 20130065-SU.

<sup>5</sup>Document No. 05141-14, filed September 11, 2014, in Docket No. 20130065-SU.

## Discussion of Issues

**Issue 1:** Should the transfer of Certificate No. 515-S in Polk County from West Lakeland, Inc. to West Lakeland, LLC be approved?

**Recommendation:** Yes. The transfer of the wastewater system and Certificate No. 515-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.) West Lakeland, LLC should be responsible for filing the 2018 Annual Report, all future annual reports, and Regulatory Assessment Fees (RAFs) subsequent to the date of closing. (Wooten, Andrews, Sibley)

**Staff Analysis:** On November 16, 2017, West Lakeland, LLC filed an application for a transfer of Certificate No. 515-S from WLWI to West Lakeland in Polk County. The application is in compliance with Section 367.071, F.S., and Commission rules concerning applications for transfer of certificates. The application contains a description of the wastewater service territory which is appended to this recommendation as Attachment A.

### Noticing, Territory, and Land Ownership

West Lakeland 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 contains a description of the wastewater service territory which is appended to this recommendation as Attachment A. The application contains a copy of a long term lease agreement that was executed on July 1, 2017, as evidence that the Applicant owns or has rights to long-term use of 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 West Lakeland that must be disposed of with regard to the transfer. According to the Purchase Agreement, the total purchase price for the assets is \$0. According to the Buyer, the sale took place on December 13, 2011, subject to Commission approval, pursuant to Section 367.071(1), F.S.

### Facility Description and Compliance

The wastewater treatment plant is a Type III contact stabilization plant and is permitted by the DEP at 70,000 gallons per day based on the three-month rolling average daily flow. Chlorine disinfection is applied prior to wastewater effluent flowing into the percolation ponds and spray field. The collection system is composed of four and six inch polyvinyl chloride (PVC) pipes and there are three lift stations in the service area. The last compliance evaluation inspection of the facility was conducted on March 4, 2016 on by 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 Rule 25-30.037(2)(1), F.A.C., the application contains statements describing the technical and financial ability of West Lakeland, LLC to provide service to the proposed service area. The application states that the owner 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 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.

According to the application, West Lakeland, LLC has acquired the assets of WLWI. Staff also reviewed the financial statements of West Lakeland, LLC. Based on the above, staff recommends West Lakeland, LLC has demonstrated the financial ability to provide service to the existing service territory.

### **Rates and Charges**

The Utility’s rates were last approved in a limited proceeding rate case in 2014.<sup>6</sup> The rates were subsequently amended by several price indexes and a four-year rate reduction, as required by Section 367.0816, F.S., in 2017. The Utility’s service availability charges were established in 2000.<sup>7</sup> In 2014, the Commission approved the Utility’s request for a convenience charge.<sup>8</sup> The Utility’s existing 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, 2017. West Lakeland, LLC will be responsible for filing all future annual reports and RAFs.

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<sup>6</sup>Order No. PSC-14-0679-PAA-SU issued December 9, 2014, in Docket No. 20140106-SU, *In re: Application for limited proceeding rate case in Polk County by West Lakeland Wastewater, LLC*. The SARC was filed by the buyer in his capacity as receiver for the Utility.

<sup>7</sup>Order No. PSC-00-1163-PAA-SU issued June 26, 2000, in Docket No. 19990937-SU, *In re: Application for staff-assisted rate case in Polk County by ABCA, Inc*. These rate changes were requested by the buyer in his capacity as receiver for the Utility.

<sup>8</sup>Order No. PSC-13-0426-TRF-SU, issued September 19, 2013, in Docket No. 20120289-SU, *In re: Request for approval of amendment to tariff sheets for miscellaneous service charges in Polk County by West Lakeland Wastewater, LLC*. The request was filed by the buyer in his capacity as receiver of the Utility.

**Conclusion**

Staff recommends the transfer of the wastewater system and Certificate No. 515-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. West Lakeland, LLC should be responsible for filing the 2018 Annual Report, all future annual reports, and RAFs subsequent to the date of closing.

**Issue 2:** What is the appropriate net book value for the West Lakeland Wastewater, LLC's wastewater system for transfer purposes?

**Recommendation:** The net book value of the wastewater system for transfer purposes is negative \$68,857, as established by Order No. PSC-13-0327-PAA-SU. An acquisition adjustment should not be included in rate base. (Andrews)

**Staff Analysis:** In transfer cases, staff normally establishes the net book value (NBV) of a utility as of the date of the sale. In this case that would have been as of December 13, 2011. However, rate base was established for West Lakeland, LLC as of the test year ending September 30, 2012, which was subsequent to the transfer date of December 13, 2011. Therefore, the components of rate base, as of the transfer date, were reflected in rate base approved by Order No. PSC-13-0327-PAA-SU.<sup>9</sup> Staff would note that the use of an established rate base in a staff assisted rate case (SARC) for transfer purposes has been done previously for this certificate. In a prior 2001 transfer of this certificate, the rate base established in a SARC completed in 2000 was used for transfer purposes.<sup>10</sup> As such, staff recommends adopting the rate base set during the 2013 SARC for transfer purposes.

### **Net Book Value**

In the 2013 SARC, the rate base approved by the Commission was negative \$68,857. The purpose of establishing NBV for transfers is to determine whether an acquisition adjustment should be approved. As such, staff recommends using the rate base established by the 2013 SARC Order for purposes of evaluating an acquisition adjustment.

### **Acquisition Adjustment**

An acquisition adjustment results when the purchase price differs from the NBV of the assets at the time of the acquisition. However, the Utility and its assets were purchased for \$0. Additionally, staff recommends that rate base for evaluating the acquisition adjustment is negative \$68,857. Therefore, no acquisition adjustment should be approved.

### **Conclusion**

Staff recommends that the NBV of the wastewater system for transfer purposes is negative \$68,857, as established by Order No. PSC-13-0327-PAA-SU. An acquisition adjustment should not be included in rate base.

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<sup>9</sup>Order No. PSC-13-0327-PAA-SU issued July 16, 2013, in Docket No. 20120270-SU, *In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC.*

<sup>10</sup>Order No. PSC-01-1271-PAA-SU issued June 6, 2001, in Docket No. 20010382-SU, *In re: Application for transfer of Certificate No. 515-S in Polk County from ABCA, Inc. to West Lakeland Utilities, Inc.*

**Issue 3:** Should the Utility's service availability charges be discontinued?

**Recommendation:** Yes. WLWI's service availability charges should be discontinued. West Lakeland, LLC should provide notice to customers who have requested service within 12 calendar months prior to the month the application was filed to the present pursuant to Rule 25-30.4345, F.A.C. In the event there is new development in the Utility's service territory, the Utility should file an application for new service availability charges. (Sibley)

**Staff Analysis:** The Utility's current service availability charges consist of a main extension charge of \$450 and a plant capacity charge of \$430. As discussed in Issue 2, the Utility has a negative rate base; therefore, the service availability charges should be discontinued. Staff's recommended charges are shown below in Table 3-A. WLWI was determined to be completely built out by Order No. PSC-13-0327-PAA-SU;<sup>11</sup> in order to serve new customers, the Utility would need to install additional facilities.

**Table 3-A  
Service Availability Charges**

	Current Rates	Staff Recommended Rates
Main Extension Charge	\$450.00	N/A
Plant Capacity Charge	\$430.00	N/A

Source: Utility's tariff

Based on the above, staff recommends the Utility's service availability charges should be discontinued. In the event there is new development in the service territory, the Utility should file an application for new service availability charges.

**Conclusion**

Staff recommends that WLWI's service availability charges should be discontinued. West Lakeland, LLC should provide notice to customers who have requested service within 12 calendar months prior to the month the application was filed to the present pursuant to Rule 25-30.4345, F.A.C. In the event there is new development in the Utility's service territory, the Utility should file an application for new service availability charges.

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<sup>11</sup>Order No. PSC-13-0327-PAA-SU, issued July 16, 2013, in Docket No. 20120270-SU, *In re: Application for a staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC.*

**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, the Buyer has notified the Commission in writing that it has adjusted its books in accordance with the Commission's decision, and proof that appropriate noticing has been done pursuant to Rule 25-30.4345, F.A.C. (Crawford)

**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, the Buyer has notified the Commission in writing that it has adjusted its books in accordance with the Commission's decision and proof that appropriate noticing has been done pursuant to Rule 25-30.4345, F.A.C.



West Lakeland Wastewater, LLC  
Wastewater Territory Description  
Polk County

Polk County, Florida, Village Lakeland

Sections 14 and 23, Township 28 South, Range 24 East

Beginning at the SW corner of Section 14, Township 28 South, Range 24 East; run thence East along the South boundary of said Section 14 to the SE corner of the SW 1/4 of the SW 1/4 of said Section 14; thence North to the NW corner of the South 1/2 of the SE 1/4 of the SW 1/4 of said Section 14; thence East to the NE corner of said South 1/2 of the SE 1/4 of the SW 1/4; thence South along the East boundary of the West 1/2 of said Section 14 and the East boundary of the West 1/2 of Section 23 of said Township and Range to the SE corner of the NW 1/4 of said Section 23; thence East to the NE corner of the West 1/4 of the SE 1/4 of said Section 23; thence South to the SE corner of said West 1/4 of the SE 1/4; thence West along the South boundary of said Section 23 to a point 220 feet West of the SE corner of the SW 1/4 of said Section 23; thence North 1,247.05 feet, West 100 feet, North 600 feet, West 180 feet, North 500 feet, West to the West boundary of the East 1/2 of the SW 1/4 of said Section 23; thence North along said West boundary of said East 1/2 of said SW 1/4 and along the West boundary of the SE 1/4 of the NW 1/4 of said Section 23 to the NW corner of said SE 1/4 of the NW 1/4; thence West along the South boundary of the NW 1/4 of the NW 1/4 of said Section 23 to the West boundary of said Section 23; thence North along said West boundary to the point of beginning.

**FLORIDA PUBLIC SERVICE COMMISSION**

**Authorizes  
West Lakeland Wastewater, LLC  
Pursuant to  
Certificate Number 515-S**

To provide wastewater 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-98-0752-FOF-SU	06/01/1998	971531-SU	Grandfather Certificate
PSC-01-1271-PAA-SU	06/06/2001	010382-SU	Transfer of Certificate
PSC-01-1576-FOF-SU	07/30/2001	010382-SU	Name Change
PSC-09-0607-FOF-SU	09/08/2009	090154-SU	Receiver Appointed
*	*	20170246-SU	Transfer of Certificate

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

**West Lakeland Wastewater, LLC**

**Monthly Wastewater Rates**

**Residential Service**

Base Facility Charge – All Meter Sizes	\$15.62
Charge Per 1,000 gallons 6,000 gallon cap	\$5.80

**General Service**

Base Facility Charge by Meter Size	
5/8" x 3/4"	\$15.62
1"	\$39.04
1 1/2"	\$78.09
2"	\$124.95
3"	\$249.90
4"	\$390.46
6"	\$780.94
8"	\$1,249.50
Charge Per 1,000 gallons	\$6.96

**Initial Customer Deposits**

Residential – 5/8" X 3/4"	\$40.00
General Service – 5/8" X 3/4"	\$40.00
All over 5/8" X 3/4"	2x average estimated bill

**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
Late Payment Charge	\$7.00
Convenience Charge	\$2.50

# 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-**

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**DATE:** June 27, 2018

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

**FROM:** Division of Economics (Doherty, Draper) *RD EJA PR*  
Division of Engineering (Salvador) *LS*  
Office of the General Counsel (Trierweiler) *TKS WJ JSC*

**RE:** Docket No. 20180092-EQ – Petition for approval of arrangement for totalized meter interconnection service, by Tampa Electric Company.

**AGENDA:** 07/10/18 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

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## Case Background

On April 9, 2018, Tampa Electric Company (TECO or utility) filed a petition for approval of an arrangement for totalized meter interconnection service (arrangement). The proposed arrangement is a special contract between TECO and MacDill Air Force Base (MacDill). MacDill is a United States Air Force Base located in Tampa, Florida. Pursuant to Rule 25-9.034, Florida Administrative Code, special contracts must be approved by the Commission.

On May 1, 2018, staff held a noticed informal meeting between staff and TECO to discuss the proposed arrangement. The Office of the Public Counsel participated in the meeting. The Commission has jurisdiction over this matter pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

## Discussion of Issues

**Issue 1:** Should the Commission approve the proposed arrangement between TECO and MacDill, as shown in Attachment A, effective July 10, 2018?

**Recommendation:** Yes. The Commission should approve the proposed arrangement between TECO and MacDill, as shown in Attachment A, effective July 10, 2018 (Doherty, Draper)

**Staff Analysis:** The proposed arrangement between TECO and MacDill provides for the application for totalized metering, which is the summation of adjacent metering equipment readings serving the same property. Totalized metering is permissible under TECO's current tariff; however, TECO's tariff does not address MacDill's unique circumstances. Therefore, TECO filed the instant petition for an arrangement. The proposed arrangement does not contain a special rate for MacDill; MacDill will continue to pay TECO's tariffed charges.

### Overview of MacDill

MacDill is located south of Tampa at the end of the Interbay peninsula in Hillsborough County and receives electric service from TECO at the MacDill substation (shown on the map in Attachment B to this recommendation as MacDill – 23 D). MacDill is a federal enclave and owns and operates its distribution system behind the meter at the MacDill substation. TECO does not own any distribution system on the base and provides service to MacDill at primary voltage pursuant to rate schedule, General Service – Demand Time-of-Day.

The MacDill operations center operates continuously; therefore, reliability is a major concern. TECO explained that during hurricane season MacDill is at risk to storm surge and flooding due to being just four feet above sea level and at the end of a peninsula. MacDill owns a standby generator; however, the generator only has three days worth of diesel fuel as a reserve.

MacDill is planning to add new load which could exceed the existing MacDill substation's capacity. To accommodate the incremental MacDill load as well as growth in the surrounding area, TECO is building a new substation (Interbay substation, shown on Attachment B). The Interbay substation is directly west 1.4 miles from the current MacDill 23 – D substation. Once the Interbay substation is constructed, MacDill will be served by both substations. TECO stated that the Interbay substation will be operational in July or August 2018.

### Proposed Arrangement

TECO's current tariff sheet No. 5.075 addresses totalized metering. Totalized metering can be provided by the utility when single circuit metering is impractical because the customer's load exceeds the loading criteria of one standard transformer. To illustrate, a large warehouse's demand cannot be served by one standard transformer. TECO, therefore, would install two transformers, and two metering circuits, and combine the readings from the two meters.

The tariff provides for certain criteria the customer must meet to qualify for totalized metering: (1) all the services totalized must be at the same voltage level; (2) the facility's total demand load must exceed the loading criteria for the largest standard transformer; and (3) the facility must be comprised of one building containing a single business operated by one customer. In addition, the tariff states that totalized metering will normally be provided to a single geographical point.

MacDill's circumstances vary from what is contemplated in TECO's current tariff with respect to two criteria. First, the MacDill base, while it is on one unit of property, consists of multiple buildings. Second, MacDill will be served from two points of delivery (the two substations) which are 1.4 miles apart.

The application of totalized metering for the existing and the new interconnection, along with balancing of the MacDill load between the two substations, would provide more capacity and more reliable service to MacDill. In addition, the proposed arrangement would free up capacity at the MacDill substation allowing TECO to meet future capacity and energy needs outside the MacDill base. Currently, the MacDill substation only serves MacDill.

Under the totalized metering arrangement, MacDill will pay one customer charge and the kilowatt hours metered at the two substations will be added together. The demand billed will be the highest totalized (combined) demand registered at both substations.

### **Conclusion**

The Commission recently approved a special contract between Florida City Gas and U.S. Sugar, a large industrial customer who is facing unique challenges. Similar to the instant petition, the Commission approved a variance from Florida City Gas's tariff to address the challenges faced by U.S. Sugar through a special contract.<sup>1</sup>

Staff has reviewed TECO and MacDill's proposed arrangement, or special contract, and data provided during the informal meeting on Tuesday, May 1, 2018. Staff recommends that the Commission approve the proposed arrangement between TECO and MacDill, as shown in Attachment A, effective July 10, 2018.

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<sup>1</sup> Order No. PSC-2018-0273-PAA-GU, issued May 31, 2018, in Docket No. 20180043-GU, *In re: Petition for approval of area extension plan rate extension agreement with United States Sugar Corporation, by Florida City Gas.*

Issue 2: Should this docket be closed?

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

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



**ARRANGEMENT FOR  
TOTALIZED METER INTERCONNECTION SERVICE**

This Totalized Metering Arrangement ("Agreement") is made and entered into as of this \_\_\_\_\_ day of \_\_\_\_\_, by and between MacDill Air Force Base, (hereinafter called the "Customer") and Tampa Electric Company, a Florida corporation (hereinafter called the "Company"). This agreement is subject to the terms, conditions and provisions of Tariff Sheet Nos. 4.110, 5.075, and 6.330-6.332.

**WITNESSETH:**

**WHEREAS**, the Company is an electric utility operating under Chapter 366, Florida Statutes, subject to the jurisdiction of the Florida Public Service Commission or any successor agency thereto (hereinafter called the "Commission"); and

**WHEREAS**, the Customer is a United States Air Force Base located in Tampa Florida currently receiving retail electric service from the Company under tariff schedule GSDT at the service location described in Exhibit "A"; and

**WHEREAS**, the Customer has been served from the Company's MacDill Substation at primary voltage (13.2 kV) where, over the past few years, the Customer's load has varied due to expansion on the base offset by implementation of electric conservation and efficiency measures; and

**WHEREAS**, the Customer is projected to add new load not expected to be offset by conservation and efficiencies in the coming years which could exceed the existing MacDill substation capacity and Customer owned service cable capacity, thereby threatening the Customer's electric service reliability; and

**WHEREAS**, a new substation and associated service line(s) are needed to enable the Company to reliably serve the Customer's growing electrical needs, and

**WHEREAS**, the Company has constructed a substation called Inter-bay, to accommodate the incremental Customer load through a second interconnection as well as other new load in the vicinity of the Customer; and

**WHEREAS**, in this special case the application of totalized metering for the existing and new interconnection, along with balancing of the Customer load between these two service interconnections, would not only provide more capacity and more reliable service to the Customer but would also free up capacity at the MacDill substation for future load needs outside the base in the retail service area around the MacDill substation; and

**WHEREAS**, the Company provides for totalized metering service under its electric tariff on Sheet No. 5.075, however the authorization provided therein for totalized metering does not contemplate or appropriately address the special

Exhibit "A"

circumstances that arise in the case of this Customer where it would be in the best interests of all concerned, including the general body of ratepayers, that a contract service arrangement be implemented providing totalized metering service for this customer in this case; and

**WHEREAS**, the anticipated revenues from serving the Customer's incremental load and the electric service requirements of new development in the area outside the base, together with the increased relay service charge assessed for the incremental load provided to the Customer, are sufficient to cover the investment in the new substation and service line(s);

**NOW THEREFORE**, in consideration of the mutual covenants expressed herein, the Company and Customer agree as follows:

1. **Rate Schedule** - The Company agrees to furnish and the Customer agrees to continue to take power pursuant to the terms and conditions of the Company's tariff, rate schedule GSDT, as currently approved by the Commission or as said tariff and rate schedules may be modified in the future and approved by the Commission. The Customer agrees to abide by all applicable requirements of the tariff and rate schedule, except to the extent specifically modified by this Agreement. Copies of the Company's currently approved rate schedule GSDT is attached as Exhibit "B" and made a part hereof.
2. **Term of Agreement** - The term of this Agreement shall commence on the date an order of the Commission approving it becomes final and non-appealable, and shall continue in effect until superseded by a revised or replacement agreement addressing the matters described herein.
3. **Totalization of Electric Service Billing Meters – Billing determinants** (both energy and demand) measured by electric service billing meters for electric service provided to the Customer through both the Company's MacDill and Inter-bay Substations shall be totalized for billing purposes. "Totalization" is the summation of adjacent metering equipment readings as defined in Tampa Electric's Tariff Sheet No. 4.110. Totalization in this instance will assure no double billing for demand to the Customer in connection with relay switching described in paragraph 4 below which will be controlled by the Customer.
4. **Charges for the Establishment of Two Points of Interconnection to Customer** – The Company will not charge the Customer a CIAC charge for the new service requirements including provision of relay service given the projected increase in load; however, Relay Service charges will be assessed to the increase in load as they are to the current load requirements for the Customer. Relay switching will occur on equipment internal to the Customer and in accordance with switching guidelines established between the Customer and the Company.

5. The Customer agrees that neither the MacDill substation nor the new Inter-bay substation is dedicated to service only to the Customer and the Company will use capacity at both substations for service to other customers.
6. Entire Agreement - This Agreement supersedes all previous agreements and representations either written or oral heretofore made between the Company and the Customer with respect to the matters herein contained. This Agreement, when duly executed, constitutes the only agreement between the parties hereto relative to the matters herein described.
7. Incorporation of Tariff - This Agreement incorporates by reference the terms and conditions of the Company's retail tariff, rate schedule GSDT filed by the Company with, and approved by, the Commission, as amended from time to time. In the event of any conflict between this Agreement and such tariff or rate schedule, the terms and conditions of this Agreement shall control.
8. Notices - All notices and other communications hereunder shall be in writing and shall be delivered by hand, by prepaid first class registered or certified mail, return receipt requested, by courier or by facsimile, addressed as follows:

If to the Company:

Tampa Electric Company  
702 North Franklin Street  
P.O. Box 111  
Tampa, Florida 33601-0111  
Facsimile:  
Attention:

with a copy to:

Tampa Electric Company  
702 North Franklin Street  
P.O. Box 111  
Tampa, Florida 33601-0111  
Facsimile:  
Attention:

If to the Customer:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Facsimile:  
Attention:

with a copy to:

\_\_\_\_\_  
\_\_\_\_\_

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Facsimile:  
Attention:

Except as otherwise expressly provided in this Agreement, all notices and other communications shall be deemed effective upon receipt. Each party shall have the right to designate a different address for notices to it by notice similarly given.

10. Assignment; No Third-Party Beneficiaries - This Agreement shall inure to the benefit of and shall bind the successors and assigns of the parties hereto. No assignment of any rights or delegation of any obligations hereunder shall have the effect of releasing the assigning party of any of its obligations hereunder, and the assigning party shall remain primarily liable and responsible therefore notwithstanding any such assignment or delegation. Nothing in this Agreement shall be construed to confer a benefit on any person not a signatory party hereto or such signatory party's successors and assigns.
11. Waiver - At its option, either party may waive any or all of the obligations of the other party contained in this Agreement, but waiver of any obligation or any breach of this Agreement by either party shall in no event constitute a waiver as to any other obligation or breach or any future breach, whether similar or dissimilar in nature, and no such waiver shall be binding unless in writing signed by the waiving party.
12. Headings - The section and paragraph headings contained in the Agreement are for reference purposes only and shall not affect, in any way, the meaning or interpretation of this Agreement.
13. Counterparts - This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.
14. Dispute Resolution - All disputes arising between the Customer and the Company under this Agreement shall be finally decided by the Commission in accordance with the applicable rules and procedures of the Commission.
15. Governing Law - This Agreement shall be construed and enforced in accordance with the laws of the State of Florida.
16. Confidentiality - The matters described within this Agreement, as well as any information supplied by the Customer as a result of negotiations or information requests by the Company and any information developed by the Company in connection therewith are considered confidential, proprietary information of the parties. This Agreement itself will not be considered confidential, proprietary information of the parties. If requested, confidential information associated with

this Agreement shall be made available for review by the Commission and its staff only and such review shall be made under the confidentiality rules of the Commission.

**IN WITNESS WHEREOF**, the Customer and the Company have executed this Agreement the day and year first above written.

6th Air Mobility Wing

PATRICK BOYETTE  
Contracting Officer

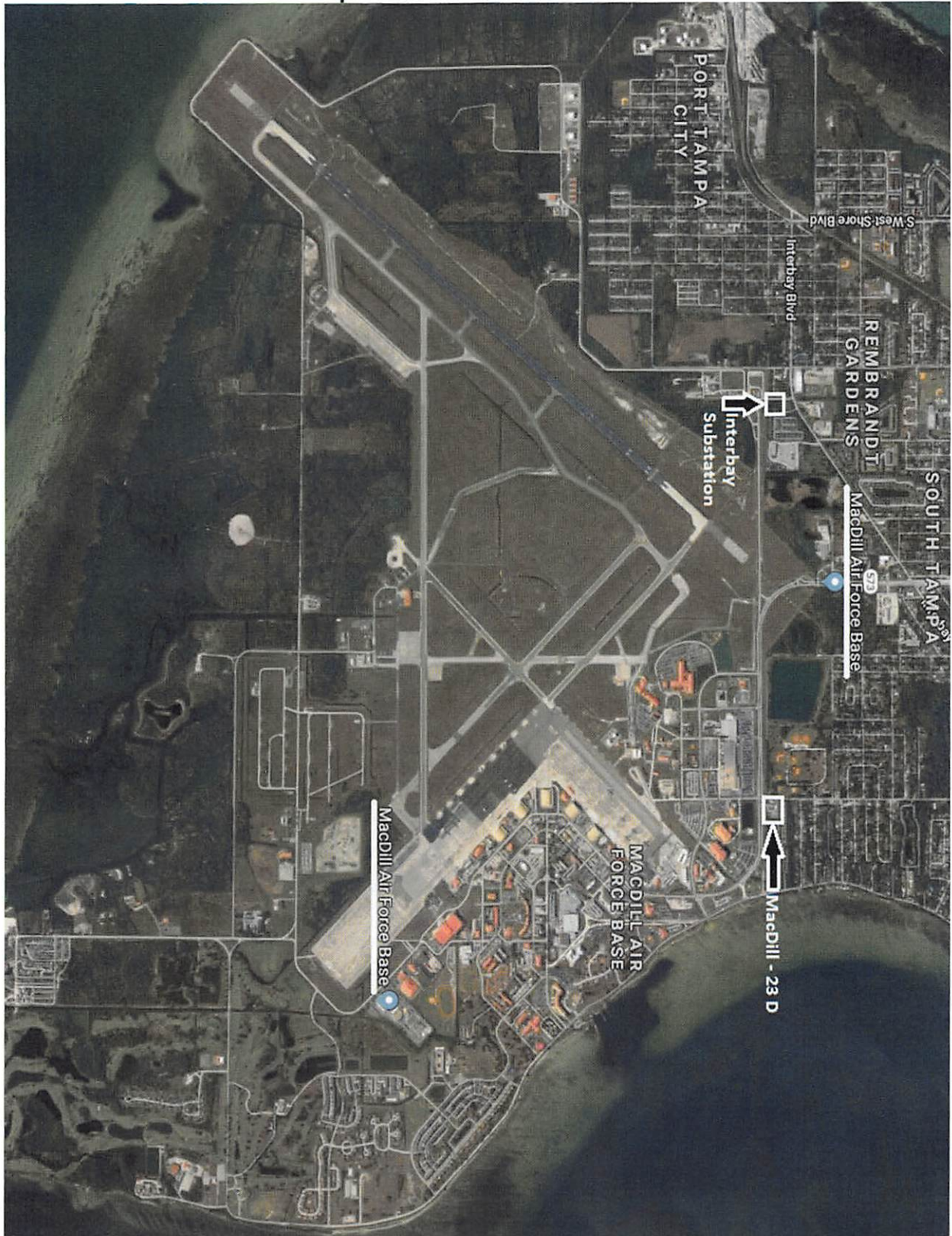
TAMPA ELECTRIC COMPANY

by: \_\_\_\_\_

Its: \_\_\_\_\_

Attest: \_\_\_\_\_

### Map of MacDill Air Force Base



# Item 8

State of Florida



## Public Service Commission

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

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

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**DATE:** June 27, 2018

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

**FROM:** Division of Economics (Doherty) *RD EJD PD CR*  
Office of the General Counsel (Trierweiler) *WKJ JC*

**RE:** Docket No. 20180123-EI – Petition for approval of modifications to Section No. IV, general rules and regulations governing electric service, Part VIII billing, residential and non-residential budget billing, by Duke Energy Florida, LLC.

**AGENDA:** 07/10/18 – Regular Agenda – Tariff Filing – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** 07/23/18 (60-Day Suspension Date)

**SPECIAL INSTRUCTIONS:** None

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### Case Background

On May 23, 2018, Duke Energy Florida, LLC (DEF) filed a petition to offer budget billing to commercial customers. The proposed budget billing tariff sheets Nos. 4.086 and 4.087 are shown in Attachment A to this recommendation.<sup>1</sup>

Currently, the five Florida investor-owned electric utilities offer optional budget billing for residential customers. The Commission has approved budget billing for commercial customers

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<sup>1</sup> DEF's petition included certain other non-substantive tariff changes (i.e., revision to index sheet) that have not been attached to the recommendation.



Docket No. 20180123-EI

Date: June 27, 2018

for Florida Power & Light Company<sup>2</sup> and Gulf Power Company.<sup>3</sup> The Commission has jurisdiction under Sections 366.04, 366.05, and 366.06, Florida Statutes (F.S.).

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<sup>2</sup> Order No. PSC-05-0951-TRF-EI, issued October 6, 2005, in Docket No. 20050486-EI, *In re: Petition for approval of optional budget billing program for GS-1 rate customers by Florida Power & Light Company.*

<sup>3</sup> Order No. PSC-98-0747-FOF-EI, issued May 29, 1998, in Docket No. 19980530-EI, *In re: Request for approval of Budget Billing tariff revisions by Gulf Power Company.*

### Discussion of Issues

**Issue 1:** Should the Commission approve DEF's petition for approval of budget billing for commercial customers?

**Recommendation:** Yes. The Commission should approve DEF's petition for approval of budget billing for commercial customers. DEF's proposed tariffs should become effective on July 10, 2018. (Doherty)

**Staff Analysis:** Currently, budget billing is only offered to residential customers. DEF has proposed to extend the budget billing option to the commercial General Service – 1 (GS-1) and General Service Demand – 1 (GSD-1) class customers. DEF states in its petition that it can provide better customer service by extending the budget billing to commercial customers without affecting the general body of ratepayers.

Budget billing is an optional program that allows customers to reduce the variations in monthly bills that result from seasonal fluctuations in the usage of electricity. This leveling of the bill allows customers to more easily budget their electricity expenses. The methodology for determining the monthly budget bill for commercial customers will be the same as the methodology for determining the monthly budget bill for residential customers. The customer is billed based upon an average of their last 12 months' kilowatt-hour (kWh) usage, rather than for their actual monthly usage.

The amount billed using the average method is subtracted from the amount which would have been billed based on actual usage. This difference is credited to a deferred balance account which maintains a running total of over- and under-collection. DEF recalculates the monthly budget billing amount every third month using the most recent 12 months' billings plus any deferred balances. If the difference between the current and the newly calculated monthly budget billing amount is greater than 10 percent, the monthly budget billing amount will be re-established.

Customers may request termination of the budget billing at any time. Upon termination of the plan or disconnection of service, the customer must settle the account in full. Once the customer has been terminated, the customer may not rejoin the plan for 12 months.

The residential budget billing tariff provision is currently included on residential tariff sheet No. 6.121. DEF proposed to include the residential budget billing tariff provision, together with the proposed commercial budget billing provision, in its general rules and regulations section of its tariff, as shown in Attachment A.

### Conclusion

Staff has reviewed DEF's petition for approval of its budget billing for its commercial customers. Participation in the program is optional and will provide DEF's commercial customers with benefits of budget billing that are currently available to its residential customers. Therefore, staff recommends that the Commission approve DEF's petition for approval of budget billing for commercial customers. DEF's proposed tariffs should become effective on July 10, 2018.

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

**Recommendation:** Yes. If a protest is filed within 21 days of the issuance of the order, these tariffs should remain in effect with any increase 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. (Trierweiler)

**Staff Analysis:** If a protest is filed within 21 days of the issuance of the order, these tariffs should remain in effect with any increase 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  
 ORIGINAL SHEET NO. 4.086

Page 3 of 4

**PART VIII  
 BILLING  
 (Continued)**

**8.09 Budget Billing Plan (Optional):**

**Residential**

A customer may elect to be billed for service hereunder by an alternative-billing plan called the "Budget Billing Plan." This billing plan provides for payments on an averaged monthly installment basis rather than payments on an actual monthly usage basis.

Under the Budget Billing Plan, the monthly billing is determined as follows:

1. The Annual Base Amount is calculated using the most recent twelve (12) months' billings for the premise and then averaged and rounded to the nearest whole dollar (Monthly Budget Billing Amount). If the customer has not resided at the premise for twelve (12) months, the Annual Base Amount will be determined by the customer's available monthly billings plus the previous occupant's billings. If the premise is new, a twelve (12) month estimated billing would be used.
2. The Monthly Budget Billing Amount is recalculated every third month using the most recent Annual Base Amount plus any deferred balances (the difference in prior billings made under the Budget Billing Plan and that of actual charges).

$$\text{Monthly Budget Billing Amount} = \frac{\text{12 Month Summation Actual or Est. Annual Base} + \text{Deferred Balance}}{12}$$

If the difference between the newly calculated Monthly Budget Billing Amount and the current Monthly Budget Billing Amount is greater than \$5 or 10%, then the Monthly Billing Amount will be re-established at the newly calculated amount (rounded to the nearest whole dollar).

3. At the customer's option (in lieu of carrying the deferred balance forward in the recalculation of the Monthly Budget Billing Amount) any deferred balance that is outstanding at the customer's annual review may be settled either through being applied to the customer's next bill (if a credit balance) or direct payment to the Company (if a debit balance).

A customer may request termination of the Budget Billing Plan at any time. The Company may terminate application of the Plan to any Customer whose balance due becomes sixty (60) days delinquent. Upon termination of the Plan or disconnection of service, the Customer must settle the account in full. Once the Customer has terminated, he or she may not rejoin the plan for twelve (12) months.

**Non-residential**

Any GS-1 or GSD-1 Customer who has

- no delinquent balances;
- has been at the same location for 12 consecutive months with the Company;
- not had more than one (1) late payment notice during the preceding 12 months;
- not made a payment with a dishonored check during the preceding 12 months;
- not had a disconnection of service for nonpayment of bill during preceding 12 months;
- the total required deposit; and
- met the Company's requirements for the establishment of credit

(Continued on Next Page)

**ISSUED BY: Javier J. Portuondo, Managing Director, Rates & Regulatory Strategy – FL**  
**EFFECTIVE:**



SECTION NO. IV  
 ORIGINAL SHEET NO. 4.087

Page 4 of 4

**PART VIII**  
**BILLING**  
**(Continued)**

is eligible to participate in the Budget Billing Plan described below for GS-1 and GSD-1 rate billings. However, GS-1 or GSD-1 Customers that participate in the Premier Power Service Rider and/or Summary Billing will not be eligible to participate in this Budget Billing Plan. A Customer may terminate participation in the Budget Billing Plan at any time and may be terminated from the Budget Billing Plan by Duke Energy Florida, LLC if the Customer becomes subject to collection action on this service account. Once a Customer's participation in the Budget Billing Plan has terminated he/she may not rejoin the Budget Billing Plan for twelve (12) months following the date of termination.

This billing plan provides for payments on an averaged monthly installment basis rather than payments on an actual monthly usage basis.

Under the Budget Billing Plan, the monthly billing is determined as follows:

1. The Annual Base Amount is calculated using the most recent twelve (12) months' billings for the premise and then averaged and rounded to the nearest whole dollar (Monthly Budget Billing Amount).
2. The Monthly Budget Billing Amount is recalculated every third month using the most recent Annual Base Amount plus any deferred balances (the difference in prior billings made under the Budget Billing Plan and that of actual charges).

$$\begin{array}{rcl}
 \text{Monthly Budget Billing Amount} & = & \frac{\text{12 Month Summation Actual or Est. Annual Base}}{12} + \text{Deferred Balance}
 \end{array}$$

If the difference between the newly calculated Monthly Budget Billing Amount and the current Monthly Budget Billing Amount is greater than 10% then the Monthly Billing Amount will be re-established at the newly calculated amount (rounded to the nearest whole dollar).

3. At the customer's option (in lieu of carrying the deferred balance forward in the recalculation of the Monthly Budget Billing Amount) any deferred balance that is outstanding at the customer's annual review may be settled either through being applied to the customer's next bill (if a credit balance) or direct payment to the Company (if a debit balance).

A customer may request termination of the Budget Billing Plan at any time. The Company may terminate application of the Plan to any Customer whose balance due becomes fourteen (14) calendar days delinquent. Termination of any one account for delinquency may subject all other Customer's participating accounts to termination of the plan. Upon termination of the Plan or disconnection of service, the Customer must settle the account in full. Once the Customer has terminated, he or she may not rejoin the plan for twelve (12) months.

**ISSUED BY: Javier J. Portuondo, Managing Director, Rates & Regulatory Strategy – FL**  
**EFFECTIVE:**

# 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-**

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**DATE:** June 27, 2018

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

**FROM:** Division of Economics (Higgins, Wu) *WU*  
Division of Accounting and Finance (Cicchetti) *ALM*  
Office of the General Counsel (Schrader) *K S*

**RE:** Docket No. 20170265-GU – Application for approval of new depreciation rates effective January 1, 2018, by St. Joe Natural Gas Company, Inc.

**AGENDA:** 07/10/18 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Clark

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

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### Case Background

Rule 25-7.045(4)(a), Florida Administrative Code (F.A.C.), requires natural gas public utilities to file a comprehensive depreciation study with the Florida Public Service Commission (Commission) for review at least once every five years from the submission date of the previous study. On December 21, 2017, St. Joe Natural Gas Company (St. Joe or Company) filed its 2017 depreciation study in compliance with the aforesaid rule. Staff notes the Company's last depreciation study was filed December 31, 2012. For a brief profile of the Company, St. Joe had total 2017 operating revenues of approximately \$2,005,700, in serving 2,997 customers.<sup>1</sup> Staff has completed its review of St. Joe's current 2017 Depreciation Study and presents its recommendations to the Commission herein.

<sup>1</sup> St Joe's Annual Report of Natural Gas Utilities, Form PSC/ECR 020-G, at December 31, 2017, filed with the Florida Public Service Commission on June 7, 2018.

Docket No. 20170265-GU

Date: June 27, 2018

The Commission is vested with jurisdiction over these matters through several provisions of the Florida Statutes (F.S.), including Sections 350.115, 366.05, and 366.06, F.S.



### Discussion of Issues

**Issue 1:** Should the currently prescribed depreciation rates for St. Joe Natural Gas Company be revised?

**Recommendation:** Yes. The review of St. Joe's plant and depreciation-related information indicates a need to revise the Company's currently prescribed depreciation rates. (Higgins)

**Staff Analysis:** St. Joe's last depreciation filing was made on December 31, 2012. By Order No. PSC-13-0174-PAA-GU, the Commission approved revised depreciation rates that became effective January 1, 2013.<sup>2</sup>

The Company filed its current study in accordance with Rule 25-7.045(4)(a), F.A.C. A review of the Company's plant activity and other relevant data indicates the need to revise depreciation rates. Staff's recommended depreciation rates and underlying components are specifically discussed in Issue 3.

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<sup>2</sup> Order No. PSC-13-0174-PAA-GU, issued April 26, 2013, in Docket No. 20120325-GU, *In re: Application for approval of new depreciation rates, effective January 1, 2013, by St. Joe Natural Gas Company.*

**Issue 2:** What should be the implementation date for newly proposed depreciation rates?

**Recommendation:** If approved by the Commission, staff recommends January 1, 2018, for implementing the depreciation rates shown on Attachments A and B to this recommendation. (Higgins)

**Staff Analysis:** Rule 25-7.045(4)(d), F.A.C., requires that the data submitted in a depreciation study, including plant and reserve balances or Company estimates, “shall be brought to the effective date of the proposed rates.” The supporting data and calculations provided by St. Joe match an implementation date of January 1, 2018.

**Issue 3:** What are the appropriate depreciation parameters and resulting rates?

**Recommendation:** Staff recommends the Commission approve the lives, reserve percentages, net salvage percentages, and resulting depreciation rates applicable to St. Joe's investments that are shown on Attachment A. As shown on Attachment B, the corresponding depreciation expense effect of staff's rate recommendations is a decrease of \$41,258 annually, or approximately 14.4 percent, from current depreciation rate levels. (Higgins, Wu)

**Staff Analysis:** The purpose of this period depreciation review is to ensure that capital prudently invested, as well as future costs of retirement are recovered over the useful lives of the assets studied. To this end, staff's recommendations are the result of a comprehensive review of St. Joe's depreciation and plant-related data filed in this docket. Attachment A to this recommendation shows a comparison of certain currently-approved depreciation parameters and rates to those staff is recommending to become effective on January 1, 2018, (Issue 2).<sup>3</sup> Staff and the Company are in agreement on all proposed depreciation parameters and resulting rates.<sup>4</sup> Displayed on Attachment B is a comparison of depreciation expenses between currently-approved and proposed rates based on December 31, 2017, investment levels.<sup>5</sup>

**2017 Study Overview**

In general and with little exception, there has been relatively minimal plant addition and retirement activity during the study period of 2013-2017, with no property/accounts appearing to experience abnormal life characteristics. Thus, St. Joe initially proposed to retain all of its previously ordered average service life (ASL) durations, as well as net salvage (NS) values.<sup>6</sup> Staff notes that, in general, an ASL is the average expected life of all units of a group of assets when new. NS represents the difference between the value of salvage and cost of removal resulting from plant retirement and disposal. Both are key considerations/parameters when formulating depreciation rates. Discussed later in this recommendation, staff suggests to moderately lengthen the service lives of three accounts. All else equal, the lengthening of service life will ultimately reduce annual depreciation expense.

Staff observed that St. Joe's as-proposed average remaining lives (ARLs) were not calculated using retirement dispersion curves. To address this, staff applied the last known Iowa-Type Survivor Curves applicable to St. Joe's plant on an account-by-account basis and derived new ARL values.<sup>7</sup> For background, an ARL is the future expected service life in years of the asset-group survivors at a given age, whereas the age of investments is the dollar-weighted length of time that vintage assets have been in service. Overall, the effects of using the newly-derived

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<sup>3</sup> Order No. PSC-13-0174-PAA-GU.

<sup>4</sup> See Commission Document No. 03668-2018.

<sup>5</sup> Order No. PSC-13-0174-PAA-GU.

<sup>6</sup> *Id.*

<sup>7</sup> Bulletin 125, *Statistical Analysis of Industrial Reporting*, published in 1935, by Robley Winfrey of the Iowa State College Engineering Experimental Station. The retirement distributions (depicted as the "Iowa Curves") published in Bulletin 125 are widely-accepted representations of utility property retirement patterns. Iowa curves are comprised of a set of standardized patterns (or curve shapes), of asset retirement dispersion organized into four broad classes: "S," "R," "L," and "O" curves. The inherent logic of the Iowa Curves is that the same type of plant, living in the same environments, generally experiencing the same external factors, will continue to follow the same mortality pattern, or until factors/considerations change.

ARLs in calculating depreciation rates of St. Joe's plant were mixed, with greater rates of depreciation for some accounts, lesser rates of depreciation for others.

Staff notes that many of St. Joe's currently-approved service lives were retained and used in the curve/life selection process.<sup>8</sup> Further, staff accepted or agreed with the Company's initial proposals for many proposed net salvage values as well. An account-by-account analysis and discussion concerning depreciation parameter formulation and rate development follows below.

### ***Account-Specific Analysis***

#### **Account 375 – Buildings & Improvements**

The age of this account is 33.6 years. Staff recommends the S3 Iowa curve with a 40-year ASL (S3-40) curve/life combination. Based on these parameters and a negative 5, or (5), percent NS level, a 10.8-year ARL and remaining life depreciation rate of 1.6 percent are calculated for this account.

#### **Account 376.1 – Mains-Plastic**

The age of this account is 21.2 years. Staff recommends the S3-40 curve/life combination. Based on these parameters and a (30) percent NS level, a 19.4-year ARL and a remaining life depreciation rate of 3.2 percent are calculated for this account.

#### **Account 376.2 – Mains-Steel**

The age of this account is 26.2 years. Staff recommends the S3-40 curve/life combination. Based on these parameters a 15.4-year ARL is calculated. As Account 376.2 is in a theoretical reserve<sup>9</sup> surplus position, staff also recommends that a reserve adjustment (transfer to Accounts 378, 380.1, and 384 respectively) totaling (\$63,019) be made in order to reduce the account's reserve surplus. The post-reserve transfer remaining life depreciation rate with a (30) percent NS level is calculated to be 3.1 percent for this account.

#### **Account 378 – Meas. & Reg. Equip. (Distribution)**

The age of this account is 21.6 years. Staff recommends the R3-35 curve/life combination. Based on these parameters a 15.6-year ARL is calculated. As Account 378 is in a theoretical reserve deficit position, staff also recommends that a reserve transfer of \$256 be made (from Account 376.2 – Mains-Steel) to correct the account's theoretical reserve deficiency. The post-reserve transfer remaining life depreciation rate with a (5) percent NS level is calculated to be 3.0 percent for this account.

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<sup>8</sup> Order No. PSC-13-0174-PAA-GU.

<sup>9</sup> See Commission Rule 25-7.045(1)(k), F. A. C., which prescribes a Theoretical Reserve being equal to: Book Investment minus Future Accruals minus Future Net Salvage.

Account 379 – Meas. & Reg. Equip. (City Gate)

The age of this account is 25.2 years. Staff recommends the S3-35 curve/life combination. Based on these parameters and a (5) percent NS level, a 11.9-year ARL and a remaining life depreciation rate of 2.5 percent are calculated for this account.

Account 380.1 – Services-Plastic

The account has an age of 17.1 years and an ASL of 40 years. St. Joe reports that inspections of plastic service lines (randomly selected) are performed on a regular basis and all lines continue to be found in acceptable condition with every indication of many years of service remaining.<sup>10</sup> Taking this into consideration, staff recommends a moderate increase in ASL by 2 years. This will bring the ASL of the account to 42 years. Based on the S3-42 curve/life combination, a 25-year ARL is calculated. As Account 380.1 is in a theoretical reserve deficit position, staff also recommends that a reserve transfer of \$57,246 be made (from Account 376.2 – Mains-Steel) as to correct the account's theoretical reserve deficiency. The post-reserve-transfer remaining life depreciation rate with a (22) percent NS level is calculated to be 2.9 percent for this account.

Account 380.2 – Services-Steel

This account has an age of 46.9 years and an ASL of 50 years. St. Joe reports that inspections of steel service lines (randomly selected) are performed on a regular basis and all lines continue to be found in acceptable condition with every indication of many years of service remaining.<sup>11</sup> Taking this into consideration, staff recommends a moderate increase in ASL by 3 years. Based on the SQ-53 curve/life combination, a 6.1-year ARL is calculated for this account.

The current-approved NS level of the account is (30) percent which is at the highest end of the industry range.<sup>12</sup> During the current study period of 2013 through 2017, the account experienced a 59.6 percent average cost of removal with no gross salvage.<sup>13</sup> During the period of St. Joe's last depreciation study, the account had experienced an average 48 percent cost of removal with no gross salvage; and the Commission ordered a decrease in the level of NS from the then-approved (25) percent to the currently-approved (30) percent.<sup>14</sup> Given the trend of the account's NS level in the past 10 years and considering the industrial average, staff recommends to further decrease the NS level to (40) percent. Staff notes that this degree of reduction does not fully reflect the account's actual experience and still leaves the NS level at the high end (least negative) of the

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<sup>10</sup> See St. Joe's 2017 Depreciation Study, Filing Requirements 6(f).

<sup>11</sup> *Id.*

<sup>12</sup> Approved NS levels (steel services) for Florida's gas utilities range from (125) percent to (30) percent, with an arithmetic mean of (77) percent. See Order No. PSC-14-0698-PAA-GU, issued December 18, 2014, in Docket No. 140016-GU, *In re: 2014 depreciation study by Florida Public Utilities Company*; Order No. PSC-17-0066-AS-GU, Issued February 28, 2017, in Docket No. 160159-GU, *In re: Petition for approval of settlement agreement pertaining to Peoples Gas System's 2016 depreciation study, environmental reserve account, problematic plastic pipe replacement, and authorized ROE*; Order No. PSC-16-0574-PAA-GU, issued December 19, 2016, in Docket No. 160174-GU, *In re: Request for approval of 2016 depreciation study by Sebring Gas System, Inc.*; Order No. PSC-2018-0190-FOF-GU, issued April 20, 2018, Docket No. 20170179-GU, *In re: Petition for rate increase by Florida City Gas.*

<sup>13</sup> Net Salvage is equal to: Gross Salvage - Cost of Removal.

<sup>14</sup> Order No. PSC-13-0174-PAA-GU.

industry range. However, staff believes that whenever possible, gradual rather than abrupt and/or incremental rather than large-magnitude change is preferable.

With a 6.1-year ARL and a (40) percent NS level, the remaining life depreciation rate is calculated to be 3.9 percent for this account.

#### Account 381 – Meters

The age of this account is 14 years. Staff recommends the R4-25 curve/life combination. Based on these parameters and a zero percent NS level, a 11.5-year ASL and a remaining life depreciation rate of 3.8 percent are calculated for this account.

#### Account 382 – Meters Installations

The age of this account is 29 years. Staff recommends the S2-40 curve/life combination. Based on these parameters and a (25) percent NS level, a 15.3-year ARL and a remaining life depreciation rate of 3.0 percent are calculated for this account.

#### Account 383 – Regulators

The age of the account is 18.8 years. Staff recommends the R4-30 curve/life combination. Based on these parameters and a zero percent NS level, a 12.0-year ARL and a remaining life depreciation rate of 3.1 percent are calculated for this account.

#### Account 384 – Regulator Install

This account has an age of 22.3 years. Staff notes that the account has experienced significant changes, with plant investment being added and retired every year throughout the study period. Taken with the account's growth rate of 14.5 percent and retirement rate of 1.4 percent, staff recommends the S3 curve shape with a 40-year ASL as it closely depicts this account's activity. Based on these parameters, a 18.4-year ARL is calculated. As Account 384 is in a theoretical reserve deficit position, staff also recommends that a reserve transfer of \$5,517 be made (from Account 376.2 – Mains-Steel) to correct the account's theoretical reserve deficiency. The post-reserve-transfer remaining life depreciation rate with a (40) percent NS level is calculated to be 3.5 percent for this account.

#### Account 385 – Industrial Meas. & Reg. Equipment

The age of the account is 6.4 years. Staff recommends the S4-30 curve/life combination. Based on these parameters with a (5) percent NS level, a 24-year ARL and a remaining life depreciation rate of 3.4 percent are calculated for this account.

#### Account 387 – Other Equipment

This account is near fully depreciated at the study date of December 31, 2017. It has also experienced no activity (e.g. plant addition, retirement, etc.) during the study period. The

Company seeks to apply a depreciation rate when new investment is added.<sup>15</sup> Due to the account's current reserve position, staff believes that a whole life rate, rather than a remaining life depreciation rate, should be applied to any newly-added investments as an interim measure until St. Joe's depreciation rates are re-reviewed by the Commission.

This account has an age of 5.2 years, a currently-approved 10-year ASL and a zero percent NS.<sup>16</sup> Staff notes that a 10-year ASL is at the lowest end of the industry range of Florida gas utilities for this account.<sup>17</sup> Staff believes an increase in ASL by 4 years is appropriate. Therefore, staff recommends a 7.1 percent whole life depreciation rate be applied to any new investment added to this account.

#### Account 390 – Structures & Improvements

The age of this account is 26.0 years. Staff recommends the R3-40 curve/life combination. Based on these parameters and a zero percent NS level, a 16.8-year ARL and 1.9 percent remaining life depreciation rate are calculated for this account.

#### Account 391.1 – Office Furniture

The age of this account is 13.7 years. Staff recommends the S2-15 curve/life combination. Based on these parameters and a zero percent NS level, a 4.4-year ARL and 1.7 percent remaining life depreciation rate are calculated for this account.

#### Account 391.2 – Office Devices

The age of this account is 4.9 years. Staff recommends the S1-8 curve/life combination. Based on these parameters and a 5 percent NS level, a 4.1-year ARL and 8.4 percent remaining life depreciation rate are calculated for this account.

#### Account 391.3 – Office Computers

The age of this account is 8.3 years. Staff recommends the S3-16 curve/life combination. Based on these parameters, a 7.9-year ARL is calculated. As Account 391.3 is in a theoretical reserve deficit position, staff also recommends that a reserve transfer of \$5,190 (from Account 392 – Transportation Equipment) be made in order to correct the account's theoretical deficiency. The post-reserve-transfer remaining life depreciation rate with a zero percent NS level is calculated to be 6.3 percent for this account.

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<sup>15</sup> See St. Joe's 2017 Depreciation Study, Filing Requirements 6(f), and St. Joe's response to Staff's First Data Request, No. 10.

<sup>16</sup> Order No. PSC-13-0174-PAA-GU.

<sup>17</sup> Approved ASLs (Account 387 – Other Equipment) for Florida's gas utilities range from 10 to 30 years, with an arithmetic mean of 21.2 years. See Order No. PSC-14-0698-PAA-GU, Order No. PSC-17-0066-AS-GU, Order No. PSC-16-0574-PAA-GU, and Order No. PSC-2018-0190-FOF-GU.

Account 392 – Transportation Equipment

The age of this account is 4.6 years. Staff recommends the S2-7 curve/life combination. Based on these parameters, a 3.0-year ARL is calculated. As Account 392 is in a theoretical reserve surplus position, staff also recommends that a reserve adjustment of (\$5,190) be made (transfer to Account 391.3 – Office Computers) to correct the theoretical reserve deficiency in Account 391.3. The post-reserve-transfer remaining life depreciation rate with a 10 percent NS level is calculated to be 9.3 percent for this account.

Account 394 – Tools, Shop & Garage Equipment

The age of this account is 4.2 years. Staff recommends the S3-20 curve/life combination. Based on these parameters and a zero percent NS level, a 15.8-year ARL and 4.9 percent remaining life depreciation rate are calculated for this account.

Account 396 – Power Operated Equipment

The age of this account is 9.2 years. Staff recommends the S4-15 curve/life combination. Based on these parameters and a 5 percent NS level, a 5.9-year ARL and 0.6 percent remaining life depreciation rate are calculated for this account.

Account 397 – Communication Equipment

The age of this account is 9.2 years. Staff recommends the S3-12 curve/life combination. Based on these parameters and a zero percent NS level, a 3.7-year ARL and 6.2 percent remaining life depreciation rate are calculated for this account.

**Summary Schedules**

Complete tabulations of staff's depreciation parameter and rate recommendations, as well as annual expense comparisons to St. Joe's currently-approved depreciation rates are contained in Attachments A and B to this recommendation.



**Issue 4:** Should the current amortization of investment tax credits (ITCs) and flow back of excess deferred income taxes (EDITs) be revised to reflect the approved depreciation rates and amortization schedules?

**Recommendation:** Yes. The current amortization of ITCs should be revised to match the actual recovery periods for the related property. The Company should file detailed calculations of the revised ITC amortization at the same time it files its earnings surveillance report covering the period ending December 31, 2018, as specified in Rule 27-7.1352, F.A.C. (Cicchetti)

**Staff Analysis:** In Issue 2, staff recommended approval of revised depreciation rates for the Company to be effective January 1, 2018, which reflect changes to most accounts' remaining lives to be effective January 1, 2018. Revising a utility's book depreciation lives generally results in a change in its rate of ITC amortization in order to comply with the normalization requirements of the Internal Revenue Code (IRC or Code) set forth in Sections 168(f)(2) and (i)(9),<sup>18</sup> former IRC Section 167(l),<sup>[19,20]</sup> former IRC Section 46(f),<sup>[21,22]</sup> Federal Tax Regulations under the Code sections,<sup>23</sup> and Section 203(e) of the Tax Reform Act of 1986 (the Act).<sup>24</sup>

Staff, the Internal Revenue Service (IRS), and independent outside auditors examine a company's books and records, and the orders and rules of the jurisdictional regulatory authorities to determine if the books and records are maintained in the appropriate manner. The books are also reviewed to determine if they are in compliance with the regulatory guidelines regarding normalization.

Former IRC Section 46(f)(6) of the Code indicated that the amortization of ITC should be determined by the period of time actually used in computing depreciation expense for ratemaking purposes and on the regulated books of the utility.<sup>25</sup> While, Section 46(f)(6) was repealed, under IRC Section 50(d)(2), the terms of former IRC Section 46(f)(6) remain applicable to public utility property for which a regulated utility previously claimed ITCs. Because staff is recommending changes to the Company's remaining lives, it is also important to change the amortization of ITCs to avoid violation of the provisions of IRC Section 50(d)(2) and its underlying Treasury Regulations. The consequence of an ITC normalization violation is a repayment of unamortized ITC balances to the IRS. Therefore, staff recommends that the current amortization of ITCs should be revised to match the actual recovery periods for the related property. The Company should file detailed calculations of the revised ITC amortization at the

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<sup>18</sup> 26 USC §§168(f)(2) and (i)(9).

<sup>19</sup> Former 26 USC §167(l), repealed by Revenue Reconciliation Act of 1990, Pub. L. No. 101-508, §11812(a)(1-2)(1990).

<sup>20</sup> Under IRC Section 50(d)(2), the terms of former IRC Section 167(l) remain applicable to public utility property for which a regulated utility previously claimed ITCs, which is the case here. (I.R.S. Priv. Ltr. Rul. 200933023, 1n.1 (May 7, 2009)).

<sup>21</sup> Former 26 USC §46(f), repealed by Revenue Reconciliation Act of 1990, Pub. L. No. 101-508, §11813(1990).

<sup>22</sup> Under IRC Section 50(d)(2), the terms of former IRC Section 46(f) remain applicable to public utility property for which a regulated utility previously claimed ITCs, which is the case here. (I.R.S. Priv. Ltr. Rul. 200933023, 1n.1 (May 7, 2009)).

<sup>23</sup> Treas. Reg. §1.168; Treas. Reg. §1.167; Treas. Reg. §1.46.

<sup>24</sup> Tax Reform Act of 1986, Pub. L. No. 99-514 (100 Stat. 2085, 2146)(1986).

<sup>25</sup> Former 26 USC §46(f)(6) (establishing proper determination of ratable portion).

Date: June 27, 2018

same time it files its earnings surveillance report covering the period ending December 31, 2018, as specified in Rule 25-7.1352, F.A.C.

**Issue 5:** Should this docket be closed?

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

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

Comparison of Rates and Components								
Account Number	Account Title	Current <sup>1</sup>			Staff Recommended			
		Ave. Rem. Life (yrs.)	Future Net Salvage (%)	Remaining Life Rate (%)	Ave. Rem. Life (yrs.)	Reserve (%)	Future Net Salvage (%)	Remaining Life Rate (%)
<b>DISTRIBUTION PLANT</b>								
375	Structures & Improvements	11.4	(5)	2.7	10.8	88.08	(5)	1.6
376.1	Mains - Plastic	22.0	(30)	3.4	19.4	68.71	(30)	3.2
376.2	Mains - Steel	18.8	(30)	3.3	15.4	81.94	* (30)	3.1
378	M&R Station Equip. - Distribution	18.1	(5)	3.6	15.6	58.20	* (5)	3.0
379	M&R Station Equip. - City Gate	14.8	(5)	3.0	11.9	75.30	(5)	2.5
380.1	Services - Plastic	24.0	(22)	3.4	25.0	49.50	* (22)	2.9
380.2	Services - Steel	8.1	(30)	3.0	6.1	116.13	(40)	3.9
381	Meters	5.6	0	4.2	11.5	56.63	0	3.8
382	Meter Installations	10.3	(25)	4.8	15.3	79.45	(25)	3.0
383	Regulators	13.7	0	3.4	12.0	62.44	0	3.1
384	Regulator Installations	17.5	(40)	4.4	18.4	75.60	* (40)	3.5
385	Industrial M&R Equip.	18.7	(5)	3.8	24.0	22.33	(5)	3.4
387	Other Equipment	5.0	0	11.4	8.8	99.87	0	7.1**
<b>GENERAL PLANT</b>								
390	Structures & Improvements	16.8	0	2.7	16.8	68.50	0	1.9
391.1	Office Furniture	6.0	0	7.4	4.4	92.39	0	1.7
391.2	Office Devices	5.9	5	12.6	4.1	60.45	5	8.4
391.3	Office Computers	5.8	0	6.3	7.9	50.23	* 0	6.3
392	Transportation Equip.	1.4	10	12.9	3.0	62.10	* 10	9.3
394	Tools, Shop & Garage Equip.	4.8	0	5.5	15.8	22.24	0	4.9
396	Power Operated Equip.	4.7	5	6.3	5.9	91.57	5	0.6
397	Communication Equip.	4.5	0	8.3	3.7	77.03	0	6.2

<sup>1</sup> Order No. PSC-13-0174-PAA-GU

\* Denotes a Reserve Transfer

\*\*Whole Life Dep. Rate

Comparison of Expenses						
Account Number	Account Title	Current <sup>1</sup>		Staff Proposed		
		Depreciation Rate (%)	Annual Expense (\$)	Depreciation Rate (%)	Annual Expense (\$)	Change In Expense (\$)
<b>DISTRIBUTION PLANT</b>						
375	Structures & Improvements	2.7	578	1.6	342	(236)
376.1	Mains - Plastic	3.4	36,860	3.2	34,692	(2,168)
376.2	Mains - Steel	3.3	100,521	3.1	94,429	(6,092)
378	M&R Station Equip. - Distribution	3.6	3,560	3.0	2,967	(593)
379	M&R Station Equip. - City Gate	3.0	13,772	2.5	11,477	(2,295)
380.1	Services - Plastic	3.4	22,160	2.9	18,901	(3,259)
380.2	Services - Steel	3.0	3,294	3.9	4,282	988
381	Meters	4.2	23,567	3.8	21,323	(2,244)
382	Meter Installations	4.8	3,477	3.0	2,173	(1,304)
383	Regulators	3.4	6,485	3.1	5,912	(573)
384	Regulator Installations	4.4	1,481	3.5	1,178	(303)
385	Industrial M&R Equip.	3.8	2,059	3.4	1,843	(216)
387	Other Equipment	11.4	1,596	7.1	0	(1,596)
<b>GENERAL PLANT</b>						
390	Structures & Improvements	2.7	4,228	1.9	2,976	(1,252)
391.1	Transportation Equip.	7.4	556	1.7	128	(428)
391.2	Office Devices	12.6	2,687	8.4	1,791	(896)
391.3	Office Computers	6.3	4,686	6.3	4,686	0
392	Transportation Equip.	12.9	46,608	9.3	33,601	(13,007)
394	Tools, Shop & Garage Equip.	5.5	2,467	4.9	2,198	(269)
396	Power Operated Equip.	6.3	5,971	0.6	569	(5,402)
397	Communication Equip.	8.3	449	6.2	336	(113)
<b>Total</b>			<b>287,064</b>		<b>245,804</b>	<b>(41,258)</b>

<sup>1</sup> Order No. PSC-13-0174-PAA-GU

# Item 10

FILED 6/27/2018  
DOCUMENT NO. 04419-2018  
FPSC - COMMISSION CLERK

State of Florida



## Public Service Commission

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

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

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**DATE:** June 27, 2018

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

**FROM:** Division of Economics (Sibley, Hudson) *MS* *W* *CS* *TB* *CR*  
Division of Accounting and Finance (Wilson, Brown) *KW* *ALM*  
Division of Engineering (Lewis) *CK*  
Office of the General Counsel (DuVal) *MD* *TH*

**RE:** Docket No. 20170147-WS – Application for staff-assisted rate case in Levy County by FIMC Hideaway, Inc.

**AGENDA:** 07/10/18 – Regular Agenda – Proposed Agency Action – Except for Issue Nos. 12, 13, and 14 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Brown

**CRITICAL DATES:** 11/21/18 (15-Month Effective Date (SARC))

**SPECIAL INSTRUCTIONS:** None

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## Case Background

FIMC Hideaway, Inc. (FIMC or utility) is a Class C utility which was granted water and wastewater certificates in 1984 to serve the Hideaway development when Levy County turned jurisdiction over to the Florida Public Service Commission (Commission) in 1983.<sup>1</sup> The Hideaway systems were transferred to Florida Investors Mortgage Corporation (FIMC) Hideaway, Inc. in 1992 following its foreclosure on the utility.<sup>2</sup> Subsequently, a transfer of majority organizational control was approved in 2005 when the utility stock was acquired by the current owners.<sup>3</sup> In 2009, the Commission approved the transfer of the Springside water and wastewater systems from Par Utilities, Inc. to FIMC Hideaway, Inc.<sup>4</sup> The Hideaway and Springside water and wastewater systems were interconnected in April 2013. The utility has not successfully applied for a rate increase since 1992.

On June 22, 2017, FIMC filed an application for a staff assisted rate case (SARC). Staff selected the test year ended June 30, 2017. According to FIMC's 2017 Annual Report, combined total gross revenues were \$99,762 and total operating expenses were \$88,810. The Hideaway and Springside systems currently serve 197 customers. The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, and 367.091, Florida Statutes (F.S.).

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<sup>1</sup>Order No. 13497, issued July 10, 1984, in Docket No. 19830552-WS, *In re: Application of Hideaway Service, Inc. for a certificate to operate a water and sewer utility in Levy County.*

<sup>2</sup>Order No. 25584, issued January 8, 1992, in Docket No. 19910672-WS, *In re: Application for transfer of Certificates Nos. 426-W and 362-S from Hideaway Service, Inc. to FIMC Hideaway, Inc. in Levy County.*

<sup>3</sup>Order No. PSC-05-0298-PAA-WS, issued March 18, 2005, in Docket No. 20040152-WS, *In re: Application for transfer of majority organizational control of FIMC Hideaway, Inc. in Levy County from Florida Investors Mortgage Corporation, a Florida corporation, to Robert and Janet McBride.*

<sup>4</sup>Order No. PSC-09-0279-PAA-WS, issued April 29, 2009, in Docket No. 20080268-WS, *In re: Joint Application for transfer of the Springside water and wastewater systems from Par Utilities, Inc. in Levy County to FIMC Hideaway, Inc.; amendment of Certificates 426-W and 362-S held by FIMC Hideaway, Inc.; and amendment of Certificate 428-W and cancellation of Certificate 366-S held by Par Utilities, Inc.*

## Discussion of Issues

**Issue 1:** Is the quality of service provided by FIMC Hideaway, Inc. satisfactory?

**Recommendation:** Staff recommends that the overall quality of service for FIMC should be considered marginal until the utility can sufficiently demonstrate that it meets the Department of Environmental Protection's (DEP) secondary water standards. Staff additionally recommends that the utility file the results of its next primary and secondary water standards tests with the Commission. Additional action, if any, should be considered after review of these test results. (Lewis)

**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 utility's attempt to address customer satisfaction, and (3) the operating conditions of the utility's plant and facilities. The rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with DEP and the county health department over the preceding three-year period shall be considered. Additionally, Section 367.0812(1), F.S., requires the Commission to consider the extent to which the utility provides water service that meets secondary water quality standards as established by DEP.<sup>5</sup>

### Quality of Utility's Product

In evaluation of FIMC's product quality, staff reviewed the utility's compliance with DEP's primary and secondary drinking water quality standards. Primary standards protect public health, while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water. In August 2015, the utility conducted sampling of all primary and secondary water standards. On January 8, 2016, DEP informed the utility that it exceeded the maximum contaminant levels for total dissolved solids and sulfates, which are secondary standards, and requested additional testing within 14 days. DEP records do not show receipt of the additional testing; however, DEP has elected to not pursue enforcement action against the utility. Testing for primary and secondary water standards are next due in August 2018.

Based on staff's review, there were no complaints received by the Commission, DEP, or FIMC concerning primary or secondary water standards. At the February 1, 2018 Customer Meeting, discussed below, customers did complain about the taste of FIMC's water as well as water pressure. Giving consideration to the exceedance of two secondary standards and the unresponsiveness to DEP's request, staff believes that the quality of FIMC's product should be considered marginal at this time. Staff additionally recommends that the utility file the results of its next primary and secondary water standards tests with the Commission. Additional action, if any, should be considered after review of these test results.

As discussed below, the utility's operation of its wastewater treatment plant (WWTP) is subject to various environmental requirements such as permitting, testing, and discharge monitoring

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<sup>5</sup>Rule 25-30.433(1), F.A.C., has been amended by the Commission. The amended rule should be effective on July 11, 2018.

under the jurisdiction of DEP. Currently, it appears DEP has no violations or corrective orders pending against the utility concerning the treatment and disposal of domestic wastewater.

### **The Utility's Attempt to Address Customer Satisfaction**

Staff reviewed the Commission's complaint records related to FIMC from July 1, 2012, through December 31, 2017, and found two complaints. One customer complained about a significant reduction in water pressure. During the time of the complaint, the utility was in the process of replacing its water tank due to a small leak. The complaint was satisfactorily resolved on September 12, 2014. The second complaint was a billing dispute in which the customer disputed the installation charges for a new meter. The utility's response indicated that a main extension charge was included and improperly quoted to the customer. Commission staff reviewed the tariff charges with the utility and the proper charges were determined. This complaint was also recorded by FIMC and is the only complaint recorded by the utility during the previously indicated timeframe.

Staff also requested a copy of any complaints against the utility filed with DEP for the test year and four years prior. DEP responded that it received one complaint in 2014 concerning a tank leak. Based on DEP's complaint log, a new tank was already ordered and is being installed.

A customer meeting was held in Chiefland on February 1, 2018. Approximately 43 customers attended the meeting and 11 spoke. The subject of the customers' complaints included concerns about the taste of the water provided, emergency signage at FIMC's lift station, the ability to contact the utility, and water pressure.

The utility consulted with the Florida Rural Water Association (FRWA) on February 19, 2018, to address the concerns regarding the taste of the water. FRWA recommended that the utility install a flushing valve. Following the utility's meeting with FRWA, the utility identified and repaired an existing flushing valve. In response to a staff data request the utility indicated that it would begin performing scheduled flushing. On March 5, 2018, FIMC provided Commission staff with photos of newly installed emergency signage at its lift station. The utility also provided a bill which has a contact number for FIMC's operator and staff verified that the number on the bill is operative. With regard to the water pressure concerns, the utility represented that its operator offered to check the water pressure at the customers' homes and the customers were not interested. Based on the above, staff believes that the utility is adequately attempting to address customer satisfaction.

### **Operating Condition of the Utility's Plant and Facilities**

FIMC's service area is located in Chiefland, Florida, in Levy County and is within the Suwannee River Water Management District (SRWMD). The raw water source is ground water, which is obtained from two wells within the service area. The water treatment processing sequence is to pump raw water from the aquifer, inject calcium hypochlorite, store the treated water in a hydropneumatic tank, and distribute. DEP conducted a sanitary survey inspection of FIMC's water treatment plant (WTP) on November 30, 2015. Based on information obtained during and following the inspection, the system was determined to be in compliance with DEP's rules and regulations. The next sanitary survey is due to be performed in August 2018.

FIMC also operates an extended aeration WWTP. The treated effluent is discharged to groundwater via three rapid-rate infiltration basins. A wastewater inspection was conducted by DEP on April 26, 2016, and the facility was rated as in-compliance. As of April 1, 2018, there appear to be no compliance issues with respect to the condition of FIMC's facilities.

**Summary**

Staff recommends that the overall quality of service for FIMC should be considered marginal until the utility can sufficiently demonstrate that it meets DEP's secondary water standards. In addition, staff recommends that the utility file the results of its next primary and secondary water standards tests with the Commission. Additional action, if any, should be considered after review of these test results.

**Issue 2:** What are the used and useful (U&U) percentages of FIMC's WTP, WWTP, water distribution system, and wastewater collection system?

**Recommendation:** FIMC's WTP, WWTP, water distribution system, and wastewater collection system should be considered 100 percent U&U. Staff additionally recommends that no adjustment be made to purchased power and chemical expenses for excessive unaccounted for water (EUW) or infiltration and inflow (I&I). (Lewis)

**Staff Analysis:** Historically the Commission has given consideration to previous rate cases when evaluating U&U. In FIMC's last rate case (1992) the Commission found the WTP and WWTP to be 100 percent U&U. As discussed in the case background, the Commission approved a transfer of the Springside water and wastewater systems to FIMC in 2009. The systems, which are contiguous, were interconnected in 2013, and the Hideaway WTP and WWTP were subsequently abandoned. Therefore, the utility's system has substantially changed since the last rate case.

### **Used and Useful Analysis**

Rule 25-30.4325, F.A.C., provides that a water treatment system is considered 100 percent U&U if the service territory the system is designed to serve is built out and there is no apparent potential for expansion of the service territory. Rule 25-30.432, F.A.C., also requires the Commission to consider the extent to which a service area is built out when determining the U&U percentage of a utility's WWTP.

Based on review of FIMC's Annual Reports and staff's Audit Report, FIMC serves approximately 197 water and wastewater customers. The utility represented to Commission staff that the community is close to being built out with only about five lots remaining available. On December 6, 2017, Commission staff conducted a site visit and noted that the five remaining lots are interspersed throughout FIMC's service territory. Staff also notes that there has been little growth, less than one equivalent residential customer (ERC) per year, over the past five years. Considering that there has been minimal growth in the utility's service area in the past five years, and there appears to be no apparent potential for new development, staff recommends that FIMC's WTP, WWTP, water distribution system, and wastewater collection system should be considered 100 percent U&U.

### **Excessive Unaccounted for Water**

Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. When establishing the rule, the Commission recognized that some uses of water are readily measurable and others are not. Unaccounted for water is all water that is produced that is not sold, metered, or accounted for in the records of the utility. The rule provides that to determine whether adjustments to plant and operating expenses, such as purchased electrical power and chemicals, are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible.

Unaccounted for water is calculated by subtracting both the gallons used for other purposes, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year. FIMC's monthly operating reports (MORs) show that the utility treated 8,837,742 gallons of

water during the test year, July 2016 through June 2017. Based on staff's review of the billing records, the utility sold 5,322,340 gallons of water during the test year. The utility's 2016 Annual Report identifies an additional 2,628,000 gallons as accounted for. In the response to a staff data request, FIMC indicated that the accounted for gallonage is used to control foaming caused by fats, oils, grease, and other material introduced into the WWTP.

The amount of water sold and used for flushing was 7,950,340 (5,322,340 + 2,628,000) gallons. The amount of unaccounted for water is equal to the total treated gallons for the test year minus the total gallons accounted for, which is 887,402 (8,837,742 - 7,950,340) gallons. Ten percent of the treated water produced equates to 883,744 gallons. The EUW for water is 3,628 (887,402 - 883,774) gallons or 0.4 percent of the amount of the treated water produced for the year. Staff is recommending that no adjustment be made to operating expenses for chemicals and purchased power due to EUW because the amount of EUW is minimal (less than half of a percent).

### **Inflow & Infiltration**

Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider I&I. Infiltration occurs from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas, inflow results from water entering a wastewater collection system through manholes or lift stations. The allowance for infiltration is 500 gallons per day, per inch diameter pipe per mile. An amount equal to 10 percent of water sold is allowed for inflow. Excessive I&I is a calculation that is based on a comparison of the allowable wastewater treated to the actual amount of wastewater treated.

The utility's SARC application states that the collection system is a composite network of approximately 6,475 linear feet in the Hideaway subdivision and 4,960 linear feet in the Springside subdivision of various 2, 4, and 6 inch cast iron and PVC piping. The utility could not designate the length for each diameter of pipe; therefore, staff used 4 inches as the average diameter for the piping. The infiltration calculation equates to 4,331 gpd ((4 inches x 500 gpd x (11,435 ft/5,280 ft)) x 365 days) or 1,580,975 gallons per year (gpy). Billing data for FIMC indicates 4,624,180 gallons were sold during the test year. Therefore, the allowance for inflow is 462,418 gpy (4,624,180 x 10 percent). Based on the calculation above, the total I&I allowance is 2,043,393 (1,580,975 + 462,418) gallons for the test year.

Eighty percent of water sold is expected to flow to the WWTP; therefore, the estimated return of water sold is 3,699,344 (4,624,180 x 80 percent) gallons for the test year. The total estimated I&I is the amount of wastewater treated minus estimated water returned. Based on the total water treated, identified in the utility's discharge monitoring reports filed with DEP, and the estimated water returned, FIMC's total estimated I&I equals (4,746,000 - 3,699,344) 1,046,656 gallons. Excessive I&I is the estimated I&I minus the total I&I allowance (1,046,656 - 2,043,393). The resulting value, which is negative, indicates that there was no excessive I&I for the test year of July 2016 through June 2017.

**Conclusion**

Staff recommends that FIMC's WTP, WWTP, water distribution system, and wastewater collection system should be considered 100 percent U&U. Staff additionally recommends that no adjustment be made to purchased power and chemical expenses for EUW or I&I.

**Issue 3:** What is the appropriate average test year water and wastewater rate bases for FIMC Hideaway, Inc.?

**Recommendation:** The appropriate average test year water rate base for FIMC is \$36,054 and the average test year wastewater rate base is \$7,935. (Wilson)

**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 for FIMC Hideaway systems as of December 2003,<sup>6</sup> whereas Springside's net book value was last established in 2009.<sup>7</sup> The test year ended June 30, 2017, was used for the instant case. For ratemaking purposes, the utility has requested that its Hideaway water and wastewater systems be combined with its Springside water and wastewater systems. Staff believes this is appropriate since Hideaway and Springside customers are currently served by a single, shared water plant and a single, shared wastewater treatment plant. A summary of each component of rate base and the recommended adjustments are discussed below.

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

The utility recorded UPIS of \$251,809 for water and \$322,029 for wastewater. Staff reduced water UPIS by \$7,502 and increased wastewater UPIS by \$2,761 to reflect appropriate plant balances as identified in the staff audit. In response to staff's First Data Request, the utility requested two post test year items be considered as pro forma. Staff believes only one item, a \$2,000 replacement of 40-50 feet of PVC pipe with galvanized pipe for the wastewater treatment plant should be considered at this time. Staff included this project in its rate base calculation. Since no original cost invoices were available, 75 percent of the cost of the replacement was used as the retirement value by staff. This is consistent with Commission practice. As such, staff utilized \$1,500 (\$2,000 x 75 percent) for the retirement associated with this project. The net increase to UPIS is \$500 (\$2,000 - \$1,500). A second item, which totaled approximately \$2,700, was not included in wastewater UPIS as it appeared to be related to a customer conversion from septic to sewer. As shown in Table 3-1, the net increase to wastewater UPIS to reflect the pro forma line replacement is \$500, which includes the associated retirements estimated by staff based on the utility's available records. Based on the plant addition described above, staff believes the following adjustments should be made:

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<sup>6</sup>Order No. PSC-05-0298-PAA-WS, issued March 18, 2005, in Docket No. 20040152-WS, *In re: Application for transfer of majority organizational control of FIMC Hideaway, Inc. in Levy County from Florida Investors Mortgage Corporation, a Florida corporation, to Robert and Janet McBride.*

<sup>7</sup>Order No. PSC-09-0279-PAA-WS, issued April 29, 2009, in Docket No. 20080268-WS, *In re: Joint Application for transfer of the Springside water and wastewater systems from Par Utilities, Inc. in Levy County to FIMC Hideaway, Inc.; amendment of Certificates 426-W and 362-S held by FIMC Hideaway, Inc.; and amendment of Certificate 428-W and cancellation of Certificate 366-S held by Par Utilities, Inc.*



**Table 3-1  
 Pro Forma Wastewater Plant Adjustments**

<b>Description</b>	<b>Acct. No.</b>	<b>UPIS</b>	<b>Accum. Depr.</b>	<b>Depr. Exp.</b>	<b>Prop. Taxes</b>
WWTP Line Replacement	361	\$500	\$1,450	\$13	\$7

Source: Utility responses to staff data requests.

As discussed previously in this issue, the utility’s customers are served by a single, shared water plant and a single, shared wastewater treatment plant. The two systems were interconnected in 2013, and the Hideaway water and wastewater systems were decommissioned. As a result, staff believes that the associated decommissioned plant should be removed from rate base. The net reduction to water UPIS to reflect the decommissioning of the Hideaway water plant is \$54,374, which includes the appropriate plant balances identified in the audit. Based on these plant adjustments, staff believes corresponding adjustments should also be made to accumulated depreciation and depreciation expense. Staff’s water plant adjustments are reflected in Table 3-2.

**Table 3-2  
 Water Plant Adjustments**

<b>Description</b>	<b>Acct. No.</b>	<b>UPIS</b>	<b>Accum. Depr.</b>	<b>Depr. Exp.</b>
Structures and Improvements	304	(\$4,965)	\$4,965	-
Wells and Springs	307	(20,094)	20,094	(\$299)
Water Treatment Equipment	320	(873)	873	(18)
Distribution Reservoirs	330	(28,442)	28,442	-
Net Adjustment		<u>(\$54,374)</u>	<u>\$54,374</u>	<u>(\$317)</u>

Source: FIMC Hideaway audit workpapers.

To reflect the decommissioning of the Hideaway wastewater plant, staff reduced wastewater UPIS by \$24,998. Based on the plant adjustment, staff believes a corresponding adjustment to accumulated depreciation should also be made. Due to the plant item being fully depreciated, no depreciation expense was recorded, thus no corresponding adjustment is needed. Staff’s adjustments to reflect the decommissioning of the Hideaway wastewater plant are reflected in Table 3-3.

**Table 3-3  
 Wastewater Plant Adjustments**

<b>Description</b>	<b>Acct. No.</b>	<b>UPIS</b>	<b>Accum. Depr.</b>	<b>Depr. Exp.</b>
Treatment and Disposal Equipment	380	(\$24,998)	\$24,998	-

Source: FIMC Hideaway audit workpapers.

Staff notes that corresponding adjustments to property taxes for the decommissioned water and wastewater plant are addressed in Issue 6.

Staff's net adjustments to UPIS reflect a reduction of \$61,876 to water and \$21,737 to wastewater. Consistent with Commission practice, no averaging adjustment was applied to the pro forma additions. Therefore, staff recommends a UPIS balance of \$189,933 (\$251,809 - \$61,876) for water and \$300,292 (\$322,029 - \$21,737) for wastewater.

### **Land and Land Rights**

The utility recorded land of \$15,858 for water and \$10,383 for wastewater. Staff verified that the land is owned by the utility and determined there have been no changes to the utility's cost of land since rate base was last established. As discussed earlier in this issue, the Hideaway and Springside water systems and wastewater systems were interconnected in 2013, and the Hideaway water and wastewater systems were decommissioned. As such, staff believes the land associated with the decommissioned water and wastewater plants should also be removed from rate base. Staff removed \$3,858 from water and \$1,895 for wastewater. Staff notes that land related to a Hideaway lift station remains in the combined wastewater land balance since it is still in use. With these adjustments, any land associated with the FIMC Hideaway Clubhouse that may have been intermingled with the decommissioned plant land has also been removed. The clubhouse, which had nothing to do with the utility's current water or wastewater operations, is no longer in use. Staff's corresponding adjustments to property taxes are addressed in Issue 6. As such, staff recommends a land and land rights balances of \$12,000 (\$15,858 - \$3,858) for water and \$8,488 (\$10,383 - \$1,895) for wastewater.

### **Non-Used and Useful Plant**

As discussed in Issue 2, FIMC's water treatment plant, water distribution system, wastewater treatment plant, and wastewater collection system are considered 100 percent U&U. Therefore, no U&U adjustments are necessary.

### **Contributions In Aid of Construction (CIAC)**

The utility did not record CIAC in their general ledger. Staff calculated CIAC using the beginning balances noted in Order Nos. PSC-05-0298-PAA-WS<sup>8</sup> and PSC-04-0610-PAA-WS<sup>9</sup> and subsequent additions reflected in the utility's Annual Reports compared to customer growth. Based on these calculations, staff's recommended CIAC balances are \$39,100 for water and \$75,772 for wastewater.

### **Accumulated Depreciation**

According to the utility's general ledger, the accumulated depreciation balance was \$146,773 for water and \$247,550 for wastewater as of June 30, 2017. Test year depreciation expense was not recorded in the general ledger, but was reflected in the 2016 Annual Report. Staff recalculated

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<sup>8</sup>Order No. PSC-05-0298-PAA-WS, issued March 18, 2005, in Docket No. 20040152-WS, *In re: Application for transfer of majority organizational control of FIMC Hideaway, Inc. in Levy County from Florida Investors Mortgage Corporation, a Florida corporation, to Robert and Janet McBride.*

<sup>9</sup>Order No. PSC-04-0610-PAA-WS, issued June 21, 2004, in Docket No. 20030407-WS, *In re: Application for transfer of water and wastewater facilities and Certificate No. 366-S in Levy County from Springside at Manatee, Ltd. to Par Utilities, Inc., for cancellation of Certificate No. 435-W held by Springside, and for amendment of Certificate No. 428-W held by Par.*

accumulated depreciation and depreciation expense using the audited UPIS balances and the depreciation rates established by Rule 25-30.140(2), F.A.C. Staff increased this account by \$60,718 for water and \$48,149 for wastewater to reflect the appropriate balances. Staff also increased wastewater accumulated depreciation by \$1,450 to reflect the pro forma plant addition discussed previously in this issue.

As discussed previously, the Hideaway and Springside water systems and wastewater systems were interconnected, and the Hideaway water and wastewater systems were decommissioned. To reflect this, staff reduced water accumulated depreciation by \$54,374 and wastewater accumulated depreciation by \$24,998, which includes the appropriate plant balances as identified in the audit. These adjustments are reflected in Tables 3-2 and 3-3 in UPIS.

In addition, staff reduced accumulated depreciation by \$725 for wastewater to reflect the simple average. Staff's adjustments to this account result in accumulated depreciation balances of \$153,117 for water and \$269,976 for wastewater.

### **Accumulated Amortization of CIAC**

The utility did not record accumulated amortization of CIAC in their general ledger. Staff recalculated accumulated amortization of CIAC using the depreciation rates established by Rule 25-30.140(2), F.A.C. As a result, staff increased this account by \$21,634 for water and by \$39,216 for wastewater. Staff's recommended accumulated amortization of CIAC balances are \$21,634 for water and \$39,216 for wastewater.

### **Working Capital Allowance**

Working capital is defined as the short-term, investor-supplied funds that are necessary to meet operating expenses of the utility. 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, discussed in Issue 6, of \$313 for water and \$192 for wastewater pursuant to Section 367.081(9), F.S. Applying this formula, staff recommends a working capital allowance of \$4,704 ( $\$37,634/8$ ) for water, based on the adjusted O&M expense of \$37,634 ( $\$37,947 - \$313 = \$37,634$ ). Further, staff recommends a working capital allowance of \$5,688 ( $\$45,501/8$ ) for wastewater, based on the adjusted O&M expense of \$45,501 ( $\$45,693 - \$192 = \$45,501$ ).

### **Rate Base Summary**

Based on the foregoing, staff recommends that the appropriate average test year rate base for water is \$36,054 and the average test year rate base for wastewater is \$7,935. Water and wastewater rate bases are shown on Schedule Nos. 1-A and 1-B. The related adjustments are shown on Schedule No. 1-C

**Issue 4:** What is the appropriate return on equity and overall rate of return for FIMC Hideaway, Inc.?

**Recommendation:** The appropriate return on equity (ROE) is 9.01 percent with a range of 8.01 percent to 10.01 percent. The appropriate overall rate of return is 9.33 percent. (Wilson)

**Staff Analysis:** FIMC's test year capital structure reflected common equity of \$61,545, long-term debt of \$10,371, and no customer deposits. The long-term debt was associated with a credit card which the utility owner used to finance a 37,000 gallon replacement storage tank for the Springside water plant in 2014. Staff used a 22 percent cost rate for the long-term debt based on information provided by the utility during the audit for purposes of the Staff Report. Subsequent to the Staff Report, staff received an updated statement from the utility that reflected a current interest rate on the debt of 11.24 percent as of January 2018.<sup>10</sup> Staff has applied the 11.24 percent to long term debt.

The utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE for the utility is 9.01 percent based upon the Commission-approved leverage formula currently in effect.<sup>11</sup> Staff recommends an ROE of 9.01 percent, with a range of 8.01 percent to 10.01 percent, and an overall rate of return of 9.33 percent. The ROE and overall rate of return are shown on Schedule No. 2.

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<sup>10</sup>Document No. 03314-2018, filed April 30, 2018.

<sup>11</sup>Order No. PSC-17-0249-PAA-WS, issued June 26, 2017, in Docket No. 20170006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

**Issue 5:** What are the appropriate test year revenues for the water and wastewater systems of FIMC Hideaway, Inc.?

**Recommendation:** The appropriate test year revenues are \$41,680 for the water system and \$52,504 for the wastewater system. (Sibley)

**Staff Analysis:** FIMC recorded \$43,813 in test year revenues for its water systems, which includes \$39,985 of service revenues and \$3,828 of miscellaneous revenues. Test year service revenues include revenues associated with the clubhouse. In addition, FIMC recorded \$55,469 in test year revenues for its wastewater systems, which includes \$52,591 of service revenues and \$2,878 of miscellaneous revenues. Test year revenues include revenues associated with the clubhouse.

During the test year, the utility rates changed due to a price index. Staff annualized the service revenues using the test year billing determinants and the rates in effect at the end of the test year. Staff also reclassified water revenues incorrectly recorded as wastewater revenues. In addition, staff adjusted test year revenues resulting from the utility’s failure to include a cap in the residential wastewater bills and the wastewater revenues were adjusted to include the base facility charge for the clubhouse. Staff also adjusted miscellaneous revenues to remove CIAC for meter installations and accounts receivable incorrectly recorded as miscellaneous revenues. The adjustments to test year revenues are shown in Table 5-1. Based on the above, the appropriate test year revenues for FIMC are \$41,680 for the water system and \$52,504 for the wastewater system.

**Table 5-1  
 Test Year Revenues**

	<b>Water*</b>	<b>Wastewater*</b>
<b>Service Revenues</b>		
Utility Recorded Service Revenues	\$ 39,985	\$ 52,591
Staff Adjustment	\$ 986	\$ (909)
<b>Total Service Revenues</b>	<b>\$ 40,971</b>	<b>\$ 51,682</b>
<b>Miscellaneous Revenues</b>		
Utility Recorded Miscellaneous Revenues	\$ 3,828	\$ 2,878
Staff Adjustment	\$ (3,119)	\$ (2,057)
<b>Total Miscellaneous Revenues</b>	<b>\$ 709</b>	<b>\$ 821</b>
<b>Total Test Year Revenues</b>	<b>\$ 41,680</b>	<b>\$ 52,504</b>
* Includes Hideaway and Springside revenues		

Source: Staff’s calculations.

**Issue 6:** What is the appropriate amount of operating expense for FIMC Hideaway, Inc.?

**Recommendation:** The appropriate amount of operating expense for the utility is \$44,608 for water and \$53,077 for wastewater. (Wilson, Brown)

**Staff Analysis:** FIMC recorded operating expense of \$35,580 for water and \$30,292 for wastewater for the test year ended June 30, 2017. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made several adjustments to the utility's operating expenses as summarized below.

### **Salaries and Wages - Officers (603/703)**

The utility did not record any salaries and wages – officers expense during the test year. The owners of the utility have requested pro forma salaries as part of this rate case. Staff notes that the owners are the utility's only employees and are responsible for a variety of tasks from billing to tree trimming. Using information found in the Audit Report and related work papers, staff has calculated that the utility's requested increase equates to \$12.00 per hour, based on the owners working a combined 30 hours per week for 50 weeks per year.<sup>12</sup> Even though the utility has contracted with Two-Fold Water Engineering, Inc. to operate and maintain the water and wastewater systems, staff believes it is likely that the owners have undervalued the work they perform for the utility. According to the 2012 American Water Works Association Water utility Compensation Survey for Small and Medium Sized Utilities, the minimum Office/Administrative Services Manager salary, for surveyed water utilities with less than 25 employees, is \$40,995.<sup>13</sup> Assuming that this salary is for a full-time person, working 40 hours per week, it represents approximately \$19.71 per hour. Additionally, in response to staff applying an hourly rate approved in another recent rate case.<sup>14</sup> The Office of Public Counsel (OPC) stated in its January 24, 2018 letter that, "[a] more reasonable hourly rate for these types of services ranges from \$16 to \$18 per hour."<sup>15</sup> OPC went on to state the following:

Accordingly, OPC believes that the Utility's requested salary of \$18,000 per year should be allowed. On a conservative basis, if you take the utility's requested total salary of \$18,000 and divide that by \$18 an hour, this would equate to 1,000 hours per year or 20 hours a week. OPC contends that this is a more reasonable officer salary allowance for a very small utility.<sup>16</sup>

While OPC does not agree with staff's usage of 30 hours per week in work requirements for FIMC, staff believes that the utility has documented the work performed by the owners on a weekly basis and has provided a reasonable estimate of the time required to perform those duties. Staff believes that using OPC's suggested hourly rate of \$18 per hour in conjunction with the owners' 30 hours of work each week produces an appropriate level of pro forma salaries. For these reasons, staff applied the \$18 per hour rate to 30 hours per week, for 50 weeks of the year.

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<sup>12</sup>The utility requested pro forma salaries which totaled \$18,000. Staff's calculation of \$12.00 per hour is based on the pro forma salary of \$18,000 divided by 1,500 hours (30 hrs. x 50 weeks).

<sup>13</sup>Salary at the 50<sup>th</sup> percentile.

<sup>14</sup>In Docket No. 20160165-SU, the Commission approved salaries for a wastewater only utility that averaged \$26.75 per hour. For purposes of the Staff Report, staff applied the \$26.75 per hour rate to the hours provided by FIMC's owners.

<sup>15</sup>Document No. 00603-2018, filed January 24, 2018.

<sup>16</sup>Document No. 00603-2018.

This results in pro forma officer salaries of \$27,000. Staff believes the expense should be allocated according to ERCs. As such, staff increased water by \$13,039 ( $\$27,000 \times 48.29$  percent) and wastewater by \$13,961 ( $\$27,000 \times 51.71$  percent) to reflect the appropriate test year salaries. Staff also made a corresponding adjustment in Taxes Other Than Income (TOTI) to reflect the pro forma payroll taxes associated with the recommended increase. Therefore, staff recommends salaries and wages – officers expense of \$13,039 for water and \$13,961 for wastewater.

### **Sludge Removal Expense (711)**

The utility recorded sludge removal expense of \$1,260 for the test year. In support, the utility produced an invoice reflecting \$1,260 for sludge disposal that occurred in January 2017.<sup>17</sup> In response to a staff data request, the utility produced an additional invoice of \$2,033 for sludge removal from December 2017.<sup>18</sup> Based on information provided by the utility, it appears that sludge removal occurs roughly once a year. Given the increase between the test-year invoice and the most recent invoice, staff believes that averaging the two amounts will help the utility cover the cost of sludge removal going forward, especially if costs vary substantially from what was included in the test year. As such, staff recommends average sludge removal expense of \$1,647. The resulting adjustment is an increase of \$387 ( $\$1,647 - \$1,260$ ). Therefore, staff's recommendation for sludge removal expense is \$1,647.

### **Purchased Power (615/715)**

FIMC recorded purchased power expense of \$2,121 for water and \$4,477 for wastewater for the test year. Staff decreased this account by \$10 for water and \$37 for wastewater to remove late fees from the test year balances. Therefore, staff recommends purchased power expense of \$2,111 for water and \$4,440 for wastewater.

### **Materials and Supplies (620/720)**

The utility recorded materials and supplies expense of \$2,453 for water and \$32 for wastewater for the test year. Staff decreased the water account by \$626 to reflect the removal of \$248 in unsupported expenses and reclassification of an additional \$378 to Account 636 - Contractual Services-Other. Staff made no adjustments to this account for wastewater. Accordingly, staff recommends materials and supplies expense of \$1,827 for water and \$32 for wastewater.

### **Contractual Services - Billing (630/730)**

FIMC did not record any test year contractual services – billing expense for the test year. However, the utility provided invoices from Redline Data Systems for billing support of \$350 and a billing card subscription of \$225.<sup>19</sup> The fee for the billing card subscription is assessed once every 25 months. As such, staff believes it is appropriate to amortize the expense, resulting in an expense of \$112 per year. This results in a total contractual services – billing expense of \$462 ( $\$350 + \$112$ ). Staff allocated FIMC's total billing expense between the water and wastewater systems based on ERCs, or \$223 ( $\$462 \times 48.29$  percent) for water and \$239 ( $\$462 \times 51.71$  percent) for wastewater. Therefore, staff recommends contractual services – billing expense for the test year of \$223 for water and \$239 for wastewater.

### **Contractual Services - Professional (631/731)**

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<sup>17</sup>Document No. 09327-2017, filed October 31, 2017.

<sup>18</sup>Document No. 01930-2018, filed February 28, 2018.

<sup>19</sup>Document No. 03875-2018, filed May 23, 2018.

FIMC did not record any test year contractual services – professional expense for water, but did include \$1,300 for wastewater. The utility provided supporting documentation for the \$1,300 included in wastewater, indicating that the expense was for engineering fees related to the DEP permit renewal. The DEP permit renewal occurs every five years. As such, staff believes it is appropriate to amortize the expense over a five-year period, which results in expense of \$260 per year (\$1,300/5 years). The resulting adjustment is a decrease of \$1,040 (\$260 - \$1,300). Staff also increased both water and wastewater by \$510 to account for costs related to the utility’s regulatory accountant. Additionally, staff reclassified \$1,500 related to a CPA retainer fee from Account 636 – Contractual Services-Other to Account 631/731 – Contractual Services-Professional. Staff believes the retainer should be allocated to both water and wastewater based on ERCs. This results in an increase of \$724 (\$1,500 x 48.29 percent) and \$776 (\$1,500 x 51.71 percent) to water and wastewater, respectively. As such, staff’s total adjustment to water contractual services – professional expense is an increase of \$1,234 (\$510 + \$724), and staff’s net adjustment to wastewater contractual services – professional expense is an increase of \$246 (\$510 - \$1,040 + \$776). Therefore, staff recommends contractual services – professional expense for the test year of \$1,234 for water and \$1,546 for wastewater.

**Contractual Services - Testing (635/735)**

The utility recorded testing expense of \$1,165 for water and \$45 for wastewater in this account. Staff increased this account by \$518 for water to reflect the utility’s triennial water compliance testing. The utility provided an invoice for this expense, reflecting an amount of \$1,555.<sup>20</sup> This test is performed every three years. As such, staff believes it is appropriate to amortize the expense, resulting in an expense of \$518 (\$1,555/3 years) per year. Additionally, staff decreased wastewater testing by \$45 to reclassify an item to Account 736 – Contractual Services–Other and increased the account by \$960 for the monthly testing performed by the contract operator, which was reclassified from Account 775 – Miscellaneous Expense. Based on the above, staff recommends contractual services – testing expense for the test year of \$1,683 for water and \$960 for wastewater.

**Contractual Services - Other (636/736)**

The utility recorded contractual services – other expense of \$3,283 for water and \$50 for wastewater. Staff made several adjustments to this account which are reflected in Table 6-1.

**Table 6-1  
 Staff Adjustments to Contractual Services – Other**

<b>Description</b>	<b>Water Adjustment</b>	<b>Wastewater Adjustment</b>
Reclassification from Account 620 - Materials & Supplies	\$378	\$0
Reclassification to Account 631 - Contractual Services-Professional	(1,500)	0
Reclassification from Account 675 - Miscellaneous Expense	6,884	0
Reclassification from Account 735 - Contractual Services-Testing	0	45
Reclassification from Account 775 - Miscellaneous Expense	190	17,633
<b>Total</b>	<b><u>\$5,952</u></b>	<b><u>\$17,678</u></b>

Source: Document No. 08747-2017, FIMC Hideaway Audit Report.

<sup>20</sup>Document No. 03875-2018.



As noted above, staff increased this account by \$5,952 for water and \$17,678 for wastewater to reclassify amounts identified during the staff audit and reflected in the Audit Report. Therefore, staff recommends contractual services – other expense for the test year of \$9,235 (\$3,283 + \$5,952) for water and \$17,728 (\$50 + \$17,678) for wastewater.

### **Rent Expense (640/740)**

FIMC recorded rent expense of \$11,000 for water, but recorded no rent expense for wastewater. The utility's office is in the home of the utility's owners for which they are charging rent of \$500 per month to both the Hideaway and Springside water systems. The utility owners' home consists of 1,648 square feet and the office is 144 square feet. In addition, the utility also has 80 square feet of storage that it uses within the home. Together, the combined 224 square feet represents approximately 13.59 percent of the home. The monthly mortgages on the home total \$1,254<sup>21</sup> and the \$1,000 (\$500 x 2) monthly rent expense reflects roughly 80 percent of the cost, which appears excessive to staff. Instead, staff supports OPC's proposal that ". . . the office rent should be based on the square footage of the office space, as compared to the total home space."<sup>22</sup> This treatment of rent expense is also consistent with IRS requirements allowing a home office deduction. Thus, total rent expense should be no more than approximately \$170 (\$1,254 x 13.59 percent) per month, or approximately \$2,045 (\$170 x 12 months) per year. Staff allocated FIMC's total rent expense between the water and wastewater systems based on ERCs, or \$988 (\$2,045 x 48.29 percent) for water and \$1,057 (\$2,045 x 51.71 percent) for wastewater. Staff's total adjustments to this account are a decrease of \$10,012 (\$11,000 - \$988) for water and an increase of \$1,057 for wastewater. Therefore, staff recommends for rent expense is \$988 for water and \$1,057 for wastewater.

### **Transportation Expense (650/750)**

The utility did not record any test year transportation expense. The utility provided staff with a mileage log that reflected a total of 2,720 miles for the owner's utility-related travel. The mileage reflects the utility owner's three trips per month from Gainesville to Chiefland, where FIMC is located. Staff recommends using the utility's mileage log and IRS standard mileage rates to develop an appropriate amount of transportation expense. Staff believes that the utility's mileage 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 such, staff believes transportation expense of \$1,482 (2,720 miles x \$0.545 per mile) is appropriate. Staff increased this account by \$716 (\$1,482 x 48.29 percent) for water and \$766 (\$1,482 x 51.71 percent) for wastewater, to reflect the allocation of transportation expense. Therefore, staff recommends transportation expense of \$716 for water and \$766 for wastewater.

### **Insurance Expense (655/755)**

The utility did not record test year insurance expense for the test year. However, insurance expense of \$600 for water and \$600 for wastewater was reported in the utility's 2016 Annual Report. According to the utility's regulatory accountant, the amounts in the utility's Annual Report reflect insurance expense which is "self insurance." Staff notes that prior to 2016, the

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<sup>21</sup>Document No. 03875-2018, filed May 23, 2018. The monthly mortgage on the home is \$572.63. There also appears to be a home equity loan on the home, with monthly payments of \$681.23. This equals \$1,253.86 in monthly payments on the home.

<sup>22</sup>Document No. 00603-2018, filed January 24, 2018.

Date: June 27, 2018

utility's recent Annual Reports reflect insurance expense of \$1,200 for water and \$1,200 for wastewater. The utility did not provide an explanation for the decrease in its insurance expense. Staff is not including the utility's self insurance costs for purposes of this rate case. During the course of this docket, the utility looked into obtaining a general liability insurance policy. Initial estimates provided by the utility reflect a premium of approximately \$10,000.<sup>23</sup> Due to the excessive cost of a general liability policy, the utility opted to forgo coverage and continue to self insure for the time being. Staff has not included the utility's self insurance costs in O&M expenses.

### **Regulatory Commission Expense (665/765)**

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. Staff is also recommending that the utility be required to provide notice of the four-year rate reduction to its customers when the rates are reduced to remove the amortized rate case expense. For noticing, staff estimated \$295 for postage expense, \$197 for printing expense, and \$30 for envelopes. This results in \$522 (\$295 + \$197 + \$30) for the noticing requirement. The utility paid a total of \$1,500 in rate case filing fees (\$1,000 for water and \$500 for wastewater). Based on the above, staff recommends total rate case expense of \$2,022 (\$522 + \$1,500), which amortized over four years is \$506. Staff has allocated the annual rate case expense to the water and wastewater systems based on ERCs, resulting in annual rate case expense of \$313 for water and \$192 for wastewater. Therefore, staff recommends regulatory commission expense of \$313 for water and \$192 for wastewater.

### **Bad Debt Expense (670/770)**

FIMC did not record any bad debt in its general ledger for the test year. However, the utility did include bad debt expense of \$2,696 for water and \$2,995 for wastewater in its 2016 and 2017 Annual Reports. Staff notes that no bad debt expense was included in the utility's 2014 or 2015 Annual Reports. In addition, only nominal amounts of bad debt expense were reported in the utility's 2011, 2012, and 2013 Annual Reports.<sup>24</sup> While it is Commission practice to calculate bad debt expense using a three-year average, in this particular case staff believes that it produces a skewed result since the utility recorded no bad debt in 2015. Additionally, staff believes that it is unlikely that a utility of this size would have no bad debt expense. Generally, the basis for determining bad debt expense has been whether the amount is representative of the bad debt expense to be incurred by the utility. With this in mind, staff utilized an average for the four most recent years where bad debt expense was available for the utility's water and wastewater operations. Staff believes the resulting bad debt expense of \$1,575 for water and \$1,745 for wastewater is reasonable here, and likely to be representative of the utility's bad debt expense going forward. As such, staff increased bad debt expense by \$1,575 and \$1,745 for water and wastewater, respectively.

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<sup>23</sup>Document No. 01930-2018, filed February 28, 2018.

<sup>24</sup>Based on the utility's 2011-2013 Annual Reports, FIMC reported combined bad debt expense for water and wastewater of \$948 in 2011, \$948 in 2012, and \$495 in 2013. The 2013 amount reflects bad debt for wastewater only.

### **Miscellaneous Expense (675/775)**

The utility recorded test year miscellaneous expense of \$12,065 for water and \$20,394 for wastewater. Staff decreased the water account by \$100 for disallowed expense related to a Christmas bonus for the utility's plant operator, \$118 for insufficient support, and reclassified \$6,884 to Account 636 – Contractual Services-Other. Additionally, staff decreased the wastewater account by \$144 for disallowed expense, mostly related to bank fees and service charges, and removed \$131 for insufficient support. Staff also reclassified \$960 to Account 735 – Contractual Services-Testing, reclassified \$17,633 to Account 736 – Contractual Services-Other, and reclassified \$190 to Account 636 – Contractual Services-Other. Staff's adjustments reflect decreases of \$7,102 (\$100 + \$118 + \$6,884) to water and \$19,058 (\$144 + \$131 + \$960 + \$17,633 + \$190) to wastewater.

Furthermore, the utility provided support documentation for their home/office internet expense of \$51 per month.<sup>25</sup> Staff allocated 13.60 percent of this amount, reflective of the amount of space the home office occupies in the home. The result is internet expense of \$7.00 (\$51 x 13.60 percent) per month, or \$84 (\$7 x 12 months) per year. Staff allocated FIMC's total internet expense between the water and wastewater systems based on ERCs, or \$40 (\$84 x 48.29 percent) for water and \$43 (\$84 x 51.71 percent) for wastewater. In total, staff's adjustments are decreases of \$7,062 (\$40 - \$7,102) to water and \$19,015 (\$43 - \$19,058) to wastewater. Therefore, staff recommends miscellaneous expense of \$5,003 for water and \$1,379 for wastewater.

### **Operation and Maintenance Expense (O&M Summary)**

Based on the above adjustments, O&M expense should be increased by \$5,860 for water and by \$18,135 for wastewater, resulting in total O&M expense of \$37,947 for water and \$45,693 for wastewater. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A through 3-E.

### **Depreciation Expense (Net of Amortization of CIAC)**

The utility's records reflect no test year water depreciation expense or CIAC amortization expense. Also, the utility's records reflect no test year wastewater depreciation expense or CIAC amortization expense.<sup>26</sup> Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and increased water and wastewater depreciation expense by \$3,385 and \$5,100, to reflect the appropriate test year depreciation expense. In addition, the utility did not record amortization expense in their general ledger. Staff calculated amortization expense using audited CIAC balances and the depreciation rates established by Rule 25-30.140, F.A.C. Staff also adjusted amortization expense by \$833 and \$1,202 for water and wastewater, to reflect the appropriate test year amortization expense. Further, staff made an adjustment to wastewater depreciation expense to reflect a plant addition. Staff increased the wastewater account by \$13 to reflect the additional depreciation expense associated with a plant addition to plant Account No. 361 – Collection Sewers-Gravity equipment that occurred after the end of the test year.

Staff also decreased depreciation expense by \$554 and \$1,666 for water and wastewater, respectively, to reflect the decommissioning of the Hideaway water and wastewater plants and the removal of the associated plant from rate base as discussed in Issue 3. Additionally, staff

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<sup>25</sup>Document No. 03875-2018.

<sup>26</sup>While not reflected in the general ledger, the utility did reflect depreciation expense in its 2016 Annual Report.

removed depreciation expense for several utility plant accounts that appeared to be fully depreciated. Staff's adjustments are summarized in Table 6-2 below.

**Table 6-2  
 Additional Depreciation Expense Adjustments**

Description	Acct. No.	Staff Adjustment
<u>Water</u>		
Wells and Springs (Issue 3)	307	(\$299)
Water Treatment Equipment (Issue 3)	320	(18)
Transmission & Distribution Lines	331	<u>(237)</u>
Net Water Adjustment		<u>(\$554)</u>
<u>Wastewater</u>		
Collection Sewers Gravity	361	<u>(\$1,666)</u>
Net Wastewater Adjustment		<u>(\$1,666)</u>

Source: Document No. 08747-2017, FIMC Hideaway Audit Report.

Based on the above, staff's net adjustment to depreciation expense are \$2,831 (\$3,385 - \$554) and \$3,447 (\$5,100 + \$13 - \$1,666) for water and wastewater, respectively.

Given staff's adjustments, the net depreciation expense for water is \$1,998 (\$2,831 - \$833 = \$1,998), and the net depreciation expense for wastewater is \$2,245 (\$3,447 - \$1,202 = \$2,245). Therefore, staff recommends net depreciation expense of \$1,998 for water and \$2,245 for wastewater.

**Taxes Other Than Income (TOTI)**

FIMC recorded TOTI of \$3,493 for water and \$2,734 for wastewater for the test year. Staff increased these accounts by \$42 for water and \$328 for wastewater to reflect the appropriate test year regulatory assessment fees (RAFs). Staff also increased TOTI by \$1,995 for water and \$2,136 for wastewater to reflect the pro forma payroll taxes discussed earlier in this issue.

As discussed in Issue 3, the Hideaway and Springside water systems and wastewater systems were interconnected in 2013, and the Hideaway water and wastewater systems were decommissioned. Staff believes that corresponding adjustments are necessary to remove the property tax associated with the land related to the decommissioned plant. In addition, it appears the utility continues to pay the real estate taxes for the clubhouse parcel, which had nothing to do with either water or wastewater operations and is no longer in use. As such, the property taxes associated with the clubhouse should also be removed. An adjustment should also be made to reflect the property tax associated with the pro forma plant item also addressed in Issue 3. Furthermore, staff believes that current property tax information is more reflective of the utility's property taxes going forward. Accordingly, staff used 2017 tax information to reflect the

appropriate property taxes. Staff's adjustments to property taxes are reflected in Table 6-3, below.

**Table 6-3  
 Staff Adjustments to Property Taxes**

Description	Utility Balance	Staff Adjustment	Staff Balance
Water			
Remove Hideaway-WTP and Clubhouse	\$1,082	(\$1,082)	\$0
Reflect appropriate 2017 property tax	<u>271</u>	<u>(68)</u>	<u>203</u>
<b>Total</b>	<u>\$1,353</u>	<u>(\$1,150)</u>	<u>\$203</u>
Wastewater			
Remove Hideaway-WWTP	\$648	(\$289)	\$359
Reflect appropriate 2017 property tax	319	(8)	311
Reflect property tax associated w/pro forma	<u>0</u>	<u>7</u>	<u>7</u>
<b>Total</b>	<u>\$967</u>	<u>(\$290)</u>	<u>\$677</u>

Source: FIMC Hideaway audit work papers, Levy County Property Appraiser/Tax Collector.

Staff's total adjustments to TOTI reflect increases of \$887 (\$42 + \$1,995 - \$1,150) to water and \$2,174 (\$328 + \$2,136 - \$290) to wastewater.

As discussed in Issue 8, revenues have been increased by \$6,292 for water and \$5,142 for wastewater to reflect the change in revenue required to cover expenses and allow an opportunity to recover the operating margin on water and wastewater. As a result, TOTI should be increased by \$283 for water and \$231 for wastewater to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$4,663 for water and \$5,139 for wastewater.

**Operating Expenses Summary**

The application of staff's recommended adjustments to FIMC's test year operating expenses results in operating expenses of \$44,608 for water and \$53,077 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The adjustments are shown on Schedule No. 3-C.

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**Issue 7:** Should the Commission utilize the operating ratio methodology as an alternative method for calculating the wastewater revenue requirement for FIMC Hideaway, Inc., and if so, what is the appropriate margin?

**Recommendation:** Yes. The Commission should utilize the operating ratio methodology for calculating the wastewater revenue requirement for FIMC. The margin should be 10 percent of O&M expense for wastewater. (Wilson, 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 \$275,000 or less per system may petition the Commission for staff assistance using alternative rate setting.<sup>27</sup>

FIMC 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 wastewater rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the utility's rate base, the revenue requirement is based on FIMC's 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,<sup>28</sup> 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.<sup>29</sup> Recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-2017-0459-PAA-WS.<sup>30</sup>

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 utility's

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<sup>27</sup> As of July 1, 2018, threshold levels for eligibility will increase to \$300,000 or less per system.

<sup>28</sup> Order No. PSC-96-0357-FOF-WU, issued March 13, 1996, in Docket No. 19950641-WU, *In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.*

<sup>29</sup> Order No. PSC-97-0130-FOF-SU, issued February 10, 1997, in Docket No. 19960561-SU, *In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.*

<sup>30</sup> Order No. PSC-2017-0459-PAA-WS, issued November 30, 2017, in Docket No. 20160176-WS, *In re: Application for staff-assisted rate case in Polk County by Four Lakes Golf Club, Ltd.*

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primary risk resides with covering its operating expense. Based on staff's recommendation, the adjusted wastewater rate base for the test year is \$7,935, while adjusted O&M expenses are \$45,693.

- 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 with gross annual revenue of \$275,000 or less per systems. FIMC is a Class C utility and the recommended revenue requirement of \$57,646 for wastewater is substantially below the threshold level for Class B status (\$200,000 per system). 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, staff recommended the quality of service be found marginal until the utility can sufficiently demonstrate that it meets DEP's secondary water standards.
- 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. FIMC operates the water and wastewater treatment plants.

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

By Order Nos. PSC-96-0357-FOF-WU and PSC-97-0130-FOF-SU, 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. FIMC's 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 FIMC would be \$740 for wastewater. Staff does not believe this would provide the necessary financial cushion to successfully operate this utility.

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Third, if the return on rate base method was applied, FIMC could be left with insufficient funds to cover operating expenses in the event revenues or expenses vary from staff's estimates. 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, FIMC may not have the funds required for day-to-day operations. Using a 10 percent margin in this docket produces an operating margin of \$4,569. As such, staff recommends using a 10 percent margin for wastewater in this case.

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 FIMC 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 10 percent of O&M expense for determining the wastewater revenue requirement.



**Issue 8:** What is the appropriate revenue requirement?

**Recommendation:** The appropriate revenue requirement is \$47,972 for water and \$57,646 for wastewater, resulting in an annual increase of \$6,292 for water (15.10 percent) and \$5,142 for wastewater (9.79 percent). (Wilson)

**Staff Analysis:** FIMC should be allowed an annual increase of \$6,292 for water (15.10 percent) and \$5,142 for wastewater (9.79 percent). This will allow the utility the opportunity to recover its expenses, and earn a 9.33 percent return on its water system investment and a 10 percent margin over its wastewater O&M expenses. The calculations are shown below, in Tables 8-1 and 8-2 for water and wastewater, respectively:

**Table 8-1  
Water Revenue Requirement**

Adjusted Rate Base	\$36,054
Rate of Return	x 9.33%
Return on Rate Base	\$3,364
Adjusted O&M Expense	37,947
Depreciation Expense	2,831
Amortization	(833)
Taxes Other Than Income	4,663
Income Taxes	0
Revenue Requirement	\$47,972
Less Adjusted Test Year Revenues	41,680
Annual Increase	<u>\$6,292</u>
Percent Increase	15.10%

**Table 8-2**  
**Wastewater Revenue Requirement**

Adjusted O&M Expense	\$45,693
Operating Margin (%)	x 10.00%
Operating Margin (\$10,000 Cap)	\$4,569
Adjusted O&M Expense	45,693
Depreciation Expense	3,447
Amortization	(1,202)
Taxes Other Than Income	5,139
Income Taxes	0
Revenue Requirement	\$57,646
Less Adjusted Test Year Revenues	52,504
Annual Increase	<u>\$5,142</u>
Percent Increase	9.79%

**Issue 9:** What are the appropriate rate structure and rates for FIMC Hideaway's water and wastewater systems?

**Recommendation:** The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of this notice. (Sibley)

**Staff Analysis:**

**Water Rates**

FIMC is located in Levy County within the SRWMD. The utility provides water service to approximately 183 residential customers and a clubhouse in the Hideaway and Springside service areas. Approximately 24 percent of the residential customer bills during the test year had zero gallons, indicating the customer base is seasonal. The average residential water demand is approximately 2,488 gallons per customer. The average demand excluding zero gallon bills is approximately 3,022 gallons per customer.

The Hideaway and Springside customers currently have separate water rates as shown on Schedule No. 4-A. The current rate structures for the residential and general service water customers consist of base facility charges (BFC) based on meter size and uniform gallonage charges. Approximately 77 residential customers in the Springside service area also have separate irrigation meters. The residential irrigation rate structure includes a uniform gallonage charge without a BFC.

Staff performed an analysis of the utility's billing data in order to evaluate the appropriate rate structure for the residential water customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the utility's customers; (3) establish the appropriate non-discretionary usage threshold for restricting repression; and (4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

The utility requested uniform rates for its Hideaway and Springside systems. Hideaway customers currently pay \$5.17 per month more than Springside customers for 2,000 gallons of water. Staff believes uniform rates are appropriate since Hideaway and Springside customers are served by a single WTP. On a uniform basis with the recommended percentage increase, the Springside system receives an increase while the Hideaway system receives a decrease at the 2,000 gallon consumption level. Additionally, billing and accounting functions would be simpler with uniform rates which could mitigate these administrative costs. As a result, staff is recommending uniform rates for the FIMC water system.

Due to the customers' low average monthly consumption and somewhat seasonal customer base, staff recommends 50 percent of the revenue requirement should be recovered through the BFC in

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an effort to provide revenue stability. In addition, the average number of persons per household served by the water system is two and one half; therefore, based on the number of persons per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold would be 3,000 gallons per month. However, staff does not recommend a non-discretionary threshold or repression adjustment because of the low average monthly demand. Staff recommends continuation of the BFC and uniform gallonage charge rate structure for residential and general service customers.

Staff evaluated whether residential irrigation customers should be assessed a BFC. Typically, the configuration of irrigation meters determines whether or not it is appropriate to assess a BFC. Based on staff's analysis, the residential irrigation customers' average demand is 754 gallons per month, which does not indicate high usage for irrigation customers with separate meters. Based on the above, staff recommends that the irrigation customers continue a gallonage charge only rate structure. The gallonage charge for irrigation service should be consistent with the gallonage charge for residential service.

### **Wastewater Rates**

The utility provides wastewater service to 197 customers. As previously described, the Hideaway and Springside service areas also have separate wastewater rates as shown on Schedule No. 4-B. The current rate structures for wastewater service consist of uniform BFCs for all residential meter sizes and gallonage charges with caps of 6,000 gallons per month for Hideaway and 10,000 gallons per month for Springside. In addition, there are approximately 13 customers in the service area that are wastewater only customers because they have their own wells. These customers are billed a flat monthly rate for wastewater service. The general service rates include a BFC by meter size and a gallonage charge that is higher than the residential gallonage charge.

Staff performed an analysis of the utility's billing data to evaluate various BFC cost recovery percentages and gallonage caps for the residential customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the utility's customers; and (3) implement a gallonage cap that considers approximately the amount of water that may return to the wastewater system.

As previously discussed, the Hideaway and Springside customers are served by a single WWTP. Currently, Springside wastewater customers pay \$12.22 per month more than Hideaway customers for 2,000 gallons per month. On a uniform basis with the recommended percentage increase, the Hideaway system receives an increase while the Springside system receives a decrease in contrast to the typical bills for water at the 2,000 gallon consumption level. Consistent with staff's recommendation for the water system, staff recommends uniform rates be approved for the Hideaway and Springside wastewater customers.

As mentioned earlier, the customer base is somewhat seasonal; therefore, 50 percent of the wastewater revenue should be allocated to the BFC to help provide revenue stability. FIMC's current residential wastewater caps are 6,000 gallons for the Hideaway and 10,000 gallons for the Springside customers. It is Commission practice to set the wastewater cap at approximately 80 percent of residential water gallons sold, which typically results in gallonage caps of 6,000, 8,000, or 10,000. The wastewater gallonage cap recognizes that not all water used by the residential customers is returned to the wastewater system. However, due to the seasonality of

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the utility's customer base, 86 percent of the total water sold is captured at 4,000 gallons which is lower than gallonage caps typically approved for wastewater systems. Therefore, staff recommends a residential wastewater gallonage cap of 6,000 gallons for the Hideaway and Springside systems. Staff also recommends no repression adjustment for the WWTP. Staff recommends a residential flat rate based on the recommended BFC and average consumption of 2,488 gallons per month. Additionally, staff recommends that the general service gallonage charge be 1.2 times greater than the residential gallonage charge which is consistent with Commission practice.

### **Conclusion**

Based on the above, the recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of this notice.

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**Issue 10:** What are the appropriate initial customer deposits for FIMC's water and wastewater systems?

**Recommendation:** The appropriate initial customer deposits should be \$43 for the single family residential 5/8 inch x 3/4 inch meter size for water and \$55 for the single family residential 5/8 inch x 3/4 inch meter size for wastewater. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated monthly bill. The approved initial customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding. (Sibley)

**Staff Analysis:** Rule 25-30.311, F.A.C., provides the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the utility and, ultimately, the general body of ratepayers. An initial customer deposit ensures that the cost of providing service is recovered from the cost causer. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.<sup>31</sup> Currently, the utility does not have initial deposits. Based on the staff recommended water rates, the appropriate initial customer deposit for water should be \$43 to reflect an average residential customer bill for two months. The appropriate initial customer deposit for wastewater should be \$55 to reflect an average residential customer bill for two months.

Staff recommends the appropriate initial customer deposits should be \$43 for water and \$55 for wastewater for the residential 5/8 inch x 3/4 inch meter size. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated monthly bill. The approved initial customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding.

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<sup>31</sup>See e.g., Order No. PSC-15-0142-PAA-SU, issued March 26, 2015, in Docket No. 20130178-SU, *In re: Application for staff-assisted rate case in Polk County by Crooked Lake Park Sewerage Company*.

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**Issue 11:** Should FIMC Hideaway, Inc.'s existing service availability charges be revised, and if so, what are the appropriate charges?

**Recommendation:** Yes. Staff recommends that FIMC's existing service availability charges be revised. Staff recommends a meter installation charge of \$142.40 for a 5/8 inch x 3/4 inch meter and actual cost for all other meter sizes. Staff recommends a uniform water main extension charge of \$375 per ERC (ERC = 350 gpd). All other service availability charges should be discontinued. FIMC should provide notice to customers who have requested service within 12 calendar months prior to the month the application was filed to the present. 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 the date notice was given within 10 days of the date of the notice. (Sibley)

**Staff Analysis:** The utility's existing service availability charges were approved in separate dockets for each system.<sup>32</sup> The utility currently is authorized to charge new connections in the Hideaway system main extension charges of \$600 for water and \$725 for wastewater. The authorized charges for the Springside system consist of system capacity charges of \$325 for water and \$950 for wastewater. The meter installation charges are \$100 for Hideaway and \$105 for Springside. Approximately five lots in the utility's service area are vacant.

Rule 25-30.580, F.A.C., establishes guidelines for designing service availability charges. Pursuant to the Rule, the maximum amount of contributions-in-aid-of construction (CIAC), net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity. The minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and wastewater collection systems. The maximum guideline is designed to ensure that the utility retains an investment in the system. The utility's current contribution levels are 48 percent for water and 123 percent for wastewater.

### **Meter Installation Charge**

A meter installation charge is designed to recover the cost of the meter and the installation. FIMC is requesting an increase in its meter installation charges to reflect the current costs of installing a meter along with the associated labor and parts. The utility provided the necessary cost justification for its requested \$142.40 meter installation charge for a 5/8 inch x 3/4 inch meter, which includes \$97.40 for the meter and fittings and \$45 for labor. The utility's requested meter installation charge is reasonable and should be approved. Therefore, staff recommends meter installation charges of \$142.40 for a 5/8 inch x 3/4 inch meter and actual cost for all other meter sizes should be approved.

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<sup>32</sup>See Order No. PSC-92-0479-FOF-WS, issued June 9, 1992, in Docket No. 19911091-WS, *In re: Application for a staff-assisted rate case in Levy County by FIMC Hideaway, Inc.*; Order No. 23970, issued January 8, 1991, Docket No. 19900408-WS, *In re: Application for transfer of Certificates Nos. 435-W and 366-S in Levy County from Springside, Inc. to Springside At Manatee, Ltd.*

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### **Main Extension Charge**

A main extension charge allows the utility to recover a portion of the cost of the utility's distribution and collection lines from future customers. The water distribution system has a design capacity of 200 ERCs and the average cost of the lines per ERC is approximately \$375. Therefore, staff recommends that the Hideaway water main extension charge of \$600 and the Springside water system capacity charge of \$325 should be discontinued. A uniform main extension charge for the water system of \$375 per ERC should be approved. However, because the utility has fully recovered the cost of the collection lines and the utility's current contribution level exceeds, the maximum guideline in Rule 25-30.580, F.A.C., staff recommends that the utility's wastewater main extension charge of \$725 for the Hideaway system and the \$900 system capacity charge for the Springside wastewater system be discontinued.

### **Summary**

Staff recommends that FIMC's existing service availability charges be revised. Staff recommends a meter installation charge of \$142.40 for a 5/8 inch x 3/4 inch meter and actual cost for all other meter sizes. Staff recommends a uniform water main extension charge of \$375 per ERC (ERC = 350 gpd). All other prior service availability charges should be discontinued. FIMC should provide notice to customers who have requested service within 12 calendar months prior to the month the application was filed to the present. 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 the date notice was given within 10 days of the date of the notice.



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**Issue 12:** 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:** FIMC's water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.081(8), F.S. The utility should be required to file revised tariff sheets 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 FIMC 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. (Sibley, Wilson)

**Staff Analysis:** FIMC's water and 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 Section 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 \$328 and \$202 for water and wastewater, respectively. Using the utility's current revenues, expenses, and customer base, the reduction in revenues will result in the rate decrease shown on Schedule Nos. 4-A and 4-B.

The utility 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 should also be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction. If FIMC 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.

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**Issue 13:** Should the recommended rates be approved for FIMC Hideaway, 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. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the Commission Clerk's office no later than the 20th of every 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. (Wilson)

**Staff Analysis:** This recommendation proposes an increase in rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by the utility should be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$7,718. 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.
2. The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

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If security is provided through an escrow agreement, the following conditions should be part of the agreement:

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

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

The utility should maintain a record of the amount of the security, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the Commission Clerk's office no later than the 20th of every 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 14:** 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. FIMC should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) primary accounts, as shown on Schedule Nos. 5-A and 5-B, 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 not less than 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. (Wilson)

**Staff Analysis:** FIMC should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Schedule Nos. 5-A and 5-B reflect the accumulated plant, depreciation, CIAC, and amortization of CIAC balances as of June 30, 2017. FIMC 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, as shown on Schedule Nos. 5-A and 5-B, 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 not less than 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 15:** Should this docket be closed?

**Recommendation:** No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and the utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket should be closed administratively. (DuVal)

**Staff Analysis:** If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and the utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket should be closed administratively.

<b>FIMC HIDEAWAY, INC.</b>		<b>SCHEDULE NO. 1-A</b>	
<b>TEST YEAR ENDED June 30, 2017</b>		<b>DOCKET NO. 20170147-WS</b>	
<b>SCHEDULE OF COMBINED WATER RATE BASE</b>			
<b>DESCRIPTION</b>	<b>BALANCE PER UTILITY</b>	<b>STAFF ADJUSTMENTS TO UTIL. BAL.</b>	<b>BALANCE PER STAFF</b>
1. UTILITY PLANT IN SERVICE	\$251,809	(\$61,876)	\$189,933
2. LAND & LAND RIGHTS	15,858	(3,858)	12,000
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	0	(39,100)	(39,100)
5. ACCUMULATED DEPRECIATION	(146,773)	(6,344)	(153,117)
6. AMORTIZATION OF CIAC	0	21,634	21,634
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>4,704</u>	<u>4,704</u>
8. WATER RATE BASE	<u>\$120,894</u>	<u>(\$84,840)</u>	<u>\$36,054</u>

<b>FIMC HIDEAWAY, INC.</b>		<b>SCHEDULE NO. 1-B</b>	
<b>TEST YEAR ENDED June 30, 2017</b>		<b>DOCKET NO. 20170147-WS</b>	
<b>SCHEDULE OF COMBINED WASTEWATER RATE BASE</b>			
<b>DESCRIPTION</b>	<b>BALANCE PER UTILITY</b>	<b>STAFF ADJUSTMENTS TO UTIL. BAL.</b>	<b>BALANCE PER STAFF</b>
1. UTILITY PLANT IN SERVICE	\$322,029	(\$21,737)	\$300,292
2. LAND & LAND RIGHTS	10,383	(\$1,895)	8,488
3. NON-USED AND USEFUL COMPONENTS	0	\$0	0
4. CIAC	0	(75,772)	(75,772)
5. ACCUMULATED DEPRECIATION	(247,550)	(22,426)	(269,976)
6. AMORTIZATION OF CIAC	0	39,216	39,216
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>5,688</u>	<u>5,688</u>
8. WASTEWATER RATE BASE	<u>\$84,862</u>	<u>(\$76,927)</u>	<u>\$7,935</u>

<b>FIMC HIDEAWAY, INC.</b>		<b>SCHEDULE NO. 1-C</b>	
<b>TEST YEAR ENDED June 30, 2017</b>		<b>DOCKET NO. 20170147-WS</b>	
<b>ADJUSTMENTS TO RATE BASE</b>		<b>PAGE 1 OF 1</b>	
	<b><u>WATER</u></b>	<b><u>WASTEWATER</u></b>	
<b><u>UTILITY PLANT IN SERVICE</u></b>			
1. To reflect audit adjustments.	(\$7,502)	2,761	
2. To reflect pro forma plant (net of retirements).	0	500	
3. To reflect staff adjustments.	<u>(\$54,374)</u>	<u>(24,998)</u>	
Total	<u>(\$61,876)</u>	<u>(\$21,737)</u>	
<b><u>LAND &amp; LAND RIGHTS</u></b>			
To remove land associated with Hideaway WTP and WWTP.	<u>(\$3,858)</u>	<u>(\$1,895)</u>	
<b><u>CIAC</u></b>			
To reflect audit adjustments..	<u>(\$39,100)</u>	<u>(\$75,772)</u>	
<b><u>ACCUMULATED DEPRECIATION</u></b>			
1. To reflect audit adjustments.	(\$60,718)	(\$48,149)	
2. To reflect pro forma plant accumulated depreciation & retirement.	0	1,450	
3. To reflect staff adjustments.	54,374	24,998	
4. To reflect an averaging adjustment.	<u>0</u>	<u>(725)</u>	
Total	<u>(\$6,344)</u>	<u>(\$22,426)</u>	
<b><u>AMORTIZATION OF CIAC</u></b>			
1. To reflect audit adjustments (Hideaway)	<u>\$21,634</u>	<u>\$39,216</u>	
<b><u>WORKING CAPITAL ALLOWANCE</u></b>			
To reflect 1/8 of test year O & M expenses.	<u>\$4,704</u>	<u>\$5,688</u>	



FIMC HIDEAWAY, INC.							SCHEDULE NO. 2		
TEST YEAR ENDED June 30, 2017							DOCKET NO. 20170147-WS		
SCHEDULE OF CAPITAL STRUCTURE (YEAR END)									
CAPITAL COMPONENT	PER UTILITY (YEAR END)	STAFF ADJUSTMENTS	TEST YEAR BALANCE PER STAFF	ADJUSTMENTS TO RECONCILE TO RATE BASE	RECONCILED CAPITAL STRUCTURE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON EQUITY	\$61,545	\$0	\$61,545	(23,899)	37,646				
2. CAPITAL STOCK	\$0	0	\$0	0	0				
3. RETAINED EARNINGS	0	0	0	0	0				
4. OTHER PAID IN CAPITAL	0	0	0	0	0				
5. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>				
TOTAL COMMON EQUITY	\$61,545	\$0	\$61,545	(\$23,899)	\$37,646	85.58%	9.01%	7.71%	
6. LONG-TERM DEBT	\$10,371	\$0	\$10,371	(\$4,027)	6,344	14.42%	11.24%	1.62%	
7. SHORT-TERM DEBT	0	0	0	<u>0</u>	0	0.00%	0.00%	0.00%	
8. PREFERRED STOCK	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
TOTAL DEBT	\$10,371	\$0	\$10,371	(\$4,027)	\$6,344	14.42%	11.24%	1.62%	
9. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	2.00%	<u>0.00%</u>	
10. TOTAL	<u>\$71,916</u>	<u>\$0</u>	<u>\$71,916</u>	<u>(\$27,926)</u>	<u>\$43,990</u>	<u>100.00%</u>		<u>9.33%</u>	
<b>RANGE OF REASONABLENESS</b>						<b>LOW</b>	<b>HIGH</b>		
RETURN ON EQUITY						<u>8.01%</u>	<u>10.01%</u>		
OVERALL RATE OF RETURN						<u>8.48%</u>	<u>10.19%</u>		

<b>FIMC HIDEAWAY, INC.</b>		<b>SCHEDULE NO. 3-A</b>			
<b>TEST YEAR ENDED June 30, 2017</b>		<b>DOCKET NO. 20170147-WS</b>			
<b>SCHEDULE OF COMBINED WATER OPERATING INCOME</b>					
	<b>TEST YEAR PER UTILITY</b>	<b>STAFF ADJUSTMENTS</b>	<b>STAFF ADJUSTED TEST YEAR</b>	<b>ADJUST. FOR INCREASE</b>	<b>REVENUE REQUIREMENT</b>
1. <b>OPERATING REVENUES</b>	<u>\$43,813</u>	<u>(\$2,133)</u>	<u>\$41,680</u>	<u>\$6,292</u> 15.10%	<u>\$47,972</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	\$32,087	\$5,860	\$37,947	\$0	\$37,947
3. DEPRECIATION	0	2,831	2,831	0	2,831
4. AMORTIZATION	0	(833)	(833)	0	(833)
5. TAXES OTHER THAN INCOME	3,493	887	4,380	283	4,663
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. <b>TOTAL OPERATING EXPENSES</b>	<u>\$35,580</u>	<u>\$8,745</u>	<u>\$44,325</u>	<u>\$283</u>	<u>\$44,608</u>
8. <b>OPERATING INCOME/(LOSS)</b>	<u>\$8,233</u>		<u>(\$2,645)</u>		<u>\$3,364</u>
9. <b>WATER RATE BASE</b>	<u>\$120,894</u>		<u>\$36,054</u>		<u>\$36,054</u>
10. <b>RATE OF RETURN</b>	<u>6.81%</u>		<u>(7.34%)</u>		<u>9.33%</u>

<b>FIMC HIDEAWAY, INC.</b>		<b>SCHEDULE NO. 3-B</b>			
<b>TEST YEAR ENDED June 30, 2017</b>		<b>DOCKET NO. 20170147-WS</b>			
<b>SCHEDULE OF COMBINED WASTEWATER OPERATING INCOME</b>					
	<b>TEST YEAR PER UTILITY</b>	<b>STAFF ADJUSTMENTS</b>	<b>STAFF ADJUSTED TEST YEAR</b>	<b>ADJUST. FOR INCREASE</b>	<b>REVENUE REQUIREMENT</b>
1. <b>OPERATING REVENUES</b>	<u>\$55,469</u>	<u>(\$2,965)</u>	<u>\$52,504</u>	<u>\$5,142</u> 9.79%	<u>\$57,646</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	\$27,558	\$18,135	\$45,693	\$0	\$45,693
3. DEPRECIATION	0	3,447	\$3,447	0	3,447
4. AMORTIZATION	0	(1,202)	(1,202)	0	(1,202)
5. TAXES OTHER THAN INCOME	2,734	2,174	4,908	231	5,139
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. <b>TOTAL OPERATING EXPENSES</b>	<u>\$30,292</u>	<u>\$22,553</u>	<u>\$52,845</u>	<u>\$231</u>	<u>\$53,077</u>
8. <b>OPERATING INCOME/(LOSS)</b>	<u>\$25,177</u>		<u>(\$341)</u>		<u>\$4,569</u>
9. <b>WASTEWATER RATE BASE</b>	<u>\$84,862</u>		<u>\$7,935</u>		<u>\$7,935</u>
10. <b>RATE OF RETURN</b>	<u>29.67%</u>				
11. <b>OPERATING RATIO</b>					<u>10.00%</u>

<b>FIMC HIDEAWAY, INC.</b>		<b>SCHEDULE NO. 3-C</b>	
<b>TEST YEAR ENDED June 30, 2017</b>		<b>DOCKET NO. 20170147-WS</b>	
<b>ADJUSTMENTS TO OPERATING INCOME</b>		<b>Page 1 of 2</b>	
		<b><u>WATER</u></b>	<b><u>WASTEWATER</u></b>
<b>OPERATING REVENUES</b>			
1.	To reflect the appropriate test year services revenues.	\$986	(\$908)
2.	To reflect the appropriate test year miscellaneous service revenues.	<u>(3,119)</u>	<u>(2,057)</u>
	Subtotal	<u>(\$2,133)</u>	<u>(\$2,965)</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>			
NOTE: All accounts are listed; accounts with adjustments are highlighted			
1.	Salaries and Wages - Officers (603/703) To reflect appropriate salaries and wages.	<u>\$13,039</u>	<u>\$13,961</u>
2.	Sludge Removal Expense (711) To reflect appropriate sludge removal expense.	<u>\$0</u>	<u>\$387</u>
3.	Purchased Power (615/715) To remove late fees.	<u>(\$10)</u>	<u>(\$37)</u>
4.	Materials and Supplies (620/720) To reflect audit adjustment.	<u>(\$626)</u>	<u>\$0</u>
5.	Contractual Services - Billing (630/730) To reflect appropriate billing expense.	<u>\$223</u>	<u>\$239</u>
6.	Contractual Services - Professional (631/731)		
	a. To reflect audit adjustment for accountant.	\$510	\$510
	b. To reflect amortization of CPA retainer fee.	724	776
	c. To reflect appropriate amortization of DEP permit fee.	<u>0</u>	<u>(1,040)</u>
	Subtotal	<u>\$1,234</u>	<u>\$246</u>
7.	Contractual Services – Testing (635/735)		
	a. To remove expense and reclassify to Contractual Services - Other (736)	\$0	(\$45)
	b. To reflect reclassification of testing expense from Miscellaneous Expense account.	0	960
	c. To reflect the utility's triennial water compliance testing	<u>518</u>	<u>0</u>
	Subtotal	<u>\$518</u>	<u>\$915</u>
8.	Contractual Services - Other (636/736) To reflect audit adjustments related to reclassification of expenses.	<u>\$5,952</u>	<u>\$17,678</u>

<b>FIMC HIDEAWAY, INC.</b>		<b>SCHEDULE NO. 3-C</b>	
<b>TEST YEAR ENDED June 30, 2017</b>		<b>DOCKET NO. 20170147-WS</b>	
<b>ADJUSTMENTS TO OPERATING INCOME</b>		<b>Page 2 of 2</b>	
		<b><u>WATER</u></b>	<b><u>WASTEWATER</u></b>
9. Rents (640/740)			
To reflect appropriate rent expense.		<u>(\$10,012)</u>	<u>\$1,057</u>
10. Transportation Expense (650/750)			
To reflect appropriate transportation expense.		<u>\$716</u>	<u>\$766</u>
11. Regulatory Commission Expense (665/765)			
To reflect 4-year amortization of rate case expense.		<u>\$313</u>	<u>\$192</u>
12. Bad Debt Expense (670/770)			
To reflect appropriate bad debt expense.		<u>\$1,575</u>	<u>\$1,745</u>
13. Miscellaneous Expense (675/775)			
a. To reflect audit adjustment.		(\$7,102)	(\$19,058)
b. To reflect appropriate miscellaneous expense.		<u>40</u>	<u>43</u>
Subtotal		<u>(\$7,062)</u>	<u>(\$19,015)</u>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>		<b><u>\$5,860</u></b>	<b><u>\$18,135</u></b>
<b>DEPRECIATION EXPENSE</b>			
1. To reflect appropriate test year depreciation expense per Audit.		\$3,385	\$5,100
2. To reflect staff adjustment for plant retirement and plant that was fully depreciated.		(554)	(1,666)
3. To reflect net depreciation expense associated with pro forma adjustment.		<u>0</u>	<u>13</u>
Total		<u>\$2,831</u>	<u>\$3,447</u>
<b>AMORTIZATION OF CIAC</b>			
To reflect appropriate amortization expense.		<u>(\$833)</u>	<u>(\$1,202)</u>
<b>TAXES OTHER THAN INCOME</b>			
1. To reflect the appropriate test year RAFs.		\$42	\$328
2. To reflect appropriate test year utility payroll taxes.		1,995	2,136
3. To reflect appropriate test year utility property taxes.		(1,150)	(297)
4. To reflect prop tax associated with plant addition		<u>0</u>	<u>7</u>
Total		<u>\$887</u>	<u>\$2,174</u>

<b>FIMC HIDEAWAY, INC.</b>		<b>SCHEDULE NO. 3-D</b>	
<b>TEST YEAR ENDED June 30, 2017</b>		<b>DOCKET NO. 20170147-WS</b>	
<b>ANALYSIS OF COMBINED WATER O&amp;M EXPENSE</b>			
	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUST- MENT</b>	<b>TOTAL PER STAFF</b>
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(603) SALARIES AND WAGES - OFFICERS	0	13,039	13,039
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	2,121	(10)	2,111
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	0	0	0
(620) MATERIALS AND SUPPLIES	2,453	(626)	1,827
(630) CONTRACTUAL SERVICES - BILLING	0	223	223
(631) CONTRACTUAL SERVICES - PROFESSIONAL	0	1,234	1,234
(635) CONTRACTUAL SERVICES - TESTING	1,165	518	1,683
(636) CONTRACTUAL SERVICES - OTHER	3,283	5,952	9,235
(640) RENTS	11,000	(10,012)	988
(650) TRANSPORTATION EXPENSE	0	716	716
(655) INSURANCE EXPENSE	0	0	0
(665) REGULATORY COMMISSION EXPENSE	0	313	313
(670) BAD DEBT EXPENSE	0	1,575	1,575
(675) MISCELLANEOUS EXPENSE	<u>12,065</u>	<u>(7,062)</u>	<u>5,003</u>
	<u>\$32,087</u>	<u>\$5,860</u>	<u>\$37,947</u>

<b>FIMC HIDEAWAY, INC.</b>	<b>SCHEDULE NO. 3-E</b>		
<b>TEST YEAR ENDED June 30, 2017</b>	<b>DOCKET NO. 20170147-WS</b>		
<b>ANALYSIS OF COMBINED WASTEWATER O&amp;M EXPENSE</b>			
	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUST- MENT</b>	<b>TOTAL PER STAFF</b>
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(703) SALARIES AND WAGES - OFFICERS	0	13,961	13,961
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	1,260	387	1,647
(715) PURCHASED POWER	4,477	(37)	4,440
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	0	0	0
(720) MATERIALS AND SUPPLIES	32	0	32
(730) CONTRACTUAL SERVICES - BILLING	0	239	239
(731) CONTRACTUAL SERVICES - PROFESSIONAL	1,300	246	1,546
(735) CONTRACTUAL SERVICES - TESTING	45	915	960
(736) CONTRACTUAL SERVICES - OTHER	50	17,678	17,728
(740) RENTS	0	1,057	1,057
(750) TRANSPORTATION EXPENSE	0	766	766
(755) INSURANCE EXPENSE	0	0	0
(765) REGULATORY COMMISSION EXPENSES	0	192	192
(770) BAD DEBT EXPENSE	0	1,745	1,745
(775) MISCELLANEOUS EXPENSE	<u>20,394</u>	<u>(19,015)</u>	<u>1,379</u>
	<u>\$27,558</u>	<u>\$18,135</u>	<u>\$45,693</u>

<b>FIMC HIDEWAY, INC.</b>		<b>SCHEDULE NO. 4-A</b>		
<b>TEST YEAR ENDED JUNE 30, 2017</b>		<b>DOCKET NO. 20170147-WU</b>		
<b>MONTHLY WATER RATES</b>				
	<b>HIDEAWAY CURRENT RATES</b>	<b>SPRINGSIDE CURRENT RATES</b>	<b>STAFF RECOMMENDED RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential and General Service</u></b>				
Base Facility Charge by Meter Size				
5/8"X3/4"	\$13.85	\$8.74	\$10.81	\$0.07
3/4"	\$20.77	\$13.11	\$16.22	\$0.11
1"	\$34.61	\$21.86	\$27.03	\$0.19
1-1/2"	\$69.23	\$43.71	\$54.05	\$0.37
2"	\$110.77	\$69.94	\$86.48	\$0.60
3"	\$221.53	\$139.88	\$172.96	\$1.19
4"	\$346.14	\$218.56	\$270.25	\$1.86
6"	\$692.29	N/A	\$540.50	\$3.73
Charge per 1,000 gallons - Residential and General Service	\$3.08	\$3.05	\$4.43	\$0.03
<b><u>Irrigation Service</u></b>				
Base Facility Charge - All Meter Sizes				
	\$0.00	\$0.00	\$0.00	\$0.00
Charge per 1,000 gallons - Irrigation Service	N/A	\$1.74	\$4.43	\$0.03
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>				
2,000 Gallons	\$20.01	\$14.84	\$19.67	
6,000 Gallons	\$32.33	\$27.04	\$37.39	
10,000 Gallons	\$44.65	\$39.24	\$55.11	



<b>FIMC HIDEWAY INC.</b>		<b>SCHEDULE NO. 4-B</b>		
<b>TEST YEAR ENDED JUNE 30, 2017</b>		<b>DOCKET NO. 20170147-WU</b>		
<b>MONTHLY WASTEWATER RATES</b>				
	<b>HIDEAWAY CURRENT RATES</b>	<b>SPRINGSIDE CURRENT RATES</b>	<b>STAFF RECOMMENDED RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential Service</u></b>				
Base Facility Charge - All Meter Sizes	\$11.81	\$17.85	\$12.13	\$0.04
Charge Per 1,000 gallons 6,000 gallon cap	\$2.67	N/A	\$6.31	\$0.02
Charge Per 1,000 gallons 10,000 gallon cap	N/A	\$5.76	N/A	N/A
Flat Rate	26.61	N/A	\$25.55	\$0.09
<b><u>General Service</u></b>				
Base Facility Charge by Meter Size				
5/8" x 3/4"	\$11.81	\$17.85	\$12.13	\$0.04
3/4"	\$17.72	\$26.78	\$18.20	\$0.06
1"	\$29.53	\$44.63	\$30.33	\$0.10
1-1/2"	\$59.06	\$89.27	\$60.65	\$0.20
2"	\$94.50	\$142.83	\$97.04	\$0.32
3"	\$188.99	\$285.66	\$194.08	\$0.64
4"	\$295.30	\$446.34	\$303.25	\$1.00
6"	\$590.59	N/A	\$606.50	\$2.00
Charge per 1,000 gallons	\$3.09	\$6.92	\$7.57	\$0.03
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>				
2,000 Gallons	\$17.15	\$29.37	\$24.75	
6,000 Gallons	\$27.83	\$52.41	\$49.99	
10,000 Gallons	\$27.83	\$75.45	\$49.99	

FIMC HIDEAWAY, INC.			SCHEDULE NO. 5-A	
TEST YEAR ENDED June 30, 2017			DOCKET NO. 20170147-WS	
SCHEDULE OF WATER PLANT, DEPRECIATION, CIAC, & CIAC AMORT. BALANCES				
ACCT. NO.	DEPR. RATE PER RULE 25-30.140	DESCRIPTION	UPIS 6/30/2017 (DEBIT)	ACCUM. DEPR. 6/30/2017 (CREDIT)
301	2.50%	ORGANIZATION	\$3,345	\$3,105
303	N/A	LAND AND LAND RIGHTS	12,000	N/A
304	3.70%	STRUCTURES AND IMPROVEMENTS	34,071	34,071
307	3.70%	WELLS AND SPRINGS	2,125	838
311	5.88%	PUMPING EQUIPMENT	15,525	15,525
320	5.88%	WATER TREATMENT EQUIPMENT	2,575	2,397
330	3.03%	DISTRIBUTION RESERVOIRS	28,076	2,552
331	2.63%	TRANSMISSION & DISTRIBUTION LINES	74,816	66,334
333	2.86%	SERVICES	10,777	10,291
334	5.88%	METERS & METER INSTALLATIONS	16,605	15,986
336	10.00%	BACKFLOW PREVENTION DEVICES	204	204
340	6.67%	OFFICE FURNITURE AND EQUIPMENT	1,814	1,814
		<b>TOTAL INCLUDING LAND</b>	<b><u>\$201,933</u></b>	<b><u>\$153,117</u></b>
			<b>CIAC AMORT. 6/30/2017 (DEBIT)</b>	<b>CIAC 6/30/2017 (CREDIT)</b>
			<b><u>\$21,634</u></b>	<b><u>\$39,100</u></b>

<b>FIMC HIDEAWAY, INC.</b>			<b>SCHEDULE NO. 5-B</b>	
<b>TEST YEAR ENDED June 30, 2017</b>			<b>DOCKET NO. 20170147-WS</b>	
<b>SCHEDULE OF WASTEWATER PLANT, DEPRECIATION, CIAC, &amp; CIAC AMORT. BALANCES</b>				
<b>ACCT. NO.</b>	<b>DEPR. RATE PER RULE 25-30.140</b>	<b>DESCRIPTION</b>	<b>UPIS 6/30/2017 (DEBIT)</b>	<b>ACCUM. DEPR. 6/30/2017 (CREDIT)*</b>
351	2.50%	ORGANIZATION	\$2,340	\$2,340
353	N/A	LAND AND LAND RIGHTS	8,488	N/A
354	3.70%	STRUCTURES AND IMPROVEMENTS	3,437	1,900
360	3.70%	COLLECTIONS SEWERS - FORCE	4,775	4,775
361	2.50%	COLLECTION SEWERS - GRAVITY	186,826	163,459
363	2.86%	SERVICES TO CUSTOMERS	17,780	16,876
370	4.00%	RECEIVING WELLS	12,538	7,317
380	6.67%	TREATMENT AND DISPOSAL EQUIPMENT	70,526	70,526
389	6.67%	OTHER PLANT & MISCELLANEOUS EQUIP.	256	244
390	6.67%	OFFICE FURNITURE AND EQUIPMENT	<u>1,814</u>	<u>1,814</u>
		<b>TOTAL INCLUDING LAND</b>	<b><u>\$308,780</u></b>	<b><u>\$269,251</u></b>
			<b>CIAC AMORT. 6/30/2017 (DEBIT)</b>	<b>CIAC 6/30/2017 (CREDIT)</b>
			<b><u>\$39,216</u></b>	<b><u>\$75,772</u></b>