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 Commission Conference Agenda
 December 10, 2019

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Item 1

State of Florida



Public Service Commission

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

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

DATE: November 26, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Office of Industry Development and Market Analysis (Yglesias de Ayala, Williams, Wendel) *CH BMW*
Office of the General Counsel (Passidomo, Murphy, Weisenfeld) *MYA AJW GP TII for CM*

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

AGENDA: 12/10/2019 - Consent Agenda - Proposed Agency Action - Interested Persons May Participate

SPECIAL INSTRUCTIONS: None

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

<u>DOCKET NO.</u>	<u>COMPANY NAME</u>	<u>CERT. NO.</u>
20190180-TX	Smart Choice Communications, LLC	8941
20190186-TX	HFA of Florida LLC	8942
20190207-TX	Tone Communication Services llc	8943

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

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: November 26, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Office of the General Counsel (DuVal, Cowdery) *MS S.M.C. CAH*
Office of Industry Development and Market Analysis (Vogel) *CAH*

RE: Docket No. 20190176-EI – Joint petition for approval of regulatory improvements for decentralized solar net-metering systems in Florida.

AGENDA: 12/10/19 – Regular Agenda – Motion for Reconsideration – Oral Argument Requested – Participation is Dependent on the Commission’s Vote on Issue 1

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Clark

CRITICAL DATES None

SPECIAL INSTRUCTIONS: None

Case Background

On September 3, 2019, Achim Ginsberg-Klemmt, Christopher Pierce, Darrell Prather, Geoffrey P. Dorney, Jeffrey L. Hill, John Bachmeier, J. Robert Barnes, Paul Romanoski, Terry Langlois, and Robert Winfield filed a Joint Petition for Approval of Regulatory Improvements for Decentralized Solar Net-Metering Systems in Florida (Joint Petition). Joint Petitioners asked the Commission to take certain action relating to the interconnection and net metering of customer-owned renewable generation by electric utilities in Florida. Specifically, Joint Petitioners requested that the Commission revise certain terms and requirements related to interconnection and net metering.

On September 30, 2019, five of the Joint Petitioners, Achim Ginsberg-Klemmt, Christopher Pierce, Jeffrey L. Hill, Paul Romanoski, and Robert Winfield, filed a Memorandum in Opposition to FPSC Staff’s Recommendation to Deny the Joint Petition for Approving

Improvements for Decentralized Net-Metering Systems in Florida (Memorandum in Opposition). In addition, on October 1, 2019, Mr. Ginsberg-Klemmt and Mr. Chris E. Pierce filed Petitioners' Response Opposing Staff Recommendation to Deny (Response in Opposition). Mr. Ginsberg-Klemmt addressed the Commission at the October 3, 2019 Agenda Conference at which the Joint Petition was heard. By Order No. PSC-2019-0410-FOF-EI, issued October 10, 2019 (Final Order), the Commission ordered that the Joint Petition be treated as a petition to initiate rulemaking to amend Rule 25-6.065, Florida Administrative Code (F.A.C.), Interconnection and Net Metering of Customer-Owned Renewable Generation. Further, the Commission denied the Joint Petition.

On October 21, 2019, Mr. Ginsberg-Klemmt (Petitioner) filed a timely Motion for Reconsideration of the Final Order. Also on that date, Petitioner filed a Request for Oral Argument. On November 4, 2019, Petitioner filed a Notice of Appeal with the Florida Supreme Court. By the November 13, 2019 Order of the Florida Supreme Court, the appeal is being held in abeyance until the Commission issues and files with the Commission Clerk its order disposing of Petitioner's Motion for Reconsideration. The Commission has jurisdiction pursuant to Sections 120.54(7), 350.127(2), and 366.91, Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Should the Commission grant Petitioner's Request for Oral Argument?

Recommendation: No. The Commission should deny Petitioner's Request for Oral Argument. (DuVal, Cowdery)

Staff Analysis: Petitioner filed a Request for Oral Argument on his Motion for Reconsideration.¹ Petitioner states that oral argument "would provide sufficient time for the Petitioner to discuss and rebut the faulty conclusions contained in the Commission Staff's written recommendation which were merged almost verbatim into the Final Order." Petitioner requested that he be granted 15 minutes for oral argument.

Rule 25-22.0022(1), F.A.C., states that the request for oral argument must state with particularity why oral argument would aid the Commissioners in understanding and evaluating the issues to be decided. Petitioner's request for oral argument does not explain why oral argument would aid the Commission's understanding and evaluation of the issues raised in the Motion for Reconsideration.

Petitioner's Motion for Reconsideration fully sets forth the Petitioner's arguments. Staff does not believe that oral argument would aid the Commission in understanding and evaluating Petitioner's Motion for Reconsideration. Thus, staff recommends that Petitioner's Request for Oral Argument be denied.

¹ Petitioner erroneously cited Rule 25-22.022, F.A.C., as the oral argument rule. The correct citation is Rule 25-22.0022, F.A.C. Rule 25-22.0022(3), F.A.C., states that the Commission has the sole discretion to grant or deny oral argument.

Issue 2: Should the Commission grant Petitioner’s Motion for Reconsideration of the Final Order Denying Petition to Initiate Rulemaking?

Recommendation: No. Petitioner’s Motion for Reconsideration should be denied because it does not meet the required standard for a motion for reconsideration. Petitioner has failed to identify a point of fact or law that was overlooked or that the Commission failed to consider in rendering Order No. PSC-2019-0410-FOF-EI, Order Denying Petition to Initiate Rulemaking. (DuVal, Cowdery, Vogel)

Staff Analysis:

Standard of Review

The appropriate standard of review in a motion for reconsideration is whether the motion identifies a point of fact or law that was overlooked or that the Commission failed to consider in rendering its Final Order. Stewart Bonded Warehouse, Inc. v. Bevis, 294 So. 2d 315 (Fla. 1974); Diamond Cab Co. v. King, 146 So. 2d 889 (Fla. 1962); and Pingree v. Quaintance, 394 So. 2d 161 (Fla. 1st DCA 1981). In a motion for reconsideration, it is not appropriate to reargue matters that have already been considered. Sherwood v. State, 111 So. 2d 96 (Fla. 3d DCA 1959), citing State ex rel. Jaytex Realty Co. v. Green, 105 So. 2d 817 (Fla. 1st DCA 1958).

Petitioner’s Motion for Reconsideration

Petitioner asserts that he was given insufficient time to discuss and rebut the “faulty conclusions” in the staff recommendation. Petitioner states that the Commission misconstrued Joint Petitioners’ request “to allow net-metering customers or their contractors to freely choose the size of their net-metering systems providing that the existing electric grid connection supports the requested size and the requested solar system fully complies with the applicable technical standards controlled and verified by the current building permit inspection process at the County level.” Petitioner states that he agrees that net-metered solar systems should not be allowed to exceed transformer capacity, but that Florida Power & Light Company should not be allowed “to unilaterally impose arbitrary limitations on solar net-metering systems.”

The Motion for Reconsideration states that the Commission should, but is not required to, change Rule 25-6.065, F.A.C., to “mitigate negative effects” caused by the 10kW Tier 1 provision. Petitioner states that the Tier 1 threshold should be increased to 50kW because the 10 kW provision is not powerful enough to cover the needs of a larger home with electric vehicles. The Motion for Reconsideration also states that the Commission could “simply waive” the insurance requirement of one million dollars or grant a variance for all residential solar installations.² Petitioner further alleges that the core problem is “the missing enforcement and missing oversight capabilities of existing rules during the permitting process” and that Commission staff lacks technical expertise concerning net-metering.

² Rule 25-6.065(4)(a)2., F.A.C., defines Tier 1 as customer-owned renewable generation with a gross power rating of 10kW or less. That rule also defines Tier 2 as customer-owned renewable generation with a gross power rating greater than 10 kW and less than or equal to 100 kW. Pursuant to Rule 25-6.065(5)(e), F.A.C., Tier 1 customers are not required to have liability insurance and Tier 2 customers are required to have general liability insurance or sufficient guarantee and proof of self-insurance in the amount of no more than \$1 million.

Petitioner argues that the Joint Petition's request to increase minimum compensation for surplus solar electricity to a minimum of \$0.08 per kWh was a "simple request for a rate increase" that was inappropriately treated as a petition to initiate rulemaking, but if the treatment of the request as a petition to initiate rulemaking was proper, the rule should be modified. Petitioner maintains that because Rule 25-6.065(2)(a), F.A.C., defines customer-owned renewable generation as a system that is primarily intended to offset part or all of the customer's electricity requirements with renewable energy, it follows that there exists a secondary purpose that allows customers' net-metering systems to produce surplus power based on future usage.

Analysis

Staff disagrees with Petitioner's claim that he had insufficient time to address the staff recommendation. Petitioner responded to and addressed the staff recommendation in the Memorandum in Opposition, the Response in Opposition, and at the October 3, 2019 Agenda Conference. Further, Petitioner's Motion for Reconsideration sets out in detail Petitioner's reasons for requesting reconsideration. As explained below, the Motion for Reconsideration does not cite to any point of fact or law that was overlooked or that the Commission failed to consider in rendering its decision to deny the Joint Petition. Instead, Petitioner reargues the three points raised in the Joint Petition that have already been considered by the Commission in rendering the Final Order.

Petitioner's first argument on reconsideration is that the Commission misconstrued its request in the Joint Petition for net-metering customers or their contractors to be allowed to "freely choose the size of their net-metering systems" subject to proper standards. The Motion for Reconsideration does not identify a point of fact or law that was overlooked or that the Commission failed to consider. Instead, Petitioner makes the same argument that he addressed in the Memorandum in Opposition, citing legal analysis in Docket No. 20190167-EI³ and Exhibit D.⁴ Petitioner likewise addressed this point at the October 3, 2019 Agenda Conference, specifically raising Docket No. 20190167-EI. The Final Order addressed Joint Petitioners' arguments and concluded that the Joint Petitioners' suggested amendment would not promote the development of small customer-owned renewable generation or otherwise meet the purpose of Rule 25-6.065, F.A.C.

Petitioner's second argument on reconsideration is that the 10kW Tier 1 provision of Rule 25-6.065(4)(a)2., F.A.C., should be increased to 50kW to allow more economical and less bureaucratic installation of solar systems for larger homes with electric vehicles. The Motion for Reconsideration does not identify a point of fact or law that was overlooked or failed to be considered by the Commission. Instead, Petitioner makes the same arguments that were made in the Joint Petition, the Memorandum in Opposition, the Response in Opposition, and at the October 3, 2019 Agenda Conference. The Final Order addressed the 10kW Tier 1 provision arguments and concluded that the allowable range for Tier 1 customers should not be amended.

³ Docket No. 20190167-EI is the Petition to Compel Florida Power & Light to Comply with Section 366.91, F.S., and Rule 25-6.065, F.A.C., by Floyd Gonzales and Robert Irwin.

⁴ Exhibit D to the Memorandum in Opposition, correspondence between Petitioner and Public Counsel J.R. Kelly, was provided in support of Joint Petitioners' position in that memorandum that the "Commission currently allows and encourages utility companies like Florida Power & Light to enact and enforce their own rules based on their corporate policies."

Likewise, the Motion for Reconsideration does not allege that the Commission overlooked or failed to consider any facts or law concerning insurance requirements, rule enforcement, or staff expertise. Further, the Final Order does not address these points because the Joint Petition did not ask the Commission for relief on these matters.

Petitioner's third point for reconsideration concerns surplus power production. The Motion for Reconsideration does not identify a point of fact or law that was overlooked or failed to be considered by the Commission. The Joint Petition argued that "compensation for surplus solar electricity generated by decentralized solar net-metering systems" should be increased to a minimum of \$0.08 per kWh. Although Petitioner makes a general statement that this was a "simple request" for a rate increase and it was not appropriate to treat this request as a petition to initiate rulemaking, this argument was not raised in the Joint Petition, Memorandum in Opposition, Response in Opposition, or at the October 3, 2019 Agenda Conference. The Motion for Reconsideration's general argument that increased compensation is needed to encourage the production of surplus solar electricity reargues the same points raised in the Joint Petition and in the Response in Opposition. The Final Order addressed the issue of amending Rule 25-6.065(8)(f) and (g), F.A.C., to change the amount by which unused credits are purchased by a utility and concluded that the current amount is appropriate because it is consistent with the rate paid by investor-owned utilities to all other power producers in Florida.

Finally, the Motion for Reconsideration does not identify a point of fact or law that was overlooked or failed to be considered by the Commission in rendering the Final Order's conclusion that if the purpose of the Joint Petition was to allow individuals to generate and sell electricity on a wholesale basis, the request was outside the scope of Rule 25-6.065, F.A.C. Instead, Petitioner's argument that the Rule 25-6.065(2)(a), F.A.C., definition of customer-owned renewable generation should be read to allow customers to produce surplus power based on future usage, is the same argument that was made in the Joint Petition, the Response in Opposition, and at the October 3, 2019 Agenda Conference, and is repeated almost verbatim from the Memorandum in Opposition. The Commission considered this argument and rejected it.

Conclusion

Staff recommends that Petitioner's Motion for Reconsideration be denied because it does not meet the required standard for a motion for reconsideration. Petitioner has failed to identify a point of fact or law that was overlooked or that the Commission failed to consider in rendering Order No. PSC-2019-0410-FOF-EI, Order Denying Petition to Initiate Rulemaking.

Issue 3: Should this docket be closed?

Recommendation: No, this docket should remain open in litigation status until the pending appeal is resolved by the Court. (DuVal, Cowdery)

Staff Analysis: This docket should remain open in litigation status until the pending appeal is resolved by the Court.

Item 3

State of Florida



Public Service Commission

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

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

DATE: November 26, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (Cicchetti) *MC*
Division of Economics (Forrest, Draper) *CSB*
Office of the General Counsel (Crawford, Brownless) *EJD* *TRT for JC*

RE: Docket No. 20190203-EI – Petition for limited proceeding to reduce base rates and charges to reflect impact of the 2019 temporary state income tax rate reduction, by Tampa Electric Company.

AGENDA: 12/10/19 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: *All Commissioners* *11/26/19*

PREHEARING OFFICER: Fay

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On September 27, 2017, Tampa Electric Company (Company), the Office of Public Counsel, the Florida Industrial Power Users Group, the Florida Retail Federation, the Federal Executive Agencies, and the WCF Hospital Utility Alliance entered into the 2017 Amended and Restated Stipulation and Settlement Agreement (2017 Agreement). The Commission approved the 2017 Agreement by Order No. PSC-2017-0456-S-EI.¹ Paragraph 9 of the 2017 Agreement addresses

¹Order No. PSC-2017-0456-S-EI, issued November 27, 2017, in Docket No. 20170210-EI, *In re: Petition for limited proceeding to approve 2017 amended and restated stipulation and settlement agreement, by Tampa Electric Company*, and Docket No. 20160160-EI, *In re: Petition for approval of energy transaction optimization mechanism, by Tampa Electric Company*.

Docket No. 20190203-EI
Date: November 26, 2019

the procedures and principles to be followed for changes in the rate of taxation of corporate income by federal or state taxing authorities.

On September 12, 2019, the Florida Department of Revenue issued a Tax Information Publication (TIP) announcing that the Florida corporate income tax rate was reduced from 5.5 percent to 4.458 percent effective retroactive to January 1, 2019, and would remain in effect through December 31, 2021 (State Tax Rate Change). The TIP indicates that the Florida corporate income tax rate will return to 5.5 percent effective January 1, 2022. It also indicates that further reductions in the tax rate are possible for calendar years 2020 and 2021. The Department of Revenue's authority to reduce the state corporate income tax rate is contained in Section 220.1105, Florida Statutes (F.S.).

The Company's petition addresses the impacts of the State Tax Rate Change on Tampa Electric as provided in the 2017 Agreement through proposed reductions to the Company's base rates and charges effective with the first billing cycle for January 2020. The proposed base rates reflect an increase of the Company's base rates in effect during 2019 and a reduction to the incremental base rates associated with the Company's Third SoBRA approved on October 17, 2019, to reflect the lower state corporate income tax rate.

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

Discussion of Issues

Issue 1: Should Tampa Electric Company's petition addressing Florida's temporary state corporate income tax rate reduction be approved?

Recommendation: Yes. Staff recommends the Commission approve an annual revenue requirement reduction for 2019 of \$4,959,442 to reflect the state corporate income tax rate change; approve the Company's revised Third SoBRA revenue requirement of \$26,452,000; approve the Company's proposed 2020 tariffs and associated base rates and charges and allow them to go into effect concurrently with meter readings for the first billing cycle in January 2020; authorize the Company to account for the revenue impact of the state tax change from January 1, 2019, to December 31, 2019, through a credit of \$4,959,442 through the ECCR clause as part of its true-up filing in 2020; and authorize the Company to flow back excess accumulated deferred income taxes (\$4,265,315 total company net of federal offset) for 2022 and 2023 by crediting one-fifth of the associated separated, annual revenue requirement amount through the ECCR clause during those years. The proposed tariffs are shown in Attachment Four to the petition. (Cicchetti, Draper, Forrest)

Staff Analysis: On September 12, 2019, the Florida Department of Revenue issued a TIP announcing that the Florida corporate income tax rate was reduced from 5.5 percent to 4.458 percent effective retroactive to January 1, 2019, and would remain in effect through December 31, 2021. The TIP indicated that the Florida corporate income tax rate will return to 5.5 percent effective January 1, 2022. It also indicated that further reductions in the tax rate are possible for calendar years 2020 and 2021.

Paragraph 9 of the Company's 2017 Amended and Restated Stipulation and Settlement Agreement (2017 Agreement) requires the Company, among other things, to pass along any tax savings associated with federal or state tax rate changes within 120 days of when the tax reform becomes law. Paragraph 9 also requires the Company to adjust any SoBRAs, that have not gone into effect, for any changes to federal or state tax rate changes or other tax reform. The Company believes that the 2017 Agreement requires the Company to reflect the State Tax Rate Change in its base rates and charges or otherwise address the impact of the tax rate change on or before January 10, 2020.

2019 Annual Revenue Requirement

As indicated in the Company's petition, the net annual income tax expense reduction for 2019 attributable to the State Tax Rate Change on a total company basis is \$3,965,734 and the retail jurisdictional Net Operating Income impact is \$3,743,288. This amount is based on the Company's calculation of excess accumulated deferred state tax reserves, the Company's 2019 forecasted earnings surveillance report, the 4.458 percent state corporate income tax rate effective January 1, 2019, and a 5-year flow-back period for the excess accumulated deferred state tax reserves. After applying the appropriate retail separation factors and the effective tax rate gross-up factor, the annual revenue requirement reduction for 2019 necessary to reflect the effect of tax reform pursuant to the 2017 Agreement is \$4,959,442. Schedules showing the calculation of these amounts were included with the Company's petition.

Staff reviewed the calculations included with the Company's petition and recommends the petition be approved. Staff recommends the Commission approve an annual revenue requirement reduction for 2019 of \$4,959,442 to reflect the state tax rate change. Additionally, staff recommends the Commission authorize the Company to account for the revenue impact of the state tax change from January 1, 2019, to December 31, 2019, through a credit of \$4,959,442 through the ECCR clause as part of its true-up filing in 2020. Additionally, because the "stay out period" specified in the 2017 Agreement ends on December 31, 2021, staff recommends the Commission authorize the Company to complete the flow back of excess accumulated deferred income taxes (\$4,265,315 total company net of federal offset) for 2022 and 2023 by crediting one-fifth of the associated separated, annual revenue requirement amount through the ECCR clause during those years using the true up provision in paragraph 9(b) of the 2017 Agreement.

Adjusting the Third SoBRA

Paragraph 9(b) of the 2017 Agreement requires the Company to "adjust any SoBRAs that have not yet gone into effect to specifically account for Tax Reform." As indicated in the Company's petition, the annual revenue requirement for the Third SoBRA re-calculated using the 4.458 percent state corporate income tax rate is \$26,452,000, which is \$144,000 lower than the amount approved in the Third SoBRA docket. The Company's petition showed the revenue requirement for the Third SoBRA using the new state rate. Staff reviewed the calculations regarding the revenue requirement for the third SoBRA included with the Company's petition and recommends \$26,452,000 be approved as the revised revenue requirement for the Third SoBRA.

Proposed Tariffs and Base Rates

The Company is seeking approval of proposed tariffs and associated charges that reflect the impact of the decrease of the state corporate income tax on the utility's 2019 annual revenue requirement and the revised Third SoBRA revenue requirement. The Company's Third SoBRA and associated tariffs were approved by the Commission in Order No. PSC-2019-0477-FOF-EI effective January 1, 2020. However, since as discussed above, the Commission-approved Third SoBRA rates did not reflect the new state income corporate tax, the Company filed revised tariffs reflecting an across-the-board reduction in base rates as approved in Order No. PSC-2019-0477-FOF-EI.²

Attachment Four to the petition shows the proposed tariffs in legislative format. The Company indicated that customers will be notified of the proposed 2020 base rates and charges, including changes to the cost recovery clauses, in December bills. Tampa Electric provided staff a copy of the notice to customers for review. The current 2019 base rate portion of the 1,000 kilowatt-hour (kWh) residential electric bill is \$66.53. With approval of the Third SoBRA rates, the base rate portion of the 1,000 kWh bill increased from \$66.53 to \$68.08. With the proposed tariffs as shown in Attachment Four to the petition, the base rate portion of the 1,000 kWh bill will decrease from \$68.08 to \$67.76, a \$0.32 decrease. Staff notes that Tampa Electric's total 1,000 kWh residential bill, including all cost recovery clauses, will decrease in 2020.

²Order No. PSC-2019-0477-FOF-EI, issued November 12, 2019, in Docket No. 20190136-EI, *In re: Petition for a limited proceeding to approve Third SoBRA, by Tampa Electric Company.*

Future True-Ups

As noted previously, further reductions in the state corporate income tax rate are possible for calendar years 2020 and 2021. Also, the Company's 2018 excess accumulated deferred state income tax reserves may require a true-up. Consequently, it is likely that future true-ups will be necessary.

Base Rate Reduction Proposed Agency Action Approach

In its petition, the Company requested, in light of the requirement in the 2017 Agreement to make base rate changes within 120 days, that the petition be given expedited treatment and scheduled for consideration on or before the December 10, 2019 Commission Conference for disposition on a proposed agency action (PAA) basis. In addition, even though it will need to load the 2020 proposed base rates and charges into its billing system and begin publishing notice of those changes before a final Commission decision on this petition, the Company requested permission to implement the reduced 2020 proposed base rates and charges effective with the first billing cycle in January 2020 and provide notice of proposed base rate decreases in this petition as "proposed" rate changes consistent with the normal 30-day customer notice requirement, i.e., before the Commission's decision on this petition.³

Further, the Company requested that if the Commission approves this petition on a PAA basis on December 10, 2019, and then a substantially affected party protests the order and, after a hearing, the Commission adjusts the annual revenue requirement and/or Third SoBRA impacts proposed in its petition, the Company requested that any resulting revised rate be put into effect subsequent to such decision with appropriate notice to customers using the ECCR refund mechanism reflected in paragraph 9(b) of the petition to account for any such resulting differences between the time the rates proposed in this petition go into effect and any such revised rates are put into effect.

Staff recommends that the Company's request to use the base rate reduction PAA approach as described above be approved.

³Typically, effective dates are set a minimum of 30 days after a Commission vote modifying changes as a result of a mid-course correction. *Gulf Power Co. v. Cresse*, 410 So. 2d 492 (Fla. 1982); Order No. PSC-96-0907-FOF-EI, issued on July 15, 1996, in Docket No. 960001-EI, In re: Fuel and purchased power cost recovery clause and generating performance incentive factor; Order No. 96-0908-FOF-EI, issued July 15, 1996, in Docket No. 960001-EI, In re: Fuel and purchased power cost recovery clause and generating performance incentive factor. This time limit is imposed in order to not have new rates applied to energy consumed before the effective date of the Commission's action, i.e., the date of the vote. However, the Commission has also implemented charges in less than 30 days when circumstances warrant. Order No. PSC-15-0161-PCO-EI, issued April 30, 2015, in Docket No. 150001-EI, In re: Fuel and purchased power cost recovery clause and generating performance incentive factor (approving FPL's petition for a mid-course correction which reduced fuel factors with less than 30 days notice.) In this case the Company has requested a reduction in rates and has given customers notice of the proposed reduction 30 days before the scheduled Commission vote. Under these circumstances we find that allowing the rate reduction to go into effect on January 1, 2020 is warranted.

Issue 2: Should this docket be closed?

Recommendation: No. This docket should remain open through 2022 to address any associated necessary true-ups. (Brownless)

Staff Analysis: As noted previously, further reductions in the state corporate income tax rate are possible for calendar years 2020 and 2021. Also, the Company's 2018 excess accumulated deferred state income tax reserves may warrant a true-up. Consequently, it is likely that future true-ups will be necessary.

Item 4

State of Florida



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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: November 26, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (Thurmond, Norris) *WT*
Office of the General Counsel (J. Crawford) *Bo*
TLT for JC

RE: Docket No. 20190005-WS – Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.

AGENDA: 12/10/19 – Regular Agenda – Interested Persons May Participate – *Proposed Agency Action*

COMMISSIONERS ASSIGNED: All Commissioners *11/26/19*

PREHEARING OFFICER: Administrative

CRITICAL DATES: 03/31/20 (Statutory Reestablishment Deadline)

SPECIAL INSTRUCTIONS: None

Case Background

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

Staff has calculated its proposed 2020 price index by comparing the Gross Domestic Product Implicit Price Deflator Index for the fiscal year ended September 30, 2019. This same procedure has been used each year since 1995 to calculate the price index. The U.S. Department of Commerce, Bureau of Economic Analysis, released its most recent third quarter figures on October 30, 2019.

Docket No. 20190005-WS

Date: November 26, 2019

Since March 31, 1981, the Commission has received and processed approximately 3,741 index and pass through applications. The Commission has jurisdiction over this matter pursuant to Section 367.081, F.S.

Discussion of Issues

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

Recommendation: The Gross Domestic Product Implicit Price Deflator Index is recommended for use in calculating price level adjustments. Staff recommends calculating the 2020 Price Index by using a fiscal year, four quarter comparison of the Implicit Price Deflator Index ending with the third quarter of 2019. (Thurmond)

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

Pursuant to Section 367.081(4)(a), F.S., the Commission, by order, shall establish a price increase or decrease index for major categories of operating costs incurred by utilities subject to its jurisdiction reflecting the percentage of increase or decrease in such costs from the most recent 12-month historical data available. Since 1995, the price index was determined by using a four quarter comparison, ending September 30, of the Implicit Price Deflator Index in order to meet the statutory deadline. The updated price index was determined by comparing the change in the GDP using the four quarter fiscal year comparison ending September 30, 2019. This method has been used consistently since 1995 to determine the price index.²

In Order No. PSC-2018-0612-PAA-WS, issued December 27, 2018, in Docket No. 20180005-WS, the Commission, in keeping with the practice started in 1993, reiterated the alternatives which could be used to calculate the indexing of utility revenues. Past concerns expressed by utilities, as summarized from utility input in previous hearings, are:

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

¹Order No. PSC-1993-0195-FOF-WS, issued February 9, 1993, in Docket No. 19930005-WS, *In re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.*

²Order No. PSC-1995-0202-FOF-WS, issued February 10, 1995, in Docket No. 19950005-WS, *In re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.*

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

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

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

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

The Commission further found that the Producer Price Index (PPI) is a family of indices that measure the average change over time in selling prices received by domestic producers of goods and services. PPI measures price change from the perspective of the seller, not the purchaser, and therefore should be rejected. The bases for these indices have not changed, and staff believes that the conclusions reached in Order No. PSC-2018-0612-PAA-WS should continue to apply in this case. Since 1993, the Commission has found that the GDP has a greater degree of applicability to the water and wastewater industry. Therefore, staff recommends that the Commission continue to use the GDP to calculate water and wastewater price level adjustments.

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

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

Year	Commission Approved Index	Year	Commission Approved Index
2008	2.39%	2014	1.41%
2009	2.55%	2015	1.57%
2010	0.56%	2016	1.29%
2011	1.18%	2017	1.51%
2012	2.41%	2018	1.76%
2013	1.63%	2019	2.36%

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

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

Year	Percentage	Year	Percentage
2008	42%	2014	39%
2009	53%	2015	49%
2010	29%	2016	38%
2011	43%	2017	37%
2012	30%	2018	42%
2013	41%	2019	60%

Issue 2: What rate should be used by water and wastewater utilities for the 2020 Price Index?

Recommendation: The 2020 Price Index for water and wastewater utilities should be 1.79 percent. (Thurmond)

Staff Analysis: The U.S. Department of Commerce, Bureau of Economic Analysis, released the most recent third quarter 2019 figures on October 30, 2019. Consistent with the Commission's establishment of the 2019 Price Index last year, staff is using the third quarter 2019 amounts to calculate staff's recommended 2020 Price Index. Using the third quarter amounts allows time for a hearing if there is a protest, in order for the Commission to establish the 2020 Price Index by March 31, 2020, in accordance with Section 367.081(4)(a), F.S. The percentage change in the GDP using the fiscal year comparison ending with the third quarter is 1.79 percent. This number was calculated as follows.

GDP Index for the fiscal year ended 9/30/19	112.627
GDP Index for the fiscal year ended 9/30/18	110.645
Difference	1.98
Divided by 9/30/18 GDP Index	<u>110.645</u>
2020 Price Index	<u>1.79%</u>

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

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

Staff Analysis: Staff recommends that the package presented in Attachment 1 be mailed to every regulated water and wastewater utility after the expiration of the PAA protest period, along with a copy of the PAA order once final. The entire package should also be made available on the Commission's website.

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

Issue 4: Should this docket be closed?

Recommendation: No. Upon expiration of the 14-day protest period, if a timely protest is not received, the decision should become final and effective upon the issuance of a Consummating Order. Any party filing a protest should be required to prefile testimony with the protest. However, this docket should remain open through the end of the year and be closed upon the establishment of the new docket on January 2, 2020. (J. Crawford, Thurmond)

Staff Analysis: Uniform Rule 25-22.029(1), F.A.C., contains an exception to the procedural requirements set forth in Uniform Rule 28-106.111, F.A.C., providing that “[t]he time for requesting a Section 120.569 or 120.57 hearing shall be 14 days from issuance of the notice for PAA orders establishing a price index pursuant to Section 367.081(4)(a), F.S.” Staff, therefore recommends that the Commission require any protest to the PAA Order in this docket be filed within 14 days of the issuance of the PAA Order, and that any party filing the protest should be required to prefile testimony with the protest. Upon expiration of the protest period, if a timely protest is not received, the decision should become final and effective upon the issuance of a Consummating Order. However, this docket should remain open through the end of the year and be closed upon the establishment of the new docket on January 2, 2020.

FLORIDA PUBLIC SERVICE COMMISSION
 PRICE INDEX APPLICATION
 APPLICABLE TEST YEAR _____

Department of Environmental Protection Public Water System ID NO. _____
 Department of Environmental Protection Wastewater Treatment Plant ID NO. _____

	WATER	WASTEWATER
Operation & Maintenance Expenses ¹	\$ _____	\$ _____
LESS:		
(a) Pass-through Items:		
(1) Purchased Power	_____	_____
(2) Purchased Water	_____	_____
(3) Purchased Wastewater Treatment	_____	_____
(4) Sludge Removal	_____	_____
(5) Other ²	_____	_____
(b) Rate Case Expense Included in Expenses	_____	_____
(c) Adjustments to Operation & Maintenance Expenses from last rate case, if applicable: ³		
(1) _____	_____	_____
(2) _____	_____	_____
Costs to be Indexed	\$ _____	\$ _____
Multiply by Annual Commission-Approved Price Index	<u>1.79</u> %	<u>1.79</u> %
Total Indexed Costs	\$ _____	\$ _____
Add Change in Pass-Through Items: ⁴		
(1) _____	_____	_____
(2) _____	_____	_____
Divide Index and Pass-Through Sum by Expansion Factor for Regulatory Assessment Fees	<u>.955</u>	<u>.955</u>
Increase in Revenue	_____	_____
Divide by Applicable Test Year Revenue ⁵	\$ _____	\$ _____
Percentage Increase in Rates	===== %	===== %

FOOTNOTES APPEAR ON THE FOLLOWING PAGE

PSC 1022 (09/18)

PAGE 1 FOOTNOTES

¹This amount must match last year's annual report.

²Other expense items may include increases in required Department of Environmental Protection testing, ad valorem taxes, permit fees charged by the Department of Environmental Protection or a local government authority, National Pollutant Discharge Elimination System fees, and regulatory assessment fees. These items should not be currently embedded in the utility's rates.

³This may include adjustments that follow a methodology referenced in the Order from a utility's last rate case (i.e. averaged bad debt expense or excessive unaccounted for water percentage applied to chemicals expense).

⁴This may include an increase in purchased power, purchased water, purchased wastewater treatment, sludge hauling, required Department of Environmental Protection testing, ad valorem taxes, and permit fees charged by the Department of Environmental Protection or a local government authority providing that those increases have been incurred within the 12-month period prior to the submission of the pass-through application. Pass-through National Pollutant Discharge Elimination System fees and increases in regulatory assessment fees are eligible as pass-through costs but not subject to the twelve month rule. All pass-through items require invoices. See Rule 25-30.425, F.A.C. for more information.

⁵If rates changed after January 1 of the applicable test year, the book revenues must be adjusted to show the changes and an explanation of the calculation should be attached to this form. See Annualized Revenue Worksheet for instructions and a sample format.

ANNUALIZED REVENUE WORKSHEET

Have the rates charged for customer services changed since January 1, of the applicable test year?

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

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

CALCULATION OF ANNUALIZED REVENUES*
 Consumption Data for Applicable Test Year

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

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

AFFIRMATION

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

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

Further, I am aware that pursuant to Section 367.081(4)(c), Florida Statutes, whoever makes a false statement in in this affirmation, which statement he or she does not believe to be true in regard to any material matter, is guilty of a felony of the third degree, punishable as provided in Sections 775.082, 775.083, or Section 775.084, Florida Statutes.

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

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

My Commission expires:

(SEAL)

Notary Public
State of Florida

STATEMENT OF QUALITY OF SERVICE

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

(name of utility)

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

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

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

NOTICE TO CUSTOMERS

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

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

Exception

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

Signature: _____

Title: _____

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

NOTICE TO CUSTOMERS

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

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

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

COMMISSIONERS:
GARY F. CLARK, CHAIRMAN
ART GRAHAM
JULIE I. BROWN
DONALD J. POLMANN
ANDREW GILES FAY

STATE OF FLORIDA



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

Public Service Commission

Month Day, 2020

All Florida Public Service Commission
Regulated Water & Wastewater Utilities

Re: Docket No. 20190005-WS - 2020 Price Index

Dear Utility Owner:

Since March 31, 1981, pursuant to the guidelines established by Section 367.081(4)(a), Florida Statutes (F.S.), and Rule 25-30.420, Florida Administrative Code (F.A.C.), the Commission has established a price index increase or decrease for major categories of operating costs. This process allows water and wastewater utilities to adjust rates based on current specific expenses without applying for a rate case. The intent of this rule is to insure that inflationary pressures are not detrimental to utility owners, and that any possible deflationary pressures are not adverse to rate payers. By keeping up with index and pass-through adjustments, utility operations can be maintained at a level sufficient to insure quality of service for the rate payers.

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

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

Please note that all sludge removal expense should now be removed from operation and maintenance expenses for the purpose of indexing. Incremental increases in this category of expense may now be recovered using a pass-through request.

Date: November 26, 2019

All Florida Public Service Commission
Regulated Water & Wastewater Utilities

Page 2

Month Day, 2020

Upon the filing of a request for an index and/or pass-through increase, staff will review the application and modify existing rates accordingly. If for no other reason than to keep up with escalating costs, utilities throughout Florida should file for this rate relief on an annual basis. Utilities may apply for a 2020 Price Index anytime between April 1, 2020, through March 31, 2021 by mail or by emailing Applications@psc.state.fl.us. The attached package will answer questions regarding what the index and pass-through rate adjustments are, how to apply for an adjustment, and what needs to be filed in order to meet the filing requirements. While this increase for any given year may be minor, (see chart below), the long-run effect of keeping current with rising costs can be substantial.

Year	Annual Commission Approved Index	Year	Annual Commission Approved Index
1995	1.95%	2008	2.39%
1996	2.49%	2009	2.55%
1997	2.13%	2010	0.56%
1998	2.10%	2011	1.18%
1999	1.21%	2012	2.41%
2000	1.36%	2013	1.63%
2001	2.50%	2014	1.41%
2002	2.33%	2015	1.57%
2003	1.31%	2016	1.29%
2004	1.60%	2017	1.51%
2005	2.17%	2018	1.76%
2006	2.74%	2019	2.36%
2007	3.09%	2020	1.79%

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

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

Sincerely,

Andrew L. Maurey

Director

Enclosures

Item 5

State of Florida



Public Service Commission

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

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

DATE: November 26, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Engineering (Lewis, Graves, Johnson, Knoblauch)
Division of Accounting and Finance (Norris, Seward, Thurmond)
Division of Economics (Bethea, Hudson) TB SYH JH
Office of the General Counsel (Schrader) K5

RE: Docket No. 20190166-WS – Application for increase in water rates in Highlands County by HC Waterworks, Inc.

Handwritten notes in blue ink: TB, SYH, JH, K5, TLT for JC, CKS, WT, and other initials.

AGENDA: 12/10/19 – Regular Agenda – Decision on Suspension of Rates and Interim Rates – Participation is at the Discretion of the Commission

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Fay

CRITICAL DATES: 12/16/19 (60-Day Suspension Date)

SPECIAL INSTRUCTIONS: None

Case Background

HC Waterworks, Inc. (Utility or HC) is a Class B Utility serving approximately 954 water customers in three subdivisions known as Leisure Lakes, Lake Josephine, and Sebring Lakes. The Utility's last rate case was in 2014.¹ According to the Utility's 2018 Annual Report, HC reported net operating revenues of \$641,745 and net operating expenses of \$420,732. On October 15, 2019, HC filed its application for the rate increase at issue in the instant docket.

On November 12, 2019, staff sent the Utility a letter indicating deficiencies in the filing of its minimum filing requirements (MFRs). As of the date of this recommendation, there are

¹Order No. PSC-2015-0282-PAA-WS, issued July 8, 2015, in Docket No. 20140158-WS, *In re: Application for increase in water/wastewater rates in Highlands County by HC Waterworks, Inc.*

deficiencies in the MFRs. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for interim and final rates is based on a 13-month average for the period ended June 30, 2019. HC requested an interim revenue increase of \$137,384 (24.11 percent). The Utility requested a final revenue increase of \$175,171 (30.75 percent).

The 60-day statutory deadline for the Commission to suspend the Utility's requested final rates and approve interim rates is December 16, 2019. This recommendation addresses the suspension of the Utility's requested final rates and its requested interim rates. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Should the Utility's proposed final water rates be suspended?

Recommendation: Yes. HC's proposed final water rates should be suspended. (Lewis, Johnson, Knoblauch, Bethea)

Staff Analysis: Section 367.081(6), F.S., provides that the Commission may, for good cause, withhold consent to the implementation of requested rates within 60 days after the date the rate request is filed. Further, Section 367.081(10), F.S., permits the proposed rates to go into effect (secured and subject to refund) at the expiration of five months from the official date of filing if: (1) the Commission has not acted upon the requested rate increase; or (2) the Commission's action is protested by a party other than the Utility.

Staff reviewed the filing and considered the information filed in support of the rate application and the proposed final rates. Staff believes that further investigation of this information, including on-site reviews, is needed. Staff initiated an audit of HC's books and records. The audit is tentatively due on January 20, 2020. In addition, staff sent its first data request to the Utility on November 21, 2019. The Utility's response to the data request is due on December 20, 2019. Based on the foregoing, staff recommends HC's proposed final water rates be suspended.

Issue 2: Should any interim revenue increase be approved?

Recommendation: Yes. HC should be authorized to collect annual revenues as indicated below:

	<u>Adjusted Test Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue Requirement</u>	<u>% Increase</u>
Water	\$569,711	\$66,364	\$636,075	11.65%

(Thurmond, Lewis, Johnson, Knoblauch)

Staff Analysis: On October 15, 2019, HC filed its rate base, cost of capital, and operating statements to support its requested interim increase in rates. Pursuant to Section 367.082(1), F.S., in order to establish a prima facie entitlement for interim relief, the Utility shall demonstrate that it is earning outside the range of reasonableness on its rate of return. Pursuant to Section 367.082(2)(a), F.S., in a proceeding for an interim increase in rates, the Commission shall authorize, within 60 days of the filing for such relief, the collection of rates sufficient to earn the minimum of the range of rate of return. Based on the Utility's filing and the recommended adjustments below, staff believes that the Utility has demonstrated a prima facie entitlement in accordance with Section 367.082(1), F.S.

Pursuant to Section 367.082(5)(b)1., F.S., the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with adjustments made in the Utility's most recent rate proceeding and annualizing any rate changes. Staff reviewed HC's interim request, as well as the order from the Utility's most recent rate proceeding, and believes adjustments are necessary as discussed below. Staff has attached accounting schedules to illustrate staff's recommended rate base, capital structure, and test year operating income amounts. Rate base is labeled as Schedule No. 1-A, with the adjustments shown on Schedule No. 1-B. Capital structure is labeled as Schedule No. 2. Operating income is labeled as Schedule No. 3-A, with the adjustments shown on Schedule No. 3-B.

Rate Base

Pursuant to Section 367.082, F.S., the method used to calculate Used and Useful (U&U) in HC's last rate case must be used for interim purposes. In Order No. PSC-2015-0282-PAA-WS, the Commission found that HC's system of water treatment plants, on a consolidated basis, was 89.9 percent U&U.² Additionally, the Commission found HC's storage to be 100 percent U&U, and the consolidated water distribution systems were found to be 95.3 percent U&U. Based on a review of the prior order and the Utility's filing in this case, staff recommends that the water treatment plant be considered 89.9 percent U&U, its storage be considered 100 percent U&U, and its water distribution system be considered 95.3 percent U&U.

In its filing, the Utility made a non-U&U adjustment of \$166,262 to reduce plant in service and a \$54,927 reduction to accumulated depreciation, for a net reduction of \$111,335 to rate base. Staff recommends an adjustment to further increase the non-U&U adjustment to rate base by \$82,185.

²Order No. PSC-2015-0282-PAA-WS, issued July 8, 2015, in Docket No. 20140158-WS, *In re: Application for increase in water/wastewater rates in Highlands County by HC Waterworks, Inc.*

In addition, staff recommends a corresponding adjustment to further decrease depreciation expense and property tax expense by \$4,480 and \$1,564, respectively.

Pursuant to Rule 25-30.433(5), Florida Administrative Code (F.A.C.), the averaging method used by the Commission to calculate rate base and cost of capital in a rate case proceeding shall be the beginning and end-of-year average for Class B utilities. The Utility's interim filing reflected the accumulated depreciation balance from the beginning of the test year. Staff recommends an increase of \$83,822 to accumulated depreciation to reflect the average balance. Additionally, corresponding MFR Schedule A-9, reflected an accumulated depreciation balance of \$7,640 for transportation equipment. However, the corresponding plant account had a zero balance. The same plant account also reflected depreciation expense of \$1,389 in the test year. Upon further review of the Final Order from HC's last rate case, this account was brought to a zero balance to remove negative depreciation. Since there have been no plant additions since that case, staff recommends a decrease in accumulated depreciation of \$7,640 and a corresponding decrease to depreciation expense of \$1,389. In total, staff recommends a net increase to accumulated depreciation of \$76,182 (\$83,822 - \$7,640).

On interim MFR Schedule G-2, the Utility reflected a contribution in aid of construction (CIAC) balance of \$904,320. Upon review of corresponding MFR Schedule A-12, staff found this balance does not include \$11,395 of CIAC associated with main extension charges. Therefore, staff recommends an increase of \$11,395 to CIAC to reflect the main extension charge CIAC incorrectly excluded.

Pursuant to Rule 25-30.433(3), F.A.C., the working capital allowance for Class B utilities shall be calculated using the formula method (one-eighth of operation and maintenance expenses). As a result of the adjustments staff is recommending to operation and maintenance (O&M) a corresponding decrease of working capital by \$1,754. This results in a working capital allowance of \$46,545 (\$372,364/8). Based on the above, staff recommends that HC's interim rate base should be \$2,415,696.

Cost of Capital

Pursuant to Section 367.082(2)(a), F.A.C., in a proceeding for an interim increase in rates, the Commission shall authorize, within 60 days of the filing of such relief, the collection of rates sufficient to earn the minimum of the range of return calculated in accordance with subparagraph (5)(b)2. Based on the above, staff recommends an interim return on equity for HC be lowered from 9.67 percent to 8.52 percent, consistent with Order No. PSC-2015-0282-PAA-WS.³

Pursuant to Rule 25-30.433(5), F.A.C., the averaging method used by the Commission to calculate rate base and cost of capital in a rate case proceeding shall be the beginning and end-of-year average for Class B utilities. In its filing, the Utility used a 13-month average to calculate customer deposits. As a result, staff decreased customer deposits by \$4,316 to reflect the beginning and end-of-year average.

³Order No. PSC-2015-0282-PAA-WS, issued July 8, 2015, In Docket No. 140158-WS, *In re: Application for increase in water/wastewater rates in Highlands County by HC Waterworks, Inc.*

Based on the above, staff recommends that the overall cost of capital be reduced from 7.39 percent to 6.83 percent.

Net Operating Income

In order to attain the appropriate amount of interim test year operation revenues, staff removed the Utility's requested interim revenue increase of \$137,384. Staff also reduced regulatory assessment fees (RAFs) by \$15,547 to reflect the removal of the Utility's requested revenue increase. Based on the above, staff recommends that the appropriate test year operating income, before any revenue increase is \$101,608.

On interim MFR Schedule G-4, the Utility reflected an O&M expense in the amount of \$386,388. Upon review of corresponding MFR Schedules B-1 and B-3, staff determined that the total included adjustments to the test year amount. Staff reviewed these adjustments and recommends removing the pro forma adjustments made to increase chemical expense by \$3,473 and purchased power expense by \$7,262, as interim does not allow for pro forma adjustments. Additionally, staff recommends removing \$1,486 of rate case expense corresponding to the current rate case. Therefore, staff recommends a total decrease to O&M of \$12,221 ($\$3,473 + \$7,262 + \$1,486$).

Rule 25-30.4325(1)(e), F.A.C., describes excessive unaccounted water as unaccounted for water in excess of 10 percent of the amount produced. Based on its MFRs, HC listed that in the test year 53,224,000 gallons were pumped, 33,693,000 gallons were sold, and 12,944,919 gallons were used for other uses, on a consolidated basis. The Utility calculated that 6,586,081 gallons or 12.4 percent of the water was unaccounted for, resulting in 2.4 percent of excessive unaccounted water. Applying staff's recommended EUW percentage results in a decrease to purchased power expense of \$959 (2.4 percent x \$39,975) and a decrease to chemical expense of \$844 (2.4 percent x \$35,152). This results in a total EUW O&M expense reduction of \$1,803.

On interim MFR Schedule G-4, the Utility reflected depreciation expense of \$134,552. Upon review of corresponding MFR Schedule B-13, staff determined that the total amount included \$11,449 of depreciation expense associated with pro forma items. As a result, staff recommends a decrease to depreciation expense of \$11,449.

Revenue Requirement

Based on the above adjustments, staff recommends a revenue requirement of \$636,075. This represents an interim increase in annual revenues of \$66,364 (or 11.65 percent). This increase will allow the Utility the opportunity to recover its operating expenses and earn 6.83 percent return on its rate base.

Issue 3: What are the appropriate interim water rates?

Recommendation: The recommended interim rate increase of 11.86 percent for water should be applied as an across-the-board increase to the existing service rates. The rates, as shown on Schedule No. 4, should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. In addition, the approved rates should not be implemented until the required security has been filed, 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 to customers within 10 days of the date of the notice. (Bethea)

Staff Analysis: Staff recommends that interim service rates for HC Waterworks be designed to allow the Utility the opportunity to generate annual operating revenues of \$636,075 for water. Before removal of miscellaneous revenues, this would result in an increase of \$66,364 (11.65 percent). To determine the appropriate increase to apply to the service rates, miscellaneous revenues should be removed from the test year revenues. The calculation is as follows:

**Table 3
 Percentage Service Rate Increase**

	<u>Water</u>
1 Total Test Year Revenues	\$569,711
2 Less: Miscellaneous Revenues	<u>\$10,237</u>
3 Test Year Revenues from Service Rates	\$559,474
4 Revenue Increase	<u>\$66,364</u>
5 Percentage Service Rate Increase (Line 4/Line 3)	11.86%

Source: Staff's Recommended Revenue Requirement and MFRs

Staff recommends that the interim rate increase of 11.86 percent for water be applied as an across-the-board increase to the existing service rates. The rates, as shown on Schedule No. 4 should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. In addition, the approved rates should not be implemented until the required security has been filed, 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 to customers within 10 days of the date of the notice.

Issue 4: What is the appropriate security to guarantee the interim increase?

Recommendation: The appropriate security to guarantee the funds collected subject to refund is a corporate undertaking. (Thurmond)

Staff Analysis: Pursuant to Section 367.082, F.S., revenues collected under interim rates shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by the Commission. As recommended in Issue 2, the recommended total annual interim revenue increase is \$66,364. Staff calculated the potential refund of revenues and interest collected under interim conditions in accordance with Rule 25-30.360, F.A.C., and determined the amount to be \$44,511. This amount is based on an estimated eleven months of revenue being collected from staff's recommended interim rates over the Utility's current authorized rates.

The owner/president provided the most recent three years of his personal financial net worth. Staff reviewed the confidential personal financial information provided by the owner/president.⁴ Staff believes that in this circumstance the owner/president has demonstrated the financial ability and wherewithal to guarantee the interim refund in this rate increase, if necessary. Further, the owner/president provided a personal guarantee in the amount of \$44,511, in this docket.⁵

Pursuant to Rule 25-30.360(6), F.A.C., the Utility should provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, F.A.C. Under no circumstances should maintenance and administrative costs associated with any refund be borne by the customers. Such costs are the responsibility of, and should be borne by, the Utility.

Accordingly, the appropriate security to guarantee the funds collected subject to refund is a corporate undertaking.

⁴Document No. 10882-2019 in Docket No. 20190166-WU.

⁵Document No. 10817-2019 in Docket No. 20190166-WU.

Issue 5: Should this docket be closed?

Recommendation: The docket should remain open pending the Commission's PAA decision on the Utility's requested rate increase. (Schrader)

Staff Analysis: The docket should remain open pending the Commission's PAA decision on the Utility's requested rate increase.

HC Waterworks, Inc. Schedule of Water Rate Base Test Year Ended 6/30/2019		Schedule No. 1-A Docket No. 20190166-WS				
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	
1 Plant in Service	\$4,654,511	\$0	\$4,654,511	\$0	\$4,654,511	
2 Land and Land Rights	25,450	0	25,450	0	25,450	
3 Non-used and Useful Components	0	(111,335)	(111,335)	(82,185)	(193,520)	
4 Accumulated Depreciation	(1,274,455)	0	(1,274,455)	(76,182)	(1,350,637)	
5 CIAC	(904,320)	0	(904,320)	(11,395)	(915,715)	
6 Amortization of CIAC	623,602	0	623,602	0	623,602	
7 Acquisition Adjustment	(809,041)	0	(809,041)	0	(809,041)	
8 Accum. Amort. of Acquisition Adjustment	334,500	0	334,500	0	334,500	
9 Working Capital Allowance	<u>48,299</u>	<u>0</u>	<u>48,299</u>	<u>(1,754)</u>	<u>46,545</u>	
10 Rate Base	<u>\$2,698,546</u>	<u>(\$111,335)</u>	<u>\$2,587,211</u>	<u>(\$171,515)</u>	<u>\$2,415,696</u>	

HC Waterworks, Inc. Adjustments to Rate Base Test Year Ended 6/30/2019		Schedule No. 1-B Docket No. 20190166-WS
Explanation	Water	
<u>Non-used and Useful</u>		
To reflect net non-used and useful adjustment.	<u>(\$82,185)</u>	
<u>Accumulated Depreciation</u>		
1 To reflect average balance.	(\$83,822)	
2 To make adjustment consistent with last rate case.	<u>7,640</u>	
Total	<u>(\$76,182)</u>	
<u>CIAC</u>		
To add test year CIAC.	<u>(\$11,395)</u>	
<u>Working Capital</u>		
To reflect 1/8 O&M.	<u>(\$1,754)</u>	

HC Waterworks, Inc. Capital Structure-Simple Average Test Year Ended 6/30/2019							Schedule No. 2 Docket No. 20190166-WS		
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Prorata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
Per Utility									
1 Long-term Debt	\$1,592,168	\$0	\$1,592,168	(\$92,041)	\$1,500,127	49.65%	5.25%	2.61%	
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4 Common Equity	1,578,675	0	1,578,675	(91,261)	1,487,414	49.23%	9.67%	4.76%	
5 Customer Deposits	36,034	0	36,034	(2,083)	33,951	1.12%	2.00%	0.02%	
6 Deferred Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
7 Total Capital	<u>\$3,206,877</u>	<u>\$0</u>	<u>\$1,614,710</u>	<u>(\$185,385)</u>	<u>\$3,021,492</u>	<u>100.00%</u>		<u>7.39%</u>	
Per Staff									
8 Long-term Debt	\$1,592,168	\$0	\$1,592,168	(\$391,194)	\$1,200,974	49.72%	5.25%	2.61%	
9 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
11 Common Equity	1,578,675	0	1,578,675	(387,879)	1,190,796	49.29%	8.52%	4.20%	
12 Customer Deposits	36,034	(4,316)	31,719	(7,793)	23,925	0.99%	2.00%	0.02%	
13 Deferred Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
14 Total Capital	<u>\$3,206,877</u>	<u>(\$4,316)</u>	<u>\$3,202,562</u>	<u>(\$786,866)</u>	<u>\$2,415,696</u>	<u>100.00%</u>		<u>6.83%</u>	
						LOW	HIGH		
RETURN ON EQUITY						<u>8.52%</u>	<u>10.52%</u>		
OVERALL RATE OF RETURN						<u>6.83%</u>	<u>7.82%</u>		

HC Waterworks, Inc. Statement of Water Operations Test Year Ended 6/30/2019							Schedule No. 3-A Docket No. 20190166-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement	
1 Operating Revenues:	<u>\$569,711</u>	<u>\$137,384</u>	<u>\$707,095</u>	<u>(\$137,384)</u>	<u>\$569,711</u>	<u>\$66,364</u> 11.65%	<u>\$636,075</u>	
Operating Expenses								
2 Operation & Maintenance	386,388	\$0	386,388	(14,024)	372,364		372,364	
3 Depreciation	134,552	0	134,552	(17,318)	117,234		117,234	
4 Amortization	(74,935)	0	(74,935)	0	(74,935)		(74,935)	
5 Taxes Other Than Income	64,369	6,182	70,551	(17,111)	53,440	2,986	56,427	
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7 Total Operating Expense	<u>510,374</u>	<u>6,182</u>	<u>516,556</u>	<u>(48,453)</u>	<u>468,103</u>	<u>2,986</u>	<u>471,090</u>	
8 Operating Income	<u>\$59,337</u>	<u>\$131,202</u>	<u>\$190,539</u>	<u>(\$88,931)</u>	<u>\$101,608</u>	<u>\$63,378</u>	<u>\$164,985</u>	
9 Rate Base	<u>\$2,587,211</u>		<u>\$2,587,211</u>		<u>\$2,415,696</u>		<u>\$2,415,696</u>	
10 Rate of Return	<u>2.29%</u>		<u>7.36%</u>		<u>4.21%</u>		<u>6.83%</u>	

HC Waterworks, Inc.		Schedule 3-B
Adjustment to Operating Income		Docket No. 20190166-WS
Test Year Ended 6/30/2019		
Explanation	Water	
<u>Operating Revenues</u>		
Remove requested interim revenue increase.	<u>(\$137,384)</u>	
<u>Operation and Maintenance Expense</u>		
1 To remove pro-forma chemical expense.	(\$3,473)	
2 To remove pro-forma purchased power expense.	(7,262)	
3 To remove amortized rate case expense from current docket.	(1,486)	
4 Reduction to chemical and purchased power for EUW.	<u>(1,803)</u>	
Total	<u>(\$14,024)</u>	
<u>Depreciation Expense - Net</u>		
1 To reflect accumulated depreciation adjustment from last case.	(\$1,389)	
2 To remove pro-forma depreciation expense.	(11,449)	
3 To remove net depreciation on non-U&U adjustment above.	<u>(4,480)</u>	
Total	<u>(\$17,318)</u>	
<u>Taxes Other Than Income</u>		
1 RAFs on revenue adjustments above.	(\$15,547)	
2 To remove property taxes on non-U&U adjustment above.	<u>(1,564)</u>	
Total	<u>(\$17,111)</u>	

HC WATERWORKS, INC.		SCHEDULE NO. 4		
TEST YEAR ENDED 6/30/2019		DOCKET NO. 20190166-WS		
MONTHLY WATER RATES				
	CURRENT RATES	UTILITY REQUESTED INTERIM	UTILITY REQUESTED FINAL	STAFF RECOMMENDED INTERIM
<u>Residential and General Service</u>				
Base Facility Charge by Meter Size				
5/8" x 3/4"	\$20.99	\$26.20	\$31.68	\$23.48
3/4"	\$31.49	\$39.30	\$47.52	\$35.22
1"	\$52.48	\$65.50	\$79.20	\$58.70
1-1/2"	\$104.97	\$131.02	\$158.40	\$117.40
2"	\$167.95	\$209.62	\$253.43	\$187.84
3"	\$335.89	\$419.24	\$506.87	\$375.68
4"	\$524.83	\$655.06	\$791.98	\$587.00
6"	\$1,049.66	\$1,310.12	\$1,583.96	\$1,174.00
8"	\$1,679.46	\$2,096.19	\$2,534.34	\$1,878.40
10"	\$2,414.22	\$3,013.27	\$3,634.11	\$2,700.20
Charge per 1,000 gallons - Residential				
0 - 3,000 gallons	\$8.07	\$10.07	\$11.28	\$9.03
Over 3,000 gallons	\$10.10	\$12.61	\$16.92	\$11.30
Charge per 1,000 gallons - General	\$8.66	\$10.81	\$12.38	\$9.69
<u>General Service (GS2)</u>				
3" Meter (75 ERC's)	\$1,574.49	\$1,965.00	\$2,376.00	\$1,761.00
Charge Per 1,000 gallons	\$8.66	\$10.81	\$12.38	\$9.69
<u>Private Fire Protection Service</u>				
Base Facility Charge by Meter Size				
2"	\$14.00	\$17.47	\$21.12	\$15.65
3"	\$27.99	\$26.21	\$42.24	\$31.31
4"	\$43.74	\$43.68	\$66.00	\$48.92
6"	\$87.47	\$87.35	\$132.00	\$97.83
8"	\$139.95	\$139.76	\$211.19	\$156.53
10"	\$201.19	\$279.52	\$303.59	\$225.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
2,000 Gallons	\$37.13	\$46.34	\$54.24	\$41.54
4,000 Gallons	\$55.30	\$69.02	\$82.44	\$61.87
6,000 Gallons	\$75.50	\$94.24	\$116.28	\$84.47

Item 6

State of Florida



Public Service Commission

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

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

DATE: November 26, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Hampson, Coston) ^{CJH} ^{WBL} ^{EM} ^{PSH}
Office of the General Counsel (Simmons, Trierweiler) ^{KS} ^{TA for JC}

RE: Docket No. 20190190-EI – Petition for approval of twelve-month extension of voluntary solar partnership rider and program, by Florida Power & Light Company.

AGENDA: 12/10/19 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 60-Day Suspension Date Waived by FPL until 12/10/2019

SPECIAL INSTRUCTIONS: None

Case Background

On October 7, 2019, Florida Power & Light Company (FPL) filed a petition for a one-year extension of its Voluntary Solar Partnership (VSP) pilot program and associated tariff. The VSP program was first approved in 2014 (2014 order) as a pilot with a termination date of December 31, 2017.¹ The VSP pilot program offers all FPL customers an opportunity, for \$9 per month, to participate in a voluntary program designed to fully-fund the construction and operation of solar photovoltaic generation facilities. These solar facilities are located in communities throughout FPL's service territory. FPL markets the VSP pilot program to customers as FPL SolarNow. Customers may enroll or cancel their enrollment at any time.

¹ Order No. PSC-14-0468-TRF-EI, issued August 29, 2014, in Docket No. 20140070-EI, *In re: Petition for approval of voluntary solar partnership pilot program and tariff, by Florida Power & Light Company.*

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In 2017, the Commission approved a one-year extension to allow FPL to gather additional data regarding the durability of customer interest over a more substantial period.² In 2018, the Commission approved an additional one-year extension to allow FPL to complete and evaluate research regarding how the VSP pilot program and a community shared solar program, scheduled to be filed in 2019, may impact one another.³ On March 13, 2019, FPL filed the community shared solar program and tariff, known as SolarTogether, for approval before the Commission.⁴

Since the Commission is not scheduled to make a decision regarding SolarTogether until 2020, FPL is requesting an additional one-year extension to the VSP pilot program. This additional extension will allow FPL to assess and evaluate the potential overlap in customer interest for the two programs, if SolarTogether is approved by the Commission. FPL's proposed VSP tariff revision, as shown in Attachment A to this recommendation, changes the termination date for service under the pilot program from December 31, 2019, to December 31, 2020.

FPL waived the 60-day file and suspend provision of Section 366.06(3), Florida Statutes (F.S.), until the December 10, 2019 Agenda Conference. During the evaluation of the petition, staff issued data requests to FPL for which responses were filed on October 29, November 4, and November 14, 2019. The Commission has jurisdiction over this matter pursuant to Sections 366.05, 366.06, and 366.075, F.S.

² Order No. PSC-2017-0499-TRF-EI, issued December 29, 2017, in Docket No. 20170212-EI, *In re: Petition for one-year extension of voluntary solar partnership rider and program, by Florida Power & Light Company.*

³ Order No. PSC-2018-0581-TRF-EI, issued December 17, 2018, in Docket No. 20180160-EI, *In re: Petition for 12-month extension of voluntary solar partnership rider and program, by Florida Power & Light Company.*

⁴ Document No. 03066-2019, filed March 13, 2019, in Docket No. 20190061-EI, *In re: Petition for approval of FPL SolarTogether program and tariff, by Florida Power & Light Company.*

Discussion of Issues

Issue 1: Should the Commission approve FPL's one-year extension of its VSP pilot program?

Recommendation: Yes. The Commission should approve the one-year extension of the VSP pilot program. This extension would allow FPL to evaluate the potential overlap in customer interest for the proposed SolarTogether program and the VSP pilot program, if SolarTogether is approved in 2020. The revised tariff, as shown in Attachment A, should be effective January 1 to December 31, 2020. FPL should petition the Commission regarding the future status of the VSP pilot program, prior to its expiration. (Hampson)

Staff Analysis:

Description of the Current VSP Pilot Program

The VSP pilot program is designed to be fully-funded by customers who contribute on a voluntary basis. Participants contribute to the revenue requirement associated with constructing and operating solar structures. The revenue requirement includes a return, depreciation, operations and maintenance expenses, and other costs such as property taxes and insurance. As required by the 2014 order, marketing and administrative expenses are capped at 20 percent of participant contributions. FPL has met this requirement each year since the VSP pilot program's inception.

Since 2016, FPL has demonstrated that the revenues received under the VSP pilot program exceed the revenue requirement of the solar facilities. FPL projects that the 2019 voluntary customer contributions will total \$5,231,000 by end-of-year, while the 2019 revenue requirement for the VSP pilot program will total \$4,670,000 by end-of-year.⁵ The electricity generated by the solar facilities displaces fuel that otherwise would have been used for generation, resulting in avoided fuel costs. FPL calculated the 2019 fuel savings to be \$85,000, resulting in a positive net impact to all customers of \$646,000.⁶

As discussed in the 2014 order, FPL sizes the VSP pilot program's solar projects based on the level of participation. As of August 31, 2019, FPL has installed 145 solar structures at 63 locations for a total of 2,325 direct current kilowatts (kW) of solar capacity. An additional 15 solar structures are under construction.⁷ FPL stated that the completed and planned solar structures comprise a diverse set of assets, including ground-mount structures, rooftop installations, covered walkways, parking canopies, and tree-like structures. These projects are located in public areas, such as parks, zoos, schools, museums, and transportation hubs. The installation size of the structures ranges from two kW to 250 kW. In response to staff's first data request, No. 7, FPL stated it will not pursue any additional construction until after the Commission has reached a decision regarding SolarTogether, aside from the 15 solar structures already in-construction or ready for construction.

⁵ Amounts reflect actuals through August 2019 and forecasted data for September 2019 – December 2019. See FPL's response to staff's first data request, No. 2. (DN 09789-2019).

⁶ \$5,231,000-\$4,670,000+\$85,000= \$646,000.

⁷ FPL provided a listing of all completed and planned solar projects not previously identified in response to staff's first data request, No. 1. (DN 09789-2019).

Table 1-1 shows the total number of customers participating in the VSP pilot program for the period May 2015 through May 2019. As of May 2019, there are 54,846 total participants, a 58 percent increase from May 2018.

**Table 1-1
VSP Participants**

	Residential	Commercial	Total Participants
May 2015	155	1	156
May 2016	3,043	27	3,070
May 2017	19,226	83	19,309
May 2018	31,177	638	34,646
May 2019	54,221	625	54,846

Source: FPL response to staff's first data request, No. 4.

Proposed FPL SolarTogether Program in Docket No. 20190061-EI

In March 2019, FPL petitioned the Commission for approval of the proposed SolarTogether program and associated tariff. The matter was originally set for an administrative hearing on October 15-16, 2019. However, in response to a motion for continuance, the matter is now set for a hearing on January 14-16, 2020.

FPL states that until the Commission issues a ruling on the proposed SolarTogether program, it cannot complete an assessment regarding the VSP pilot program and SolarTogether. Therefore, FPL states that until it can complete an assessment regarding the two programs, providing any recommendation regarding the future of the VSP pilot program would be premature. In response to staff's first data request, FPL stated it had three tasks for a comprehensive assessment of the two programs: (1) gather information about those interested in SolarTogether; (2) determine if there is an overlap in those interested in the two programs; and (3) determine if the overlap will have an impact on the VSP pilot program. Among other things, the proposed SolarTogether program differs from the VSP pilot program in that it would provide participants with direct credits on their electric bill associated with energy generated by the subscribed blocks of solar capacity.

Conclusion

Staff agrees that, pending a Commission decision regarding SolarTogether, a one-year extension will allow FPL to evaluate the two programs and any potential overlaps in customer interest. Therefore, staff recommends approval of the one-year extension of the VSP pilot program and tariff. The revised tariff, as shown in Attachment A, should be effective January 1 to December 31, 2020. FPL should petition the Commission regarding the future status of the VSP pilot program, prior to its expiration.

Issue 2: Should this docket be closed?

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

Staff Analysis: If Issue 1 is approved and 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. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.

FLORIDA POWER & LIGHT COMPANY

~~Second~~Third Revised Sheet No. 8.930
Cancels ~~First~~Second Revised Sheet No. 8.930

VOLUNTARY SOLAR PARTNERSHIP RIDER
(OPTIONAL PILOT PROGRAM)

RATE SCHEDULE: VSP

AVAILABLE:

In all territory served by FPL ("the Company") to customers receiving service under any FPL metered rate schedule. This voluntary solar partnership pilot program ("VSP Program", "the Pilot") provides customers an opportunity to participate in a program designed to construct and operate commercial-scale, distributed solar photovoltaic facilities located in communities throughout FPL's service territory. Service under this rider shall terminate December 31, ~~2019~~2020, unless extended by order of the Florida Public Service Commission ("FPSC"), or terminated earlier by the Company upon notice to the FPSC.

APPLICATION:

Available upon request to all customers in conjunction with the otherwise applicable metered rate schedule.

LIMITATION OF SERVICE:

Any customer under a metered rate schedule who has no delinquent balances with the Company is eligible to elect the VSP Program. A customer may terminate participation in the VSP Program at any time and may be terminated from the Pilot by the Company if the customer becomes subject to collection action on the customer's service account.

CHARGES:

Each voluntary participant shall agree to make a monthly contribution of \$9.00, in addition to charges applied under the otherwise applicable metered rate schedule. Customer billing will start on the next scheduled billing date upon notification of service request. The VSP Program contribution will not be prorated if the billing period is for less than a full month.

Upon participant's notice of termination, no VSP Program contribution will be assessed in the billing period in which participation is terminated.

TERM OF SERVICE:

Not less than one (1) billing period.

SPECIAL PROVISIONS:

Upon customer request, program participation may continue at a new service address if the customer moves within FPL's service territory.

RULES AND REGULATIONS:

Service under this rider is subject to orders of governmental bodies having jurisdiction and to the currently effective "General Rules and Regulations for Electric Service" on file with the Florida Public Service Commission. In case of conflict between any provisions of this schedule and said "General Rules and Regulations for Electric Service" the provisions of this rider shall apply.

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

Effective: **January 1, 2019**

Item 7

State of Florida



Public Service Commission

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

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

DATE: November 26, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Guffey, Coston, Draper) *S.K.G. W&C*
Office of the General Counsel (Simmons) *KS TH for JC* *EJD* *QAN*

RE: Docket No. 20190145-GU – Joint petition for approval of restructured Nassau County agreements to reflect Callahan expansion, by Peoples Gas System, Florida Public Utilities Company, SeaCoast Gas Transmission, and Peninsula Pipeline Company, Inc.

AGENDA: 12/10/19 – Regular Agenda – Proposed Agency Action - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Polmann

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

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COMMISSION CLERK

Case Background

On July 19, 2019, Florida Public Utilities Company (FPUC), Peoples Gas System (Peoples), Peninsula Pipeline Company, Inc. (Peninsula), and SeaCoast Gas Transmission, LLC, (SeaCoast) (collectively, the joint petitioners), filed a petition seeking Commission approval of restructured Nassau County transportation agreements to reflect the new Callahan intrastate pipeline (Callahan pipeline). The Callahan pipeline, which is currently under construction, will allow the joint petitioners to expand natural gas service in Nassau and Duval counties in Northeast Florida.

FPUC and Peoples are local distribution companies (LDCs) which own and operate natural gas distribution facilities to serve retail customers and are subject to the Commission's regulatory

jurisdiction under Chapter 366, Florida Statutes (F.S.). Peninsula and SeaCoast operate as intrastate natural gas transmission companies as defined in Section 368.103, F.S., and only transport natural gas.

In Order No. PSC-07-1012-TRF-GP,¹ Peninsula received approval of an intrastate gas pipeline tariff that allows it to construct and operate intrastate pipeline facilities and to actively pursue agreements with gas customers and enter into certain gas transmission agreements without prior Commission approval. Both Peninsula and FPUC are subsidiaries of Chesapeake Utilities Corporation; therefore, any agreements between the affiliates require Commission approval, pursuant to Section 368.105, F.S., and Order No. PSC-07-1012-TRF-GP.

Similarly to Peninsula, in Order No. PSC-08-0747-TRF-GP,² SeaCoast received approval of an intrastate gas pipeline tariff that allows it to construct and operate intrastate pipeline facilities and to actively pursue agreements with gas customers and enter into certain gas transmission agreements without prior Commission approval. SeaCoast and Peoples are affiliates in that their parent company is TECO Energy, Inc. and, therefore, their agreements must be approved by the Commission.

The joint petitioners' plans for the provision of natural gas service to residents in Nassau and Duval counties were previously addressed by the Commission in Order No. PSC-12-0230-PAA-GU.³ Specifically, in 2012, the Commission approved a Nassau-Duval County territorial agreement between FPUC and Peoples. The Nassau-Duval County territorial agreement provides that Peoples' service area includes Duval County and the WestRock facility (formerly known as RockTenn), a large paper mill on the northern tip of Amelia Island, while FPUC's service area is Nassau County.

In the same order, the Commission approved transportation service agreements between Peninsula and FPUC and between Peninsula and Peoples. The 2012 transportation agreements were needed in order to allow FPUC to serve Nassau County by transporting natural gas from Peoples' existing interconnection with the Florida Gas Transmission Company (FGT) interstate pipeline through Peoples' pipeline into the Fernandina Beach Line. The Fernandina Beach Line was jointly constructed in 2012 by Peoples and Peninsula.

The joint petitioners explained that since 2012, Nassau and Duval counties have experienced significant growth and, therefore, they jointly developed the proposed plan to bring additional natural gas capacity into the area. Furthermore, the joint petitioners stated that the existing Fernandina Beach Line is approaching full capacity and Peoples is experiencing pressure

¹ Order No. PSC-07-1012-TRF-GP, issued December 21, 2007, in Docket No. 20070570-GP, *In re: Petition for approval of natural gas transmission pipeline tariff by Peninsula Pipeline Company, Inc.*

² Order No. PSC-08-0747-TRF-GP, issued November 12, 2008, in Docket No. 20080561-GP, *In re: Petition for approval of natural gas transmission pipeline tariff by SeaCoast Gas Transmission, LLC.*

³ Order No. PSC-12-0230-PAA-GU, issued on May 9, 2012, in Docket No. 20110271-GU, *In re: Petition for approval of transportation service agreement with Florida Public Utilities Company, by Peninsula Pipeline Company, Inc., and Docket No. 20110277-GU, In re: Joint petition for approval of territorial agreement in Nassau and Duval Counties by Peoples Gas System and Florida Public Utilities Company; gas transportation agreement by Peoples Gas System and Peninsula Pipeline Company, Inc.; and application for approval of tariff revisions to reflect service in Nassau and Okeechobee Counties, by Florida Public Utilities Company.*

concerns in northern Duval County and has commitments for new customers. The joint petitioners state that the proposed agreements do not impact the 2012 Commission-approved Nassau-Duval County territorial agreement.

In the instant petition, the joint petitioners are seeking Commission approval of the following:

1. A new Firm Service Agreement between SeaCoast and Peoples (Issue 1)
2. Amendment to Peninsula and FPUC's 2012 Transportation Service Agreement (Issue 2)
3. Cancellation of Peninsula and Peoples' 2012, and amended in 2015, Transportation Agreement (Issue 3).

This recommendation includes three attachments. Attachment A is a map depicting the Callahan pipeline, Attachment B includes the SeaCoast/Peoples Firm Service Agreement as discussed in Issue 1, and Attachment C includes the 2012 Peninsula/FPUC Transportation Service Agreement and the 2019 amendment as discussed in Issue 2.

During the evaluation of the instant petition, staff issued a data request to the joint petitioners for which responses were received on October 10, 2019. On November 6, 2019, staff held an informal meeting with the joint petitioners. The Commission has jurisdiction over this matter pursuant to Sections 366.04, 366.05(1), 366.06, and 368.105, F.S.

Discussion of Issues

Issue 1: Should the Commission approve the Firm Service Agreement (agreement) dated July 19, 2019, between SeaCoast and Peoples?

Recommendation: Yes, the Commission should approve the agreement dated July 19, 2019, between SeaCoast and Peoples as shown in Attachment B to this recommendation. (Guffey, Coston, Draper)

Staff Analysis: The new 16-inch steel Callahan pipeline is being constructed to allow FPUC and Peoples to expand natural gas service in Nassau and Duval counties. The construction of the Callahan pipeline does not need Commission approval; however, staff believes a description of the Callahan pipeline project is helpful to establish context for the joint petition. Investment and ownership in the Callahan pipeline is split 50/50 between Peninsula and SeaCoast.⁴ Peoples and FPUC explained that contracting with the intrastate pipelines to construct and own the Callahan pipeline, as opposed to building it themselves, will avoid the LDCs undertaking the costs and risk for this project, thus protecting their ratepayers. Peoples and FPUC also stated that the intrastate companies are well experienced in permitting, land acquisition, and construction of a project of this size and scope.

The Callahan pipeline will interconnect with the Southern Natural Gas Company, LLC, interstate pipeline (SONAT) in western Nassau County and will extend 26.5 miles eastward and terminate at the existing Fernandina Beach Line. In Attachment A to this recommendation, the Callahan pipeline is shown as the green line and the Fernandina Beach Line is shown as the red line. The joint petitioners explained that since both FPUC and Peoples need additional natural gas quantities in Nassau and Duval counties, the jointly constructed pipeline avoids two companies constructing separate pipelines and, therefore, avoids a duplication of facilities. In addition, the interconnect with SONAT will provide FPUC and Peoples the ability to receive natural gas from a second interstate pipeline. The current interconnect for FPUC and Peoples to receive natural gas in Northeast Florida is with the FGT pipeline.

Since SeaCoast and Peoples are affiliated companies, the proposed agreement requires Commission approval. Pursuant to the agreement, SeaCoast will provide firm transportation service for Peoples over its portion of the Callahan pipeline for an initial term of 20 years, with an option to extend for an additional ten years. Peoples will recover its payments to SeaCoast through the Purchased Gas Adjustment (PGA) mechanism and from transportation customers, consistent with prior pipeline projects. The effective date of the agreement is expected to be September 30, 2020, which is the estimated in-service date of the Callahan pipeline.

SeaCoast and Peoples assert that the negotiated reservation charge set forth in the agreement is a cost-based market rate and is designed to allow SeaCoast to recover its costs associated with the Callahan pipeline. Based on the petition and responses to staff's data request, SeaCoast and Peoples have supported the need of the new Callahan pipeline and associated agreement. Staff believes the proposed agreement is reasonable, meets the requirements of Section 368.105, F.S.,

⁴ Total capacity of the Callahan pipeline will be 148,248 dekatherms/day, with Peninsula and SeaCoast each holding 74,124 dekatherms/day of that capacity.

and benefits Peoples' customers by allowing Peoples to expand natural gas service to new customers and ensure appropriate natural gas pressure for existing customers. Therefore, staff recommends approval of the agreement dated July 19, 2019, between SeaCoast and Peoples.

Issue 2: Should the Commission approve the Amended Firm Gas Transportation Service Agreement dated July 19, 2019, between Peninsula and FPUC?

Recommendation: Yes, the Commission should approve the Amended Transportation Service Agreement (amended agreement) between Peninsula and FPUC as shown in Attachment C to this recommendation. (Guffey, Coston, Draper)

Staff Analysis: The current Commission-approved transportation service agreement dated February 1, 2012 (2012 agreement), between Peninsula and FPUC allows Peninsula to transport and deliver natural gas to FPUC through Peoples' distribution system and the Fernandina Beach Line.⁵ The negotiated confidential charges contained in the 2012 agreement require FPUC to pay Peninsula for the transportation of the natural gas. Transportation agreements typically include terms such as the Maximum Daily Transportation Quantity (MDTQ), the negotiated monthly reservation charge, and points of delivery. The MDTQ is the largest daily quantity of gas Peninsula is obligated to transport on a firm basis for delivery to FPUC.

Once the Callahan pipeline is in operation, FPUC will no longer need Peninsula to transport natural gas for delivery through Peoples' distribution system. Instead, Peninsula will transport natural gas for delivery to FPUC across its portion of the Callahan pipeline and the Fernandina Beach Line. FPUC stated that the Callahan pipeline is a large diameter pipe compared to Peoples' line which allows for natural gas to be delivered at a high pressure. Therefore, Peninsula will be able to deliver increased quantities of natural gas to FPUC.

To reflect the transportation of gas via the Callahan pipeline, Peninsula and FPUC are proposing to amend their 2012 agreement to increase the MDTQ and the corresponding change in the monthly reservation charge. The negotiated monthly reservation charge in the amended agreement is designed to recover Peninsula's portion of the Callahan project. The amended agreement changes the delivery point from the FGT/Peoples interconnect to the Callahan interconnect with SONAT. In addition, the agreement adds additional points of delivery to FPUC at several locations along the Callahan route in Nassau County. Finally, the initial 15-year term of the 2012 agreement will be extended for 13 years.

The amended agreement only provides for revisions to the first page and Exhibit A to the 2012 agreement. For clarity, staff included in Attachment C to this recommendation the entire 2012 agreement and the amendment to that agreement. Staff believes the proposed amendment is reasonable and benefits FPUC's customers by allowing FPUC to expand natural gas service in Nassau County. Therefore, staff recommends approval of the amended agreement between Peninsula and FPUC.

⁵ Order No. PSC-12-0230-PAA-GU.

Issue 3: Should the Commission approve the cancellation of the Gas Transportation Agreement between Peninsula and Peoples?

Recommendation: Yes, the Commission should approve the cancellation of the Gas Transportation Agreement between Peninsula and Peoples effective with the in-service date of the Callahan pipeline. (Guffey, Coston)

Staff Analysis: In 2012, the Commission approved a Gas Transportation Agreement between Peninsula and Peoples.⁶ This agreement allows Peoples to provide transportation service to Peninsula across Peoples' system (yellow line in Attachment A to this recommendation). Because Peninsula and Peoples negotiated a payment structure not anticipated in Peoples' tariff, Rule 25-9.034, Florida Administrative Code, requires the Commission to approve this special contract. The fixed monthly charge, payable by Peninsula, was designed to recover Peoples' investment in certain upgrades to its facilities to support Peoples' transportation of natural gas for Peninsula.

In 2015, the Commission approved in Order No. PSC-15-0318-PAA-GP an amendment to the special contract between Peninsula and Peoples. The amendment enabled Peoples to provide Peninsula with incremental transportation service.⁷

The joint petitioners explained that when the Callahan pipeline becomes operational, Peoples will no longer transport natural gas on behalf of Peninsula. Therefore, this contractual obligation becomes obsolete and both parties have agreed to terminate the agreement. While Peoples will no longer receive payments from Peninsula after the agreement is terminated, Peoples stated that it will recover its investment through revenue derived from new growth in St. Johns County and in Duval County. In response to staff's data request, the joint petitioners stated that the anticipated effective date of the termination of the agreement is September 30, 2020 (the current anticipated in-service date of the Callahan pipeline). Since the existing agreement between Peninsula and Peoples will become obsolete when the Callahan pipeline goes into service, staff recommends approval of the cancellation of the Gas Transportation Agreement between Peninsula and Peoples.

⁶ Order No. PSC-12-0230-PAA-GU.

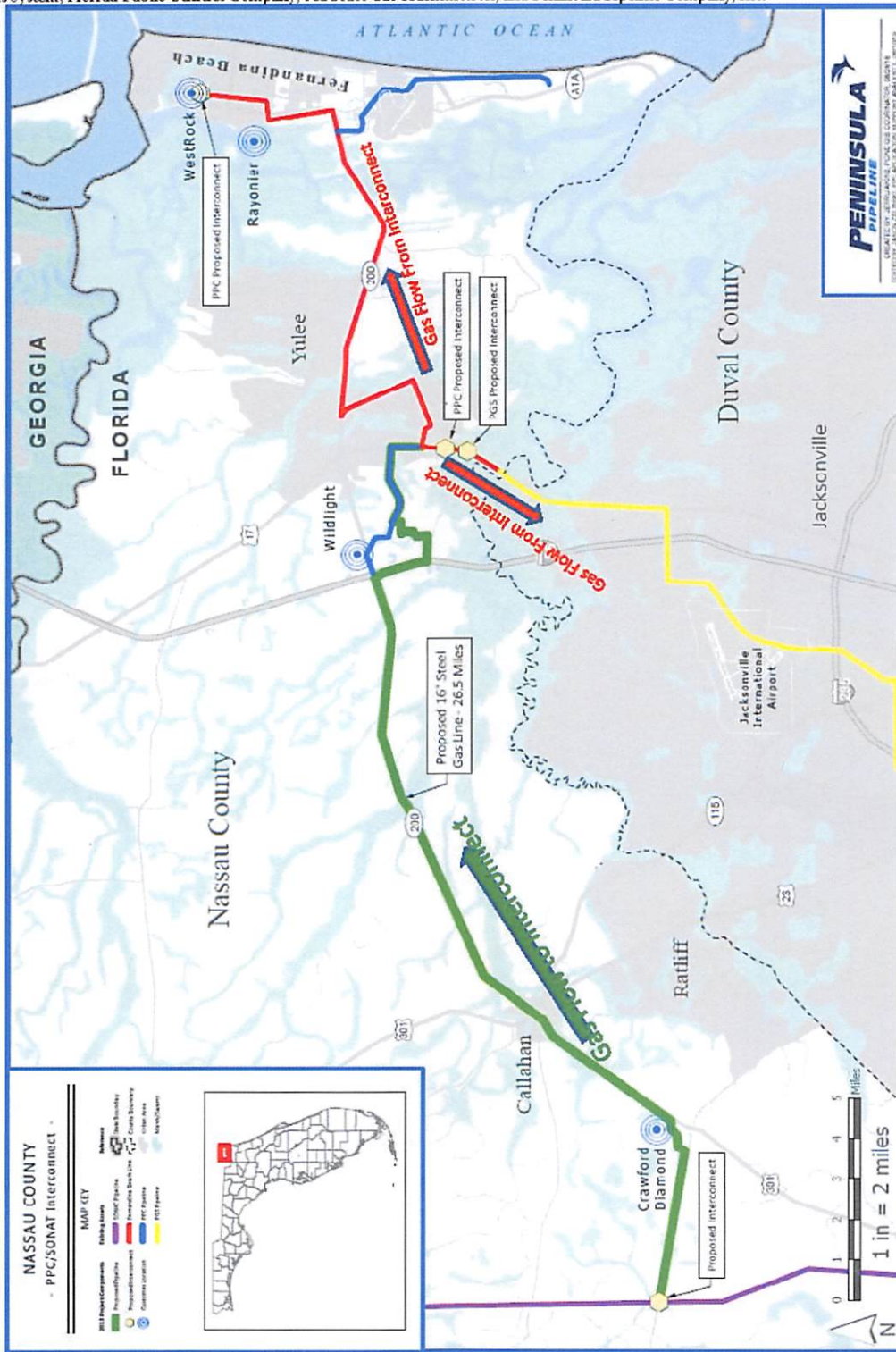
⁷ Order No. PSC-15-0318-PAA-GP, issued August 10, 2015, in Docket No. 20150094-GP, *In re: Petition for approval of amendment to special contract with Peninsula Pipeline Company, by Peoples Gas System.*

Issue 4: 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. (Simmons)

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.

Re: Docket No. 20190145-GU: Joint petition for approval of restructured Nassau County agreements to reflect Callahan expansion, by Peoples Gas System, Florida Public Utilities Company, SeaCoast Gas Transmission, and Peninsula Pipeline Company, Inc.



SEACOAST/PGS FIRM TRANSPORTATION SERVICE AGREEMENT

(REDACTED)

Date: July 19, 2019

Contract No. FT1-PGS-0003

FIRM SERVICE AGREEMENT

This AGREEMENT is entered into by and between **SeaCoast Gas Transmission, L.L.C.** ("Company") and **Peoples Gas System**, a division of **Tampa Electric Company**, a Florida corporation ("PGS").

WHEREAS, PGS has requested Company to transport Gas to be delivered to PGS's distribution system on a firm basis and Company represents that it is willing to transport PGS's Gas under the terms and conditions of this Agreement.

NOW, THEREFORE, Company and PGS agree that the terms below, together with the General Terms and Conditions of Company's Tariff, constitute the transportation service to be provided and the rights and obligations of PGS and Company.

1. Transportation service under this Agreement will be provided under Section 368.105 (3) and (4) of the Natural Gas Transmission Pipeline Intrastate Regulatory Act ("Regulatory Act").
2. **SERVICE TYPE:** Firm Transportation Service
3. **RATE:**

- a. During the term of this Agreement, PGS shall pay to Company the monthly reservation charge for Firm Transportation Service provided under this Agreement, which shall be equal to the MDQ for the respective month multiplied by the number of days in each month multiplied by the rate per Dekatherm set forth in Exhibit B of this Agreement.

1. The parties agree to execute and file with the Commission this Firm Service Agreement to comply with the provisions of the Regulatory Act. In the event this Firm Service Agreement is not approved by the Commission, the same shall be of no further force or effect.
2. It is further agreed that Company may seek authorization from the Commission and/or other appropriate body at any time and from time to time to change provisions in the General Terms and Conditions of Company's Tariff, and Company shall have the right to place such changes in effect in accordance with the Regulatory Act. This Agreement shall be deemed to include such changes and any changes which become effective by operation of law and Commission order. Nothing contained herein shall require PGS to support a position contrary to its own interests in its commercially reasonable discretion, nor require a PGS to support a tariff provision that would materially reduce the value of the service described herein. Notwithstanding the foregoing, Company and PGS agree not to initiate any proceeding before the Commission with respect to an increase or decrease in any negotiated rate during the term of such negotiated rate.

4. CONTRACT DATA:

The Maximum Daily Quantity ("MDQ") for service under this Agreement is listed on Exhibit A and Exhibit B attached hereto and is incorporated herein as if copied and set forth herein at length.

The Maximum Hourly Quantity ("MHQ") for service under this Agreement is listed on Exhibit A and Exhibit B attached hereto and is incorporated herein as if copied and set forth herein at length.

The Primary Receipt Point(s), Primary Route (if applicable), and Receipt Point MDQ are listed on Exhibit A attached hereto and are incorporated herein as if copied and set forth herein at length.

The Primary Delivery Point(s) (if applicable), Delivery Point MDQ and Delivery Pressure are listed on Exhibit B attached hereto and are incorporated herein as if copied and set forth herein at length.

5. BALANCING OF RECEIPTS AND DELIVERIES OF GAS:

Balancing of receipts and deliveries shall be governed by the provisions of a separate Operational Balancing Agreement ("OBA"), such agreement to be executed by Company and PGS as soon as reasonably practicable after this Agreement is executed. The Parties shall negotiate in good faith to develop an OBA providing, among other things, that (a) the Party responsible for creation of an imbalance shall be responsible for the resolution of the same (either with the upstream pipeline or by reimbursement to the other Party), (b) the Party responsible for the incurrence of a penalty imposed by an upstream pipeline shall be responsible for payment or reimbursement, and (c) if the Parties are jointly responsible for an imbalance, or the imposition of an upstream pipeline penalty, the responsibility for payment or reimbursement shall be allocated between the Parties based on causation.

6. TERM:

This Agreement shall be effective upon the date of its execution by PGS. Service under this Agreement shall commence on the Commencement Date (as hereinafter defined) and shall continue until 0:00 a.m. CCT on the twentieth (20th) anniversary of the Commencement Date ("Primary Term"). Upon two years written notice to Company, PGS shall have the unilateral right to extend the term of this Agreement at the rate set forth in Exhibit B for a period of ten (10) years from the commencement of service. Company may discontinue service hereunder upon 30 Days written notice if (a) PGS, in Company's reasonable judgement fails within such 30-Day notice period to demonstrate creditworthiness, e.g., by failing to provide adequate security in accordance with Section 18 of the General Terms and Conditions, or (b) PGS fails within such notice period to restore imbalances arising in connection with services rendered. As used herein, the term "Commencement Date" means the first Day of the Month following receipt by PGS of notice from Company that the facilities through which Company will provide service pursuant to this Agreement have been completed, tested and are available to provide firm transportation service.

7. CREDIT REQUIREMENTS:

- a. PGS must demonstrate that it has an Investment Grade Credit Rating. If PGS has an Investment Grade Credit Rating on the date it executes and delivers this Service Agreement, but later ceases to have an Investment Grade Credit Rating, PGS must provide security as set forth in categories 1. or 2. below.
- b. If PGS, at the time of its execution and delivery of this Service Agreement, or at any time thereafter during the term of this Service Agreement, does not qualify under paragraph (a), PGS must provide security for its obligations by providing to or as directed by Company:
 1. an irrevocable guarantee, in form, amount and substance acceptable to Company in its commercially reasonable discretion (such discretion including the requirements of Company's lenders, if any), supporting PGS's obligations under this Service Agreement from a Guarantor acceptable to Company in its commercially reasonable discretion having an Investment Grade Credit rating; or
 2. a Letter of Credit, or a cash deposit in an amount equal to the amount of a Letter of Credit, or such other form of security as Company deems in its sole discretion, to be acceptable.

Notwithstanding the foregoing, Company may waive or reduce, in its sole discretion, the foregoing creditworthiness requirement, subject to revocation of such waiver or reduction if a material change occurs in the financial criteria relied upon at the time such waiver or reduction was granted.

PGS shall (a) furnish to Company, (i) as soon as available, but in any event within 120 days after the end of each fiscal year of PGS, audited financial statements of PGS setting forth in comparative form the corresponding figures for the preceding fiscal year together with the auditor's report thereon, and (ii) as soon as available, but in any event within 60 days after the last day of each of PGS's first three fiscal quarters, quarterly unaudited financial statements of PGS on a basis consistent with the corresponding period of the preceding fiscal year, and (b) cooperate with Company to obtain and provide to Company, where possible, such additional information regarding the financial condition of PGS as Company may reasonably request from time to time. Company may, in its sole discretion, accept unaudited financial statements in lieu of the audited statements described in clause (i) above.

8. COMPANY'S TARIFF PROVISIONS:

Company's tariff approved by the Commission, including any amendments thereto approved by the Commission during the term of this Agreement, is hereby incorporated into this Agreement and made a part hereof for all purposes. In the event of any conflict between Company's tariff and the specific provisions of this Agreement, the latter shall prevail, in the absence of a Commission Order to the contrary.

9. NOTICES:

Except as otherwise provided in the Tariff, all notices shall be in writing and mailed to the applicable address below or transmitted via facsimile. PGS or Company may change the addresses or other information below by written notice to the other without the necessity of amending this Agreement:

COMPANY:
SeaCoast Gas Transmission, L.L.C.
702 N. Franklin Street
Tampa, FL 33602
Attention: Manager, Regulatory
Fax: (813) 228-4742

PGS:
Peoples Gas System
702 N. Franklin Street
Tampa, FL 33602
Attention: Managing Director, Fuels Management
Telephone: (813) 228-4664
Fax: (813) 228-4742

PGS shall designate in writing an individual who is duly authorized to act for PGS with respect to all operational matters arising under this Agreement and accessible to Company at all times each Day during the term hereof, to act as PGS's "Contact Person". In performing under this Agreement, Company shall be entitled to rely upon any instruction or consent given by such Contact Person with respect to operational matters arising hereunder.

10. CANCELLATION OF PRIOR CONTRACT(S):

This Agreement supersedes and cancels, as of the effective date of this Agreement, the contract(s) between the parties hereto as described below, if applicable:

None.

11. OPERATIONAL FLOW ORDERS:

Company has the right to issue effective Operational Flow Orders pursuant to Section 12 of the General Terms and Conditions.

12. HEADINGS:

All article headings, section headings and subheadings in this Agreement are inserted only for the convenience of the parties in identification of the provisions hereof and shall not affect any construction or interpretation of this Agreement.

13. ENTIRE AGREEMENT:

This Agreement, including the Exhibits attached hereto, sets forth the full and complete understanding of the parties as of the date of its execution by both parties, and supersedes any and all prior negotiations, agreements and understandings with respect to the subject matter hereof. Neither party shall be bound by any other obligations, conditions or representations with respect to the subject matter of this Agreement.

14. AMENDMENTS:

Neither this Agreement nor any of the terms hereof may be terminated, amended, supplemented, waived or modified except by an instrument in writing signed by the party against which enforcement of the termination, amendment, supplement, waiver or modification shall be sought. A change in (a) the place to which notices pursuant to this Agreement must be sent or (b) the individual designated as the Contact Person pursuant to Section 9 shall not be deemed nor require an amendment of this Agreement provided such change is communicated in accordance with Section 9 of this Agreement. Further, the parties expressly acknowledge that the limitations on amendments to this Agreement set forth in this section shall not apply to or otherwise limit the effectiveness of amendments that are or may be necessary to comply with the requirements of, or are otherwise approved by, the Commission or its successor agency or authority.

15. SEVERABILITY:

If any provision of this Agreement becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full force and effect without said provision; provided, however, that if such severability materially changes the economic benefits of this Agreement to either party, the parties shall negotiate in good faith an equitable adjustment in the provisions of this Agreement.

16. WAIVER:

No waiver of any of the provisions of this Agreement shall be deemed to be, nor shall it constitute, a waiver of any other provision whether similar or not. No single waiver shall constitute a continuing waiver, unless otherwise specifically identified as such in writing. No waiver shall be binding unless executed in writing by the party making the waiver.

17. INDEPENDENT PARTIES:

Company and PGS shall perform hereunder as independent parties. Neither Company nor PGS is in any way or for any purpose, by virtue of this Agreement or otherwise, a partner, joint venturer, agent, employer or employee of the other. Nothing in this Agreement shall be for the benefit of any third person for any purpose, including, without limitation, the establishing of any type of duty, standard of care or liability with respect to any third person.

18. ASSIGNMENT AND TRANSFER:

No assignment of this Agreement by either party may be made without the prior written approval of the other party (which approval shall not be unreasonably withheld) and unless the assigning or transferring party's assignee or transferee shall expressly assume, in writing, the duties and obligations under this Agreement of the assigning or transferring party. Upon such assignment or transfer, as well as assumption of the duties and obligations, the assigning or transferring party shall furnish or cause to be furnished to the other party a true and correct copy of such assignment or transfer and the assumption of duties and obligations.

19. GOVERNMENTAL AUTHORIZATIONS; COMPLIANCE WITH LAW:

This Agreement shall be subject to all valid applicable state, local and federal laws, orders, directives, rules and regulations of any governmental body, agency or official having jurisdiction over this Agreement and the transportation of Gas hereunder. Company and PGS shall comply at all times with all applicable federal, state, municipal, and other laws, ordinances and regulations. Company and/or PGS will furnish any information or execute any documents required by any duly constituted federal or state regulatory authority in connection with the performance of this Agreement. Each party shall proceed with diligence to file any necessary applications with any governmental authorities for any authorizations necessary to carry out its obligations under this Agreement. In the event this Agreement or any provisions herein shall be found contrary to or in conflict with any applicable law, order, directive, rule or regulation, the latter shall be deemed to control, but nothing in this Agreement shall prevent either party from contesting the validity of any such law, order, directive, rule, or regulation, nor shall anything in this Agreement be construed to require either party to waive its respective rights to assert the lack of jurisdiction of any governmental agency other than the Commission, over this Agreement or any part thereof. In the event of such contestation, and unless otherwise prohibited from doing so under this Section 18, Company shall continue to transport and PGS shall continue to take Gas pursuant to the terms of this Agreement. In the event any law, order, directive, rule, or regulation shall prevent either party from performing hereunder, then neither party shall have any obligation to the other during the period that performance under the Agreement is precluded.

20. APPLICABLE LAW AND VENUE:

This Agreement and any dispute arising hereunder shall be governed by and interpreted in accordance with the laws of the State of Florida. The venue for any action, at law or in equity, commenced by either party against the other and arising out of or in connection with this Agreement shall be in a court of the State of Florida having jurisdiction.

21. COUNTERPARTS:

This Agreement may be executed in counterparts, all of which taken together shall constitute one and the same instrument and each of which shall be deemed an original instrument as against any party who has signed it.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed by their respective officers and/or authorized representatives to be effective as of the date stated above.

COMPANY:

SEACOAST GAS TRANSMISSION, L.L.C.

By: T. J. [Signature]

Title: Vice President

By: [Signature]

Title: VP Engineering

PGS:

PEOPLES GAS SYSTEM, a
division of Tampa Electric
Company

By: Jana Z. Wedde

Title: VP Marketing & Sales

By: [Signature]

Title: VP Regulatory Affairs

EXHIBIT A

For Contract No. FT1-PGS-0003

BETWEEN SEACOAST GAS TRANSMISSION COMPANY, L.L.C. AND PEOPLES GAS SYSTEM, A DIVISION OF TAMPA ELECTRIC COMPANY

Primary Receipt Points:

Primary Receipt Point


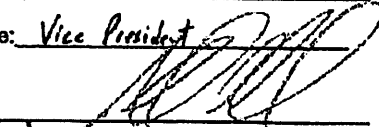
SNG/Cypress-Callahan

Primary Receipt Point MDQ

██████ Dth per Day

SEACOAST GAS TRANSMISSION, L.L.C.

PEOPLES GAS SYSTEM,
a division of Tampa Electric
Company

By: 
Title: Vice President
By: 
Title: VP Engineering

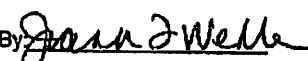
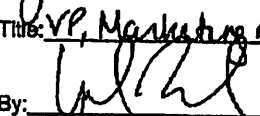
By: 
Title: VP, Marketing & Sales
By: 
Title: VP Regulatory Affairs

EXHIBIT B

For Contract No. FT1-PGS-0003

BETWEEN SEACOAST GAS TRANSMISSION, L.L.C. AND PEOPLES GAS SYSTEM, A
DIVISION OF TAMPA ELECTRIC COMPANY

RATE:
Reservation: \$ [REDACTED] per Dth
Usage 1: \$ [REDACTED] per Dth
Retainage: TBD

Primary Delivery Points:

<u>Primary Delivery Point</u>	<u>Primary Delivery Point MDQ</u>	<u>Minimum Delivery Pressure</u>
PPCVGS Westrock Interconnection Point	TBD	TBD
Callahan-FB Line South Interconnection Point	TBD	TBD

Maximum Daily Transport Quantity [REDACTED]

Maximum Hourly Flow Rate: TBD

Maximum Hourly Quantity: TBD

SEACOAST GAS TRANSMISSION, L.L.C.

PEOPLES GAS SYSTEM, a division
of Tampa Electric Company

By: [Signature]

By: [Signature]

Title: Vice President

Title: VP, Marketing & Sales

By: [Signature]

By: [Signature]

Title: VP Engineering

Title: VP Regulatory Affairs

EXHIBIT C

For Contract No. FT1-PGS-0003

**BETWEEN SEACOAST GAS TRANSMISSION, L.L.C. AND PEOPLES GAS SYSTEM, A
DIVISION OF TAMPA ELECTRIC COMPANY**

OPERATIONAL BALANCING AGREEMENT

[To be negotiated per Section 5 of the Firm Service Agreement]

Redacted

Docket No. 110271-GU

**Firm Transportation Service Agreement
Between
Florida Public Utilities Company and
Peninsula Pipeline**

As revised and dated February 1, 2012

PENINSULA PIPELINE COMPANY, INC.
FIRM TRANSPORTATION SERVICE AGREEMENT

THIS AGREEMENT entered into this 1st day of February, 2012, by and between Peninsula Pipeline Company, Inc., a corporation of the State of Delaware (herein called "Company"), and Florida Public Utilities Company, a corporation of the State of Florida (herein called "Shipper").

WITNESSETH

WHEREAS, Shipper desires to obtain Firm Transportation Service ("FTS") from Company; and

WHEREAS, Company desires to provide Firm Transportation Service to Shipper in accordance with the terms hereof.

NOW THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, the sufficiency of which is hereby acknowledged, Company and Shipper do covenant and agree as follows:

ARTICLE I
DEFINITIONS

Unless otherwise defined in this Agreement, all definitions for terms used herein have the same meaning as provided in Company's tariff.

ARTICLE II
QUANTITY; UNAUTHORIZED USE

2.1 The Maximum Daily Transportation Quantity ("MDTQ") and the Maximum Hourly Transportation Percentage ("MHTP") shall be set forth on Exhibit A attached hereto. The applicable MDTQ shall be the largest daily quantity of Gas, expressed in Dekatherms, which Company is obligated to transport on a firm basis and make available for delivery for the account of Shipper under this FTS Agreement on any one Gas Day.

2.2 If, on any Day, Shipper utilizes transportation quantities, as measured at the Point(s) of Delivery, in excess of the established MDTQ, as shown on Exhibit A, such unauthorized use of transportation quantities shall be set forth on Exhibit A of this Agreement.

PENINSULA PIPELINE COMPANY, INC.
FIRM TRANSPORTATION SERVICE AGREEMENT

ARTICLE III
FIRM TRANSPORTATION SERVICE RESERVATION CHARGE

3.1 The Monthly Reservation Charge for Firm Transportation Service provided under this Agreement shall be as set forth on Exhibit A of this Agreement.

3.2 The parties agree to execute and file with the Commission a petition for approval of this Agreement within thirty (30) days of execution by both parties.

3.3 If, during the term of this Agreement, the Federal Government, or any State, municipality or subdivision of such Government, should increase or decrease any present tax or levy any additional or eliminate any existing tax, relating to the service provided by Company under this Agreement, such change shall be implemented immediately upon the effective date of such change.

ARTICLE IV
TERM AND TERMINATION

4.1 Subject to all other provisions, conditions, and limitations hereof, this Agreement shall be effective upon its date of execution by both parties and shall continue in full force and effect for an initial period of fifteen (15) years from the in-service date. Thereafter, the Agreement shall be extended on a five year basis unless terminated by either party, with at least one hundred eighty (180) days written notice to the other party prior to the termination date.

4.2 Any portion of this Agreement necessary to resolve monthly balancing and operational controls under this Agreement, pursuant to the Rules and Regulations of Company's tariff, shall survive the other parts of this Agreement until such time as such monthly balancing and operational controls have been resolved.

4.3 In the event Shipper fails to pay for the service provided under this Agreement or otherwise fails to meet Company's standards for creditworthiness, otherwise violates the Rules and Regulations of Company's tariff, or defaults on this Agreement, Company shall have the right to terminate this Agreement pursuant to the conditions set forth in Section D of the Rules and Regulations of Company's tariff.

ARTICLE V
COMPANY'S TARIFF PROVISIONS

5.1 Company's tariff approved by the Commission, including any amendments thereto approved by the Commission during the term of this Agreement, is hereby incorporated into this Agreement and made a part hereof for all purposes. In the event of any conflict between Company's tariff and the specific provisions of this Agreement, the latter shall prevail, in the absence of a Commission Order to the contrary.

PENINSULA PIPELINE COMPANY, INC.
FIRM TRANSPORTATION SERVICE AGREEMENT

ARTICLE VI
REGULATORY AUTHORIZATIONS AND APPROVALS

6.1 Company's obligation to provide service is conditioned upon receipt and acceptance of any necessary regulatory authorization to provide Firm Transportation Service for Shipper in accordance with the Rules and Regulations of Company's tariff.

ARTICLE VII
DELIVERY POINT(S) AND POINT(S) OF DELIVERY

7.1 The Delivery Point(s) for all Gas delivered for the account of Shipper into Company's pipeline system under this Agreement, shall be as set forth on Exhibit A attached hereto.

7.2 The Point(s) of Delivery shall be as set forth on Exhibit A attached hereto.

7.3 Shipper shall cause Transporter to deliver to Company at the Delivery Point(s) on the Transporter's system, the quantities of Gas to be transported by Company hereunder. Company shall have no obligation for transportation of Shipper's Gas prior to receipt of such Gas from the Transporter at the Delivery Point(s). Company shall deliver such quantities of Gas received from the Transporter at the Delivery Point(s) for Shipper's account to Company's Point(s) of Delivery identified on Exhibit A.

ARTICLE VIII
SCHEDULING AND BALANCING

8.1 Shipper shall be responsible for nominating quantities of Gas to be delivered by the Transporter to the Delivery Point(s) and delivered by Company to the Point(s) of Delivery. Shipper shall promptly provide notice to Company of all such nominations. Imbalances between quantities (i) scheduled at the Delivery Point(s), less Fuel Retention, and (ii) actually delivered by the Company hereunder, shall be resolved in accordance with the applicable provisions of Company's tariff, as such provisions, and any amendments to such provisions, are approved by the Commission.

8.2 The parties hereto recognize the desirability of maintaining a uniform rate of flow of Gas to Shipper's facilities over each Gas Day throughout each Gas Month. Therefore, Company agrees to receive from the Transporter for Shipper's account at the Delivery Point(s) and deliver to the Point(s) of Delivery up to the MDTQ as described in Exhibit A, subject to any restrictions imposed by the Transporter and to the provisions of Article IX of this Agreement, and Shipper agrees to use reasonable efforts to regulate its deliveries from Company's pipeline system at a daily rate of flow not to exceed the applicable MDTQ for the Month in question, subject to any additional restrictions imposed by the Transporter or by Company pursuant to Company's tariff provisions.

PENINSULA PIPELINE COMPANY, INC.
FIRM TRANSPORTATION SERVICE AGREEMENT

ARTICLE IX
MISCELLANEOUS PROVISIONS

9.1 Notices and Other Communications. Any notice, request, demand, statement or payment provided for in this Agreement, unless otherwise specified, shall be sent to the parties hereto at the following addresses:

Company: Peninsula Pipeline Company, Inc.
Post Office Box 960
Winter Haven, Florida 33882
Attention: Customer Services

Shipper: Florida Public Utilities Company
401 South Dixie Highway
West Palm Beach, Florida 33401
Attention: Director, Regulatory Affairs

9.2 Headings. All article headings, section headings and subheadings in this Agreement are inserted only for the convenience of the parties in identification of the provisions hereof and shall not affect any construction or interpretation of this Agreement.

9.3 Entire Agreement. This Agreement, including the Exhibits attached hereto, sets forth the full and complete understanding of the parties as of the date of its execution by both parties, and it supersedes any and all prior negotiations, agreements and understandings with respect to the subject matter hereof. No party shall be bound by any other obligations, conditions or representations with respect to the subject matter of this Agreement.

9.4 Amendments. Neither this Agreement nor any of the terms hereof may be terminated, amended, supplemented, waived or modified except by an instrument in writing signed by the party against which enforcement of the termination, amendment, supplement, waiver or modification shall be sought. A change in (a) the place to which notices pursuant to this Agreement must be sent or (b) the individual designated as the Contact Person pursuant to Section 9.1 shall not be deemed nor require an amendment of this Agreement provided such change is communicated in accordance with Section 9.1 of this Agreement. Further, the parties expressly acknowledge that the limitations on amendments to this Agreement set forth in this section shall not apply to or otherwise limit the effectiveness of amendments that are or may be necessary to comply with the requirements of, or are otherwise approved by, the Commission or its successor agency or authority.

9.5 Severability. If any provision of this Agreement becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full force and effect without said provision; provided, however, that if

PENINSULA PIPELINE COMPANY, INC.
FIRM TRANSPORTATION SERVICE AGREEMENT

such severability materially changes the economic benefits of this Agreement to either party, the parties shall negotiate in good faith an equitable adjustment in the provisions of this Agreement.

9.6 Waiver. No waiver of any of the provisions of this Agreement shall be deemed to be, nor shall it constitute, a waiver of any other provision whether similar or not. No single waiver shall constitute a continuing waiver, unless otherwise specifically identified as such in writing. No waiver shall be binding unless executed in writing by the party making the waiver.

9.7 Attorneys' Fees and Costs. In the event of any litigation between the parties arising out of or relating to this Agreement, the prevailing party shall be entitled to recover all costs incurred and reasonable attorneys' fees, including attorneys' fees in all investigations, trials, bankruptcies and appeals.

9.8 Independent Parties. Company and Shipper shall perform hereunder as independent parties. Neither Company nor Shipper is in any way or for any purpose, by virtue of this Agreement or otherwise, a partner, joint venturer, agent, employer or employee of the other. Nothing in this Agreement shall be for the benefit of any third person for any purpose, including, without limitation, the establishing of any type of duty, standard of care or liability with respect to any third person.

9.9 Assignment and Transfer. No assignment of this Agreement by either party may be made without the prior written approval of the other party (which approval shall not be unreasonably withheld) and unless the assigning or transferring party's assignee or transferee shall expressly assume, in writing, the duties and obligations under this Agreement of the assigning or transferring party. Upon such assignment or transfer, as well as assumption of the duties and obligations, the assigning or transferring party shall furnish or cause to be furnished to the other party a true and correct copy of such assignment or transfer and the assumption of duties and obligations.

9.10 Governmental Authorizations: Compliance with Law. This Agreement shall be subject to all valid applicable state, local and federal laws, orders, directives, rules and regulations of any governmental body, agency or official having jurisdiction over this Agreement and the transportation of Gas hereunder. Company and Shipper shall comply at all times with all applicable federal, state, municipal, and other laws, ordinances and regulations. Company and/or Shipper will furnish any information or execute any documents required by any duly constituted federal or state regulatory authority in connection with the performance of this Agreement. Each party shall proceed with diligence to file any necessary applications with any governmental authorities for any authorizations necessary to carry out its obligations under this Agreement. In the event this Agreement or any provisions herein shall be found contrary to or in conflict with any applicable law, order, directive, rule or regulation, the latter shall be deemed to control, but nothing in this Agreement shall prevent either party from contesting the validity of any such law, order, directive, rule, or regulation, nor shall anything in this Agreement be construed to require either party to waive its respective

PENINSULA PIPELINE COMPANY, INC.
FIRM TRANSPORTATION SERVICE AGREEMENT

rights to assert the lack of jurisdiction of any governmental agency other than the Commission, over this Agreement or any part thereof. In the event of such contestation, and unless otherwise prohibited from doing so under this Section 9.10, Company shall continue to transport and Shipper shall continue to take Gas pursuant to the terms of this Agreement. In the event any law, order, directive, rule, or regulation shall prevent either party from performing hereunder, then neither party shall have any obligation to the other during the period that performance under the Agreement is precluded.

9.11 Applicable Law and Venue. This Agreement and any dispute arising hereunder shall be governed by and interpreted in accordance with the laws of the State of Florida. The venue for any action, at law or in equity, commenced by either party against the other and arising out of or in connection with this Agreement shall be in a court of the State of Florida having jurisdiction.

9.12 Counterparts. This Agreement may be executed in counterparts, all of which taken together shall constitute one and the same instrument and each of which shall be deemed an original instrument as against any party who has signed it.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers or representatives effective as of the date first written above.

COMPANY
Peninsula Pipeline Company, Inc.
By: [Signature]
Title: VP

SHIPPER
Florida Public Utilities Company
By: [Signature]
Title: VP

(To be attested by the corporate secretary if not signed by an officer of the company)

Attested By: _____
Title: _____
Date: _____

Attested By: _____
Title: _____
Date: _____

PENINSULA PIPELINE COMPANY, INC.
FIRM TRANSPORTATION SERVICE AGREEMENT

EXHIBIT A

TO

FIRM TRANSPORTATION SERVICE AGREEMENT

BETWEEN

PENINSULA PIPELINE COMPANY, INC.

AND

FLORIDA PUBLIC UTILITIES COMPANY

DATED

FEBRUARY 1, 2012

<u>Description of Delivery Point(s)</u>	<u>Description of Point(s) of Delivery</u>	<u>MDTQ, in Dekatherms, excluding Fuel Retention</u>
Interconnection With Peoples Gas System Distribution system located at the Duval/Nassau County line.	See Below	██████████ Dt/Day

Total MDTQ (Dekatherms): ██████████ Dt/Day

MHTP: 6 %

Fuel Retention Percentage: ██████████

Monthly Reservation Charge: ██████████ / Month. The Company shall provide written notification to Shipper that the Fernandina Beach Line has been completed and establish the in-service date.

Unauthorized Use Rate (In addition to Monthly Reservation Charge):
██████████ / Each Day of Unauthorized Use

Description of Point(s) of Delivery: Up to six (6) Points of Delivery
1) One or more points – locations TBD – on SR 200, west of Amelia River
2) One or more points – locations TBD – on Amelia Island

AMENDMENT NO. 1
TO
FPUC/PPC TRANSPORTATION SERVICE AGREEMENT
(REDACTED)

AMENDMENT NO. 1 TO
PENINSULA PIPELINE COMPANY, INC.
FIRM TRANSPORTATION SERVICE AGREEMENT

The agreements and covenants set forth herein and entered into this 19th day of July, 2019, ("Execution Date") represent an Amendment to the original Firm Transportation Service Agreement, dated February 1, 2012, by and between Florida Public Utilities Company, an investor-owned utility company and subsidiary of Chesapeake Utilities Corporation (hereinafter "Shipper") and Peninsula Pipeline Company, Inc., a corporation of the State of Delaware (herein called "Company")(jointly herein "Parties"),

WITNESSETH

WHEREAS, Company and Shipper are parties to that certain Firm Transportation Agreement dated as of February 1st, 2012 (the "2012 Agreement"), pursuant to which Company provides Shipper with FTS in Nassau County; and

WHEREAS, the Parties desire to amend the 2012 Agreement to change the MDTQ, the Monthly Reservation Charge, and to include new Delivery Points and Points of Delivery consistent with the Parties' expanded project in Nassau County; and

WHEREAS, the Parties desire that Exhibit A to the 2012 Agreement be amended and replaced in its entirety to reflect the changes to the Parties' agreement for service as it relates to Nassau County; and

WHEREAS, the Parties desire that all other provisions of the 2012 Agreement remain in full force and effect;

NOW THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, the sufficiency of which is hereby acknowledged, Company and Shipper do covenant and agree as follows:

I. TERM OF THE AGREEMENT AND TERMINATION

This Amendment No. 1 shall be in full force and effect as of July 19, 2019 the "Execution Date". The initial term from Article 4 of the 2012 Agreement will be extended thirteen (13) years.

II. REGULATORY APPROVAL

The parties agree to execute and file with the Commission a petition for approval of this Amendment No. 1 within thirty (30) days of execution by both parties.

III. EXHIBIT A

Exhibit A of the 2012 Agreement shall be amended and superseded in its entirety by Exhibit A, which is incorporated herein and presented on the following page:

AMENDMENT NO. 1 TO
PENINSULA PIPELINE COMPANY, INC.
FIRM TRANSPORTATION SERVICE AGREEMENT

EXHIBIT A
TO
AMENDMENT NO. 1
TO
FIRM TRANSPORTATION SERVICE AGREEMENT
BETWEEN
PENINSULA PIPELINE COMPANY, INC.
AND
FLORIDA PUBLIC UTILITIES COMPANY
DATED
July 19th, 2019

<u>Description of Delivery Point(s)</u>	<u>Description of Point(s) of Delivery</u>	<u>MDTQ, in Dekatherms, excluding Fuel Retention</u>
See Below	See Below	[REDACTED]

Total MDTQ (Dekatherms): [REDACTED]

MHTP: 6%

Monthly Reservation Charge: [REDACTED]

Description of Delivery Point(s):

- 1) Interconnection with New Southern Natural Gas Cypress DRN # (to be determined) in the vicinity of the intersection of the Cypress Pipeline and Crawford Road approximately 4.9 mile West of State Road 200 on Crawford Road in Nassau County, FL

AMENDMENT NO. 1 TO
PENINSULA PIPELINE COMPANY, INC.
FIRM TRANSPORTATION SERVICE AGREEMENT

Description of Point(s) of Delivery:

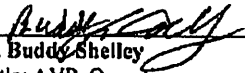
- 1) Shipper's facility known as the Stepdown Substation
- 2) Shipper's facility known as the Lime Street Substation
- 3) Near the vicinity of the interconnection of 11th Street and Indigo Street at the Eight Flags, LLC facility
- 4) New Interconnection at or near the vicinity of US 301 and Brown Street in Callahan
- 5) New Interconnection to be determined by Crawford Diamond Industrial Facility
- 6) New Interconnection at or near the vicinity of Three Rivers Development in Yulco
- 7) New Interconnection to be determined in Nassau County

AMENDMENT NO. 1 TO
PENINSULA PIPELINE COMPANY, INC.
FIRM TRANSPORTATION SERVICE AGREEMENT

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 1 to be executed by their duly authorized officers or representatives effective as of the date first written above.

COMPANY
Peninsula Pipeline Company, Inc.

SHIPPER
Florida Public Utilities Company

By: 
D. Buddy Shelley
Title: AVP, Operations

By: _____
Michael Cassel
Title: AVP, Regulatory Affairs

(To be attested by the corporate secretary if not signed by an officer of the company)

Attested By: _____
Title: _____
Date: _____

Attested By: _____
Title: _____
Date: _____

AMENDMENT NO. 1 TO
PENINSULA PIPELINE COMPANY, INC.
FIRM TRANSPORTATION SERVICE AGREEMENT

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 1 to be executed by their duly authorized officers or representatives effective as of the date first written above.

COMPANY
Peninsula Pipeline Company, Inc.

SHIPPER
Florida Public Utilities Company

By: _____
D. Buddy Shelley
Title: AVP, Operations

By: Michael Cassel
Michael Cassel
Title: AVP, Regulatory Affairs

(To be attested by the corporate secretary if not signed by an officer of the company)

Attested By: _____
Title: _____
Date: _____

Attested By: _____
Title: _____
Date: _____

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-

DATE: ~~October 24, 2019~~ November 26, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Guffey) *RKG*
Division of Accounting and Finance (Hightower) *ESD*
Office of the General Counsel (Lherisson) *JSH MC*
TKT for JC

RE: Docket No. 20190171-GU – Petition for approval of 2018 true-up, projected 2019 true-up, and 2020 revenue requirements and surcharges associated with cast iron/bare steel pipe replacement rider, by Peoples Gas System.

AGENDA: ~~11/05/19~~ 12/10/19 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 8-Month Effective Date: 04/30/20 (60-day suspension date waived by the utility)

SPECIAL INSTRUCTIONS: None

RECEIVED-FPSC
2019 NOV 27 AM 8:55
COMMISSION

Case Background

On August 30, 2019, Peoples Gas System (Peoples or utility) filed a petition for approval of its final 2018 true-up, projected 2019 true-up, and 2020 revenue requirement and surcharges associated with the cast iron/bare steel replacement rider (Rider CI/BSR or rider). The rider was originally approved in Order No. PSC-12-0476-TRF-GU (2012 order) to recover the cost of accelerating the replacement of cast iron and bare steel distribution pipes through a surcharge on customers' bills.¹ Peoples' current surcharges were approved in Order No. PSC-2018-0540-TRF-

¹ Order No. PSC-12-0476-TRF-GU, issued September 18, 2012, in Docket No. 110320-GU, *In re: Petition for approval of Cast Iron/Bare Steel Pipe Replacement Rider (Rider CI/BSR), by Peoples Gas System.*

GU.² In the 2012 order, the Commission found that “replacement of these types of pipelines is in the public interest to improve the safety of Florida’s natural gas infrastructure, and reduce the possibility of loss of life and destruction of property should an incident occur.”

In Order No. PSC-17-0066-AS-GU the Commission approved a comprehensive settlement agreement between Peoples and the Office of Public Counsel (OPC).³ The settlement agreement, in part, added problematic plastic pipe (PPP) installed in the company’s distribution system to eligible replacements under the rider. PPP was manufactured before 1983 and has significant safety concerns. In certain areas, the PPP is interspersed with, or connected to, the cast iron/bare steel pipe that is being replaced under the rider. As provided for in the settlement agreement, PPP replacements are included in the calculation of the 2020 rider surcharges.

On September 12, 2018, the Commission approved a settlement agreement between Peoples, OPC, and the Florida Industrial Power Users Group in Docket No. 20180044-GU addressing certain impacts of the Tax Cuts and Jobs Act of 2017 on Peoples.⁴ The settlement agreement provides for a reduction of Peoples’ 2019 depreciation expense of approximately \$10.3 million resulting from extending the lives of certain mains and service assets, which, consequently, reduces the depreciation expense collected through the rider. Additionally, the settlement agreement provides that Peoples’ revenue requirement calculations incorporate the lower federal income tax rate effective February 6, 2018.

In its petition, the utility waived its 60-day file-and-suspend provision of Section 366.06(3), Florida Statutes (F.S.). Peoples filed its response to staff’s first data request on September 27, 2019. With the responses, the ~~company utility~~ filed revised tariff Sheet No. 7.806 ~~which is contained in Attachment B to the recommendation.~~ On October 14, 2019, Peoples filed responses to staff’s second data request. On November 4, 2019, Peoples requested the staff recommendation dated for the November 5, 2019 Agenda Conference be deferred to the December 10, 2019 Agenda Conference. The deferral was to allow the utility additional time to evaluate its calculations related to its Weighted Average Cost of Capital (WACC) and treatment of Accumulated Deferred Income Taxes (ADITs) in the instant docket. On November 12, 2019, Peoples filed its amended petition including the Ninth Revised Sheet No. 7.806 in the subject docket, which is contained in Attachment B to this recommendation. On November 18, 2019, Peoples responded to staffs’ follow-up questions by e-mail, and the e-mail has been placed in the docket file. The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, F.S.

² Order No. PSC-2018-0540-TRF-GU, issued November 19, 2018, in Docket No. 20180173-GU, *In re: Petition for approval of 2017 true-up, projected 2018 true-up, and 2019 revenue requirements and surcharges associated with cast iron/bare steel pipe replacement rider, by Peoples Gas System.*

³ Order No. PSC-17-0066-AS-GU, issued February 28, 2017, in Docket No. 20160159-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.*

⁴ Order No. PSC-2018-0501-S-GU, issued October 18, 2018, in Docket No. 20180044-GU, *In re: Consideration of the tax impacts associated with Tax Cuts and Jobs Act of 2017 for Peoples Gas System.*

Discussion of Issues

Issue 1: Should the Commission approve Peoples proposed Rider CI/BSR surcharges for the period January through December 2020?

Recommendation: Yes, the Commission should approve Peoples' proposed Rider CI/BSR surcharges for the period January through December 2020. (Guffey, Hightower)

Staff Analysis: The Rider CI/BSR charges have been in effect since January 2013. Rider PPP charges have been in effect since 2017. In 2019, Peoples' cast iron and bare steel replacement activity focused in the areas of St. Petersburg, Tampa, Miami, Jacksonville, and Sarasota, while PPP projects were in Daytona, Eustis, Pompano Beach, and Orlando. In 2020, Peoples states it will focus on replacement projects in St. Petersburg, Tampa, Orlando, Miami, Jacksonville, and Ocala. The original projected completion date for the CI/BSR replacement program was 2022 for mains and services; however, Peoples now expects to complete the mains and services replacement in 2021. The replacement of PPP is expected to continue until 2028.

Attachment A to this recommendation contains tables which display the replacement progress and forecasts for Rider CI/BSR (Table 1) and for PPP (Table 2). Additionally, Peoples provided Table 3 which consolidates actual and projected CI/BSR and PPP miles replaced investment and revenue requirements for each year of the replacement program.

True-ups by Year

Peoples' calculation for the 2020 revenue requirement and surcharges includes a final true-up for 2018, an actual/estimated true-up for 2019, and projected costs for 2020. Pursuant to the 2012 order, the capital expenditures for 2017 through 2019 exclude the first \$1 million of facility replacements each year because that amount is included in rate base. Peoples has included depreciation expense savings as discussed in the 2012 order; however, the utility has not identified any operations and maintenance savings.

Final True-up for 2018

Exhibit A of the petition shows that the revenues collected for 2018 were \$10,399,354 compared to a revenue requirement of \$9,359,024, resulting in an over-recovery of \$1,040,330. The final 2017 under-recovery of \$1,030,552, 2018 over-recovery of \$1,040,330, and interest of \$6,108 associated with any over- and under-recoveries results in a final 2018 over-recovery of \$15,886.

Actual/Estimated 2019 True-up

In Exhibit B of the petition, Peoples provided actual revenues for January through July and forecast revenues for August through December of 2019, totaling \$11,484,578, compared to an actual/estimated revenue requirement of ~~\$13,382,287~~, 13,641,293, resulting in an under-recovery of ~~\$1,897,709~~ 2,156,715. The final 2018 over-recovery of \$15,886, 2019 under-recovery of ~~\$1,897,709~~ 2,156,715, and interest of ~~\$9,684~~ 12,368 associated with any over- and under-recoveries results in a total 2019 under-recovery of ~~\$1,891,507~~ 2,153,196.

Projected 2020 Costs

Exhibit C of the petition shows Peoples projects investment or capital expenditures of \$35,013,339 for the replacement of cast iron/bare steel infrastructure and PPP in 2020. As shown in Table 3 of Attachment A of the recommendation, this consists of the CI/BSR investment of \$19,328,072 and the PPP investment of \$15,685,267. The return on investment (which includes federal income taxes, regulatory assessment fees, and bad debt), depreciation expense (less savings), and property tax expense associated with that investment are ~~\$17,324,344~~ 17,840,500. After adding the total 2019 under-recovery of ~~\$1,891,507~~ 2,153,196, the total 2020 revenue requirement is ~~\$19,215,851~~ 19,993,696. Table 1-1 displays the 2020 revenue requirement calculation.

**Table 1-1
 2020 Revenue Requirement**

2020 Projected Expenditures		\$35,013,339
Return on Investment	\$12,443,492	<u>12,959,646</u>
Depreciation Expense (less savings)	2,340,490	
Property Tax Expense	<u>2,540,364</u>	
2020 Revenue Requirement	\$17,324,346	<u>17,840,500</u>
Plus 2019 Under-recovery	<u>+1,891,507</u>	<u>2,153,196</u>
Total 2020 Requirement	\$19,215,852	<u>19,993,696</u>

Source: Page 1 of 2 in Exhibit C in amended petition (Docket No. 20190171-GU)

Proposed Surcharges

As established in the 2012 order, the total 2020 revenue requirement is allocated to rate classes using the same methodology that was used for the allocation of mains and services in the cost of service study used in Peoples' most recent rate case. After calculating the percentage of total plant costs attributed to each rate class, the respective percentages were multiplied by the 2020 revenue requirement resulting in the revenue requirement by rate class. Dividing each rate class's revenue requirement by projected therm sales provides the rider surcharge for each rate class.

The proposed 2020 rider surcharge for residential customers is ~~\$0.08845~~ 0.09203 per therm (compared to the current surcharge of \$0.05274). The 2020 monthly bill impact will be ~~\$1.77~~ 1.84 for a residential customer who uses 20 therms. The proposed revised tariff page as revised on September 27, 2019, is provided in the amended petition of November 12, 2019, is Attachment B to this recommendation.

Accounting and Tax Considerations

The state corporate income tax rate changed from 5.5 percent to 4.458 percent beginning on January 1, 2019 through January 1, 2022. The change in tax rate was announced by the Department of Revenue's Tax Information Publication on September 12, 2019. In its amended petition, Peoples proposes 2019 and 2020 factors that reflect the lower state corporate income tax rate change from 5.5 percent to 4.458 percent. Therefore, the proposed 2020 factors that are addressed in this recommendation do not reflect the lower tax rate. In a noticed informal meeting

~~on October 15, 2019, Commission staff, utility representatives, and interested persons discussed the change in the tax rate. Based on the discussions and comments made by the utilities, staff recommends that Peoples address the impact of the lower tax rate in the 2019 true-up calculations provided in the surcharge petition that will be filed in September 2020 for 2021 factors.~~

Calculation of Weighted Average Cost of Capital

Peoples has determined that in calculating its WACC, it has been removing plant from rate base for recovery through the CI/BSR recovery clause without removing the associated accumulated deferred income taxes (ADITs), which may lead to a normalization violation. In its amended petition, Peoples requests to modify its weighted average cost of capital (WACC) to avoid a potential normalization violation and remain compliant with Internal Revenue Code (IRC) §167 and §168. Peoples specifically requests approval to modify its WACC to reflect that plant removed from rate base for recovery through the CI/BSR be removed from the capital structure through a specific adjustment to remove ADITs associated with the CI/BSR. The remaining plant balance is removed through a pro-rata adjustment applied to all other sources of capital.

~~Commission Staff reviewed Peoples' WACC, as filed in its amended petition with its proposed methodology and supporting documentation and believes that the calculations are reasonable and appropriate. Staff determined Tthe utility did not make a consistency and proration adjustment to the projected ADIT balance as described in Internal Revenue Code §1.167(l)-1. In its response to staff's second data request, Peoples stated that per Internal Revenue Service (IRS) normalization rules, prorating the ADITs is only required if a utility does not meet or exceed the limitation provision. Peoples explained that it did not make a consistency and proration adjustment to the WACC in the 2020 projection filing because the utility is currently meeting or exceeding the limitation provision and is therefore not in violation of the IRS normalization rules. If an adjustment to the WACC is necessary, staff recommends any adjustment be made in a subsequent true-up filing.~~

Conclusion

Staff reviewed Peoples' filings and supporting documentation and believes that the calculations are consistent with the methodology approved in the 2012 order and are reasonable and accurate. Staff reviewed Peoples' calculation of the 2019 true-up and 2020 projected cost calculations and verified that the calculation includes the 21 percent federal tax rate starting February 6, 2018. Staff also verified that Peoples lowered the depreciation expense effective January 2019. Therefore, staff recommends approval of Peoples' proposed 2020 Rider CI/BSR surcharges as revised ~~on September 27, 2019~~ in the amended petition of November 12, 2019, to be effective for the period January through December 2020.

Issue 2: Should this docket be closed?

Recommendation: Yes. If Issue 1 is approved and 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. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Lherisson)

Staff Analysis: If Issue 1 is approved and 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. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.

Table 1
Peoples' CI/BSR Replacement Program Progress

Year	Main Replacements					Service Replacements	
	Replaced Cast Iron (miles)	Replaced Bare Steel (miles)	Remaining Cast Iron at Year End (miles)	Remaining Bare Steel at Year End (miles)	Total Miles Remaining of CI/BS Mains	Replaced Number of Bare Steel Services	Total Number of Remaining Bare Steel Services
2012			100	354	454		14,978
2013	13	38	87	316	403	907	14,071
2014	2	18	85	298	383	7964	6,107
2015	26	60	59	238	297	1019	5,088
2016	15	35	44	203	247	1050	6,963
2017	15	36	29	178	207	1135	4,279
2018	10	52	18*	126	144	1970	2,309
2019 (projected)	7	59	11	67	78	1200	1,109
2020	6	45	5	22	23	1000	109
2021	5	18	0	4	4	109	0
2022	0	4	0	0	0	0	0

Source: Response to staff's first data request

Table 2
Peoples' PPP Replacement Program Progress

Year	PPP (miles) Replaced	Total Remaining PPP Mains (miles)	Replaced Number of PPP Services	Total Number of Remaining PPP Services
2016	0	551	0	-
2017	34	517	1,396	26,841
2018	56	461	3,941	22,958
2019	33	413	Not yet determined	-
2020	50	364	Not yet determined	-
2021	50	314	Not yet determined	-
2022	54	260	Not yet determined	-
2023	50	210	Not yet determined	-
2024	50	160	Not yet determined	-
2025	45	115	Not yet determined	-
2026	45	70	Not yet determined	-
2027	45	25	Not yet determined	-
2028	25	0	Not yet determined	-

Source: Response to staff's first data request and Document No. 09441-2019

Table 3
Peoples' CI/BSR Replacement Program Progress

Year	CI/BS Miles Replaced	PPP Miles Replaced	CI/BS Investment \$	PPP Investment \$	CI/BS Revenue Requirement \$	PPP Revenue Requirement \$
2017	51	*	17,588,366	2,915,802	6,868,302	74,021
2018	62	56	27,035,678	15,890,424	8,510,823	848,201
2019	66	33	30,672,038	10,513,608	10,855,703	2,526,584
2020	51	50	19,328,072	15,685,267	13,511,689	3,812,655
2021	27	50		16,077,399	14,905,884	5,464,964
2022	0	54		16,479,334	15,298,303	7,158,192
2023		50		16,891,317	15,117,501	8,874,103
2024		50		17,659,872	14,920,474	10,628,394
2025		45		15,971,797	14,722,925	12,334,602
2026		45		16,371,091	14,525,360	13,931,631
2027		45		16,593,231	14,327,795	15,539,094
2028		25		16,260,325	14,130,227	17,124,548

Source: Response to staff's first data request

Peoples Gas System
a Division of Tampa Electric Company
No. 7.806
Original Volume No. 3

~~Eighth~~ ~~Ninth~~ Revised Sheet No. 7.806
Cancels ~~Seventh~~ Eighth Revised Sheet

**CAST IRON/BARE STEEL REPLACEMENT RIDER
RIDER CI/BSR**

The monthly bill for Gas Service in any Billing Period shall be increased by the CI/BSR Surcharge determined in accordance with this Rider. CI/BSR Surcharges approved by the Commission for bills rendered for meter readings taken on or after January 1, ~~2017~~2020, are as follows with respect to Customers receiving Gas Service under the following rate schedules:

<u>Rate Schedule</u>	<u>CI/BSR Surcharge</u>
Residential/Residential Standby Generator /	
Residential Gas Heat Pump Service	\$0.05274 <u>0.09203</u> per therm
Small General Service	\$0.03345 <u>0.06508</u> per therm
General Service – 1/ Commercial Standby Generator Service /	
Commercial Gas Heat Pump Service	\$0.01765 <u>0.03264</u> per therm
General Service – 2	\$0.01708 <u>0.03018</u> per therm
General Service – 3	\$0.01466 <u>0.02648</u> per therm
General Service – 4	\$0.00892 <u>0.01790</u> per therm
General Service – 5	\$0.00500 <u>0.00907</u> per therm
Commercial Street Lighting	\$0.02427 <u>0.04634</u> per therm
Natural Gas Vehicle Service	\$0.04289 <u>0.07622</u> per therm
Wholesale	\$0.00614 <u>0.01124</u> per therm

The CI/BSR Surcharges set forth above shall remain in effect until changed pursuant to an order of the Commission.

CI/BSR Surcharges shall be determined in accordance with the provisions of this Rider set forth below.

Definitions

For purposes of this Rider:

"Eligible Replacements" means the following Company plant investments that (i) do not increase revenues by directly connecting new customers to the plant asset, (ii) are in service and used and useful in providing utility service and (iii) were not included in the Company's rate base for purposes of determining the Company's base rates in its most recent general base rate proceeding:

Mains and service lines, as replacements for existing materials recognized/identified by the Pipeline Safety and Hazardous Materials Administration as being obsolete and that present a potential safety threat to operations and the general public, including cast iron, wrought iron, bare steel, and specific polyethylene/plastic facilities, and regulators and other pipeline system components the installation of which is required as a consequence of the replacement of the aforesaid facilities.

"CI/BSR Revenues" means the revenues produced through CI/BSR Surcharges, exclusive of revenues from all other rates and charges.

Issued By: T. J. Szelistowski, President
Issued On: ~~October 17, 2018~~

Effective: ~~January 1, 2019~~

Item 9

State of Florida



Public Service Commission

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

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

DATE: ~~October 24, 2019~~ November 26, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Ward, Coston) *WBC*
Division of Accounting and Finance (Buys, Cicchetti, Hightower) *MC ELD OW JPH*
Office of the General Counsel (Crawford) *TJ for JC*

RE: Docket No. 20190172-GU – Petition for approval of safety, access, and facility enhancement program true-up and 2020 cost recovery factors, by Florida City Gas.

AGENDA: ~~11/05/19~~ 12/10/19 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 8-month effective date: 05/03/20 (60-day suspension date waived by the utility)

SPECIAL INSTRUCTIONS: None

*RECEIVED-FPSC
2019 NOV 26 AM 8 55
COMMISSION
CLERK*

Case Background

On September 3, 2019, Florida City Gas (City Gas or utility) filed a petition for approval of its safety, access, and facility enhancement program (SAFE program) true-up and 2020 cost recovery factors. The SAFE program was originally approved by the Commission in Order No. PSC-15-0390-TRF-GU (2015 order) to recover the cost of relocating on an expedited basis certain existing gas mains and associated facilities from rear lot easements to the street front.¹ In the 2015 order, the Commission found that the relocation of mains and services to the street front

¹ Order No. PSC-15-0390-TRF-GU, issued September 15, 2015, in Docket No. 150116-GU, *In re: Petition for approval of safety, access, and facility enhancement program and associated cost recovery methodology, by Florida City Gas.*

provides for more direct access to the facilities and will enhance the level of service provided to all customers through improved safety and reliability. The SAFE factor is a surcharge on customers' bills. The Commission ordered the utility to file an annual petition, beginning in 2016, for review and resetting of the SAFE factors to true-up any prior over- or under-recovery and to set the surcharge for the coming year. The SAFE program is a 10-year program effective from 2015 through 2025. The current 2019 SAFE factors were approved by Order No. PSC-2018-0545-TRF-GU (2018 order).²

During the review process of the current petition, staff issued two data requests to the utility, for which the responses were both received on September 20, 2019. In its filing, City Gas waived the 60-day suspension deadline pursuant to Section 366.06(3), Florida Statutes (F.S.).

On October 4, 2019, City Gas filed an amended petition to correct an inadvertent accounting error that had a minor impact on the proposed SAFE factors. On November 1, 2019, City Gas filed a second amended petition including revised SAFE factors as shown on Tariff Sheet No. 79. Subsequent to the filing of the second amended petition, on November 4, 2019, City Gas requested that the staff recommendation scheduled for the November 5, 2019 Agenda Conference be deferred to the December 10, 2019 Agenda Conference. The deferral was to allow the utility to correct certain schedules. On November 8, 2019, City Gas made an additional filing with a correction to Attachment B of the second amended petition.³ The proposed tariff sheets, as corrected on ~~October~~ November 4, 2019, are shown in Attachment 2 to the recommendation. The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, 366.06, and Chapter 368, F.S.

² Order No. PSC-2018-0545-TRF-GU, issued November 19, 2018, in Docket No. 20180164-GU, *In re: Petition for approval of safety, access, and facility enhancement program true-up and 2019 cost recovery factors, by Florida City Gas.*

³ The November 8, 2019 filing did not impact the proposed SAFE factors as included in the second amended petition.

Discussion of Issues

Issue 1: Should the Commission approve City Gas's proposed SAFE factors for the period January through December 2020?

Recommendation: Yes. The Commission should approve City Gas's proposed SAFE factors for the period January through December 2020. (Ward, Coston, Hightower)

Staff Analysis: Under the SAFE program, City Gas will relocate or replace 254.3 miles of mains and 11,443 ~~miles of~~ associated service lines from rear property easements to the street front over a 10-year period ending in 2025. City Gas began its mains and services replacements at the end of 2015, as provided for in the 2015 order, and the surcharges have been in effect since January 2016. As of 2019, the utility has replaced 113.4 miles of mains and 5,831 services as shown in Attachment 1 to this recommendation.

As stated in City Gas's response to staff's data request, the utility's current 2019 replacement plans include 13 projects located in Merritt Island in Brevard County, Port Saint Lucie in Saint Lucie County, City of Hialeah, City of Miami Gardens, South Miami Heights neighborhood, Sierra neighborhood, and Westchester neighborhood in Miami-Dade County. The utility's projected 2020 replacement plans include five additional projects located in Saint Lucie County, City of Miami Gardens, and Westchester neighborhood in Miami-Dade County.

City Gas stated that its replacement projects are generally prioritized based on the risk assessment model in the utility's Distribution Integrity Management Program. Prioritization factors include, but are not limited to, location of the pipeline, rear lot pipelines with maintenance access complications and customer encroachments, leak incident rate, material of pipe, age of the pipeline, and operating pressure of the pipeline.

True-ups by Year

As required in the 2015 order, City Gas's calculations for the 2020 revenue requirement and SAFE factors include a final true-up for 2018, an actual/estimated true-up for 2019, and projected costs for 2020.

Final True-up for 2018

City Gas stated that the revenues collected for 2018 were \$1,450,631 compared to a revenue requirement of \$1,029,927, resulting in an over-recovery of \$420,704. Adding the 2017 final under-recovery of \$81,979, and the \$420,704 over-recovery of 2018, results in a final 2018 over-recovery of \$338,727. In City Gas's 2017 rate case, the Commission approved a Stipulation and Settlement Agreement (settlement) among the parties to the rate case.⁴ The settlement includes a provision that reset the SAFE factors to \$0 for June through December 2018; therefore, the final true-up for 2018 only includes actual data for January through May 2018.

⁴ Order No. PSC-2018-0190-FOF-GU, issued April 20, 2018, in Docket No. 20170179-GU, *In re: Petition for rate increase by Florida City Gas*.

Actual/Estimated 2019 True-up

City Gas provided actual revenues for January through July and forecast revenues for August through December of 2019, totaling \$287,788, compared to an actual/estimated revenue requirement of ~~\$500,599~~ 451,817, resulting in an under-recovery of ~~\$212,810~~ 164,029. Adding the 2018 over-recovery of \$338,727 to the 2019 under-recovery of ~~\$212,810~~ 164,029, the resulting total 2019 true-up, including interest, is an over-recovery of ~~\$134,022~~ 183,127. It should be noted that Attachment B, Schedule 2 of the petition shows no investments for January through April 2019. City Gas explained that eligible replacements were inadvertently captured in Capital Work In Progress (CWIP) instead of investments for the period January through April 2019. In May 2019, City Gas corrected its schedules and eligible replacements that were in service were moved from CWIP to investments.

Projected 2020 Costs

The utility's projected investment for 2020 is \$10,321,901 for its five new projects located in Saint Lucie and Miami-Dade Counties. The revenue requirement, which includes a return on investment, depreciation, and taxes, is ~~\$1,785,425~~ 1,616,541. The return on investment calculation includes federal income taxes, regulatory assessment fees, and bad debt. After subtracting the 2019 over-recovery of ~~\$134,022~~ 183,127, the total 2020 revenue requirement is ~~\$1,651,403~~ 1,433,414. Table 1-1 displays the projected 2020 revenue requirement calculation.

**Table 1-1
 2020 Revenue Requirement Calculation**

2020 Projected Investment	\$10,321,901
Return on Investment	\$1,232,472 <u>1,063,589</u>
Depreciation Expense	427,446
Property Tax Expense	<u>125,506</u>
2020 Revenue Requirement	\$1,785,425 <u>1,616,541</u>
Less 2019 Over-recovery	\$134,022 <u>183,127</u>
Total 2020 Revenue Requirement	\$1,651,403 <u>1,433,414</u>

Source: The November 8, 2019 filing and response to Staff's First Data Request No. 3.

Proposed 2020 SAFE Factors

The SAFE factors are fixed monthly charges. City Gas's cost allocation method was approved in the 2015 order and was used in the instant filing. The approved methodology allocates the current cost of a 2-inch pipe to all customers on a per customer basis and allocates the incremental cost of replacing a pipe larger than 2 inches to customers who use over 6,000 therms per year. For customers who require 4-inch pipes, the cost takes into account that the minimum pipe is insufficient to serve their demand and, therefore, allocates an incremental per foot cost in addition to the all-customer cost. The resulting allocation factors are applied to the 2020 total revenue requirement to develop the monthly SAFE factors.

The proposed fixed monthly SAFE factor is ~~\$1.21~~ 1.05 for customers using less than 6,000 therms per year (current factor is \$0.21). The proposed fixed monthly SAFE factor for customers

using more than 6,000 therms per year is ~~\$2.26~~ 1.96 (current factor is \$0.40). As previously mentioned, the 2018 rate case set the SAFE factors back to \$0.00 for the period June through December 2018. The SAFE factors are cumulative charges, which explains the increase in the SAFE factors between 2019 and 2020. In its original 2015 petition for the SAFE program, the utility estimated that the SAFE factor surcharge for customers using less than 6,000 therms annually would be \$9.45 by 2025.

Accounting and Tax Considerations

The state corporate income tax rate changed from 5.5 percent to 4.458 percent beginning on January 1, 2019 through January 1, 2022. The change in tax rate was announced by the Department of Revenue's Tax Information Publication on September 12, 2019. Therefore, the proposed 2020 factors that are addressed in this recommendation do not reflect the lower tax rate. In a noticed informal meeting on October 15, 2019, Commission staff, utility representatives, and interested persons discussed the change in the tax rate. Based on the discussions and comments made by the utilities, staff recommends that Florida City Gas address the impact of the lower tax rate in the 2019 true-up calculations provided in the surcharge petition that will be filed in September 2020 for 2021 factors.

Commission staff reviewed the City Gas weighted average cost of capital (WACC), as filed in its amended petition. The utility is proposing to make an adjustment to the WACC used to calculate the SAFE revenue requirements as necessary in order to be consistent with Internal Revenue Code (IRC) §1.167(l)-1. City Gas states that if City Gas does not meet or exceed the limitation provision, City Gas proposes to adjust the depreciation-related accumulated deferred income taxes (ADITs) included in the year-end ADIT balance using projected period data and the proration formula required by the IRC. If an adjustment to the WACC is necessary, staff recommends any adjustment be made in a subsequent true-up filing.

Conclusion

Staff has reviewed City Gas's filings and supporting documentation and believes that the calculations are consistent with the methodology approved in the 2015 order and are reasonable and accurate. Staff also reviewed City Gas's calculation of the 2019 true-up and 2020 projected cost calculations and verified that the calculation includes the 21 percent federal tax rate, as required by the settlement. Therefore, staff recommends approval of City Gas's proposed SAFE factors for the period January through December 2020.

Issue 2: Should this docket be closed?

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

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

Table 1
Florida City Gas's SAFE Program Progress

Year*	Main Replacements		Service Replacements	
	Replaced Main (miles)	Total Miles Remaining	Replaced Services (number)	Total Remaining Services
2014	0.0	254.3	0	11443
2015	0.0	254.3	49	11394
2016	17.1	237.2	1433	9961
2017	37.5	199.7	1551	8410
2018	27.6	172.1	1634	6776
2019	31.2	141.0	1164	5612
2020	29.4	111.6	1060	4552
2021	29.2	82.3	1290	3262
2022	24.0	58.3	1055	2207
2023	23.8	34.5	1046	1161
2024	23.5	11.0	1032	128
2025	11.0	0.0	128	0

Source: Attachment A of the petition for Docket No. 20190172-GU.

*Actuals 2014-July 2019. Projections August 2019-2025.

Florida City Gas
FPSC Natural Gas Tariff
Volume No. 10

~~First~~Second Revised Sheet No. 78
Cancels Original ~~First~~ Revised Sheet No. 78

RIDER "D"

SAFETY, ACCESS AND FACILITY ENHANCEMENT (SAFE) PROGRAM

Applicable to all Customers served under the Rate Schedules shown in the table below except for those Customers receiving a discount under the AFD Rider.

Through its SAFE Program, the Company has identified the potential replacement projects focusing initially on area of limited access/pipe overbuilds, and risk assessment for Rear Lot Mains and Services considering:

- i. The pipe material;
- ii. Leak incident rates;
- iii. Age of pipeline;
- iv. Pressure under which the pipeline is operating.

The Eligible Infrastructure Replacement includes the following:

Company investment in mains and service lines, as replacements for existing Rear Lot Facilities, and regulatory station and other distribution system components, the installation of which is required as a consequence of the replacement of the aforesaid facilities that:

- i. do not increase revenues by directly connecting new Customers to the plant asset;
- ii. are in service and used and useful in providing utility service; and
- iii. that were not included in the Company's rate base for purposes of determining the Company's base rates in its most recent general base rate proceeding.

The Company is recovering its revenue requirement on the actual investment amounts. The revenue requirements are inclusive of:

1. Return on investment as calculated using the equity following:
 - a.) Equity components as approved in the Company's most recent base rate case;
 - b.) Debt and the debt/customer deposit components from the Company's most recent year-end surveillance report; and
 - c.) Accumulated deferred income tax balance from the Company's most recent year-end surveillance report as adjusted, if applicable, consistent with the normalization rules of the Internal Revenue Code.
2. Depreciation expense (calculated using the currently approved depreciation rates);
3. Customer and general public notification expenses associated with the SAFE Program incurred for:

Issued by: Carolyn Bermudez
Vice President, Florida City Gas

Effective: January 1, 2019

Florida City Gas
 FPSC Natural Gas Tariff
 Volume No. 10

~~First~~Second Revised Sheet No. 79
 Cancels Original~~First~~Revised Sheet No. 79

RIDER "D"

SAFETY, ACCESS AND FACILITY ENHANCEMENT (SAFE) PROGRAM
 (Continued)

- i. all Customers regarding the implementation of the SAFE Program and the approved surcharge factors;
 - ii. the immediately affected Customers where the eligible infrastructure is being replaced; and
 - iii. the general public through publications (newspapers) covering the geographic areas of the eligible infrastructure replacement activities;
4. Ad valorem taxes; and
5. Federal and state income taxes.

The Company is utilizing a surcharge mechanism in order to recover the costs associated with the SAFE Program. The Company has developed the revenue requirement for the SAFE Program using the same methodology approved in its most recent rate case. The SAFE revenue requirement will be allocated to each Customer class (Rate Schedule) using allocation factors established by the Florida Public Service Commission for the SAFE Program. The per Customer SAFE surcharge is calculated by dividing the revenue requirement allocated to each Customer class by the number of Customers in the class.

The cost recovery factors including tax multiplier for the twelve month period from January 1, ~~2019~~2020 through December 31, ~~2019~~2020 are:

<u>Rate Class</u>	<u>Rates Per Customer</u>
Rate Schedule RS-1	\$0.24 <u>1.05</u>
Rate Schedule RS-100	\$0.24 <u>1.05</u>
Rate Schedule RS-600	\$0.24 <u>1.05</u>
Rate Schedule GS-1	\$0.24 <u>1.05</u>
Rate Schedule GS-6K	\$0.40 <u>1.96</u>
Rate Schedule GS-25K	\$0.40 <u>1.96</u>
Rate Schedule GS-120K	\$0.40 <u>1.96</u>
Rate Schedule GS-1,250K	\$0.40 <u>1.96</u>
Rate Schedule GS-11M	\$0.40 <u>-</u>
Rate Schedule GS-25M	\$0.40 <u>-</u>
Rate Schedule GL	\$0.24 <u>1.05</u>
Rate Schedule RSG	N/A
Rate Schedule CSG	N/A

Issued by: Carolyn Bermudez
 Vice President, Florida City Gas

Effective: January 1, 2019

Florida City Gas
 FPSC Natural Gas Tariff
 Volume No. 10

First~~Second~~ Revised Sheet No. 81
 Cancels Original First Revised Sheet No. 81

RIDER "D"

SAFETY, ACCESS AND FACILITY ENHANCEMENT (SAFE) PROGRAM
 (Continued)

Calculation of the SAFE Revenue Requirements and SAFE Surcharges

In determining the SAFE Revenue Requirements, the Commission shall consider only (a) the net original cost of Eligible Replacements (i.e., the original cost); (b) the applicable depreciation rates as determined and approved by the Commission based on the Company's most recent depreciation study; (c) the accumulated depreciation associated with the Eligible Replacements; (d) the current state and federal income and ad valorem taxes; and (e) the Company's weighted average cost of capital as calculated in the Company's most recent year-end surveillance report on Tariff Sheet No. 78.

The SAFE Revenue Requirements shall be calculated as follows:

Line	Description	Value	Source
1	Revenue Expansion Factor	1.3522	As calculated in most recent base rate proceeding, using current tax rates
2	Ad Valorem Tax Rate	%	Effective Property Tax Rate for most recent 12 Months ended December 31
3	Mains	\$	Eligible Replacement Mains
4	Services	\$	Eligible Replacement Services
5	Regulators	\$	Eligible Replacement Regulators
6	Other	\$	Eligible Replacement Other
7	Gross Plant	\$	L3+L4+L5+L6
8	Accumulated Depreciation	\$	Previous Period Balance +L13
9	Construction Work In Progress	\$	Non-interest Bearing
10	Net Book Value	\$	L7-L8+L9
11	Average Net Book Value	\$	(L10 + Balance From Previous Period)/2
12	Return on Average Net Book Value	\$	L 11 X Company's <u>calculated</u> weighted average cost of capital
13	Depreciation Expense	\$	Lines 3,4,5 & 6 X applicable approved Depreciation Rates
14	Property Tax	\$	(L7-L8) X L 2
15	Customer and general public notification and other applicable expense	\$	O&M expense incurred as a result of eligible plant replacement
16	SAFE Revenue Requirement	\$	(L12+L13+L14+L15) X L 1

Issued by: Carolyn Bermudez
 Vice President, Florida City Gas

Effective: January 1, 2019

Item 10

State of Florida



Public Service Commission

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

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

DATE: November 26, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Ward) *nsc EJD GW JPH*
Office of the General Counsel (Lherisson) *BL TU for JE*

RE: Docket No. 20190191-GU – Petition for approval to amend tariff provisions on capacity for transportation service to be consistent with tariff filed with rate case settlement, by Florida City Gas.

AGENDA: 12/10/19 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 60-day suspension date waived by the utility until 12/10/19

SPECIAL INSTRUCTIONS: None

Case Background

On October 10, 2019, Florida City Gas (City Gas or utility) filed a petition for approval to amend tariff provisions to be consistent with the tariff filed with its 2017 rate case Stipulation and Settlement (settlement). In City Gas's 2017 rate case, the Commission approved a settlement among the parties to the case.¹ On March 26, 2018, the tariffs implementing the settlement were entered into the rate case record as Hearing Exhibit 121. On April 12, 2018, the utility resubmitted the settlement tariffs in their entirety to address minor edits and corrections identified by staff on certain pages, including tariff Sheet No. 22. The tariffs as submitted on April 12, 2018, were attached to the Commission's final order in the 2017 rate case (Order No. PSC-2018-0190-FOF-GU).

¹ Order No. PSC-2018-0190-FOF-GU, issued April 20, 2018, in Docket No. 20170179-GU, *In re: Petition for rate increase by Florida City Gas.*

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COMMISSION CLERK

Docket No. 20190191-GU

Date: November 26, 2019

City Gas states in the instant petition that it recently came to the utility's attention that tariff Sheet No. 22, as refiled on April 12, 2018, and attached to the order approving the settlement, does not accurately reflect the settlement terms the parties to the settlement agreed on. Therefore, City Gas filed this petition to revise tariff Sheet No. 22 to reflect the tariff that was originally included in Hearing Exhibit 121. Tariff Sheet No. 22 addresses the utility's allocation of interstate pipeline capacity to its sales and transportation customers.

During the review process of the current petition, staff issued one data request to the utility, for which responses were received on November 6, 2019. The proposed tariff sheet is shown in Attachment A to the recommendation. The utility waived the 60-day file and suspend provision of Section 366.06(3), Florida Statutes (F.S.), until December 10, 2019. The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, F.S.

Discussion of Issues

Issue 1: Should the Commission approve City Gas's proposed changes to Tariff Sheet No. 22?

Recommendation: Yes. The Commission should approve City Gas's proposed changes to Tariff Sheet No. 22. The proposed tariff should be effective December 10, 2019. (Ward)

Staff Analysis: In City Gas's 2017 rate case, witness Becker testified about the utility's capacity on the interstate pipeline. Capacity is the amount of space that City Gas has reserved on the Florida Gas Transmission (FGT) interstate pipeline. The space on the interstate pipeline allows City Gas to buy natural gas and transport it to their service territory. The cost of the capacity, or the reservation fee, is paid to the interstate pipeline. City Gas has firm capacity contracts with FGT that vary by season with the highest capacity being held in the winter when customers require more natural gas.

Witness Becker further explained the difference between sales and transportation customers. Sales customers are those customers who receive their supply of natural gas from the utility. Transportation customers are those customers who only contract for the transport of natural gas on City Gas's system, but do not get their supply of natural gas from the utility. City Gas also defines a subset of Transportation customers known as Essential Use Transportation (essential use) customers who require natural gas service for health and safety reasons. City Gas asserted in the rate case that the utility needs to hold capacity for the essential use customers as a backup supply, because their needs are critical in nature. City Gas does not hold capacity for non-essential use transportation customers as the third party gas marketer supplying these customers with the gas commodity is responsible for making capacity arrangements on FGT.

Tariff Sheet No. 22 addresses the utility's allocation of capacity to third party suppliers. City Gas stated in the instant petition that the current tariff is not consistent with the negotiated rate case settlement and does not provide clarity for when City Gas can release capacity to third party marketers.

The proposed tariff language is designed to clarify the process under which the utility will release capacity to third party marketers. In general, capacity releases are posted on an electronic bulletin board administered by FGT. Under the proposed tariff, City Gas may not release capacity unless and until the utility holds sufficient capacity to serve its sales and essential use customers. Once City Gas has enough capacity to serve 100 percent of the pipeline capacity necessary to serve its sales and essential use customers, the utility will be required to release capacity. City Gas states that this language is intended to ensure that essential use customers are protected if their third party supplier is unable to deliver the gas. The proposed language also ensures sales customers are not allocated additional costs as a result of additional capacity being acquired to support the utility's transportation customers.

Conclusion

The signatories to the settlement were City Gas, the Office of Public Counsel (OPC), and Federal Executive Agencies (FEA). The utility stated that OPC has indicated that they do not oppose their request to make this tariff correction and FEA has not responded. On November 19, 2019, Commission staff also contacted FEA in regards to the tariff correction. FEA has not yet

responded to staff. Staff has reviewed City Gas's filings and supporting documentation and believes that the revisions to Tariff Sheet No. 22 are consistent with the settlement and with the tariffs entered into the rate case record as Hearing Exhibit 121. Therefore, staff recommends approval of City Gas's amended Tariff Sheet No. 22. The proposed tariff should be effective December 10, 2019.

Issue 2: Should this docket be closed?

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

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

Florida City Gas
FPSC Natural Gas Tariff
Volume No. 10

First Revised Sheet No. 22
Cancels Original Sheet No. 22

RULES AND REGULATIONS (Continued)

15. TRANSPORTATION - SPECIAL CONDITIONS (Continued)

H. Facilities (Continued)

Prior to the initial receipt of service hereunder, unless agreed otherwise, Customer shall reimburse Company in accordance with the terms of the Transportation Service Agreement, for the cost of any facilities which are constructed, acquired, or expanded by Company to receive or deliver Customer's gas.

All facilities required to provide service under each applicable Rate Schedule shall be designed, constructed, installed, operated, and owned by Company, unless otherwise agreed to by Company.

Company's execution of a Transportation Service Agreement under each applicable Rate Schedule may be conditioned on Customer's agreement to pay the total incremental cost of such facilities as specified herein and in the Service Agreement.

I. Designated Pools

This section designates the Pools that have been adopted for the Company's service territory in order to facilitate the operation of the Company's system.

Basic Pools result from the physical characteristics of the Company's system and the location of the delivery points of the interstate pipeline companies.

The Company's service territory is composed of two Primary Pools, each of which is composed of one or more Basic Pools:

- (a) Brevard
- (b) Miami-Dade

J. Allocation, Assignment, of Capacity and Supply Assets

This section sets forth the method and provisions by which the Company will allocate, on an equal access, nondiscriminatory basis, the Company's Interstate Pipeline Capacity to a Third Party Supplier based upon the Average Daily Delivery Quantity ("ADDQ") and Demand Charge Quantity ("DCQ") of the Transportation Customers served by the Third Party Shipper.

The portion of the Company's Interstate Pipeline Capacity not associated with premises served by Third Party Supplier will remain with the Company. The Company will hold the capacity required to service its Customers on a Design Day plus a reserve margin not to be less than 5%. The Company will post on the Electronic Bulletin Board ("EBB") each allocation of the Company's Interstate Pipeline Capacity to a Third Party Supplier for viewing only by such Third Party Shipper. Until the Company has sufficient Interstate Pipeline Capacity to satisfy 100% of ~~the throughput on its distribution systems~~ Sales and Essential Use Customers throughput the Company may opt to not release capacity to Third Party Suppliers. Once adequate capacity is obtained to meet the Sales and Essential Use Customers' needs, capacity releases will be prioritized based upon Customer groups. The Company will first release Interstate Pipeline Capacity to service Cycle Read Customers (ADDQ) based upon Third Party Supplier market share.

Issued by: Carolyn Bermudez
Vice President, Florida City Gas

Effective:

Item 11

State of Florida



Public Service Commission

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

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

DATE: November 26, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Ramos) *MR. ST ETD*
Division of Accounting and Finance (Bulecza-Banks, Buys, Smith II) *12/11 MC CREW*
Division of Engineering (Graves, Knoblauch) *EX 2/11*
Office of the General Counsel (Simmons, Crawford) *KS TS TIT for JC*

RE: Docket No. 20190031-WU – Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.

AGENDA: 12/10/19 – Regular Agenda – Proposed Agency Action, Except for Issues 15 and 16 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Clark

CRITICAL DATES: 5-Month Effective Date Waived Through 12/10/19

SPECIAL INSTRUCTIONS: None

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Case Background

Placid Lakes Utilities, Inc. (Placid Lakes or utility) is a Class B water utility providing service to approximately 2,000 customers in Highlands County. Placid Lakes is located in the Southwest Florida Water Management District (SWFWMD) as a critical use area. The utility's water rates were last established in its 2013 rate proceeding.¹ Placid Lakes is a wholly-owned subsidiary of Lake Placid Holding Company (LPHC), the primary developer of the Placid Lakes subdivision. In its 2018 annual report, the utility reported operating revenues of \$668,899 and a net operating loss of \$12,020.

On May 13, 2019, Placid Lakes filed an application with the Florida Public Service Commission (Commission) for an increase in water rates. Accompanying the utility's application were minimum filing requirement schedules (MFRs) required by Rule 25-30.346, Florida Administrative Code (F.A.C.).

The utility had a few deficiencies within its MFRs. The deficiencies were corrected and June 21, 2019, was established as the official filing date. The utility requested that the application be processed using the Proposed Agency Action (PAA) procedure. The historic test year established for final rates is the historical twelve-month period ended December 31, 2018. Additionally, within its application, the utility requested interim rates. By Order No. PSC-2019-0286-PCO-WU, the Commission suspended the final water rates proposed by the utility to allow staff sufficient time to process this case and approved an across-the-board interim rate increase of 4.52 percent.² In its filing, the utility requested a final revenue increase of \$97,116 (14.5 percent).

The five-month statutory deadline for the Commission to address the utility's requested final rates was November 21, 2019. However, by letter dated September 10, 2019, Placid Lakes waived the statutory time frame by which the Commission is required to address the utility's final requested rates through December 10, 2019.

This recommendation addresses Placid Lakes' request for final rates. The Commission has jurisdiction pursuant to Sections 367.081, 367.0812, and 367.091, Florida Statutes (F.S.).

¹Order No. PSC-2013-0646-PAA-WU, issued December 5, 2013, in Docket No. 20130025-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*

²Order No. PSC-2019-0286-PCO-WU, issued July 18, 2019, in Docket No. 20190031-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*

Discussion of Issues

Issue 1: Is the quality of service provided by Placid Lakes satisfactory?

Recommendation: Yes. Staff recommends the overall quality of service provided by Placid Lakes be considered satisfactory. (Knoblauch, Doehling)

Staff Analysis: Pursuant to Rule 25-30.433(1), F.A.C., the Commission, in every rate case, “shall make a determination of the quality of service provided by the utility by evaluating the quality of the utility’s product (water) and the utility’s attempt to address customer satisfaction (water and wastewater).” The rule states that the most recent chemical analyses, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department, along with any DEP and county health department officials’ testimony concerning quality of service shall be considered. In addition, any customer testimony, comments, or complaints shall also be considered.

Quality of the Utility’s Product

In the evaluation of Placid Lakes’ product quality, staff reviewed the utility’s compliance with the DEP’s primary and secondary drinking water standards. Primary standards protect public health, while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water. As provided in Placid Lakes’ MFRs, the utility entered into a consent order with the DEP on November 19, 2018, for exceedances of the maximum contaminant levels (MCLs) for disinfection byproducts. In response to a staff data request, the utility indicated that a new hydrogen peroxide treatment system, to address the disinfection byproducts exceedances, was accepted by the DEP on April 17, 2019, and was placed into service in early May 2019.

Based on the most recent test results dated May 16, 2019, and following the installation of the new treatment system, the disinfection byproducts were below the MCLs. The utility appears to have met the conditions of the consent order, and in correspondence with staff, the DEP stated that Placid Lakes is no longer on quarterly monitoring for disinfection byproducts. The most recent chemical analyses results for all other contaminants were dated May 5, 2017, and were in compliance with the DEP’s drinking water standards.

Staff requested complaints from the DEP for the test year and four years preceding the test year, and received four complaints. One of the complaints, dated April 20, 2017, cited a concern regarding the level of phosphate in the water; however, the DEP reported that the results had been incorrectly interpreted and no further action was recorded. Two of the complaints, made in 2018 and 2019, stated issues with the taste, odor, and residue in the water, while the last complaint was made in 2018 and questioned the safety of the water due to the noticing of disinfection byproducts exceedances. The utility was issued a construction permit by the DEP for plant improvements to address the formation of disinfection byproducts, as well as taste and odor issues from hydrogen sulfide. Additionally, the DEP requested that the utility increase its distribution system flushing until the improvements were complete.

In its MFRs, Placid Lakes provided 66 work orders in response to customer complaints that the utility received directly for the period of 2014-2018. Out of the 66 work orders, six were related to the color or smell of the water, and one work order was related to water quality testing. The

utility addressed the color and smell issues with flushing, and indicated that the water quality test was checked by utility personnel. The remaining 59 work orders were regarding flushing and are discussed below.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the Commission's complaint records for the test year and four years prior, and found four complaints. The complaints were received in 2014, 2016, 2017, and 2018, and were all related to billing. The complaints were forwarded to the utility for resolution, and each complaint has been closed. Correspondence from one customer dated July 22, 2019, was filed in the docket. The letter stated that Placid Lake's customers were told that the water was unsafe to drink the previous year, and no update on the water status had been provided. Based on DEP records, notices were mailed out on August 15, 2018, advising of the disinfection byproducts exceedances. However, as discussed above, the utility has implemented a new treatment system in order to address the issues with disinfection byproducts.

A customer meeting was held on April 30, 2018, where two customers provided comments. One customer discussed a reoccurring issue regarding a water leak at their meter, and the second customer voiced concerns about inadequate flushing. In response, the utility provided that for the customer who had experienced water leaks, the leak had been repaired by replacing the valve inside the meter box. In regards to flushing, the utility stated that it has 160 blow-off locations at the end of lines, and 30 of the locations are automatically flushed once a month. The remaining 130 locations are flushed twice a year to every 3 months, or more often if needed.

Following the conclusion of the customer meeting, a third customer provided a water sample, which was given to the utility and photos of the sample were placed in the docket. In response to staff's third data request, Placid Lakes indicated that an abnormal break had occurred, and there was a chance of sediment and loose iron pieces traveling into the lines. However, the utility stated that it had repeatedly flushed the lines and has "passed all testing at the lab deeming the water safe for human consumption."

As discussed above, Placid Lakes provided 66 work orders in response to customer complaints that the utility received for the period of 2014-2018. Out of the 66 work orders, all but 7 identified inadequate flushing as the area of concern, and these complaints were addressed by the utility with additional flushing of the lines. As discussed previously, the seven other work orders were related to the quality of the water.

Conclusion

Placid Lakes has taken action to address the disinfection byproduct exceedances addressed in a DEP consent order dated November 19, 2018. Based on the most recent test results for disinfection byproducts and chemical analyses, all contaminants were in compliance with the DEP's drinking water standards. Additionally, the utility appears to be responding adequately to the concerns of its customers. Therefore, staff recommends the overall quality of service provided by Placid Lakes be considered satisfactory.

Issue 2: What are the used and useful (U&U) percentages for Placid Lakes' water treatment plant (WTP), storage, and distribution system?

Recommendation: Staff recommends Placid Lakes' WTP and storage be considered 100 percent U&U, and the water distribution system be considered 79.09 percent U&U. There appears to be no excessive unaccounted for water (EUW); therefore, staff recommends that no adjustment be made to operating expenses for chemicals and purchased power. (Knoblauch)

Staff Analysis: Placid Lakes' WTP has three wells rated at a combined total of 1,550 gallons per minute (gpm) pumping capacity. The utility's water system has two ground storage tanks with a total capacity of 300,000 gallons, and three hydropneumatic tanks with a total capacity of 45,000 gallons. The distribution system is comprised of varying sizes of polyvinyl chloride (PVC) and asbestos-cement pipes.

The U&U for Placid Lakes' water treatment plant, storage, and distribution system were last determined in Order No. PSC-13-0646-PAA-WU.³ In that Order, the Commission found Placid Lakes' water treatment plant and storage to be 100 percent U&U. For the distribution system, the Commission determined the U&U to be 79.09 percent using a non-traditional methodology.

Water Treatment Plant and Storage Used and Useful

As noted above, the Commission found both the WTP and the storage to be 100 percent U&U in the prior rate proceeding. The utility has not increased the capacity of its WTP or storage since its last rate case. Therefore, consistent with the Commission's previous decision, staff recommends the utility's WTP and storage be considered 100 percent U&U.

Excessive Unaccounted for Water (EUW)

Rule 25-30.4325, F.A.C., defines EUW as "unaccounted for water in excess of 10 percent of the amount produced." Unaccounted for water is all water produced that is not sold, metered, or accounted for in the records of the utility. In determining whether adjustments to plant and operating expenses are necessary in accordance with Rule 25-30.4325(10), F.A.C., due to EUW, staff considers several factors. These include (1) the causes of EUW, (2) any corrective action taken, and (3) the economical feasibility of a proposed solution. EUW is calculated by subtracting both the gallons sold to customers and the gallons used for other services, such as flushing, from the total gallons pumped for the test year.

The Monthly Operating Reports indicate that the utility pumped 102,783,000 gallons during the test year. In its MFRs, the utility indicated that it purchased no water and estimated 11,964,000 gallons for other uses, such as flushing, valve exercises, and customer leak adjustments. According to the staff audit report, the utility sold 84,389,000 gallons of water for the test year. When both the gallons sold and water used for other uses is subtracted from the total gallons pumped, 6,430,000 gallons are unaccounted for. The formula for unaccounted for water is given by gallons of unaccounted for water / (total gallons pumped + gallons purchased). The resulting unaccounted for water is 6.3 percent; since this is less than 10 percent, there is no excessive

³Order No. PSC-13-0646-PAA-WU, issued December 5, 2013, in Docket No. 20130025-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*

unaccounted for water. Accordingly, staff recommends no adjustment to purchased power and chemical expenses due to EUW.

Water Distribution System Used and Useful

In Placid Lakes' 2000 Rate Case, the Commission found the utility's distribution system to be 76.37 percent U&U.⁴ In that case, the Commission considered all lines larger than six inches in diameter as 100 percent U&U. Smaller lines were evaluated by comparing the number of connected lots to the number of lots the lines are able to serve. These percentages were then multiplied by the original installed cost of the line, and the sum of these values was compared to the original installed cost of the distribution system, to generate a U&U percent value of 76.37 percent. The Commission noted that without these additional considerations, the U&U would have been 54.99 percent.

In Placid Lakes' 2008 and 2013 Rate Cases, the Commission determined the utility's distribution system to be 79.09 percent U&U relying on the method of evaluation discussed above.⁵ In Placid Lakes' 2013 Rate Case, the Commission found that the same evaluation should be used due to a lack of changed conditions in the utility's service territory.

In its MFRs, Placid Lakes asserted that its distribution system should be considered 100 percent U&U. To support its assertion, the utility stated that there are no areas of the water transmission or distribution system which could be wholly removed without impacting the ability to reliably serve customers.

In the current rate case, the utility has not presented, nor has staff identified, a change in the conditions of the utility's service territory. Therefore, staff recommends that the Commission continue to rely on the method of evaluation first established in the 2000 Rate Case. Using this evaluation, the distribution U&U is calculated to be below the previously approved 79.09 percent. It is Commission practice to not decrease the U&U below a previously approved percentage assuming there have been no changes to the system. Therefore, staff recommends a distribution system U&U of 79.09 percent, consistent with the Commission's previous decision.

Conclusion

Staff recommends Placid Lakes' WTP and storage be considered 100 percent U&U, and the water distribution system be considered 79.09 percent U&U. There appears to be no EUW; therefore, staff recommends that no adjustment be made to operating expenses for chemicals and purchased power.

⁴Order No PSC-01-0327-PAA-WU, issued February 6, 2001, in Docket No. 20000295-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*

⁵Order Nos. PSC-09-0632-PAA-WU, issued September 17, 2009, in Docket No. 20080353-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities Inc.*; and PSC-13-0646-PAA-WU, issued December 5, 2013, in Docket No. 20130025-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*

Issue 3: Should adjustments be made to Placid Lakes' Pro Forma Plant additions?

Recommendation: Yes. The appropriate pro forma net plant additions are \$58,716. This results in a decrease of \$14,180 from the utility's amended request. Corresponding adjustments should also be made to increase Accumulated Depreciation by \$33,122 and decrease depreciation expense by \$738. Additionally, pro forma property taxes should be increased by \$233. (Knoblauch, Smith II)

Staff Analysis: In its MFRs, Placid Lakes requested cost recovery of four pro forma projects; however, one of the projects was withdrawn per the utility's request. The utility's original request for all four projects was \$209,656, which was reduced to \$159,865 once the fourth project was withdrawn from consideration.

Placid Lakes provided the cost for a meter replacement program totaling \$38,681, which is a continuation of a previously-approved meter replacement program.⁶ The utility is replacing old meters with radio read devices that provide back-flow prevention, as required by the DEP. The utility estimated it will replace six meters per month for a total of 144 meters over two years. This is consistent with the number of meters approved in the utility's last rate case, and appears to also be consistent with the annual number of meters Placid Lakes has replaced over the last six years. The utility provided invoices totaling \$36,372 for the meters, as well as meter boxes and parts, which will not be required for every meter replacement. Additionally, \$2,310 was included as the cost of labor for two employees to complete the 144 meter replacements. The utility requested 75 percent of the replacement cost be utilized for retirement purposes totaling \$27,279. However, the utility's requested retirement amount did not include the labor associated with the project; therefore, staff believes the correct retirement should be \$29,011.

As discussed in Issue 1, Placid Lakes entered into a consent order with the DEP in response to disinfection byproduct exceedances. The utility indicated it would implement a new hydrogen peroxide water treatment system, which was accepted by the DEP on April 19, 2019. The new system was placed into service on May 1, 2019; and based on the most recent results, the utility is in compliance with DEP disinfection byproduct standards. No bids were obtained for this project as Placid Lakes stated that a "plan to correct water quality issues was designed by Florida Rural Water Association."⁷ The parts needed for the project were purchased by the utility, and the labor was largely performed by its employees. The invoices for the hydrogen peroxide system were provided to staff at a total cost of \$25,000.

The utility also included costs for a WTP control system in its MFRs totaling \$60,512. The utility explained that it had experienced problems with the previous control system over the past seven years, and Placid Lakes' prior contractor was unable to resolve the issue. Following a major failure of the control system in November 2018, the utility contacted a new contractor who was able to provide a quote for an interim control system. The interim control system would provide basic functionality; however, it would not have all of the capabilities of the old system. In response to a data request, the utility stated that due to the emergency nature of the control system failure, only one bid was obtained for the project. Placid Lakes determined that the

⁶Order No. PSC-13-0646-PAA-WU.

⁷Response to Staff's First Data Request, Document No. 05322-2019.

interim system was operating properly, and decided to update its original request to include the cost for a complete inner panel at an additional cost of \$35,672, bringing the project total to \$96,184. The utility also requested 75 percent of the replacement cost be utilized for the retirement of the old control system at an amount of \$72,138.

Staff believes that the proper documentation was provided to support the costs of the meter replacements, hydrogen peroxide water treatment system, and the WTP control system projects. The projects appear to be reasonable as the meter replacement program is largely a continuation of its previously approved program, and the hydrogen peroxide system was required to address the disinfection byproduct exceedances and the DEP consent order. Additionally, the new WTP control system was needed as the previous control system was failing. Therefore, staff recommends approval of the three pro forma projects totaling \$159,865, as shown in Table 3-1.

**Table 3-1
 Pro Forma**

Project	Addition	Retirement	Net Plant	Net A/D Adj.	Net Dep Exp	Prop Tax
Meter Replacement Program	\$38,681	(\$29,011)	\$9,670	\$26,431	\$645	\$50
Hydrogen Peroxide System	25,000	0	25,000	(1,138)	1,138	89
Control System	<u>96,184</u>	<u>(72,138)</u>	<u>24,046</u>	<u>67,329</u>	<u>1,202</u>	<u>94</u>
Staff Recommended Totals	\$159,865	(\$101,149)	\$58,716	\$92,622	\$2,985	\$233
MFR Amounts	<u>209,656</u>	<u>(136,760)</u>	<u>72,896</u>	<u>125,744</u>	<u>3,723</u>	<u>0</u>
Adjustments	(\$49,791)	\$35,612	(\$14,180)	(\$33,122)	(\$738)	\$233

Source: Utility's MFRs and staff's calculations

Based on the above, the appropriate pro forma net plant additions are \$58,716. This results in a decrease of \$14,180 from the utility's amended request. Corresponding adjustments should also be made to increase Accumulated Depreciation by \$33,122 and decrease depreciation expense by \$738. Additionally, pro forma property taxes should be increased by \$233.

Issue 4: What is the appropriate Working Capital allowance?

Recommendation: The appropriate Working Capital allowance is \$69,556. This results in a reduction of \$139 to the utility's requested Working Capital allowance. (Smith II)

Staff Analysis: Rule 25-30.433(3), F.A.C., requires that Class B utilities use the formula method, or one-eighth of operation and maintenance (O&M) expenses, to calculate the Working Capital allowance. The utility has properly calculated its allowance for Working Capital using the one-eighth of O&M expenses method. However, as detailed in Issue 9, staff has recommended adjustments to Placid Lakes' O&M expense. As a result, staff recommends that Working Capital of \$69,556 be approved. This reflects a decrease of \$139 to the utility's requested Working Capital allowance of \$69,695.

Issue 5: What is the appropriate rate base for the test year ended December 31, 2018?

Recommendation: Consistent with other recommended adjustments, the appropriate rate base for the test year ended December 31, 2018, is \$585,815. This results in a reduction of \$194,441 to the utility's requested rate base. (Smith II)

Staff Analysis: In its MFR's, the Utility requested a rate base of \$780,256. Staff's adjustments recommended in Issue 3 and Issue 4 resulted in decreases to net Pro Forma Plant of \$14,180 and Working Capital of \$139, respectively. Additionally, the Utility did not make a U&U adjustment in its MFRs. Therefore, as discussed in Issue 2, staff recommends reducing Utility Plant in Service by \$275,431 and Accumulated Depreciation by \$95,308 to reflect the appropriate U&U percentage. This results in a total decrease in rate base of \$194,441 ($\$14,180 + \$275,431 - \$95,308 + 139$). Based on staff's recommended adjustments, the appropriate rate base is \$585,815. The schedule for rate base is attached as Schedule No. 1-A and the adjustments are shown on Schedule No. 1-B.

Issue 6: What is the appropriate return on equity (ROE)?

Recommendation: Based on the Commission leverage formula currently in effect, the appropriate return on equity (ROE) is 8.76 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Smith II)

Staff Analysis: The utility requested an ROE of 9.07 percent. The utility utilized the 2018 leverage formula in its filing. However, staff applied the 2019 leverage formula to the utility's capital structure in the instant case resulting in an ROE of 8.76.⁸ The ROE is calculated using an equity ratio of 66.50 percent, based on investor sources. This application of the leverage formula is consistent with past decisions when the leverage formula has been updated during a rate case.⁹ Staff recommends the appropriate ROE is 8.76 percent with an allowed range of 7.76 percent to 9.76 percent.

⁸Order No. PSC-2019-0267-PAA-WS, issued July 1, 2019, in Docket No. 20190006-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.*

⁹Order No. PSC-09-0057-FOF-SU, issued January 27, 2009, in Docket No. 070293-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

Issue 7: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2018?

Recommendation: The appropriate weighted average cost of capital for the test year ended December 31, 2018, is 6.33 percent. (Smith II)

Staff Analysis: In its filing, the utility requested weighted average cost of capital (WACC) of 6.67 percent. However, as discussed in Issue 6, staff used the 2019 leverage formula, resulting in a lower ROE, and thus a lower WACC.

Placid Lake's capital structure consists of \$432,580 in common equity, \$217,868 of long-term debt at a cost rate of 3.45 percent, \$37,450 in customer deposits at a cost rate of 2.00 percent, and \$28,711 in deferred income taxes. A staff audit determined that no test year adjustments were necessary. The utility's capital structure has been reconciled with staff's recommended rate base which reduced the common equity balance to \$345,595, and reduced the long-term debt balance to \$174,058. The appropriate ROE is 8.76 percent based upon the Commission-approved leverage formula currently in effect.¹⁰ Staff recommends the appropriate WACC is 6.33 percent with an allowed range of 5.74 percent to 6.92 percent. The appropriate WACC, including the proper components, amounts, and cost rates is shown on Schedule No. 2.

¹⁰Order No. PSC-2019-0267-PAA-WS.

Issue 8: What are the appropriate test year revenues?

Recommendation: The appropriate test year revenues for Placid Lakes Utilities, Inc. are \$701,884. (Ramos)

Staff Analysis: Placid Lakes recorded total test year revenues of \$668,899. The utility's test year revenues included \$661,082 of service revenues and \$7,817 of miscellaneous service revenues. In order to calculate the appropriate service revenues, staff utilized the utility's rates in effect during the test year as well as the bills and gallons provided by the utility within its MFRs. As a result, the appropriate service revenues are \$677,567, which results in an increase of \$16,485 ($\$677,567 - \$668,899$) to the utility's service revenues.

For miscellaneous revenues, the utility did not reflect miscellaneous revenues associated with late payment charges in its MFRs. Staff requested the utility provide a schedule reflecting miscellaneous revenues associated with the late payment charges. The utility indicated that it was unable to provide a schedule detailing the late payment revenues by month when asked by staff due to the way the occurrences were inputted into the utility's billing system. However, the utility has corrected this feature within its billing system on a going-forward basis. Therefore, staff believes it is appropriate to estimate the late payment charge revenues the utility collected during the test year in order to accurately account for the utility's total test year miscellaneous revenues. The utility indicated that it administers approximately 275 late payment charges per month. Based on the utility's five dollar late payment charge and 275 occurrences each month during the test year, this results in additional miscellaneous revenues of \$16,500. As a result, the appropriate miscellaneous revenues are \$24,317 ($\$16,500 + \$7,817$). Based on the above, staff recommends that the appropriate test year revenues for Placid Lakes are \$701,884 ($\$677,567 + \$24,317$).

Issue 9: Should adjustments be made to the utility's O&M expenses?

Recommendation: Yes. O&M expense should be increased by \$2,904 to reflect an increase to chemical expense. (Knoblauch, Smith II)

Staff Analysis: Staff reviewed the utility's requested O&M expenses. In particular, staff compared the requested expenses in the instant case to the Commission-approved amounts in the utility's last rate case. The requested expenses in the instant case represent a slight increase. However, when applying the Commission-approved index factors to the previously approved expenses, the request in the instant case represents an overall decrease in O&M expenses. Therefore, staff believes these expenses are reasonable.

Placid Lakes recorded chemical expense of \$13,427 in its MFRs for the test year. The utility made a normalization adjustment to this amount of \$3,317, resulting in a chemical expense of \$16,744. The utility made a normalization adjustment to account for purchase timing differences. Staff reviewed purchases made over a period of three years and believes that a normalization adjustment is appropriate in this case. However, based on calculations using the values provided by Placid Lakes, staff recommends a normalization adjustment of \$3,110 to the test year amount. This results in a reduction of \$207 to the utility's requested amount of chemical expense.

In addition to the normalization adjustment discussed above, staff recommends adjustments to reflect the addition of a new water treatment system which was placed in-service after the test year. Based on three months of operation, the utility indicated that chemical costs will increase by a total amount of \$3,112. This increase includes costs for hydrogen peroxide which was not needed to operate the previous water treatment system.

Based on the discussion above, staff recommends an adjustment \$2,905 (-\$207+\$3,112) to the Utility's request of \$16,744. The resulting chemical expense is \$19,648 (\$16,744+\$2,905).

Issue 10: What is the appropriate amount of rate case expense for the current case?

Recommendation: The appropriate amount of rate case expense is \$30,664. This expense should be recovered over four years for an annual expense of \$7,666. Therefore, annual rate case expense should be reduced by \$4,020. (Smith II)

Staff Analysis: In its filing, Placid Lakes requested \$46,744 for current rate case expense with a four-year amortization amount of \$11,686.

In Staff's Third Data Request, staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case.¹¹ The utility submitted a revised estimated rate case expense, as of October 11, 2019, through completion of the PAA process of \$31,008.¹² Table 10-1 below illustrates the utility's requested rate case expense along with staff's recommended adjustments.

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on its review, staff believes the following adjustments to Placid Lakes' rate case expense estimate are appropriate.

The first adjustment to rate case expense is to remove ineligible and duplicative legal expenses. In the utility's update of actual legal fees and costs, fees associated with work on the utility's MFR deficiencies (\$494) were noted, but not removed. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicative filing costs.¹³

The second adjustment relates to pay for a retired employee who assisted the utility in preparing for the rate case. The utility submitted 5 months of timesheets for the retired employee. Those timesheets reflected a total of 30 hours. However, in its calculations for rate case expense, the utility only included 26 hours. Therefore, staff recommends increasing rate case expense by \$150 ($\37.43×4).

Placid Lakes initially included expenses of \$2,250 for customer and legal notices. Placid Lakes is responsible for sending three notices: the initial notice, the customer meeting notice, and the notice of the final rate increase. In its update of rate case expense, the utility documented a cost of \$1,122 for each notice. This results in a total of \$3,366 for notices.

Based upon the adjustments above, staff recommends that Placid Lakes' revised rate case expense of \$31,008 be decreased by \$344 ($\$494 - \150) for a total of \$30,664. A breakdown of rate case expense is as follows:

¹¹Document No. 09121-2019

¹²Document No. 09325-2019

¹³Order Nos. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, *In re: Application for rate increase in Martin County by Indiantown Company, Inc.*; and PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, *In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.*

**Table 10-1
 Rate Case Expense**

	MFR B-10 Estimated	Utility Revised Actual and Estimated	Staff Adjs	Total
Attorney's Fees (Dean Mead)	\$38,000	\$21,394	(\$494)	\$20,900
Retired Employee	2,994	973	150	1,123
Filing Fee	3,500	3,500	0	3,500
Customer Notices, Postage	2,250	3,367	0	3,367
Travel	0	1,774	0	1,774
Total	<u>\$46,744</u>	<u>\$31,008</u>	<u>(\$344)</u>	<u>\$30,664</u>
Annual Amortization	<u>\$11,686</u>			<u>\$7,666</u>

Source: Staff Calculations

The recommended total rate case expense above should be amortized over four years, pursuant to Section 367.081(8), F.S. Based on the above, staff recommends that annual rate case expense be reduced by \$4,020 (\$11,686 - \$7,666).

Issue 11: What is the appropriate revenue requirement for the test year ended December 31, 2018?

Recommendation: Staff recommends the following revenue requirement be approved. (Smith II)

Test Year		Revenue	
<u>Revenues</u>	<u>\$ Increase</u>	<u>Requirement</u>	<u>% Increase</u>
\$701,884	\$60,335	\$762,219	8.60%

Staff Analysis: In its filing, Placid Lakes requested a revenue requirement of \$766,015, which represents a revenue increase of \$97,116, or 14.52 percent. Consistent with staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff recommends a revenue requirement of \$762,219. This represents an increase of \$60,335, or 8.60 percent. Staff's recommended revenue requirement is shown in Table 11-1.

**Table 11-1
 Revenue Requirement**

Adjusted Rate Base	\$585,815
Rate of Return (%)	x 6.33%
Return on Rate Base	\$37,082
Adjusted O&M Expense	556,447
Depreciation Expense (Net)	63,849
Taxes Other Than Income	73,915
Income Taxes	31,028
Revenue Requirement	\$762,219
Less Adjusted Test Year Revenues	701,884
Annual Increase	<u>\$60,335</u>
Percent Increase	<u>8.60%</u>

Issue 12: What is the appropriate rate structure and rates for the utility's water system?

Recommendation: The recommended rate structures and monthly water rates are shown on Schedule No. 4. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The utility should provide proof of noticing within 10 days of rendering its approved notice. (Ramos)

Staff Analysis: Placid Lakes is located in Highlands County within the SWFWMD. The utility's water system provides service to 1,973 residential and 34 general service customers. Approximately 8 percent of the residential customer bills during the test year had zero gallons, which indicates a non-seasonal customer base. The average residential water demand during the test year was 3,480 gallons per month, which is a 1.8 percent decrease since the utility's last rate case.

Currently, the utility's water system rate structure consists of a base facility charge (BFC) and three tier inclining block rate structure for residential customers. The rate blocks are: (1) 0-10,000 gallons; (2) 10,001-20,000 gallons; and (3) usage in excess of 20,000 gallons. General service customers are billed a BFC and a uniform gallonage charge.

Staff performed an analysis of the utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. 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.

Staff believes an across-the-board increase to the utility's existing rates is appropriate because of the low revenue requirement percentage increase. In addition, the existing rate structure appears reasonable and no significant repression is anticipated. To determine the appropriate percentage increase to apply to the service rates, miscellaneous revenues were removed from the test year revenues (\$701,884 - \$24,317), resulting in an 8.90 ($\$60,335 / \$677,567$) percent increase to the service rates.

Based on the above, the recommended rate structures and monthly water rates are shown on Schedule No. 4. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The utility should provide proof of noticing within 10 days of rendering its approved notice.

Issue 13: Should the utility's request for a new class of service for private fire protection be approved?

Recommendation: Yes, the utility's request to establish a new class of service for private fire protection should be approved. Staff's recommended monthly private fire protection rates are shown on Schedule No. 4. The utility should file a proposed tariff sheet 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 sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The utility should provide proof of noticing within 10 days of rendering its approved notice. (Ramos)

Staff Analysis: Shortly after the utility filed its application for a water rate increase, the utility requested to establish a new class of service for private fire protection rates as a part of this proceeding by letter dated July 31, 2019. The utility requested a new class of service for private fire protection due to a request from a Dollar General store to provide a 6" fire flow line. The utility is requesting the private fire protection rate be consistent with Rule 25-30.465, F.A.C., which states that the rate shall be one-twelfth the current base facility charge of the utility's meter sizes. Staff believes the utility's request is reasonable and should be approved. While the utility only requested the private fire protection rate for a 6" meter, staff recommends setting private fire protection rates for the rest of the utility's corresponding meter sizes pursuant to Rule 25-30.465, F.A.C.; in the event another customer requests private fire protection in the future, the utility would not have to file an additional application with the Commission.

Based on the above, the utility's request to establish a new class of service for private fire protection should be approved. Staff's recommended monthly private fire protection rates are shown on Schedule No. 4. The utility should file a proposed tariff sheet 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 sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The utility should provide proof of noticing within 10 days of rendering its approved notice.

Issue 14: What is the appropriate amount by which rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense?

Recommendation: The water rates should be reduced, as shown on Schedule No. 4, to remove rate case expense grossed-up for regulatory assessment fees 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. Placid Lakes should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Ramos, Smith II)

Staff Analysis: Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in Working Capital, and the gross-up for regulatory assessment fees. The total reduction is \$8,091. Using Placid Lakes' current revenues, expenses, capital structure and customer base, the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

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

Issue 15: 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. Placid Lakes should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Placid Lakes should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) primary accounts have been made to the utility's books and records. In the event the utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Smith II)

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

Issue 16: 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 applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket should be closed administratively. (Simmons)

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 applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket should be closed administratively.

Placid Lakes Utilities, Inc. Schedule of Water Rate Base Test Year Ended 12/31/18			Schedule No. 1-A Docket No. 20190031-WU		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$3,048,184	\$49,887	\$3,098,071	(\$14,180)	\$3,083,892
2 Land and Land Rights	4,355	0	4,355	0	4,355
3 Non-used and Useful Components	0	0	0	(275,431)	(275,431)
4 CWIP	4,325	(4,325)	0	0	0
5 Accumulated Depreciation	(1,848,667)	149,736	(1,698,931)	95,308	(1,603,623)
6 CIAC	(1,897,731)	9,458	(1,888,273)	0	(1,888,273)
7 Amortization of CIAC	1,243,797	(26,324)	1,217,473	0	1,217,473
8 Advances for Construction	(18,783)	(3,351)	(22,134)	0	(22,134)
9 Working Capital Allowance	<u>0</u>	<u>69,695</u>	<u>69,695</u>	<u>(139)</u>	69,556
10 Rate Base	<u>\$535,480</u>	<u>\$244,776</u>	<u>\$780,256</u>	<u>(194,441)</u>	<u>\$585,815</u>

Placid Lakes Utilities, Inc.		Schedule No. 1-B
Adjustments to Rate Base		Docket No. 20190031-WU
Test Year Ended 12/31/18		
Explanation		Water
<u>Plant In Service</u>		
Pro Forma Plant		<u>(\$14,180)</u>
<u>Non-used and Useful</u>		
To reflect non-used & useful adjustment		<u>(\$275,431)</u>
<u>Accumulated Depreciation</u>		
1 Pro Forma Accumulated Depreciation		(\$33,122)
2 To reflect non-used & useful adjustment		<u>128,430</u>
Total		<u>\$95,308</u>
<u>Working Capital</u>		
To reflect appropriate Working Capital		<u>(\$139)</u>

Placid Lakes Utilities, Inc. Capital Structure-13-Month Average Test Year Ended 12/31/18							Schedule No. 2 Docket No. 20190031-WU	
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$466,426	(\$248,558)	\$217,868	\$21,319	\$239,187	30.65%	3.45%	1.06%
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	261,465	171,115	432,580	(130,511)	474,909	60.87%	9.07%	5.52%
5 Customer Deposits	40,820	(3,370)	37,450	0	37,450	4.80%	2.00%	0.10%
6 Deferred Income Taxes	<u>31,656</u>	<u>(2,945)</u>	<u>28,711</u>	<u>0</u>	<u>28,711</u>	<u>3.68%</u>	0.00%	<u>0.00%</u>
7 Total Capital	<u>\$800,367</u>	<u>(\$83,758)</u>	<u>\$716,609</u>	<u>(\$196,243)</u>	<u>\$780,257</u>	<u>100.00%</u>		<u>6.67%</u>
Per Staff								
11 Long-term Debt	\$466,426	(\$248,558)	\$217,868	(\$43,810)	\$174,058	29.71%	3.45%	1.03%
12 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
13 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
14 Common Equity	261,465	171,115	432,580	(86,985)	345,595	58.99%	8.76%	5.17%
15 Customer Deposits	40,820	(3,370)	37,450	0	37,450	6.39%	2.00%	0.13%
16 Deferred Income Taxes	<u>31,656</u>	<u>(2,945)</u>	<u>28,711</u>	<u>0</u>	<u>28,711</u>	<u>4.90%</u>	0.00%	<u>0.00%</u>
17 Total Capital	<u>\$800,367</u>	<u>(\$83,758)</u>	<u>\$716,609</u>	<u>(\$130,794)</u>	<u>\$585,815</u>	<u>100.00%</u>		<u>6.33%</u>
						LOW	HIGH	
RETURN ON EQUITY						<u>7.76%</u>	<u>9.76%</u>	
OVERALL RATE OF RETURN						<u>5.74%</u>	<u>6.92%</u>	

Placid Lakes Utilities, Inc. Statement of Water Operations Test Year Ended 12/31/18						Schedule No. 3-A Docket No. 20190031-WU	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues	<u>\$668,899</u>	<u>\$97,116</u>	<u>\$766,015</u>	<u>(\$64,131)</u>	<u>\$701,884</u>	<u>\$60,335</u> 8.60%	<u>\$762,219</u>
Operating Expenses							
2 Operation & Maintenance	\$540,289	\$17,274	\$557,563	(\$1,116)	\$556,447		\$556,447
3 Depreciation	54,649	3,723	58,372	5,477	63,849		63,849
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	80,091	(3,939)	76,152	(5,080)	71,072	2,843	73,915
6 Income Taxes	<u>5,890</u>	<u>11,778</u>	<u>17,668</u>		<u>16,457</u>	<u>14,571</u>	<u>31,028</u>
7 Total Operating Expense	<u>680,919</u>		<u>709,755</u>		<u>707,825</u>	<u>17,414</u>	<u>725,239</u>
8 Operating Income	<u>(\$12,020)</u>		<u>\$56,260</u>		<u>(\$5,941)</u>	<u>\$42,921</u>	<u>\$36,979</u>
9 Rate Base	<u>\$535,480</u>		<u>\$780,256</u>		<u>\$585,815</u>		<u>\$585,815</u>
10 Rate of Return	<u>-2.24%</u>		<u>7.21%</u>		<u>-1.01%</u>		<u>6.33%</u>

Placid Lakes Utilities, Inc.		Schedule No. 3-B
Adjustment to Operating Income		Docket No. 20190031-WU
Test Year Ended 12/31/18		
Explanation	Water	
<u>Operating Revenues</u>		
1 To remove requested revenue increase	(\$97,116)	
2 Revenues per ECO	<u>32,985</u>	
Total	<u>(\$64,131)</u>	
<u>Operation and Maintenance Expense</u>		
1 To reflect appropriate chemical expense	\$2,904	
2 Rate Case Expense Amortization	<u>(4,020)</u>	
Total	<u>(\$1,116)</u>	
<u>Depreciation Expense - Net</u>		
1 Pro Forma Depreciation Expense	(\$738)	
2 To reflect non-used & useful adjustment	<u>6,215</u>	
Total	<u>\$5,477</u>	
<u>Taxes Other Than Income</u>		
1 To remove RAFs on revenue adjustment above	(\$3,022)	
2 Used and Useful Property Tax adjustment	(2,291)	
3 Pro Forma Property taxes	<u>233</u>	
Total	<u>(\$5,080)</u>	

Placid Lakes Utilities, Inc.		Schedule No. 4			
Monthly Water Rates		Docket No. 20190031-WU			
Test Year Ended 12/31/18					
	Rates at Time of Filing	Commission Approved Interim Rates	Utility Requested Final Rates	Staff Recommended Final Rates	4 Year Rate Reduction
<u>Residential and General Service</u>					
Base Facility Charge by Meter Size					
5/8" x 3/4"	\$11.59	\$12.11	\$11.76	\$12.62	\$0.13
1"	\$28.98	\$30.28	\$29.39	\$31.55	\$0.33
1-1/2"	\$57.95	\$60.55	\$58.78	\$63.10	\$0.65
2"	\$92.72	\$96.88	\$94.04	\$100.96	\$1.04
3"	\$185.44	\$193.76	\$188.08	\$201.92	\$2.08
4"	\$289.75	\$302.75	\$293.88	\$315.50	\$3.25
6"	\$579.50	\$605.50	\$587.75	\$631.00	\$6.50
Charge per 1,000 gallons - Residential					
0-10,000 gallons	\$4.34	\$4.54	\$5.21	\$4.73	\$0.05
10,001 - 20,000 gallons	\$6.52	\$6.81	\$7.81	\$7.10	\$0.07
Over 20,000 gallons	\$8.68	\$9.07	\$10.41	\$9.45	\$0.09
Charge per 1,000 gallons - General Service	\$4.64	\$4.85	\$5.57	\$5.05	\$0.05
<u>Private Fire Protection</u>					
Base Facility Charge by Meter Size					
5/8" x 3/4"	N/A	N/A	N/A	\$1.05	\$0.01
1"	N/A	N/A	N/A	\$2.63	\$0.03
1-1/2"	N/A	N/A	N/A	\$5.26	\$0.05
2"	N/A	N/A	N/A	\$8.41	\$0.09
3"	N/A	N/A	N/A	\$16.83	\$0.17
4"	N/A	N/A	N/A	\$26.29	\$0.27
6"	N/A	N/A	\$49.00	\$52.58	\$0.54
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>					
3,000 Gallons	\$24.61	\$25.73	\$27.39	\$26.81	
6,000 Gallons	\$37.63	\$39.35	\$43.02	\$41.00	
8,000 Gallons	\$46.31	\$48.43	\$53.44	\$50.46	

Item 12

State of Florida



Public Service Commission

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

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

DATE: November 26, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Sibley, Hudson) *MS*
Division of Accounting and Finance (Wilson, T. Brown) *ESD*
Division of Engineering (Doehling, Phillips) *MS*
Office of the General Counsel (Weisenfeld) *MS* *MC* *KAW* *JD* *BP* *AW* *TL*

RE: Docket No. 20190146-WS – Petition for limited alternative rate increase in Lake County by Lakeside Waterworks, Inc.

AGENDA: 12/10/19 – Regular Agenda – Proposed Agency Action – Except Issue No. 3 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Polmann

CRITICAL DATES: 12/18/19 – 90 day deadline Pursuant to Rule 25-30.457(11), F.A.C.

SPECIAL INSTRUCTIONS: None

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Case Background

Lakeside Waterworks, Inc. (Lakeside or utility) is a Class C utility serving approximately 183 water customers in Lake County. The utility's last approved rate increase was in 2017.¹

On July 25, 2019, Lakeside filed an application for a limited alternative rate increase (LARI) pursuant to Rule 25-30.457, Florida Administrative Code (F.A.C). On August 20, 2019, staff notified the utility that it met the initial requirements of Rule 25-30.457, F.A.C. Therefore, pursuant to Rule 25-30.457(4), F.A.C., the official date of filing was established as September

¹ Order No. PSC-2017-0428-PAA-WS, issued November 7, 2017, in Docket No. 20160195-WS, *In re: Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.*

Docket No. 20190146-WS
Date: November 26, 2019

19, 2019, and the 90-day time frame for the Florida Public Service Commission (Commission) to render a decision began on that date.

As stated above, the Commission last set rates for Lakeside in 2017. In that rate case, the Commission found the utility's overall quality of service to be satisfactory. Since the Commission's vote in the last rate case, staff has identified no water quality complaints filed with the Commission, five complaints filed with the Florida Department of Environmental Protection (DEP), and ten complaints received by the utility pertaining to DEP secondary standards. A customer meeting was held on October 16, 2019, in Leesburg, Florida. Fifteen customers attended and four customers addressed concerns with the quality of Lakeside's product. Staff notes that the most recent DEP secondary standard test results, dated January 30, 2018, indicate that the utility is currently passing secondary standards.

The Commission has jurisdiction pursuant to Sections 367.0814(9) and 367.121(1), Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Should the Commission approve Lakeside Waterworks, Inc.'s application for a LARI?

Recommendation: Yes. The Commission should approve Lakeside's application for a LARI in the amount of 20 percent. This equates to an increase of \$13,097. Pursuant to Rule 25-30.457(12), F.A.C., the utility should be required to hold any revenue increase granted subject to refund with interest for a period of 15 months after the filing of its annual report for the year the adjustment in rates was implemented. If overearnings occur, such overearnings, up to the amount held subject to refund, with interest, should be disposed of for the benefit of the customers. After the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should be required to file reports with the Office of Commission Clerk 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 must also indicate the status of the security being used to guarantee repayment of any potential refund. (Wilson, T. Brown)

Staff Analysis: Pursuant to Rule 25-30.457, F.A.C., any utility eligible to file for a staff-assisted rate case (SARC) may petition the Commission for a rate increase of up to 20 percent applied to metered or flat recurring rates as an alternative to a rate case. This Rule was designed to streamline the rate increase process for qualifying small water or wastewater companies, by establishing an abbreviated procedure for a limited rate increase that is less time consuming and thus less costly for utilities, their customers, and the Commission. This Rule is similar to the rules governing price index and pass-through increases in that neither an engineering review nor a financial audit of the utility's books and records is required.

Rule 25-30.457, F.A.C., was adopted on March 15, 2005. The Rule was amended in 2008, 2014, and 2018. Under provisions of this Rule, the Commission has previously approved six LARI applications: two in 2006,² and four in 2019.³ Staff has undertaken rulemaking in regard to the LARI Rule, and expects to bring a recommendation before the Commission in the first half of 2020. The most recent LARI rulemaking workshop was conducted on October 30, 2019.

On July 25, 2019, Lakeside filed its application requesting a LARI of 20 percent pursuant to Rule 25-30.457, F.A.C. The application met the initial requirements of the Rule, and September 19, 2019, was established as the official filing date.

Staff reviewed the utility's application pursuant to the criteria listed in Rule 25-30.457(5), F.A.C., and recommends that Lakeside qualifies for staff assistance pursuant to subsection (1) of

² Order No. PSC-06-0444-PAA-WU, issued May 22, 2006, in Docket No. 20050880-WU, *In re: Petition for limited alternative rate increase in Lake County by Brendenwood Water System, Inc.*; and Order No. PSC-06-0822-PAA-WU, issued October 6, 2006, in Docket No. 20060416-WU, *In re: Petition for limited alternative rate increase in Polk County by Pinecrest Ranches, Inc.*

³ Order No. PSC-2019-0141-PAA-WS, issued April 22, 2019, in Docket No. 20180215-WS, *In re: Petition for limited alternative rate increase in Highlands County by LP Waterworks, Inc.*; Order No. PSC-2019-0142-PAA-WU, issued April 22, 2019, in Docket No. 20180216-WU, *In re: Petition for limited alternative rate increase in Lake County by Lake Idlewild Utility Company*; Order No. PSC-2019-0145-PAA-WS, issued April 23, 2019, in Docket No. 20180217-WS, *In re: Petition for limited alternative rate increase in Sumter County by Jumper Creek Utility Company*; and Order No. PSC-2019-0459-PAA-WU, issued October 24, 2019, in Docket No. 20190124-WU, *In re: Petition for limited alternative rate increase in Lake County by Raintree Waterworks, Inc.*

this Rule, and, the utility's books and records appear to be organized consistent with Rule 25-30.110, F.A.C. Staff also verified that the utility is current on the filing of regulatory assessment fees and annual reports. The utility has been in operation over a year and filed additional relevant information in support of eligibility.

According to the utility, for the 12-month period ended May 31, 2019, the net operating income was approximately \$1,423, which represents an approximate rate of return of 0.68 percent. The Commission approved an overall rate of return of 8.45 percent in Lakeside's last SARC Order.⁴ Based on its calculations, Lakeside believes that it may be entitled to approximately a 22.71 percent increase if it filed for a SARC.⁵ Since rate base was last established, Lakeside has expended capital in its water plant in the amount of \$70,405 from March 30, 2016 through May 31, 2019. Staff notes that a large portion of that amount appears to have been added in 2018 alone. In addition, operating expenses have increased by approximately 5 percent since the utility's last SARC.

Despite the fact that the utility received a rate increase less than two years from the date of filing of its petition, Lakeside's water system was under earning based on information provided in the utility's 2017 and 2018 Annual Reports. Staff also notes that at the time the last rate case was addressed by this Commission, a utility representative indicated that the utility had an additional \$40,000 worth of pro forma plant investment that was not included in the rate case. It was also noted that additional projects remained and the utility would likely need to file a limited proceeding within the year. No limited proceeding was filed by the utility in 2018 or 2019. Based on the information described above, staff recommends approval of the utility's petition.

The data presented in the application was based upon annualized revenues by customer class and meter size for the 12-month period ended May 31, 2019. Based on annualized revenues of \$65,679, a 20 percent increase would result in an annual increase in revenues of \$13,097. This produces total annual service revenues of \$78,776.

Pursuant to Rule 25-30.457(12), F.A.C., the utility is required to hold any revenue increase granted subject to refund with interest in accordance with Rule 25-30.360, F.A.C., for a period of 15 months after the filing of its 2020 Annual Report as it is the year the adjustment in rates will be implemented.

After the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility must file reports with the Office of Commission Clerk 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 must also indicate the status of the security being used to guarantee repayment of any potential refund.

Staff reviewed the personal financial statements of the primary shareholder, who is the president of Lakeside Waterworks, Inc.⁶ The president has provided a personal guarantee of any rate

⁴ Order No. PSC-2017-0428-PAA-WS, issued November 7, 2017, in Docket No. 20160195-WS, *In re: Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.*

⁵ The utility's calculation utilized the most recently approved leverage formula for 2019.

⁶ Document No. 10861-2019 (Confidential), filed November 12, 2019.

increase approved in this docket.⁷ Based on the above, staff believes that in this circumstance the company's president has demonstrated the financial ability to guarantee the refund, if necessary.

To ensure overearnings will not occur due to the implementation of this rate increase, the Commission will conduct an earnings review of the Lakeside's annual report for the year the adjustment in rates was implemented. If overearnings occur, such overearnings, up to the amount held subject to refund, with interest, will be disposed of for the benefit of the customers.

⁷ Document No. 10709-2019, filed November 4, 2019.

Issue 2: What are the appropriate monthly service rates for Lakeside Waterworks, Inc.?

Recommendation: The existing service rates for Lakeside should be increased by 20 percent in accordance with Rule 25-30.457, F.A.C. The appropriate service rates are shown on Schedule No. 1. The utility should file 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 sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Sibley)

Staff Analysis: Based on staff's recommended approval of the utility's LARI in Issue 1, the existing service rates for Lakeside should be increased by 20 percent in accordance with Rule 25-30.457, F.A.C. Therefore, staff calculated rates by applying the 20 percent increase across-the-board to the existing base facility and gallonage charges. The utility's existing water rates and the staff recommended rates are shown on Schedule No. 1. The utility should file 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 sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

Issue 3: Should the recommended rates be approved for Lakeside Waterworks, Inc. on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

Recommendation: Yes. Pursuant to Rule 25-30.457(15), F.A.C., in the event of a protest of the Proposed Agency Action (PAA) Order by a substantially affected person other than the utility, Lakeside should be authorized to implement the rates established in the LARI PAA Order on a temporary basis subject to refund upon the utility filing a staff-assisted rate case application within 21 days of the date the protest is filed.

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. If the recommended rates are approved on a temporary basis, the incremental increase collected by the utility will be subject to the refund provisions outlined in Rule 25-30.360, F.A.C. Pursuant to Rule 25-30.457(17), F.A.C., if the utility fails to file a SARC application within 21 days in the event there is a protest, the application for a LARI will be deemed withdrawn. (Wilson) (Final Agency Action)

Staff Analysis: This recommendation proposes an increase in water 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 Rule 25-30.457(15), F.A.C., in the event of a protest of the PAA Order by a substantially affected person other than the utility, Lakeside should be authorized to implement the rates established in the LARI PAA Order on a temporary basis subject to refund upon the utility filing a SARC application within 21 days of the date the protest is filed.

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. If the recommended rates are approved on a temporary basis, the incremental increase collected by the utility will be subject to the refund provisions outlined in Rule 25-30.360, F.A.C. Pursuant to Rule 25-30.457(17), F.A.C., if the utility fails to file a SARC application within 21 days in the event there is a protest, the application for a LARI will be deemed withdrawn.

Issue 4: Should this docket be closed?

Recommendation: No. In the event of a protest, Lakeside Waterworks may implement the rates established in the PAA Order on a temporary basis, subject to refund with interest, upon the utility's filing of a SARC application within 21 days of the date the protest is filed. If Lakeside Waterworks fails to file a SARC within 21 days, the utility's petition for a LARI will be deemed withdrawn pursuant to Rule 25-30.457(17), F.A.C. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the PAA Order, a Consummating Order should be issued. The docket should remain open for staff's verification that the revised tariff sheets which reflect the Commission-approved rates, and the customer notice, have been filed by Lakeside Waterworks and approved by staff, and so that staff may conduct an earnings review of the utility pursuant to Rule 25-30.457(12), F.A.C. Upon staff's approval of the tariff and completion of the earnings review process as set forth in Rule 25-30.457(12)-(14), F.A.C., this docket should be closed administratively. (Weisenfeld)

Staff Analysis: In the event of a protest, Lakeside Waterworks may implement the rates established in the PAA Order on a temporary basis, subject to refund with interest, upon the utility's filing of a SARC application within 21 days of the date the protest is filed. If Lakeside Waterworks fails to file a SARC within 21 days, the utility's petition for a LARI will be deemed withdrawn pursuant to Rule 25-30.457(17), F.A.C. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the PAA Order, a Consummating Order should be issued. The docket should remain open for staff's verification that the revised tariff sheets which reflect the Commission-approved rates, and customer notice, have been filed by Lakeside Waterworks and approved by staff, and so that staff may conduct an earnings review of the utility pursuant to Rule 25-30.457(12), F.A.C. Upon staff's approval of the tariff and completion of the earnings review process as set forth in Rule 25-30.457(12)-(14), F.A.C., this docket should be closed administratively.

**Lakeside Waterworks, Inc.
 Monthly Water Rates**

	Existing Rates	Staff Recommended Rates
Residential, General, and Irrigation Service*		
Base Facility Charge by Meter Size		
5/8" x 3/4"	\$14.86	\$17.83
3/4"	\$22.29	\$26.75
1"	\$37.15	\$44.58
1 1/2"	\$74.30	\$89.15
2"	\$118.88	\$142.64
3"	\$237.75	\$285.28
4"	\$371.50	\$445.75
6"	\$743.00	\$891.50
Gallonage Charge – Residential and Irrigation Service		
Charge Per 1,000 gallons		
0 - 4,000 gallons	\$4.48	\$5.37
4,001 – 10,000 gallons	\$5.68	\$6.81
Over 10,000 gallons	\$9.94	\$11.92
Gallonage Charge - General Service		
Charge Per 1,000 gallons	\$5.85	\$7.02
*Irrigation Service Customers DO NOT pay a separate BFC.		
Typical Residential 5/8" x 3/4" Meter Bill Comparison		
3,000 Gallons	\$28.30	\$33.94
6,000 Gallons	\$44.14	\$52.93
10,000 Gallons	\$66.86	\$80.17

Item 13

State of Florida



Public Service Commission

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

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

DATE: November 26, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Ramos, Hudson) *SOH MR EID*
Office of the General Counsel (Trierweiler) *WJ7 TIT for JC*

RE: Docket No. 20190189-WS – Application for establishment of wastewater allowance for funds prudently invested (AFPI) charges in Lake County.

AGENDA: 12/10/19 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 60-Day Suspension Date Waived Through 12/10/19

SPECIAL INSTRUCTIONS: None

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Case Background

Utilities, Inc. of Florida (UIF or utility) is a Class A utility providing water and wastewater services to 27 systems in the following counties: Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole. Within its 2018 annual report, the utility reported \$15,633,470 of water and \$19,795,636 of wastewater operating revenues.

On October 7, 2019, the utility filed an application to revise its existing allowance for funds prudently invested (AFPI) charges for its system formerly known as Lake Utility Services, Inc. (LUSI), along with tariff sheets reflecting the proposed charges. The utility is requesting to revise its existing AFPI charges for the LUSI wastewater system based on the Commission's remand decision in Order No. PSC-2019-0363-PAA-WS, issued August 27, 2019, which

Docket No. 20190189-WS

Date: November 26, 2019

reduced the used and useful value of LUSI's wastewater treatment plant (WWTP) from 58.78 to 53.54 percent.¹

Section 367.081(6), Florida Statutes (F.S.), provides that the Commission may, for good cause, withhold consent of implementation of the requested rates within 60 days after the date the rate request is filed. This recommendation addresses the suspension of UIF's proposed tariff sheet. The Commission has jurisdiction pursuant to Section 367.091(6), F.S.

¹Order No. PSC-201900363-PAA-WS, issued August 27, 2019, in Docket No. 20160101-WS, In re: *Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, orange, Pasco, Pinellas, Polk, and Seminole Counties by Utilities, Inc. of Florida.*

Discussion of Issues

Issue 1: Should the Commission suspend UIF's proposed tariff of revised AFPI charges for the LUSI wastewater system?

Recommendation: Yes. UIF's proposed tariff to establish AFPI charges for its LUSI wastewater system should be suspended. (Ramos)

Staff Analysis: Pursuant to Section 367.081(6), F.S., the Commission may withhold consent to the operation of any or all portions of new rate schedules by a vote to that effect within 60 days, giving a reason or statement of good cause for withholding its consent. Staff is recommending that the tariff be suspended to allow staff sufficient time to review the application and gather all pertinent information to present the Commission an informed recommendation on the proposed tariff. Staff sent a data request to UIF on November 26, 2019, requesting additional information in regards to the utility's requested AFPI charges and anticipates a response by December 23, 2019. Staff believes that this reason is a good cause consistent with the requirement of Section 367.081(6) F.S. Based on the above, UIF's proposed tariff to establish AFPI charges for the LUSI wastewater system should be suspended.

Issue 2: Should this docket be closed?

Recommendation: No. The docket should remain open pending the Commission's final action on UIF's requested approval to revise existing AFPI wastewater charges for the LUSI wastewater system. (Trierweiler)

Staff Analysis: No. The docket should remain open pending the Commission's final action on UIF's requested approval to revise existing AFPI wastewater charges for the LUSI wastewater system.