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 May 5, 2020

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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: April 23, 2020

TO: Office of Commission Clerk (Teitzman)

FROM: Office of Industry Development and Market Analysis (Wendel)
Office of the General Counsel (Weisenfeld, Passidomo)

RE: Application for Certificate of Authority to Provide Telecommunications Service

AGENDA: 5/5/2020 - 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>
20200066-TX	Spectrum Fiberlink Florida, LLC	8947
20200098-TX	MasTec Network Solutions, LLC	8948

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

State of Florida



Public Service Commission

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

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

DATE: April 23, 2020

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Engineering (Ellis, Kistner) *TB*
Office of the General Counsel (Dziechciarz) *TL7*

RE: Docket No. 20200109-EQ – Petition for approval of standard offer contract, by Florida Public Utilities Company

AGENDA: 5/5/2020 - Consent Agenda - Proposed Agency Action - Interested Persons May Participate

SPECIAL INSTRUCTIONS: None

Please place the following on the consent agenda for approval.

<u>DOCKET NO.</u>	<u>COMPANY NAME</u>	<u>2020 Standard Offer</u>
20200109-EQ	Florida Public Utilities Company	Attachment A

Section 366.91(3), Florida Statutes (F.S.), requires that each investor-owned utility (IOU) continuously offer to purchase capacity and energy from renewable energy generators and small qualifying facilities. Rules 25-17.200 through 25-17.310, Florida Administrative Code, implement the statute and require each IOU to file with the Florida Public Service Commission (Commission), by April 1 of each year, a standard offer contract based on the next avoidable generating unit or purchased power agreement.

On March 31, 2020, Florida Public Utilities Company (FPUC) filed its standard offer contract.¹ FPUC’s standard offer contract filing does not reflect any changes or revisions from the filing approved by Order No. PSC-2019-0208-PAA-EQ.² The Commission has jurisdiction over this matter pursuant to Sections 366.04 through 366.055, and 366.91, F.S.

¹ Document No. 01684-2020, filed March 31, 2020, in Docket No. 20200109-EQ.

² Order No. PSC-2019-0208-PAA-EQ, issued June 3, 2019, in Docket No. 20190088-EQ, *In re: Petition for approval of standard offer for energy purchased from cogenerators and renewable generating facilities and standard offer contract for purchase of firm capacity and energy, by Florida Public Utilities Company.*

Florida Public Utilities Company
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Original Volume No. I

Original Sheet No. 1

STANDARD OFFER RATE SCHEDULES
FOR PURCHASES FROM COGENERATORS & RENEWABLE GENERATING FACILITIES
ORIGINAL VOLUME NO. I
OF
FLORIDA PUBLIC UTILITIES COMPANY
FILED WITH
FLORIDA PUBLIC SERVICE COMMISSION

Communications concerning this Tariff should be addressed to:

Florida Public Utilities Company
1750 S. 14th Street, Ste. 200
Fernandina Beach, FL 32034

Attn: Director, Regulatory Affairs

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Cancels First Revised Sheet No. 3

TERRITORY SERVED

FPUC serves the following divisions:

The Northwest Florida (Marianna) Division serves various cities and towns and rural communities in Jackson, Calhoun and Liberty Counties. Currently, Gulf Power is Florida Public Utilities Company's Full Requirements Wholesale Power Supplier for the Northwest Florida Division.

The Northeast Florida (Fernandina Beach) Division serves Amelia Island, located in Nassau County. Florida Power and Light is Florida Public Utilities Company's Full Requirements Wholesale Power Supplier for the Northeast Florida Division.

Issued by: Jeffrey Householder, President

Effective:

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MISCELLANEOUS GENERAL INFORMATION

Florida Public Utilities Company was incorporated under the Laws of Florida in 1924 and adopted its present corporate name in 1927.

It is principally engaged in the distribution and sale of natural gas and electricity. Its operations are entirely within the State of Florida.

The general office of the Company is located at:

1641 Worthington Road, Suite 220
West Palm Beach, Florida 33409

Division offices are located at:

2825 Pennsylvania Avenue
Marianna, Florida 32448-4004

and

780 Amelia Island Parkway
Fernandina Beach, Florida 32034

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TECHNICAL TERMS AND ABBREVIATIONS

When used in the Rules and Regulations or the rate schedules in this volume, the following terms shall have the meanings defined below:

- A. Applicant – any person, firm, or corporation applying for electric service from the Company at one location.
- B. Avoided Cost – shall be equal to the costs avoided by the Company’s respective Full Requirements Wholesale Power Suppliers for its Northwest and Northeast Florida Divisions, at the time the purchase is made, as calculated by the Full Requirements Wholesale Power Suppliers in accordance with FPSC Rules 25-17.0825 and 17.0832, F.A.C., when making equivalent purchases of energy and/or capacity from a QF or from a QS, as that term is defined at Sheet No. 22.
- C. Capacity Factor – the total kilowatt hours of energy delivered to the Company during a specified period, divided by the product of: (1) the maximum kilowatt capacity contractually committed for delivery to the Company by the QF during that same specified period and (2) the sum of the total hours during that same period less those hours during which the Company was unable to accept energy and capacity deliveries from the QF.
- D. Capacity Rating – the QF’s maximum generating capability, expressed in kilowatts, connected to the Company’s electric system.
- E. Company – Florida Public Utilities Company acting through its duly authorized officers or employees within the scope of their respective duties.
- F. Customer – any person, firm, or corporation purchasing electric service at one location from the Company under Rules and Regulations of the Company.
- G. Energy – current delivered, expressed in kilowatt-hours.
- H. Full Requirements Wholesale Power Supplier - the wholesale power supplier providing energy and capacity to FPUC under a service contract that includes a load following obligation, whereby the supplier is required to meet the demand on FPUC’s distribution system as that demand fluctuates on an hour by hour basis.
- I. KW or Kilowatt – one thousand (1,000) watts.
- J. KWh or Kilowatt-hour – one thousand (1,000) watt-hours.
- K. Month – the period between any two (2) regular readings of the QF’s meters at approximately thirty (30) day intervals.

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TECHNICAL TERMS AND ABBREVIATIONS

- L. Qualifying Facility or QF - means a cogenerator, small power producer, or non-utility generator that either through self-certification to, or certification by, the Federal Energy Regulatory Commission ("FERC") meets the criteria established by the FERC pursuant to the Public Utility Regulatory Policies Act of 1978, as amended, ("PURPA") or as otherwise designated by Florida Public Service Commission ("FPSC") under Rule 25-17.080, Florida Administrative Code. For purposes of this tariff, the term shall also include a Renewable Generating Facility.

- M. Power Factor – ratio of kilowatts to kilovolt-amperes.

- N. Renewable Generating Facility – means an electrical generating unit or group of units at a single site, interconnected for synchronous operation and delivery of electricity to an electric utility, where the primary energy in British Thermal Units (BTUs) used for the production of electricity is from one or more of the following sources: hydrogen produced from sources other than fossil fuels, biomass, solar energy, geothermal energy, wind energy, ocean energy, hydroelectric power, or waste heat from a commercial or industrial manufacturing process, consistent with Rules 25-17.210 and 25-17.220, Florida Administrative Code

- O. Service Line – all wiring between the Company's main line or transformer terminals and the point of connection to the QF's service entrance.

- P. Single Service – one set of facilities over which the QF may deliver electric power to the Company.

- Q. Year – a period of three hundred sixty-five (365) consecutive days except that in a year having a date of February twenty-nine (29) such year shall consist of three hundred sixty-six (366) consecutive days.

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RULES AND REGULATIONS

Applicable to As-Available and Firm Standard Offer Rate Schedules

1. General

Company shall furnish service under its rate schedules and these Rules and Regulations as approved from time to time by the Florida Public Service Commission and in effect at the time. These Rules and Regulations shall govern all service except as specifically modified by the terms and conditions of the rate schedules or written contracts. Copies of currently effective Rules and Regulations are available at the office of the Company.

Unless otherwise specifically provided in any applicable rate schedule or in a written contract by or with Company, the term of any agreement shall become operative on the day the Qualifying Facility commences delivery of electric energy and/or capacity to the Company and shall continue for a period of one (1) year and continuously thereafter until cancelled by three (3) or more days' notice by either party.

2. Application for Service

An application for service will be required by Company from each Applicant. The application or contract for service shall be in writing. Such application shall contain the information necessary to determine the type of service desired and the conditions under which service will be rendered.

The application or depositing of any sum of money by the Applicant shall not require Company to render service until the expiration of such time as may be reasonable required by Company to determine if Applicant has complied with the provisions of these Rules and Regulations and as may reasonably be required by Company to install the required facilities.

3. Election of Rate Schedule

Optional rates are available for the purchase of electric energy by the Company from a Qualifying Facility, namely, As-Available Energy and Firm Power. These optional rates and the conditions under which they are applicable are set forth in Company's Rate Schedule SOA and Rate Schedule SOF. Upon application for service or upon request, Applicant or Qualifying Facility shall elect the applicable rate schedule best suited to his requirements. Once the Qualifying Facility has elected a rate schedule, no change shall be allowed during the remaining term of the then existing contract.

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RULES AND REGULATIONS (Continued)

4. Deposits

An initial deposit in the first year of operation may be required of a Qualifying Facility who is also a purchasing customer of the Company and whose monthly dollar value of purchases from the Company are estimated to exceed the monthly dollar value of sales to the Company. Such deposit shall be based upon the singular month in which the Qualifying Facility's projected purchases from the company exceed by the greatest amount the Company estimated purchased from the Qualifying Facility. The initial deposit shall be equal to twice the amount of the difference estimated for that month and shall be paid upon interconnection. For each year thereafter, a review of actual sales and purchases between the Qualifying Facility and the Company shall be made to determine the actual month of maximum difference. The deposit shall be adjusted to equal twice the greatest amount by which the actual monthly purchases by the Qualifying Facility exceed the actual sales to the Company in that month.

In lieu of a cash deposit, a Qualifying Facility may,

- (a) Furnish a satisfactory guarantor to secure payment of bills for the service requested, with such guarantor required to be a customer of the Company with a satisfactory payment record.
- (b) Furnish an irrevocable letter of credit from a bank.
- (c) Furnish a surety bond.

Retention by Company, prior to a final settlement, of said deposit shall not be considered as payment or part payment of any bill for service. Company shall, however, apply said deposit against unpaid bills for service. In such case, Qualifying Facility shall be required to restore deposit to original amount within 30 days.

Company shall pay interest on deposits annually at the rate of two per cent (2%) per annum. No Qualifying Facility shall be entitled to receive interest on his deposit until and unless the deposit has been in existence for a continuous period of six months; then he shall be entitled to receive interest from the day of placement of deposit. Deposits shall cease to bear interest upon discontinuance of service.

Upon discontinuance of service, the deposit and accrued interest shall be credited against the final account and the balance, if any, shall be returned promptly to the qualifying Facility, but in no event later than fifteen (15) days after service is discontinued.

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RULES AND REGULATIONS (Continued)

5. Metering

Company shall specify the type of meter or meters that shall be installed to properly measure purchases of capacity and energy from Qualifying Facility. The cost of such meters and their installation shall be borne by the Qualifying Facility. Time-differentiated recording meters may be required by the Company when:

- (a) A time record of measured capacity and/or energy purchased is required by the Company to determine the proper billing units.

When a Qualifying Facility is also a purchasing Customer of the Company, the measurement of such purchases by the Qualifying Facility shall be through a separate meter or meters apart from the meter or meters measuring sales to the Company. The cost of meters for measuring purchases by Customer shall be borne by the Company.

Before installation and periodically thereafter, each meter shall be tested and adjusted using methods and accuracy limits prescribed or approved by the Florida Public Service Commission. Periodic test and inspection intervals shall not exceed the maximum period allowed by the Florida Public Service commission.

If, on test, the meter is found to be in error in excess of the prescribed accuracy limits, fast or slow, the amount of refund or charge to the Qualifying Facility shall be determined by methods prescribed or approved by the Florida Public Service Commission.

In the event of stoppage or failure of any meter to register, Qualifying Facility may be paid for such period on an estimated basis; using data on electric energy delivered to Company in a similar period or such other data as may be reasonably obtainable to aid in determining estimated deliveries.

6. Billing and Payments

A. Meter Reading and Payment Schedules

Each Qualifying Facility's meter will be read by the Company at monthly intervals as near as possible to the last day of each calendar month. The Company will prepare the bill and render payment to the Qualifying Facility for purchases during the preceding calendar month within twenty (20) business days following the day the meter is read. Details of the billing units and the applicable rates will accompany payment.

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RULES AND REGULATIONS (Continued)

B. Selection of Billing Methodology

Qualifying Facility may elect to make either simultaneous purchases and sales or net sales to the Company. Once made, the selection of a billing methodology may be changed at the option of the Qualifying Facility, subject to the following provisions:

- (1) not more frequently than once every twelve (12) month;
- (2) to coincide with the next Fuel and Purchased Power Cost Recovery Factor billing period;
- (3) upon at least thirty (30) days' advance written notice;
- (4) upon the installation by the Company of any additional metering equipment reasonably required to effect the change in billing and upon payment by the Qualifying Facility for such metering equipment and its installation;
- (5) upon completion and approval by the Company of any alterations to the interconnection reasonably required to effect the change in billing and upon payment by the Qualifying Facility for such alterations; and
- (6) where the election to change billing methods will not contravene the provisions of the tariff under which the Qualifying Facility receives service from the Company or any other previously agreed upon contractual provisions between the Qualifying Facility and the Company.

Should Qualifying Facility elect to make simultaneous purchases and sales, purchases of electric service by the Qualifying Facility from the Company shall be billed at the retail rate schedule under which the Qualifying Facility would receive service as a non-generating customer of the Company; sales of electricity by the Qualifying Facility to the Company shall be purchased at the Company's applicable rate for such purchases.

Should Qualifying Facility elect to make net sales, the monthly energy and capacity sales to the Company shall be purchased at the Company's applicable rate for such purchases. For those months during which Qualifying Facility is a net purchaser, purchases shall be billed at the Company's retail rate schedule under which the Qualifying Facility would receive service as a non-generating customer of the Company.

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RULES AND REGULATIONS (Continued)

Where simultaneous purchases and sales are made by Qualifying Facility, payments to Qualifying Facility may, at the option of Qualifying Facility, be shown as a credit to Qualifying Facility's bill. Details of the billing units and the applicable rates will accompany the bill to Qualifying Facility. A credit will not exceed the amount of the Qualifying Facility's bill from Company and the excess, if any, will be paid to the Qualifying Facility.

7. Interconnection and Standards

Rule 25-17.87 of the Florida Public Service Commission will apply. Copies of this rule are available upon request at the office of the Company.

8. Responsibilities of Qualifying Facilities Providing Power for Purchase by Company

Company shall have the right to enter the premises of Qualifying Facility at all reasonable hours for the purpose of making such inspection of Qualifying Facility's installation as may be necessary for the proper application of Company's rate schedules and Rules and Regulations for installing, removing, testing, or replacing its apparatus or property; for reading meters; and for the entire removal of Company's property in event of termination of service for any reason.

All property of Company installed in or upon a Qualifying Facility's premises used and useful in supplying service is placed there under the Qualifying Facility's protection. All reasonable care shall be exercised by the Qualifying Facility to prevent loss or damage to such property and, ordinary wear and tear excepted, Qualifying Facility will be held liable for any such loss of property or damage thereto and shall pay to Company the cost of necessary repairs or replacements.

Qualifying Facility will be held responsible for breaking the seals, tampering or interfering with Company's meter or meters or other equipment of Company installed on Qualifying Facility's premises, and no one except employees of Company will be allowed to make any repairs or adjustments to any meter or other piece of apparatus belonging to Company except in case of emergency.

Qualifying Facility shall not increase the capacity rating of its electric generating equipment connected to the Company's system without first notifying Company in writing and obtaining written consent.

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RULES AND REGULATIONS (Continued)

Company shall have the right, if necessary; to construct its poles, lines and circuits on Qualifying Facility's property and to place its transformers and other apparatus on the property or within the buildings of Qualifying Facility, at a point or points convenient for such purposes, and Qualifying Facility shall provide suitable space for such installation.

Company shall have the right to require, if necessary, the installation of such remote metering equipment as may be necessary for Qualifying Facility to properly monitor Company's load at the delivery point of the Company's Full Requirements Wholesale Power Supplier on the system to which Qualifying Facility is connected. The cost of such installation shall be borne by Qualifying Facility.

9. Responsibilities and Obligations of Company

Company will use reasonable diligence to purchase electric energy and/or capacity from Qualifying Facility as may be practically and safely allowable within the limits of load and line capacity on the Company's system to which Qualifying Facility is connected. Company may interrupt its purchases hereunder, however, for the purpose of making necessary alterations and repairs, but only for such time as may be reasonable or unavoidable, and Company shall give Qualifying Facility, except in case of emergency, reasonable notice of its intention so to do, and shall endeavor to arrange such interruption so as to inconvenience Qualifying Facility as little as possible.

Whenever Company deems an emergency warrants interruption or limitation in the service being rendered, such interruption or limitation shall not constitute a breach of contract and shall not render Company liable for damages suffered thereby or excuse Qualifying Facility from further fulfillment of the contract.

Company shall not be liable to Qualifying Facility for any loss, injury, or damage from use of Qualifying Facility's equipment or from the use of electric service furnished by Company or from the connection of Company's facilities with Qualifying Facility's wiring and equipment.

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RULES AND REGULATIONS (Continued)

10. Force Majeure

Except for payment of bills due, neither the Company nor the Qualifying Facility shall be liable in damage to the other for any act, omission or circumstances occasioned by or in consequence of any acts of God, strikes, lockouts, acts of the public enemy, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, unforeseeable or unusual weather conditions, washouts, arrests and restraint of rules and peoples, civil disturbances, explosions, breakage or accident to machinery or electric lines, temporary failure of electric supply, the binding order of any court or governmental authority which has been resisted in good faith by all reasonable legal means, and any other cause, whether of the kind herein enumerated, or otherwise, and whether caused or occasioned by or happening on account of the act or omission of Company or Qualifying Facility or any other person or concern not reasonably within the control of the party claiming suspension and which by the exercise of due diligence such party is unable to prevent or overcome. A failure to settle or prevent any strike or other controversy with employees or with anyone purporting or seeking to represent employees shall not be considered to be a matter within the control of the party claiming suspension.

11. Discontinuance of Service

The Company reserves the right, but assumes no liability for failure so to do, to discontinue service to or from any Qualifying Facility for cause as follows:

A. Without notice,

- (1) If a dangerous condition exists on Qualifying Facility's wiring or energy-generation devices.
- (2) Because of a fraudulent use of the service or tampering with Company's equipment.
- (3) Upon request by Qualifying Facility, subject to any existing agreement between Qualifying Facility and Company as to unexpired term of service.

B. After five (5) working days' notice in writing,

- (1) For nonpayment of bill for electric service.
- (2) For refusal or failure to make a deposit or increase a deposit, when requested, to assure payment of bills.
- (3) For a violation of these Rules and Regulations which Qualifying Facility refuses or neglects to correct.

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RULES AND REGULATIONS (Continued)

12. Reconnection of Service

When service shall have been disconnected for any of the reasons set forth in these Rules and Regulations, Company shall not be required to restore service until the following conditions have been met by Qualifying Facility.

A. Where service was discontinued without notice,

- (1) The dangerous condition shall be removed and, if the Qualifying Facility had been warned of the condition a reasonable time before the discontinuance and had failed to remove the dangerous condition, a reconnection fee of fifty two dollars (\$52.00) shall be paid.
- (2) All bills for service due Company by reason of fraudulent use or tampering shall be paid, a deposit to guarantee the payment of future bills shall be made, and a reconnection fee of fifty two dollars (\$52.00) shall be paid.
- (3) If reconnection is requested on the same premises after discontinuance, a reconnection fee of fifty two dollars (\$52.00) shall be paid.

B. Where service was discontinued with notice,

- (1) Satisfactory arrangements for payment of all bills for service then due shall be made and a reconnection fee of fifty two dollars (\$52.00) shall be paid.
- (2) A satisfactory guarantee of payment for all future bills shall be furnished and a reconnection fee of fifty two dollars (\$52.00) shall be paid.
- (3) The violation of these Rules and Regulations shall be corrected and a reconnection fee of fifty two dollars (\$52.00) shall be paid.

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RULES AND REGULATIONS (Continued)

13. Limits of Purchases/Changes

Company reserves the right, subject to regulatory authority having jurisdiction, to limit, restrict or refuse service that will jeopardize the reliable, safe and proper operation of its distribution system and/or jeopardize service to existing Customers at fair and reasonable rates. Qualifying Facilities providing energy and/or capacity hereunder further recognize that the applicable avoided cost may change, from time to time, and payments hereunder will change to reflect the appropriate avoided cost. In the event that any change in applicable federal or state law renders service under this tariff uneconomic or otherwise unduly burdensome to the Company and its customers or the FPSC denies cost recovery for any purchases made pursuant to this tariff, the Company may seek relief from its obligations hereunder from the appropriate jurisdictional authority.

14. Special Contracts

The Company and a Qualifying Facility may enter into a separately negotiated contract for the purchase of capacity and/or energy which varies from the terms and conditions specified in these Rules and Regulations and rate schedules. All such contracts will be filed with the Florida Public Service Commission in accordance with its applicable rules and regulations.

Issued by: Jeffrey Householder, President

Effective: NOV 11 2016

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Original Sheet No. 17

SOA Rate Schedule

STANDARD OFFER AS AVAILABLE (SOA) RATE SCHEDULE

Availability

The Company will purchase energy offered by any Qualifying Facility with delivery to either of the two individually operated areas served by the Company, both of which are located in the northern part of Florida.

The Northwest Florida (Marianna) Division serves various cities and towns and rural communities in Jackson, Calhoun and Liberty Counties.

The Northeast Florida (Fernandina Beach) Division serves Amelia Island, located in Nassau County.

Applicability

To any Qualifying Facility located in the State of Florida and producing energy for sale to the Company on an As-Available basis. As-Available Energy is described by Florida Public Service Commission (FPSC) Rule 25-17.0825, F.A.C. and is energy produced and sold by a Qualifying Facility on an hour-by-hour basis for which contractual commitments as to the time, quantity, or reliability of delivery are not required.

Character of Service

Alternating current, 60 cycle, single phase or three phase at the options of the Company, at a specified interconnection point and voltage.

Limitations of Service

All service pursuant to this schedule is subject to FPSC Rules 25-17.080 through 25-17.091, Florida Administrative Code.

Rate for Purchases by the Company

1. Capacity Rates

- A. Capacity payments to Qualifying Facilities will not be paid under this Rate Schedule. Capacity payments to Qualifying Facilities may be obtained under Rate Schedule SOF, Firm Power, or pursuant to a negotiated contract.

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Second Revised Sheet No. 18
Cancels First Revised Sheet No. 18

SOA Rate Schedule (Continued)

Continued from Sheet No. 17

2. Energy Rates

- A. As-Available energy is purchased at a unit cost based on the Avoided Cost, as defined in this Tariff, as applicable to the relevant Company Division. Payments for As-Available Energy to the QF shall only be made for energy that the Company can utilize to meet total system load for the division to which the deliveries are made.
- B. Details on Gulf Power's avoided costs, the current Full Requirements Wholesale Power Supplier for Northwest Division, can be reviewed in their Rate Schedule COG-1. Details on Florida Power and Light's avoided costs, as the current Full Requirements Wholesale Power Supplier for the Northeast Division, can be reviewed in their Renewable Energy Standard Offer Contract within their Tariff.
- C. A fixed percentage factor for avoided line losses (if any) will be determined by the Company for each QF based upon the locations of the QF on the Company's distribution system and the applicable voltage level.
- D. Energy payments to a QF will be reduced by: (1) the amount of any charges assessed by the Company's Full Requirements Wholesale Power Supplier to the Company pursuant to contract as a result of the delivery of energy to the Company by the QF; and (2) any additional administrative, technical, or legal costs incurred by the Company as a direct result of the delivery of energy to the Company by the QF.

3. Negotiated Rates

Upon agreement by both the Company and the Qualifying Facility, an alternate contract rate for the purchase of As-Available Energy may be separately negotiated.

Issued by: Jeffrey Householder, President

Effective:

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SOA Rate Schedule (Continued)

Continued from Sheet No. 18

4. Charges to Qualifying Facility
 - A. Customer charge for meter reading, billing and other administrative costs shall be equal to the currently monthly customer facilities charge as set forth in the rate schedule which is applicable to the QF for the purchase of energy from the Company.
 - B. Interconnection Charge for Non-Variable Utility Expenses
The QF shall bear the cost required for the interconnecting the QF, including metering. The QF shall have the option of payment in full for interconnection or making equal monthly installment payments with interest over a period not exceeding 36 months toward the full cost of such interconnection. In the event that the QF elects the monthly installment option, the initial contract term of service shall not be less than the total months over which such installment payments are to be made.
 - C. Interconnection Charge for Variable Utility Expenses
The Qualifying Facility shall be billed monthly for the cost of variable utility expenses associated with the operation and maintenance of the interconnection facilities. These include (a) the Company's inspections of the interconnection facilities and (b) maintenance of any equipment beyond that which would be required to provide normal electric service to the Qualifying Facility if no sales to the Company were involved.
 - D. Taxes and Assessments
The Qualifying Facility shall be billed monthly an amount equal to any taxes, assessments or other impositions, for which the Company is liable as a result of its purchases of As-Available Energy produced by the Qualifying Facility. In the event the Company receives a tax benefit as a result of its purchases of As-Available Energy produced by the Qualifying Facility, the Qualifying Facility shall be entitled to a refund in an amount equal to such benefit.

Florida Public Utilities Company
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Original Sheet No. 20

SOA Rate Schedule (Continued)

Continued from Sheet No. 19

Terms of Service

1. It shall be the QF's responsibility to inform the Company in writing of any change in the QF's electric generating capacity.
2. Any electric service delivered by the Company to the QF shall be metered separately and billed under the rate schedule applicable to the Company's other customers with similar load characteristics. The terms and conditions of the Company's standard rate schedule applicable to the class of service shall pertain.
3. A security deposit will be required in accordance with FPSC Rules 25-17.082(5) and 25-6.97, F.A.C., and the following:
 - A. In the first year of operation, the security deposit shall be based upon the singular month in which the Qualifying Facility's projected purchases from the Company exceed, by the greatest amount, the Company's estimated purchases from the Qualifying Facility. The security deposit should be equal to twice the amount of the difference estimated for that month. The deposit shall be required upon interconnection.
 - B. For each year thereafter, a review of the actual sales and purchases between the Qualifying Facility and the Company shall be conducted to determine the actual month of maximum difference. The security deposit shall be adjusted to equal twice the greatest amount by which the actual monthly purchases by the Qualifying Facility exceed the actual sales to the Company in that month.
4. The Company shall specify the point of interconnection and voltage level.
5. The Company will, under the provisions of this schedule, require an agreement with the Qualifying Facility upon the Company's filed Standard Interconnection Agreement for parallel operation between the Qualifying Facility and the Company. The Qualifying Facility shall recognize that its generation facility may exhibit unique interconnection requirements which will be separately evaluated, modifying the Company's General Standards for Safety and Interconnection where applicable.
6. Service under this Schedule is subject to the Rules and Regulations of the Company and the Rules and Regulations of the Florida Public Service Commission.

Issued by: Jeffrey Householder, President

Effective: NOV 11 2016

Florida Public Utilities Company
F.P.S.C. Standard Offer Rate Schedule
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Original Sheet No. 21

SOA Rate Schedule (Continued)

Continued from Sheet No. 20

7. The minimum term for any standard offer contract entered into pursuant to this rate schedule shall be five (5) years from the in-service date of the avoided unit up to a maximum of the life of the avoided unit for any qualifying facility that is a co-generator or small power producer with a design capacity of 100 kW or less, or ten (10) years from the in-service date of the avoided unit up to a maximum of the life of the avoided unit for a qualifying renewable generating facility.

Special Provisions

1. Special contracts deviating from the above Schedule are allowable provided they are agreed to by the Company and approved by the Florida Public Service Commission.
2. For a Qualifying Facility in the Company's service territory that wishes to contract with another electric utility which is directly or indirectly interconnected with the Company, the Company will, upon request, provide information on the availability and the terms and conditions of the specified desired transmission service.

Florida Public Utilities Company
F.P.S.C. Standard Offer Rate Schedule
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Original Sheet No. 22

SOF Rate Schedule

STANDARD OFFER FIRM (SOF) RATE SCHEDULE

Availability

The Company will, under the provisions of this Schedule and the Company's "Standard Offer Contract for the Purchase of Firm Capacity and Energy from a Renewable Energy Facility or a Small Qualifying Facility" ("Standard Offer Contract"), purchase firm capacity and energy offered by any Qualifying Facility with a design capacity of 100 KW or less or from a Renewable Generating Facility qualifying for this Schedule in accordance with Rule 25-17.250, Florida Administrative Code. For purposes of this SOF Rate Schedule only, both of these types of facilities shall also be referred to jointly herein as Qualified Seller or "QS".

The Company will purchase firm capacity and energy under this schedule offered by any Qualified Seller located within the State of Florida with delivery to either of the two individually operated areas served by the Company, both of which are located in the northern part of Florida.

The Northwest Florida (Marianna) Division serves various cities and towns and rural communities in Jackson, Calhoun and Liberty Counties.

The Northeast Florida (Fernandina Beach) Division serves Amelia Island, located in Nassau County.

Applicability

To Qualifying Facilities, with a design capacity of 100 KW or less, as specified in FPSC Rule 25-17.0832(4)(a) producing capacity and energy for sale to the Company on a firm basis pursuant to the terms and conditions of this schedule and the Company's "Standard Offer Contract" or to a Renewable Generating Facility producing capacity and energy for sale to the Company on a firm basis pursuant to the conditions of this Schedule and the Company's "Standard Offer Contract." Firm capacity and energy are described by FPSC Rule 25-17.0832, F.A.C., and are capacity and energy produced and sold by a QF or Renewable Generating Facility pursuant to the Standard Offer Contract provisions addressing (among other things) quantity, time and reliability of delivery.

Florida Public Utilities Company
F.P.S.C. Standard Offer Rate Schedule
Original Volume No. I

Original Sheet No. 23

SOF Rate Schedule (Continued)

Continued from Sheet No. 22

Character of Service

Alternating current, 60 cycle, single phase or three phase at the options of the Company, at a specified interconnection point and voltage.

Limitations of Service

All service pursuant to this schedule is subject to FPSC Rules 25-17.080 through 25-17.091, Florida Administrative Code.

Purchases under this schedule are subject to the Company's current standards for safety and interconnection and to FPSC Rules 25-17.080 through 25-17.091, F.A.C., and are limited to those Qualifying Sellers that:

- A. Beginning upon the date, as prescribed by the FPSC, that a Standard Offer is deemed available, execute the Company's Standard Offer Contract for the purchase of firm capacity and energy; and
- B. Commit to commence deliveries of firm capacity and energy no later than the date specified by the QS's owner or representative. Such deliveries will continue for a minimum of ten (10) years from the anticipated in-service date of the Company's Avoided unit or resource up to a maximum of the life of the Company's Avoided unit or resource.

Florida Public Utilities Company
F.P.S.C. Standard Offer Rate Schedule
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Second Revised Sheet No. 24
Cancels First Revised Sheet No. 24

SOF Rate Schedule (Continued)

Continued from Sheet No. 23

Rate for Purchases by the Company

1. Capacity and Energy Rates

- A. Firm Capacity and Energy are purchased at a unit cost, based on the Avoided Cost, as defined in this Tariff, for the relevant Company Division. Payments to the QS shall only be made for capacity and energy that the Company can utilize to meet its total system load for the division to which the deliveries are made.
- B. Details on Gulf Power's avoided capacity and energy costs, the current Full Requirements Wholesale Power Supplier for the Northwest Division, can be reviewed in their Rate Schedule COG-2. Details on Florida Power and Light's avoided capacity and energy costs, as the current Full Requirements Wholesale Power Supplier for the Northeast Division, can be reviewed in their Renewable Energy Standard Offer Contract within their Tariff.
- C. Payments will be made to the Qualifying Seller at the Avoided Cost for the applicable delivery division for each KW of billing capacity and kwh of energy provided - less: (1) the amount of any charges assessed by the Company's Full Requirements Wholesale Power Supplier to the Company pursuant to contract as a result of the delivery of energy to the Company by the QS; and (2) any additional administrative, technical, or legal costs incurred by the Company as a direct result of the delivery of energy to the Company by the QS.
- D. In the event that a delivery of energy and capacity by a QS does not allow the Company to avoid a capacity payment to its Full Requirements Wholesale Power Supplier, the QS will only be eligible for an Energy payment and will not receive payments for delivery of Billing Capacity.
- E. A fixed percentage factor for avoided line losses (if any) will be determined by the Company for each QF based upon the locations of the QF on the Company's distribution system and applicable voltage level.

2. Determination of Billing Capacity:

- A. The billing capacity in any month shall be based upon the KW capacity supplied by the QS during that month or a previous month valued at a rate equal to the Company's respective Full Requirements Wholesale Power Supplier's avoided cost of the same amount of capacity during the relevant period as calculated in accordance with FPSC Rule 25-17.0832, F.A.C. and reflected in the Full Requirements Wholesale Power Supplier's tariff on file with the FPSC.

Issued by: Jeffry Householder, President

Effective:

Florida Public Utilities Company
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Original Sheet No. 24.1

SOF Rate Schedule (Continued)

Continued from Sheet No. 24.0

2. Determination of Billing Capacity:

- A. The billing capacity in any month shall be based upon the KW capacity supplied by the QS during that month or a previous month valued at a rate equal to the Company's respective Full Requirements Wholesale Power Supplier's avoided cost of the same amount of capacity during the relevant period as calculated in accordance with FPSC Rule 25-17.0832, F.A.C. and reflected in the Full Requirements Wholesale Power Supplier's tariff on file with the FPSC.

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Original Sheet No. 25

SOF Rate Schedule (Continued)

Continued from Sheet No. 24

3. Measurement

A. The QS's capacity input shall be measured on a time-differentiated demand meter. A QS within the territory served by the Company shall be required to purchase from the Company hourly recording meters to measure their energy deliveries to the Company. Energy purchases from a QS outside the territory of the Company shall be measured as the quantities scheduled for interchange to the Company by the Company's Full Requirements Wholesale Power Supplier.

4. Charges to the QS:

A. Customer charge for meter reading, billing and other administrative costs shall be equal to the currently monthly customer facilities charge as set forth in the rate schedule which is applicable to the QS for the purchase of energy from the Company.

B. Interconnection Charge for Non-Variable Utility Expenses

The QS shall bear the cost required for the interconnecting the QS, including metering. The QS shall have the option of payment in full for interconnection or making equal monthly installment payments with interest over a period not exceeding 36 months toward the full cost of such interconnection. In the event that the QS elects the monthly installment option, the initial contract term of service shall not be less than the total months over which such installment payments are to be made.

C. Interconnection Charge for Variable Utility Expenses

The Qualifying Seller shall be billed monthly for the cost of variable utility expenses associated with the operation and maintenance of the interconnection facilities. These include (a) the Company's inspections of the interconnection facilities and (b) maintenance of any equipment beyond that which would be required to provide normal electric service to the Qualifying Seller if no sales to the Company were involved.

D. Taxes and Assessments

The Qualifying Seller shall be billed monthly an amount equal to any taxes, assessments or other impositions, for which the Company is liable as a result of its purchases of Firm Capacity and Energy produced by the Qualifying Seller. In the event the Company receives a tax benefit as a result of its purchases of Firm Capacity and Energy produced by the Qualifying Seller, the Qualifying Seller shall be entitled to a refund in an amount equal to such benefit.

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Original Sheet No. 26

SOF Rate Schedule (Continued)

Continued from Sheet No. 25

Term of Service

1. It shall be the QS's responsibility to inform the Company in writing of any change in the QS's electric generating capacity.
2. Any electric service delivered by the Company to the QS shall be metered separately and billed under the rate schedule applicable to the Company's other customers with similar load characteristics. The terms and conditions of the Company's standard rate schedule applicable to the class of service shall pertain.
3. A security deposit will be required in accordance with FPSC Rules 25-17.082(5) and 25-6.97, F.A.C., and the following:
 - A. In the first year of operation, the security deposit shall be based upon the singular month in which the Qualifying Seller's projected purchases from the Company exceed, by the greatest amount, the Company's estimated purchases from the Qualifying Seller. The security deposit should be equal to twice the amount of the difference estimated for that month. The deposit shall be required upon interconnection.
 - B. For each year thereafter, a review of the actual sales and purchases between the Qualifying Seller and the Company shall be conducted to determine the actual month of maximum difference. The security deposit shall be adjusted to equal twice the greatest amount by which the actual monthly purchases by the Qualifying Seller exceed the actual sales to the Company in that month.
4. The Company shall specify the point of interconnection and voltage level.
5. The Company will, under the provisions of this schedule, require an agreement with the Qualifying Seller upon the Company's filed Standard Interconnection Agreement for parallel operation between the Qualifying Seller and the Company. The Qualifying Seller shall recognize that its generation facility may exhibit unique interconnection requirements which will be separately evaluated, modifying the Company's General Standards for Safety and Interconnection where applicable.
6. Service under this Schedule is subject to the rules and regulations of the Company and the rules and regulations of the Florida Public Service Commission.

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Original Sheet No. 27

SOF Rate Schedule (Continued)

Continued from Sheet No. 26

Special Provisions

1. Special contracts deviating from the above Schedule are allowable provided they are agreed to by the Company and approved by the Florida Public Service Commission.
2. For a Qualifying Seller in the Company's service territory that wishes to contract with another electric utility which is directly or indirectly interconnected with the Company, the Company will, upon request, provide information on the availability and the terms and conditions of the specified desired transmission service.
3. As a means of protecting the Company's customers from the possibility of a Qualifying Seller not coming on line as provided for under an executed Standard Offer Contract and in order to provide the Company with additional and immediately available funds for its use to secure replacement and reserve power in the event that the QS fails to successfully complete construction and come on line in accord with the executed Standard Offer Contract, the Company requires that a cash completion security deposit equal to \$20 per KW of the nameplate capacity of the QS's generator unit(s) at the time the Company's Standard Offer Contract is executed by the QS. At the election of the QS, the completion security deposit may be phased in such that one half of the total deposit due is paid at contract execution and the remainder within 12 months after contract execution.

Depending on the nature of the QS's operation, financial health and solvency, and its ability to meet the terms and conditions of the Company's Standard Offer Contract, one of the following, at the Company's discretion, may be used as an alternative to a cash deposit as a means of securing the completion of the QS's project in accord with the executed Standard Offer Contract:

1. an unconditional, irrevocable direct pay letter; or
2. surety bond; or
3. other means acceptable to the Company.

The Company will cooperate with each QS seeking an alternative to a cash security deposit as an acceptable means of securing the completion of the QS's installation in accord with an executed Standard Offer Contract. The Company will endeavor in good faith to accommodate an equivalent to a cash security deposit which is in the best interests of both the QS and the Company's customers.

In the case of a governmental solid waste QS, pursuant to Subsection 366.91 (3), Florida Statutes and FPSC Rule 25-17.091, F.A.C., the following will be acceptable to _____ the _____ Company.

Florida Public Utilities Company
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SOF Rate Schedule (Continued)

Continued from Sheet No. 27

The unsecured promise of a municipal, county, or state government that it will pay the actual damages incurred by the Company because the governmental Facility fails to come on line prior to the planned in-service date for the Avoided Unit or Resource.

4. Given the terms and conditions ultimately set in the Standard Offer Contract, additional security requirements may be specified by the Company.
5. Company may decline to execute a Standard Offer Contract and seek relief from the FPSC, in accordance with FPSC Rule 5-17.0832(c), Florida Administrative Code, if the Company perceives that the offer will exceed the load requirements on its system or it obtains material evidence showing that because the qualifying facility is not financially or technically viable, it is unlikely that the committed capacity and energy would be made available to the utility by the date specified in the standard offer.

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FLORIDA PUBLIC UTILITIES COMPANY

STANDARD OFFER CONTRACT FOR FIRM PURCHASES FROM
SMALL QUALIFYING FACILITIES AND
QUALIFYING RENEWABLE GENERATING FACILITIES
WITNESSETH:

That, in consideration of the terms and covenants hereinafter contained and incorporated herein by reference, the parties hereto agree as follows:

1. The customer has a means of generating electric energy at the following location:

and agrees to meet Florida Public Service Commission Rule 25-17.87, Interconnection and Standards. This rule outlines the general standards for safety and interconnection to Company lines and is attached hereto as Exhibit.

2. The generating plant is described as follows:
 - A. Qualifying small power producer __ or cogenerator ____.
 - B. Power Source (solar, wind, steam, hydro, etc.)_____.
 - C. Manufacturer's Name and Address:

_____.
 - D. Manufacturer's Reference Number, Type, Style, Model Number, etc.:
_____.
 - E. Manufacturers Serial Number:
_____.

Florida Public Utilities Company
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Original Sheet No. 30

Continued from Sheet 29

- F. Name Plate Rating:

- G. Maximum Rate of Energy Delivery to Company ___ KVA.
- H. Normal Rate of Energy Delivery to Company ___ KVA.
- I. Firm Capacity Delivered to Company ___ KW.
- J. Normal Monthly Energy Delivery to Company _____ KWH.
- K. Other Pertinent Data:

3. The Qualifying Facility agrees to abide by the terms and provisions of Rate Schedule SOF, which is attached hereto as an Exhibit, and included in Company's Standard Offer Rate Schedule on file with the Florida Public Service Commission.
4. Energy and capacity (if applicable) purchased by Company from Qualifying Facility under the terms of this contract will be paid for in accordance with Rate Schedule SOF as approved by the Florida Public Service Commission, which may be modified from time to time in accordance with applicable law.
5. Standby, maintenance and supplementary power for the operation of the electric generating system and associated cogeneration plant load, if applicable, will be supplied separately under the Company's applicable filed standard rate schedules.
6. The Qualifying Facility shall pay the Company on or before the effective date of this Agreement a charge of _____(Dollars) for equipment modifications and services furnished solely due to the interconnection of the Qualifying facility's generator to the Company's system. The Qualifying Facility may, at its option, pay the above amount in _____ equal monthly installments beginning with the effective date of this Agreement. In such event Qualifying Facility agrees to pay Company by the 15th of each month _____(Dollars) per month, plus interest at the 30-day Commercial Paper Rate as published in the Wall Street Journal, on the first business day of the month.

When Qualifying Facility has elected to make the above payment in installments, Qualifying Facility agrees to pay Company any amount which may be due Company by Qualifying facility on any account according to the terms of this Agreement, Qualifying Facility hereby waives all exemptions under the constitution and laws of the State of Florida, or any other state as to personal property and agrees to pay all costs of collecting any such amounts, including a reasonable attorney's fee if said amounts are not paid when due.

Issued by: Jeffrey Householder, President

Effective: NOV 11 2016

Florida Public Utilities Company
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Original Sheet No. 31

Continued from Sheet No. 30

7. The metering system for the electric generating equipment will be installed by Company at Qualifying Facility's expense. The meter(s) for purchase of energy and capacity (if applicable) will be located to measure the net output of the generator or the net surplus of energy from the Qualifying Facility's installation.
8. If at any time Qualifying Facility desires to decrease or increase the capacity to be maintained by Qualifying facility as set forth in this Agreement, Qualifying Facility shall give written notice thereof, to Company and Company shall as soon thereafter as reasonably practical, submit to Qualifying Facility a proposal outlining the rates, terms and conditions under which such changes in capacity may be rendered subject to the rules, regulations and conditions under which Company may then be operating.
9. In the event the Qualifying Facility's maximum output of capacity to the Company at any time exceeds the capacity required to be maintained by ten percent (10%) or more Qualifying Facility shall be liable for all resulting damage to Company's facilities and equipment and Company may interrupt the service without notice to Qualifying Facility but shall be under no duty to do so.
10. Company reserves the right, subject to regulatory authority having jurisdiction, to limit, restrict or refuse service that may jeopardize the safe and proper operation of its distribution system and/or alterations in its contractual requirements of supply from its Full Requirements Wholesale Power Supplier that may jeopardize service to existing Customers and/or existing Qualifying Facilities. Therefore, from time to time, Company, upon prior notice to Qualifying Facility may decline to accept Energy and/or Capacity delivered hereunder during any given hour, due to an emergency condition, or due to the reasons set forth below. Company shall not be obligated to purchase and may require curtailed or reduced deliveries of Energy and/or Capacity, to the extent necessary to maintain the reliability and integrity of any part of Company's system, or if Company determines that a failure to do so is likely to endanger life or property, or is likely to result in significant disruption of electric service to Company's customers. Company shall use commercially reasonable efforts to give Qualifying Facility as much prior notice as reasonably practicable of its intent to refuse, curtail or reduce its acceptance of Energy and/or Capacity pursuant to this Section 10 and will use commercially reasonable efforts to minimize the frequency and duration of such occurrences. Such interruptions shall not constitute a breach of this Agreement.

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Continued from Sheet No. 31

11. The Company reserves the right, but assumes no liability for failure so to do, to discontinue service from the Qualifying Facility for cause as follows:

- A. Without notice if a dangerous condition exists as a result of energy delivered by the Qualifying Facility to Company.
- B. After five (5) working days' notice in writing, for a violation of the Company's Tariff Rules and Regulations which Qualifying Facility refuses or neglects to correct.

When service has been disconnected for any of the reasons set forth in this Section 11, Company shall not be required to restore service until the following conditions have been met by the Qualifying Facility:

- A. Where service was discontinued without notice, the dangerous condition shall be removed and, if the Qualifying Facility had been warned of the condition a reasonable time before the discontinuance and had failed to remove the dangerous condition, a reconnection fee of fifty-two dollars (\$52.00) shall be paid.
- B. Where service was discontinued with notice, the violation of Section 12 of this Agreement shall be corrected and a reconnection fee of fifty-two dollars (\$52.00) shall be paid.

12. Notwithstanding any other provisions of this Agreement, Company shall have the right to terminate this Agreement, by written notice to Seller giving the reasons therefore, without cause, liability or obligation, if any approval from any Governmental Body having jurisdiction thereof necessary for Company to enter into this Agreement or to allow full recovery by Company from its customers of all payments required to be made by this Agreement shall no longer be in full force and effect, and some portion or all of such payments shall have become disqualified for such recovery in contravention of FPSC Order No. 25668, issued February 23, 1992.

13. Liability insurance in the amount of two million seven hundred fifty thousand dollars (\$2,750,000.00) per occurrence for bodily injury, death, or property damage indemnifying Company against loss or liability due to the presence or operation of Qualifying Facility's generator and interconnections shall be furnished by Qualifying Facility and certified by his agent annually and upon any change of policy.

14. With the exception of Workers' Compensation, Company shall be named as an additional insured under the Qualifying Facility's Insurance. The Qualifying Facility's Insurance shall be deemed primary to any coverage maintained by Company and shall provide, to extent allowed by law, for the waiver of any rights of subrogation against the Company. Any

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Original Sheet No. 32.2

Continued from Sheet No. 32.1

deductibles or retentions shall be the sole responsibility of the Qualifying Facility. Compliance by the Qualifying Facility with the provisions herein shall not serve as a limitation of Qualifying Facility's liability. Failure to comply with all of these provisions will not serve as a waiver by the Company of any rights with regard to coverage required by this Agreement.

15. A surety bond in an amount not to exceed two hundred fifty thousand dollars (\$250,000) shall be required to guarantee repayment to Company any monies that may be due Company for Interconnection costs borne by Company in Qualifying Facility's behalf. If applicable, a second surety bond in an amount not to exceed one hundred thousand dollars (\$100,000) shall be required to guarantee capacity payment refunds and penalties in the event of Qualifying Facility's failure to deliver capacity in accordance with this agreement.

Florida Public Utilities Company
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Original Sheet No. 33

16. Qualifying Facility agrees to accept and be bound by all rules and regulations of Company in connection with the service hereby covered, which are now or may hereafter be filed with, issued or promulgated by the Florida Public Service.
17. Qualifying Facility ___is/___ is not directly interconnected to Company. If Qualifying Facility is not directly interconnected to Company amounts of energy delivered to the wheeling utility in excess the amount scheduled for delivery to Company shall be classified as inadvertent energy. Such inadvertent energy flows shall be resolved between the Qualifying Facility and the wheeling utility and will not affect the energy scheduled and delivered from the wheeling utility to the Company. Company shall only be responsible for payments for energy scheduled for delivery, delivered to, and metered at, the delivery point between the wheeling utility and the Company.
18. Whenever written notice is required to be given by either party it shall be by registered mail, return receipt required. Any period designated for notice shall commence on the date of mailing.
19. This Agreement shall become effective on the _____ day of _____, and shall be in full force and effect for a period of _____ (years) and shall continue thereafter until terminated by either party by written notice sixty (60) days prior to termination. This Agreement shall be binding upon and extend to the heirs, or successors and assigns of the respective parties hereto shall not be assigned without prior written consent of Company.
20. This Agreement is to be consummated only by the written approval of Company as required below; no other contract and no other agreement, consideration or stipulation modifying or changing the tenure thereof shall be recognized or binding unless they are so approved.
21. Any notice required or permitted to be given hereunder shall be in writing and shall be: (i) personally delivered; (ii) transmitted by posted prepaid certified mail; (iii) transmitted by a recognized overnight courier service; or (iv) transmitted by electronic mail with a request for electronic receipt confirmation, to the receiving Party as follows, as elected by the Party giving such notice:

<p><u>For Qualifying Facility</u></p> <p>With a copy to:</p>	<p><u>For Company</u> P. Mark Cutshaw Florida Public Utilities Company 1750 S. 14th Street, Suite 200 Fernandina Beach, Florida 32034 mcutshaw@fpuc.com</p>
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Continued from Sheet No. 33

Issued by: Jeffrey Householder, President

Effective: NOV 11 2016

Florida Public Utilities Company
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22. All notices and other communications shall be deemed to have been duly given on: (i) the date of receipt if delivered personally; (ii) the date of receipt if transmitted by mail; (iii) the date of receipt if transmitted by courier; or (iv) the date of transmission with confirmation if transmitted by electronic mail, whichever shall first occur. Any Party may change its address or other contact information for purposes hereof by notice to the other Party.
23. Within ten (10) days of execution, Company shall submit this Agreement to the FPSC in accordance with Rule 25-17.0825(1) (b), F.A.C. Qualifying Facility and Company each agree to abide by any and all applicable regulatory rulings or orders issued by the FPSC or any other Governmental Body having jurisdiction with regard to the matters governed by this Agreement.
24. This Agreement may be executed in two (2) or more counterparts, all of which will be considered one and the same Agreement and each of which will be deemed an original.

IN WITNESS THEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers.

Attest:

FLORIDA PUBLIC UTILITIES COMPANY

By _____
Title _____

Date _____

Attest:

("QUALIFYING FACILITY")

By _____
Title _____

Date _____

Item 2

State of Florida



Public Service Commission

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

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

DATE: April 23, 2020

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (Cicchetti, D. Buys, Hightower) *MC ALM*
Office of the General Counsel (Brownless, Lherisson) *JC*

RE: Docket No. 20200118-EU – Amended unopposed joint motion to modify Order PSC-2012-0425-PAA-EU regarding weighted average cost of capital methodology.

AGENDA: 05/05/20 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Fay

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

The cost recovery clause dockets, Fuel and Purchased Power Cost Recovery Clause (Fuel Clause), the Energy Conservation Cost Recovery Clause (ECCR), and the Environmental Cost Recovery Clause (ECRC) are continuing dockets that handle issues pertaining to Florida's Investor-Owned electric Utilities (IOUs). These IOUs are Duke Energy Florida, LLC (DEF), Florida Power & Light Company (FPL), Gulf Power Company (Gulf), Tampa Electric Company (TECO), and Florida Public Utilities Company (FPUC) (collectively, the IOUs). Intervenors for all three cost recovery clauses include the Office of Public Counsel (OPC), Florida Industrial Power Users Group (FIPUG), and White Springs Agricultural Chemicals, Inc., d/b/a PCS Phosphate – White Springs (PCS Phosphate).

The Commission, when appropriate, allows recovery of a return on capital investments through the Fuel Clause, the ECCR and the ECRC. Historically, the Commission relied on the jurisdictional capital structure and cost rates for each component of the capital structure approved in each utility's last base rate case to determine the appropriate weighted average cost of capital (WACC).

On August 16, 2012, the Commission issued Order No. PSC-2012-0425-PAA-EU approving a stipulation and settlement agreement entered into by the IOUs, OPC, and FIPUG to specify the methodology for calculating the WACC applicable to clause-recoverable investments.¹ This methodology relied on the historical May Earnings Surveillance Report (ESR) WACC for the calendar year in which the filing is made for all three clause filings: the Projected Filing, the Actual/Estimated True-up Filing, and the Final True-up Filing.

The Internal Revenue Service (IRS) issued Private Letter Rulings (PLRs) on October 3, 2017, and August 11, 2017, regarding the IRS Normalization Rules.² These PLRs state that IRC Treasury Regulation Section §1.167(1)-1(h)(6)(ii) requires public utilities to apply the Normalization Rules by utilizing a consistency adjustment and proration formula to compute the depreciation-related accumulated deferred income tax (ADIT) balance to be included for ratemaking purposes when a forecasted test period is utilized to set rates unless, as described in Issue 1, the Limitation Provision is met or exceeded.

On August 21, 2019, DEF filed an Unopposed Joint Motion to Modify Order No. PSC-2012-0425-PAA-EU, (attached to this recommendation) regarding the WACC methodology on behalf of the IOUs as it pertains to the clause-recovery dockets.³ In the Unopposed Joint Motion the IOUs proposed to change the methodology to comply with the Internal Revenue Code (IRC) Treasury Regulation.

On February 6 2020, the Commission staff held a noticed workshop regarding the IOUs' proposed methodology to calculate the WACC as it pertains to depreciation-related accumulated deferred federal income taxes in clause-recovery dockets.⁴ In response to the February 6, 2020 workshop, the IOUs filed Joint Comments on March 13, 2020, in which the IOUs collectively agreed with Commission staff's position as outlined at the workshop.⁵

¹Order No. PSC-2012-0425-PAA-EU, issued August 16, 2012, in Docket No. 20120001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*.

²IRS Normalization Rules require public utilities to implement consistency between regulatory accounting for ratemaking and book accounting for income tax purposes when calculating income tax expense.

³Document No. 08312-2019, filed August 21, 2019, in Docket No. 20190001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*, Docket No. 20190002-EG, *In re: Energy conservation cost recovery clause*, and Docket No. 20190007-EI, *In re: Environmental Cost Recovery Clause*.

⁴Document No. 00788-2020, filed February 4, 2020, in Docket No. 20200001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*, Docket No. 20200002-EG, *In re: Energy conservation cost recovery clause*, and Docket No. 20200007-EI, *In re: Environmental Cost Recovery Clause*.

⁵Document No. 01393-2020, filed March 13, 2020, in Docket No. 20200001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*, Docket No. 20200002-EG, *In re: Energy conservation cost recovery clause*, and Docket No. 20200007-EI, *In re: Environmental Cost Recovery Clause*.

Docket No. 20200118-EU

Date: April 23, 2020

On March 26, 2020, the IOUs filed an Amended Unopposed Joint Motion to Modify Order No. PSC-2012-0425-PAA-EU regarding the methodology used to calculate the WACC in accordance with the February 6, 2020 workshop and the March 13, 2020 Joint Comments.⁶

The Commission has jurisdiction over this matter pursuant to Chapter 120 and several provisions of Chapter 366, including Sections 366.04 and 366.06, Florida Statutes (F.S.).

⁶Document No. 01616-2020, filed March 26, 2020, in Docket No. 20200001-EI, *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor*, Docket No. 20200002-EG, *In re: Energy conservation cost recovery clause*, and Docket No. 20200007-EI, *In re: Environmental Cost Recovery Clause*.

Discussion of Issues

Issue 1: Should the Commission approve the attached Amended Unopposed Joint Motion filed on March 26, 2020, to modify the methodology approved by Order No. PSC-2012-0425-PAA-EU to calculate the weighted average cost of capital on clause-approved investments in Docket Nos. 20200001-EI, 20200002-EG, and 20200007-EI, respectively, the Fuel and Purchased Power Cost Recovery Clause, the Energy Conservation Cost Recovery Clause, the Environmental Cost Recovery Clause, and any future cost recovery clauses that involve the recovery of a rate of return on investment?

Recommendation: Yes. The Commission should approve the Amended Unopposed Joint Motion addressing the methodology for calculating the allowable rate of return on clause-approved investments. (Hightower, D. Buys, Cicchetti)

Staff Analysis: On August 16, 2012, the Commission issued Order No. PSC-2012-0425-PAA-EU approving a stipulation and settlement agreement entered into by the IOUs, OPC, and FIPUG to specify the methodology for calculating the WACC applicable to clause-recoverable investments. The 2012 methodology uses a historical WACC to calculate the rate of return in a projected future clause recovery period. However, the 2012 methodology no longer comports with the IRS Normalization Rules regarding the calculation of the ADIT balance in the capital structure.

Treasury Regulation Section §1.167(1)-1(h)(6)(ii) provides that if a future period is solely used for such determination, the limit on the amount of depreciation-related ADITs for the period is the amount at the beginning of the future period with a pro rata adjustment for any increases or decreases during that period. There is a specific proration formula that must be applied to project changes in depreciation-related ADITs if the Limitation Provision is not met.

The IRS issued PLRs on October 3, 2017, and August 11, 2017, regarding IRS Normalization Rules.⁷ These PLRs state that IRC Treasury Regulation Section §1.167(1)-1(h)(6)(ii) requires public utilities to apply normalization by utilizing a consistency adjustment and proration formula to compute the depreciation-related ADIT balance to be included for ratemaking purposes when a forecasted test period is utilized to set rates unless the Limitation Provision is met or exceeded. The Limitation Provision in Treasury Regulation Section §1.167(1)-1(h)(6)(i) states that as long as the amount of depreciation-related ADIT used in ratemaking is lower than the amount that would have been used under the Consistency Rule, then there is no violation of normalization.⁸ The purpose of the IRS Normalization Rules is to preserve for regulated utilities

⁷Treasury Regulation Section §168(i)(9).

⁸The Consistency Rule states that in order for a utility to use a normalization method of accounting with respect to any public utility property, the utility must use a method of depreciation with respect to such property that is the same as, and a depreciation period that is no shorter than, the method and period used to compute its depreciation expense for such purposes, in computing its tax expense for purposes of establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account. If the amount allowable as a deduction under this section with respect to such property differs from the amount that would be allowable as a deduction under Treasury Regulation Section 167 using the method used to compute regulated tax expense under clause (i), the taxpayer must make consistency adjustments to a reserve to reflect the deferral of taxes resulting from such difference.

the benefits of accelerated depreciation as a source of cost-free capital. Further, the purpose of the consistency rule and the proration formula is to prevent the immediate flow-through of the benefits of accelerated depreciation to ratepayers.

On March 26, 2020, the IOUs submitted their Amended Unopposed Joint Motion, revising the original, August 21, 2019 Joint Motion as it relates to the methodology proposed to comply with the IRC Treasury Regulation Section §1.167(l)-1(h)(6). The IOUs maintain that the modifications proposed herein are in the public interest because the modified methodology will accurately align current costs with cost recovery while enabling compliance with IRC Treasury Regulation Section §1.167(l)-1(h)(6). The IOUs would apply the new methodology starting with the 2021 clause filing cycle, which would begin with the 2021 Projection Filings to be filed in 2020, and then carried through to the 2021 Actual/Estimated Filings to be filed in 2021 and the 2021 Final True-Up Filings to be filed in 2022. The IOUs further propose that the Final True-Up Filing date for all clauses be no earlier than April 1 of each year in order to allow the IOUs enough time to incorporate the WACC from the December ESR, which is completed and filed with the Commission on or about February 15 each year.

Staff agrees with the IOUs that the WACC calculation methodology approved in Order No. PSC-2012-0425-PAA-EU no longer comports with the requirements of IRC §1.167(l)-1(h)(6). Further, staff believes the methodology for calculating the allowable rate of return on clause-approved investments described in the Amended Unopposed Joint Motion is in the public interest because the methodology more accurately reflects expected costs. Therefore, staff recommends that the Commission approve the Amended Unopposed Joint Motion, attached to this recommendation, and that the filing date for the Final True-Up Filings for all related clauses be no earlier than April 1 of each year to give time for filing of the December ESR.⁹

⁹*Id.*

Issue 2: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by this proposed agency action files a timely protest within 21 days of the issuance of the order, a consummating order should be issued and this docket should be closed. If a timely protest is filed, this docket should remain open to address the evidentiary issues presented. (Brownless, Lherisson)

Staff Analysis: If no person whose substantial interests are affected by this proposed agency action files a timely protest within 21 days of the issuance of the order, a consummating order should be issued and this docket should be closed. If a timely protest is filed, this docket should remain open to address the evidentiary issues presented.

FILED 3/26/2020
DOCUMENT NO. 01616-2020
FPSC - COMMISSION CLERK



Dianne M. Triplett
DEPUTY GENERAL COUNSEL

March 26, 2020

VIA ELECTRONIC DELIVERY

Adam J. Teitzman, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: *Amended Unopposed Joint Motion to Modify Order No. PSC-2012-0425-PAA-EU Regarding Weighted Average Cost of Capital Methodology;*
Docket Nos. 20200001-EI, 20200002-EG, and 20200007-EI

Dear Mr. Teitzman:

Enclosed to be filed in the above-referenced Dockets on behalf of Duke Energy Florida, LLC, Florida Power & Light Company, Gulf Power Company, Tampa Electric Company, and Florida Public Utilities Company is an Amended Unopposed Joint Motion to Modify Order No. PSC-2012-0425-PAA-EU Regarding Weighted Average Cost of Capital Methodology.

Thank you for your assistance in this matter. Please feel free to call me at (727) 820-4692 should you have any questions concerning this filing.

Respectfully,

/s/ Dianne M. Triplett

Dianne M. Triplett

DMT/cmck
Enclosure

cc: Parties of Record

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.	DOCKET NO. 20200001-EI
In re: Energy conservation cost recovery clause.	DOCKET NO. 20200002-EG
In re: Environmental cost recovery clause.	DOCKET NO. 20200007-EI
Filed: March 26, 2020	

**AMENDED UNOPPOSED JOINT MOTION TO MODIFY
ORDER NO. PSC-2012-0425-PAA-EU REGARDING
WEIGHTED AVERAGE COST OF CAPITAL METHODOLOGY**

Duke Energy Florida, LLC (“DEF”), Florida Power & Light Company (“FPL”), Gulf Power Company (“Gulf”), Tampa Electric Company (“Tampa Electric”), and Florida Public Utilities Company (“FPUC”) (collectively, “the IOUs”), pursuant to Rule 28-106.204, Florida Administrative Code, hereby file this Amended Unopposed Joint Motion (“Amended Motion”) for the Florida Public Service Commission (“FPSC” or “Commission”) to approve modifications to Order No. PSC-2012-0425-PAA-EU (the “Order”) in which the Commission approved a stipulation and settlement agreement entered into by the IOUs, the Office of Public Counsel (“OPC”), and the Florida Industrial Power Users Group (“FIPUG”) to specify the methodology for calculating the weighted average cost of capital (“WACC”) applicable to clause-recoverable investments. Following productive discussions with Commission Staff at a February 2020 workshop, the IOUs submit this Amended Motion, revising the original, August 21, 2019 Joint Motion as it relates to the methodology proposed to comply with the Internal Revenue Code (“IRC”) Treasury Regulation Section §1.167(1)-1(h)(6) which requires public utilities to apply Normalization by utilizing a consistency adjustment and proration formula to compute the

depreciation-related Accumulated Deferred Federal Income Tax (“ADFIT”) balance to be included for ratemaking purposes when a forecasted test period is utilized to set rates unless the Limitation Provision is met or exceeded. The IOUs maintain that the modifications proposed herein are in the public interest because the modified methodology will accurately align current costs with cost recovery while enabling compliance to IRC Treasury Regulation Section §1.167(1)-1(h)(6). In support of this Amended Motion, the IOUs state as follows:

1. On August 16, 2012, the Commission issued Order No. PSC-2012-0425-PAA-EU approving a stipulation and settlement agreement entered into by the IOUs, OPC, and FIPUG to specify the methodology for calculating the WACC applicable to clause-recoverable investments. A timeline example of the methodology was provided with the stipulation and settlement agreement, as follows:

(a) For the Projection Filing, use the May Earnings Surveillance Report (“ESR”) WACC for the calendar year in which the filing is made.

(b) For the Actual/Estimated True-up Filing, use the May ESR WACC from the prior calendar year for January-June of the year being trued-up, and the current calendar year May ESR WACC for July-December of the year being trued-up.

(c) For the Final True-up Filing regarding a particular calendar year, use the same WACCs that were used for the Actual/Estimated True-up Filing regarding that same particular calendar year.

(d) In the event that a base rate decision is rendered by the Commission subsequent to the period captured by the relevant May ESR, then the Commission’s decision on the cost of capital and capital structure as reflected in the order implementing the base rate decision

will supersede the actuals used in the May ESR from the effective date of the Order, until the next actual May ESR.

2. The Order also reaffirmed that questions regarding the appropriate capital structure and return on equity should be the subject of a proceeding other than clause proceedings.

3. The Internal Revenue Service (“IRS”) issued Private Letter Rulings (“PLR”) on October 3, 2017 and August 11, 2017 regarding IRS Normalization Rules. These PLRs state that the IRC Treasury Regulation Section §1.167(1)-1(h)(6)(ii) requires public utilities to apply Normalization by utilizing a consistency adjustment and proration formula to compute the depreciation-related ADFIT balance to be included for ratemaking purposes when a forecasted test period is utilized to set rates unless the Limitation Provision is met or exceeded. The Limitation Provision in Treasury Regulation Section §1.167(1)-1(h)(6)(i) states that as long as the amount of depreciation-related ADFIT used in ratemaking is lower than the amount that would have been used under the Consistency Rule, then there is no violation of Normalization. The purpose of the IRS Normalization Rules is to preserve for regulated utilities the benefits of accelerated depreciation as a source of cost-free capital. Further, the purpose of both the Consistency Rule and the Proration Formula is to prevent the immediate flow-through of the benefits of accelerated depreciation to ratepayers.

4. The PLRs go on to state that the Consistency Rule, Code Section 168(i)(9)(B), provides that “...one way the Normalization Rules are not satisfied is if the taxpayer, for ratemaking purposes, uses a procedure or adjustment which uses an estimate or projection of tax expense, depreciation expense, or a reserve for deferred taxes unless such estimate or projection is also used with respect to the other two items and with respect to rate base.” Therefore, if an IOU uses an

estimate or projection of tax expense, depreciation expense, or a reserve for deferred taxes, the IOU would also use a consistent time period for rate base so long as the Limitation Provision is not met.

5. Treasury Regulation Section §1.167(1)-1(h)(6)(ii) provides that if solely a future period is used for such determination, the limit on the amount of depreciation-related ADFIT for the period is the amount at the beginning of the future period with a pro rata adjustment for any increases or decreases during that period. There is a specific “Proration Formula” that must be applied to project changes in depreciation-related ADFIT so long as the Limitation Provision is not met. The Proration Requirement is as follows:

The pro rata portion of any increase to be credited or decrease to be charged during a future period...shall be determined by multiplying any such increase or decrease by a fraction, the numerator of which is the number of days remaining in the period at the time such increase or decrease is to be accrued, and the denominator of which is the total number of days in the period.

6. A potential inconsistency exists between the Order and the IRS regulations in that the Order is prescriptive regarding the time period of the WACC that will be applied to clause investments, which does not allow for the modifications required to avoid a Normalization violation if the Limitation Provision is not met.

7. Consistent with the IOUs’ March 13, 2020, Joint Comments, by this Amended Motion, the IOUs propose the following to address the potential inconsistency:

- a) For the Projection Filing, in all cases, the IOUs propose to project their WACC using their current approved mid-point return on equity (“ROE”) for the clause projection

year and to apply the Proration Formula prescribed by Treasury Regulation Section §1.167(l)-1(h)(6)(i) to the depreciation-related ADFIT included in capital structure. For example, in the projection filing that will be filed in July/August/September of 2020 for the year 2021 (“the 2021 Projection Filing”), the IOUs would project the mid-point ROE 13-month average WACC for 2021 and apply a proration adjustment to the depreciation-related ADFIT. If this proposal is approved, the resulting WACC calculation will be used to calculate a monthly return on all projected clause investments in the 2021 Projection Filing.

- b) For the Actual/Estimated True-up Filing, in all cases, the IOUs propose to use the mid-point ROE WACC calculation from the current year Forecasted Earnings Surveillance Report (“FESR”) for the Actual/Estimated true-up year and will carry forward the proration adjustment included in the Projection Filing. However, if the depreciation-related ADFIT balance in the Projection Filing was over-estimated, the Proration Formula adjustment will then need to be reduced to reflect the difference between the originally projected and prorated depreciation-related ADFIT balance and the re-projected depreciation-related ADFIT balance. For example, in the Actual/Estimated True-Up that will be filed July/August 2021 (“2021 Actual/Estimated Filing”), the IOUs will utilize the mid-point ROE 13-month average WACC from the 2021 FESR and carry forward the same proration adjustment reflected in the 2021 Projection Filing or adjust it downward if it had been over-projected. If this proposal is approved, the resulting WACC calculation would then be used to calculate a monthly return on all projected clause investments in the 2021 Actual/Estimated Filing.

c) For the Final True-up Filing, in all cases, the IOUs propose to use the mid-point ROE WACC calculation from the December ESR for the true-up year and carry forward the proration adjustment that was included in the Projection Filing. However, similar to the Actual/Estimated Filing, if the depreciation-related ADFIT balance in the Projection Filing was over-estimated, the Proration Formula adjustment will then need to be reduced to reflect the difference between the originally projected and prorated depreciation-related ADFIT balance and the actual depreciation-related ADFIT balance. For example, in the Final True-Up filing to be made in the Spring of 2022 (“2021 Final True-Up”), the IOUs will utilize the mid-point ROE 13-month average WACC from the 2021 December ESR and carry forward the same proration adjustment reflected in the 2021 Projection Filing or adjust it downward if it had been over-projected. If this proposal is approved, the resulting WACC calculation will be used to calculate a monthly return on all projected clause investments in the 2021 Final True-Up Filing.

8. Since the methodology described above does not require a consistency adjustment and will reflect the application of the Proration Formula each year, the IOUs do not believe it is necessary to provide a separate calculation demonstrating the Limitation Provision has been met or exceeded, and request that one not be required.

9. The IOUs further propose that the Final True-Up Filing date for all clauses be no earlier than April 1 of each year in order to allow the IOUs enough time to incorporate the WACC from the December ESR, which is completed and filed with the Commission on about February 15 each year.

10. The IOUs also propose to begin the process outlined herein with their 2021 Projection Filings. Therefore, the IOUs would apply the new methodology starting with the 2021 clause filing cycle, which would begin with the 2021 Projection Filings to be filed in 2020, and then carried through to the 2021 Actual/Estimated Filings to be filed in 2021 and the 2021 Final True-Up Filings to be filed in 2022. For the 2019 and 2020 true-up filings, the methodology outlined in Order No. PSC-2012-0425-PAA-EU would continue to apply. This will allow the WACC used in the clauses to be consistent with budgets that have already been prepared for 2020 by the IOUs.

11. As noted above, in its Order No. PSC-2012-0425-PAA-EU, the Commission concluded that “[e]videntiary debates regarding the appropriate capital structure and the return on equity shall be the subject of proceedings other than the clause proceedings.” The Commission’s conclusion was correct then and is equally applicable now. The IOUs request that the Commission, in ruling upon this Amended Motion, confirm that updating the WACC calculation methodology to comply with IRS regulations does not open the door to evidentiary debates that should be the subject of proceedings other than clause proceedings.

12. The proposed modifications will avoid the potential inconsistency described above, thereby enabling the IOUs to remain in compliance with the Normalization provisions of the IRS Treasury Regulations.

13. Pursuant to Rule 28-106.204(3), the IOUs have conferred with all parties to these proceedings and can confirm that the SACE and Commission Staff take no position on the motion. By the time of the filing of this motion, the IOUs did not receive a position from OPC, PCS White Springs, and FIPUG.

WHEREFORE, for the reasons stated herein, the IOUs respectfully request that the Commission approve the above-described proposed modifications to the methodology for

calculating the WACC applicable to clause-recoverable investments set forth in Order No. PSC-2012-0425-PAA-EU.

Respectfully submitted this 26th day of March, 2020.

DUKE ENERGY FLORIDA, LLC

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CERTIFICATE OF SERVICE

Dkt. Nos. 20200001-EI, 20200002-EG, 20200007-EI

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished via electronic mail to the following this 26th day of March, 2020.

/s/ Dianne M. Triplett
Attorney

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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: April 23, 2020

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (Richards, D. Buys, Cicchetti) *MC ALM*
Office of the General Counsel (Trierweiler) *JC*

RE: Docket No. 20200062-EI – Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 6.46% to 6.07%, effective January 1, 2020, by Duke Energy.

AGENDA: 05/05/20 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

Duke Energy Florida, LLC's (DEF or Company) current Allowance for Funds Used During Construction (AFUDC) rate of 6.46 percent was approved on June 3, 2019 by Order No. PSC-2019-0219-PAA-EI.¹ On February 26, 2020, DEF filed the required schedules and requested a decrease in its AFUDC rate from 6.46 percent to 6.07 percent, effective January 1, 2020. The Commission has jurisdiction over this matter pursuant to Chapter 366, Florida Statutes (F.S.), including Sections 366.04, 366.05, and 366.06, F.S.

¹Order No. PSC-2019-0219-PAA-EI, issued June 3, 2019, in Docket No. 20190069-EI, *In re: Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 7.44% to 6.46%, effective January 1, 2019, by Duke Energy Florida, LLC d/b/a Duke Energy.*

Discussion of Issues

Issue 1: Should the Commission approve DEF's request to decrease its AFUDC rate from 6.46 percent to 6.07 percent?

Recommendation: Yes. The appropriate AFUDC rate for DEF is 6.07 percent based on a 13-month average capital structure for the period ended December 31, 2019. (Richards)

Staff Analysis: DEF requested a decrease in its AFUDC rate from 6.46 percent to 6.07 percent. Rule 25-6.0141(2), Florida Administrative Code (F.A.C.), Allowance for Funds Used During Construction, provides the following guidance:

(2) The applicable AFUDC rate will be determined as follows:

(a) The most recent 13-month average embedded cost of capital, except as noted below, will be derived using all sources of capital and adjusted using adjustments consistent with those used by the Commission in the utility's last rate case.

(b) The cost rates for the components in the capital structure will be the midpoint of the last allowed return on common equity, the most recent 13-month average cost of short-term debt and customer deposits, and a zero cost rate for deferred taxes and all investment tax credits. The cost of long-term debt and preferred stock will be based on end of period cost. The annual percentage rate must be calculated to two decimal places.

In support of its requested AFUDC rate of 6.07 percent, DEF provided its calculations and capital structure in Schedules A and B attached to its request. Staff reviewed the schedules and determined that the proposed rate was calculated in accordance with Rule 25-6.0141(2), F.A.C. The requested decrease in the AFUDC rate is due principally to a decrease of 19 basis points in the weighted cost of long-term debt and a decrease of 31 basis points in the weighted cost of common equity. DEF used the midpoint return on equity of 10.50 percent, which was approved by Order No. PSC-2010-0131-FOF-EI.²

Based on its review, staff believes that the requested decrease in the AFUDC rate from 6.46 percent to 6.07 percent is appropriate, consistent with Rule 25-6.0141, F.A.C., and recommends it be approved.

²Order No. PSC-2010-0131-FOF-EI, issued March 5, 2010, in Docket No. 20090079-EI, *In re: Petition for increase in rates by Progress Energy Florida, Inc.* and Docket No. 20090144-EI, *In re: Petition for limited proceeding to include Bartow repowering project in base rates, by Progress Energy Florida, Inc.*

Issue 2: What is the appropriate monthly compounding rate to achieve the requested 6.07 percent annual AFUDC rate?

Recommendation: The appropriate compounding rate to maintain an annual rate of 6.07 percent is 0.491920 percent. (Richards)

Staff Analysis: DEF requested a monthly compounding rate of 0.491920 percent to achieve an annual AFUDC rate of 6.07 percent. In support of the requested monthly compounding rate of 0.491920 percent, DEF provided its calculations in Schedule C attached to its request. Rule 25-6.0141(3), F.A.C., provides a formula for discounting the annual AFUDC rate to reflect monthly compounding. The rule also requires that the monthly compounding rate be calculated to six decimal places.

Staff reviewed the Company's calculations and determined that they comply with the requirements of Rule 25-6.0141(3), F.A.C. Therefore, staff recommends that a discounted monthly AFUDC rate of 0.491920 percent be approved.

Issue 3: Should the Commission approve DEF's requested effective date of January 1, 2020, for implementing the revised AFUDC rate?

Recommendation: Yes. The revised AFUDC rate should be effective as of January 1, 2020, for all purposes. (Richards)

Staff Analysis: DEF's proposed AFUDC rate was calculated using a 13-month average capital structure for the period ended December 31, 2019. Rule 25-6.0141(5), F.A.C., provides that:

No utility may charge or change its AFUDC rate without prior Commission approval. The new AFUDC rate will be effective the month following the end of the 12-month period used to establish that rate and may not be retroactively applied to a previous fiscal year unless authorized by the Commission.

The Company's requested effective date of January 1, 2020, complies with the requirement that the effective date does not precede the period used to calculate the rate, and therefore should be approved.

Issue 4: Should this docket be closed?

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

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

Item 4

State of Florida



Public Service Commission

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

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

DATE: April 23, 2020

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (D. Andrews, Blocker, Norris, Thurmond)
Division of Economics (Bruce, Hudson)
Division of Engineering (Knoblauch, Ramos)
Office of the General Counsel (Schrader)

RE: Docket No. 20190118-WU – Application for increase in water rates in Gulf County by Lighthouse Utilities Company, Inc.

AGENDA: 05/05/20 – Regular Agenda – Proposed Agency Action – Except for Issue Nos. 19 and 20 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Clark

CRITICAL DATES: 05/05/20 (5-Month Effective Date Waived)

SPECIAL INSTRUCTIONS: None

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Case Background

Lighthouse Utilities Company, Inc. (Lighthouse or Utility) is a Class B utility serving approximately 1,897 customers in Gulf County. Rates were last established for this Utility by Order No. PSC-11-0268-PAA-WU (2010 Rate Case Order).¹

On September 26, 2018, Lighthouse petitioned the Commission for a limited proceeding to increase its water rates.² On October 10, 2018, Hurricane Michael destroyed or damaged substantial portions of the Utility's water distribution system. Lighthouse wanted to include the monetary impact of Hurricane Michael in the limited proceeding, but was unable to reach an agreement with the Office of Public Counsel (OPC) that a limited proceeding was the appropriate procedure for seeking rate relief under those circumstances. To avoid any further delay and expense, Lighthouse withdrew its application for a limited proceeding and on July 12, 2019, filed a full rate case in the instant docket. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure. Lighthouse initially requested interim rates but withdrew this request in a letter dated August 13, 2019.

The Utility's rate case application did not meet the minimum filing requirements (MFRs). On August 8, 2019, staff sent Lighthouse a letter identifying deficiencies in the filing of its MFRs. The Utility filed a response to staff's first deficiency letter on September 30, 2019. However, Lighthouse's response did not satisfy all of the deficiencies, and on October 17, 2019, staff sent a second letter identifying the outstanding deficiencies. On October 30, 2019, the Utility filed a response to staff's second deficiency letter correcting its remaining deficiencies, and thus the official filing date was established as October 30, 2019, pursuant to Section 367.083, Florida Statutes (F.S.).

A substantial portion of the expenses, costs, and investment that are part of this rate case are "environmental compliance costs" that will be incurred by the Utility in order to comply with a consent order and other requirements and conditions of the Florida Department of Environmental Protection (DEP). Another substantial portion of the costs, expenses, and investment that are part of this rate case are related to storm restoration and repair costs that the Utility has incurred, and will continue to incur, as a result of Hurricane Michael.

The test year established for final rates is the simple-average period ended December 31, 2018. Lighthouse requested final rates designed to generate annual revenues of \$984,348. This represents a revenue increase of \$284,800, or 40.71 percent.

The intervention of OPC was acknowledged by Order No. PSC-2019-0236-PCO-WU, issued June 18, 2019.

By letter dated February 18, 2020, the Utility waived the statutory 5-month deadline for this case through May 5, 2020. This recommendation addresses Lighthouse's requested final rates. The Commission has jurisdiction pursuant to Section 367.081, F.S.

¹ Order No. PSC-11-0368-PAA-WU, issued September 1, 2011, in Docket No. 20100128-WU, *In re: Application for increase in water rates in Gulf County by Lighthouse Utilities Company, Inc.*

² Docket No. 20180179-WU, *In re: Application for limited proceeding rate increase in Gulf County, by Lighthouse Utilities Company, Inc.*

Discussion of Issues

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

Recommendation: Yes. Lighthouse has been responsive to customer complaints, and is working to address the issues noted in the DEP Consent Order through the pro forma plant improvements discussed in Issue 4. Therefore, staff recommends that the overall quality of service for Lighthouse be considered satisfactory. (Knoblauch)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (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 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 evaluating the quality of Lighthouse's product, 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 Lighthouse's MFRs, the Utility entered into a Consent Order with the DEP on July 9, 2018, which was amended on May 23, 2019, for exceedances of the maximum contaminant levels (MCLs) for disinfection byproducts. In order to address the MCL exceedances outlined in the Consent Order, the Utility plans to install tank aerators and ventilators in its ground storage tanks, along with a chlorinator at its booster station. The Utility stated that its plans and permit application were submitted to the DEP on January 14, 2020. These pro forma plant additions are discussed in more detail in Issue 4.

Lighthouse has no other outstanding citations or violations on file with the DEP. Additionally, the most recent chemical analyses for all other contaminants, as required by the DEP, were completed in 2017, and were in compliance with the DEP's drinking water standards. The Utility's next chemical analyses are due to be completed in 2020.

Staff held a noticed customer meeting on January 23, 2020, to receive customer comments regarding the quality of service. At the meeting, seven customers spoke, two of which provided comments on the water quality. One customer remarked positively about the water, and the second customer stated that their ice was cloudy. As stated above, staff reviewed Lighthouse's most recent chemical analyses, including secondary standards which would affect the color, and all results were below the MCLs. The other comments made at the customer meeting are discussed below.

The Utility's Attempt to Address Customer Satisfaction

Table 1-1 is a summary of the complaints made at the customer meeting, as well as complaints from the Commission's complaint tracking system, the DEP, and Lighthouse over the past five years.

**Table 1-1
Number of Complaints by Type and Source**

Complaint Type	Customer Meeting	Commission Records	DEP Records	Utility Records
No Service	0	0	0	4
Water Pressure	4	2	0	0
Water Quality	2	0	1	0
Boil Water Notice	1	0	2	0
Repairs	0	1	0	0
Billing	0	1	0	0
Rate Case/Increase	3	0	0	0
Total*	11	4	3	4

*A single customer complaint may be counted more than once if it fits into multiple categories

Customer Meeting

The majority of the customers at the customer meeting spoke about low water pressure issues and inquired about the infrastructure improvements that the Utility requested in this rate proceeding. Three customers made comments regarding the rate case, including the Utility's rate structure and general questions. Additionally, one customer voiced a desire for the Utility to issue boil water notices electronically, instead of its current method of issuing notices through the mail or via a newspaper publication. The customer stated that this could better ensure all customers received the boil water notices. At this time, Lighthouse has not requested cost recovery for implementing a new noticing system, and it appears that the Utility is issuing boil water notices in accordance with DEP requirements.

Following the customer meeting, Lighthouse indicated that the Utility made contact with multiple customers who spoke at the meeting to explain the status of the pro forma project, as well as address the water pressure concerns that were raised. As stated above, Lighthouse is actively working with the DEP to address the requirements outlined in the Consent Order. As part of its pro forma request in this rate proceeding, the Utility is seeking to install tank aerators and ventilators to resolve the disinfection byproducts exceedances. In addition, the Utility also plans to replace the high service pumps at one of its water treatment plant (WTP) sites, which should help to improve the water pressure.

Complaints

A review of the Commission's complaint tracking system revealed four complaints in the previous five-year period. Two of the complaints were made in 2018, one related to low water pressure and one related to billing. The Utility responded that the low pressure was due to a mechanical failure, and the billing complaint was closed after the customer's meter was tested. The other two complaints were made in 2019, with one customer filing a complaint that they

were unable to access a shut off valve, and a second customer experiencing low water pressure. For the shut off valve complaint, the customer was informed that the valve was for Utility use, but a shut off valve could be installed on the customer's side of the meter for personal use. Regarding the low water pressure complaint, the customer was contacted and Lighthouse explained the planned improvements for the system, which should help with the low-pressure issues. Additionally, no customer correspondence was filed in the docket.

The Utility provided six complaints, two of which were the 2018 complaints received by the Commission and are discussed above. The other four complaints were made in 2018 following Hurricane Michael, regarding service outages. All of these were initially received by the PSC as consumer contacts, and were forwarded to the Utility for resolution.

Furthermore, staff contacted the DEP requesting complaints regarding Lighthouse for the prior five years, and three complaints were provided. One of the complaints was a complaint received by the Commission in 2019 for low water pressure and is discussed above. The other two complaints were made in 2017 and 2018, regarding instances where boil water notices were not issued. The DEP stated that the customer in 2017 was informed that boil water rescission notifications may have inadvertently been sent to some customers that were not affected by the boil water notice. For the second complaint, the Utility advised the DEP that construction had taken place in the area, but pressure was never lost in the system and no boil water notice was issued.

Conclusion

Lighthouse has been responsive to customer complaints and is working to address the issues noted in the DEP Consent Order through the pro forma plant improvements discussed in Issue 4. Therefore, staff recommends that the overall quality of service for Lighthouse be considered satisfactory.

Issue 2: Are the infrastructure and operating conditions of Lighthouse's water system in compliance with DEP regulations?

Recommendation: Yes. Lighthouse's water treatment facility is currently in compliance with DEP regulations. (Knoblauch)

Staff Analysis: Rule 25-30.225(2), F.A.C., requires each water utility to maintain and operate its plant and facilities by employing qualified operators in accordance with the rules of the DEP. Rule 25-30.433(2), F.A.C., requires consideration of whether the infrastructure and operating conditions of the plant and facilities are in compliance with Rule 25-30.225, F.A.C. In making this determination, the Commission must consider testimony of the DEP and county health department officials, sanitary surveys, citations, violations, and consent orders issued to the utility, customer testimony, comments, and complaints, and utility testimony and responses to the aforementioned items.

Water System Infrastructure and Operating Conditions

Lighthouse has two wells with a combined pumping capacity up to 810 gallons per minute (gpm). However, one of the wells is out of service due to storm damage, leaving the remaining well with a pumping capacity rated up to 410 gpm. The Utility has one ground storage tank with an aerator, a ground booster tank, a hydropneumatic tank, and a booster hydropneumatic tank.

As discussed in Issue 1, the Utility will be installing tank aerators and ventilators in its ground-storage tanks, and a chlorinator at one of its water treatment plants to address the exceedances noted in the DEP Consent Order. Staff reviewed Lighthouse's most recent sanitary survey, which determines the Utility's overall water facility compliance and is conducted by the DEP. A review of the sanitary survey dated August 29, 2018, indicated that Lighthouse's water treatment facility was in compliance with the DEP's rules and regulations.

Conclusion

Lighthouse's water treatment facility infrastructure and operating conditions are currently in compliance with DEP rules and regulations.

Issue 3: What adjustments, if any, should be made to account for the audit adjustments related to rate base?

Recommendation: Based on the audit adjustments agreed to by the Utility, the following adjustments should be made to rate base and net operating income as set forth in staff's analysis below.

Plant	\$136,039
Accumulated Depreciation	(\$148,937)
CIAC	\$41,275
Accum. Amortization of CIAC	(\$5,256)
Depreciation Expense	\$6,396
CIAC Amortization Expense	\$1,303

(Norris, Thurmond)

Staff Analysis: Staff's audit report was filed on February 3, 2020. In its response to the staff audit report, Lighthouse agreed to the audit adjustments as set forth in the tables below.

Table 3-1

Audit Finding	Description of Adjustment
Audit Finding No. 1	This finding is due largely to the following: 1) to reflect Commission-ordered adjustments (COAs) from the last rate case, 2) to reflect reclassifications from O&M expenses to plant, 3) to remove amounts due to lack of support documentation, and 4) to reflect plant retirements.
Audit Finding No. 2	This finding primarily reflects corresponding adjustments to Audit Finding No. 1
Audit Finding No. 3	This finding reflects unsupported additions to contributions in aid of construction (CIAC), along with recalculated adjustments to Accumulated Amortization of CIAC and CIAC amortization.

Source: Staff audit report

In response to Audit Finding No. 1, the Utility disagreed with the inclusion of a COA adjustment to Account 304 – Structures and Improvements, as it maintained that the adjustment had already been made, and provided documentation for adjustments made to Account 333 – Services to reflect unsupported plant additions. Additionally, in further correspondence related to Audit Finding No. 2, the Utility subsequently responded that an agreed upon retirement for its booster station was a mischaracterization and that the asset should not have been retired. Lighthouse also provided a response to Audit Finding No. 3 disagreeing with the total amount of CIAC documentation and included additional documentation for an unsupported addition. Upon review of the Utility's explanations and support, staff agrees with the Utility's proposed adjustments to staff's audit report.

Staff's recommended adjustments to rate base and corresponding adjustments to depreciation and CIAC amortization expense are reflected in the table below.

Table 3-2
Audit Adjustments

Audit Finding	Plant	Accum. Depr.	CIAC	Accum. Amort. of CIAC	Depreciation Expense	CIAC Amortization Expense
1	\$136,039					
2		(\$148,937)			\$6,396	
3			\$41,275	(\$5,256)		\$1,303

Source: Staff audit report and Utility response

Issue 4: What adjustments, if any, should be made to the Utility's pro forma plant?

Recommendation: No adjustments are necessary to the Utility's pro forma plant request. However, adjustments should be made to decrease both pro forma accumulated depreciation and depreciation expense by \$19,272. Additionally, pro forma property taxes should be increased by \$13,522. (Knoblauch, D. Andrews)

Staff Analysis: Lighthouse originally provided a cost estimate for pro forma plant additions totaling \$383,600.³ The Utility stated that it sought bids through a news publication and received one bid for the project from an engineering firm. The engineering firm was awarded the project, and an evaluation of Lighthouse's existing water system and alternatives for future improvements was completed by the firm. However, this improvement plan was prepared in April 2018, and the Utility was subsequently impacted by Hurricane Michael in October 2018. As a result, the plant additions being requested by Lighthouse in this rate proceeding do not address all of the improvements delineated in the improvement plan. Instead, the Utility's request is limited to addressing DEP compliance issues and restoring Lighthouse's system to pre-hurricane conditions.

To address the DEP Consent Order, the Utility will be installing tank aerators and ventilators in its ground-storage tanks to address the disinfection byproducts exceedances. Additionally, a chlorinator would be installed at the booster station to aid in resolving the exceedance issue. In order to restore the system to pre-hurricane conditions, the Utility provided cost estimates for repair and replacing equipment that was damaged by Hurricane Michael, including a new 8 inch well and high service pumps. Furthermore, the addition of the new well and pumps should help to address the low water pressure problems that were voiced by customers, as discussed in Issue 1.

In response to a staff data request and deficiency letter, the Utility updated its request from \$383,600 to \$994,000. This was a result of the Utility determining that the well, which was damaged during the hurricane, could not be repaired and a new well would need to be installed. Lighthouse stated that it expected construction for the improvements to begin once funding was secured in the first quarter of 2020. Additionally, the Utility stated that "substantial portions of the improvement project are anticipated to be completed and in service by December 31, 2020."⁴ Subsequently, the Utility provided an updated schedule showing that the DEP Consent Order plant additions and the new well are estimated to be completed in the fourth quarter of 2020.⁵ The remaining improvements are estimated to be completed by the end of the second quarter of 2021, which exceeds 24 months from the end of the historic test year. However, pursuant to Section 367.081(2)(a)2., F.S., the Commission has the authority to approve a longer period for pro forma consideration. Based on the totality of the Utility's circumstances since its initial limited proceeding filing, staff recommends the inclusion of all the Utility's requested pro forma plant projects be recognized in this proceeding.

³ Document No. 05489-2019, filed on July 12, 2019.

⁴ Document No. 11463-2019, filed on December 23, 2019.

⁵ Document No. 01276-2020, filed on March 5, 2020.

As such, staff recommends no adjustments be made to the Utility's pro forma plant projects. However, the Utility incorrectly calculated the accumulated depreciation and depreciation expense associated with some of the pro forma plant projects. Based on the useful life for plant accounts prescribed by Rule 25-30.140(2)(a), F.A.C., staff recommends decreasing both accumulated depreciation and depreciation expense by \$19,272. Additionally, the Utility did not include pro forma property taxes in its filing. Therefore, pro forma property taxes should be increased by \$13,522.

Issue 5: What are the used and useful (U&U) percentages of Lighthouse's WTP, storage, and distribution system?

Recommendation: Staff recommends Lighthouse's WTP, storage, and distribution system be considered 100 percent U&U. Staff recommends that a 6.8 percent adjustment to operating expenses for chemicals and purchased power should be made for excessive unaccounted for water (EUW). (Knoblauch)

Staff Analysis: Lighthouse's WTP has two wells with a combined pumping capacity of up to 810 gpm. However, one of the wells is out of service due to storm damage, leaving the remaining well pumping capacity rated up to 410 gpm. The Utility has one ground storage tank with an aerator, which has a capacity of 316,000 gallons, along with a ground booster tank with a capacity of 209,000 gallons. Also in service are a hydropneumatic tank with a capacity of 5,000 gallons, and a booster hydropneumatic tank with a capacity of 10,000 gallons. The distribution system is comprised of varying sizes of polyvinyl chloride (PVC) pipes.

The U&U for Lighthouse's WTP, storage, and distribution system were last determined in the 2010 Rate Case Order. In that Order, the Commission found Lighthouse's WTP water and storage to be 100 percent U&U. For the distribution system, the Commission determined the U&U to be 82 percent.

Water Treatment Plant 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 is currently only able to utilize one of its wells, and pursuant to Rule 25-30.4325(4), F.A.C., a water treatment system is considered 100 percent U&U if the system is served by a single well. However, as discussed in Issue 4, a new well with a pumping capacity of 450 gpm is included as part of Lighthouse's requested pro forma plant projects. In determining the WTP U&U, staff has imputed the addition of the new well.

Rule 25-30.4325, F.A.C., addresses the method by which the U&U of a water system is determined. The formula for calculating U&U for the WTP is given by $[\text{Peak Demand} - \text{EUW} + \text{Fire Flow} + \text{Growth}] / \text{Firm Reliable Capacity}$. Peak demand is based on a peak day for a water treatment system with storage capacity. Peak day demand is the single maximum day in the test year where there is no unusual occurrence on that day, such as a fire or line break. Based on the Monthly Operating Reports that the Utility files with the DEP, the single maximum day in the test year was 701,200 gpd. As discussed below, the EUW was calculated to be 6.8 percent or 28,953 gpd.

The fire flow requirement is 60,000 gpd, and the Utility did not request a growth allowance. The firm reliable capacity assumes loss of the largest capacity well and is therefore 410 gpm or 393,600 gpd, based on 16 hours of pumping for systems with storage capacity. This calculation results in a U&U greater than 100 percent; as such, staff recommends the WTP be considered 100 percent U&U.

Lighthouse has two ground storage tanks with a combined usable storage capacity of 525,000 gallons. Pursuant to Rule 25-30.4325, F.A.C., usable storage capacity less than or equal to the peak day demand shall be considered 100 percent U&U; thus, the Utility's storage is 100 percent

U&U. 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(1)(e), 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., staff considers several factors. These include (1) the causes of EUW, (2) any corrective action taken, or (3) the economic 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 154,498,000 gallons during the test year, and purchased 2,187,000 gallons from the City of Port St. Joe. In response to data requests, the Utility indicated that it estimated 25,100,000 gallons for other uses, such as flushing, overflow of the aerators, and extinguishing four fires that occurred in the test year. Based on staff's analysis, the Utility sold 105,199,000 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 and purchased, 26,386,000 gallons are unaccounted for. The formula for unaccounted for water is given by $[\text{gallons of unaccounted for water} / (\text{total gallons pumped} + \text{gallons purchased})]$. The resulting unaccounted for water is 16.8 percent; therefore, the excessive unaccounted for water is 6.8 percent. Accordingly, staff recommends that a corresponding adjustment to operating expenses for purchased power and chemical expenses be made.

Water Distribution System Used and Useful

In the 2010 Rate Case Order, the Commission found the Utility's distribution system to be 82 percent U&U. The order stated that the "U&U analysis for the water distribution system is typically based on a comparison of the lots connected to the distribution system with the total number of lots within the distribution system." However, it was determined that the number of lots that could potentially connect to the distribution system could not be identified due to the nature of the service territory. The service territory consists of dispersed small developments, as well as coastal areas that are not intended to be developed. Instead, the capacity of the WTP was used as a proxy to estimate the capacity of the lines in the distribution system, which was compared to the number of connections being served.

In the present case, the Utility is proposing to use this same method with its current number of connections and WTP capacity. In its MFRs, the Utility provided that the current number of connections it is able to serve is 1,994 connections. This value was developed by an engineering consultant, which was the same consultant utilized in the prior rate case. The number of active customer connections at the end of the test year was 1,883 connections. This results in a distribution system U&U of 94 percent. However, the Utility asserted that all of the distribution system assets and equipment are in use and any potential connections are dispersed through the system, thus the distribution system should be considered 100 percent U&U.

Consistent with the Commission's prior decision, staff agrees with utilizing the same method for calculating the U&U of the distribution system. Based on a review of Lighthouse's system maps,

there appears to be vacant lots interspersed throughout the distribution system. However, due to the nature of the service area and the location of the various developments served by the Utility, the distribution lines appear to be in use and needed to serve the existing customers. Additionally, while the Utility did not request a growth allowance, there does appear to be potential growth in the area. In its MFRs, the Utility provided the number of residential customers over the past five years, which increased from 1,625 at the end of 2014 to 1,865 in 2018. Therefore, staff recommends the distribution system be considered 100 percent U&U.

Conclusion

Staff recommends Lighthouse's WTP, storage, and distribution system be considered 100 percent U&U. The excessive unaccounted for water was calculated to be 6.8 percent, thus staff recommends that a corresponding adjustment be made to operating expenses for purchased power and chemical expenses.

Issue 6: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is \$72,127. As such, working capital should be decreased by \$8,954. (D. Andrews)

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 properly calculated working capital using the formula method. However, as discussed in subsequent issues, staff is recommending adjustments to Lighthouse's O&M expenses. As a result, staff recommends working capital of \$72,127. This reflects a decrease of \$8,954 to the Utility's requested working capital allowance of \$81,081.

Issue 7: What is the appropriate rate base for the test year ended December 31, 2018?

Recommendation: Consistent with staff's other recommended adjustments, the appropriate rate base for the test year ended December 31, 2018, is \$1,535,766. (D. Andrews)

Staff Analysis: Consistent with other recommended adjustments in this Recommendation, the appropriate simple average rate base for the test year ended December 31, 2018, is \$1,535,766. Staff's recommended schedule for rate base is shown on Schedule No. 1-A and the adjustments are shown on Schedule No. 1-B.

Issue 8: What is the appropriate return on equity?

Recommendation: Based on the Commission leverage formula currently in effect, the appropriate return on equity (ROE) is 10.55 percent with an allowed range of plus or minus 100 basis points. (D. Andrews)

Staff Analysis: The Utility requested a ROE of 10.55 percent. Consistent with Commission practice, staff has set the Utility's negative common equity balance to zero. Based on the Commission leverage formula currently in effect, the appropriate ROE is 10.55 percent.⁶ Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

⁶ Order No. PSC-2019-0267-PAA-WS, issued July 7, 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.*

Issue 9: What is the appropriate weighted average cost of capital, including the proper components, amounts, and cost rate 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 8.01 percent. (D. Andrews)

Staff Analysis: In its filing, Lighthouse requested an overall cost of capital of 8.01 percent. The Utility's capital structure consists of debt. In its filing, Lighthouse reflected a cost rate of 8.01 percent for debt. The Utility was unable to provide any loan documentation for the purpose of the debt in time for the staff audit to review. In response to the audit, the Utility provided promissory notes for loans from four of its five lenders. All five of the lenders are listed as directors of the Utility. Lighthouse indicated that it believes the last promissory note was lost as a result of Hurricane Michael. Staff has reviewed the available promissory notes associated with these loans.

In its filing for a limited proceeding, Lighthouse was planning to fund the pro forma projects through the Florida's Drinking Water State Revolving Fund (Fund). However, the Utility's request for funding through the Fund was eventually denied. Lighthouse has indicated that it has attempted to obtain funding through bank loans. However, the Utility was unable to secure bank loans, in part due to the COVID-19 pandemic. Subsequently, Lighthouse has indicated that it will obtain additional loans from its directors in order to fund the additions to pro forma plant at the same cost rate as the existing loans. Staff recommends that the appropriate cost rate for debt is 8.01 percent.

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2018, staff recommends a weighted average cost of capital of 8.01 percent. Schedule No. 2 details staff's recommended overall cost of capital.

Issue 10: What are the appropriate test year revenues for Lighthouse's water system?

Recommendation: The appropriate test year revenues are \$757,270, which is an increase of \$57,722 to the Utility's adjusted test year revenues. (Bruce)

Staff Analysis: In its revised MFRs, Lighthouse's adjusted test year revenues were \$699,548. The adjusted test revenues were the result of the Utility applying a four percent reduction to its per book balance of \$728,696, which resulted in a decrease of \$29,148. The Utility reduced test year revenues to account for the decrease in customers due to storm related damage from Hurricane Michael in 2018.

At the noticed customer meeting, attendees commented that some customers had returned to the service area, and there was new construction. As a result, staff requested the Utility provide billing data for the year ended December 31, 2019. The billing data indicated that the billing determinants were more in line with pre-Hurricane Michael billing determinants. Prior to filing its file and suspend rate request, the Utility filed a limited proceeding, in 2018,⁷ which was pre-Hurricane Michael. The billing determinants provided in the limited proceeding docket were based on the year ended December 31, 2017. In comparing the test year usage in this docket (year ended December 31, 2018) to the 2017 data, the usage decreased by approximately five percent from 2017 to 2018.⁸ However, when comparing 2017 usage to 2019 usage, it was relatively the same.⁹ Therefore, staff believes the 2019 billing data would reflect a more accurate depiction of test year revenues post-Hurricane Michael.¹⁰

The Utility had a price index increase that became effective November 6, 2019. Staff annualized the rate increase using the 2019 billing determinants and determined service revenues should be \$753,373. Staff did not make adjustments to the miscellaneous revenues of \$3,897, which are reflected in the Utility's MFRs. Based on the above, the appropriate test year revenues are \$757,270 (\$753,373 + \$3,897), which is an increase of \$57,722 (\$757,270 - \$699,548) to the Utility's adjusted test year revenues.

⁷ The limited proceeding request was withdrawn in order to file a more comprehensive filing in the instant docket.

⁸ 2017 usage from limited proceeding filing – 110,578,000 gallons; 2018 usage from instant docket – 105,199,000 gallons

⁹ 2019 usage data – 110,693,000 gallons

¹⁰ It should be noted that the customer count was 1,884 in 2017, 1,911 in 2018, and 1,890 in 2019.

Issue 11: What adjustments, if any, should be made to the account for the audit adjustments related to operating expenses?

Recommendation: Based on the audit adjustments agreed to by Lighthouse, O&M expense should be decreased by \$38,285 and taxes other than income (TOTI) should be reduced by \$2,294. (D. Andrews)

Staff Analysis: In its response to the staff audit report, Lighthouse agreed to adjustments to reduce O&M expense by \$15,546. The Utility suggested that the remaining adjustments of \$28,423 were related to Hurricane Michael and should be capitalized and amortized. In a recent order, the Commission amortized nonrecurring expenses incurred due to a hurricane over five years.¹¹ Through subsequent correspondence, the Utility agreed that amortizing the expenses related to Hurricane Michael over five years is appropriate. This results in test year expenses related to Hurricane Michael of \$5,685 ($\$28,423 / 5$). Therefore, staff recommends a decrease to O&M expense of \$43,970 ($\$15,546 + \$28,423$) to reflect the audit adjustments and an increase of \$5,685 to reflect the amortization of Hurricane Michael expenses, for a net reduction to O&M expenses of \$38,285.

Additionally, in its response to the staff audit report, Lighthouse agreed with the recommended adjustment to TOTI. The adjustments were comprised of a decrease of \$1,294 to correct regulatory assessment fees (RAFs) in the test year and a \$1,000 decrease to remove the filing fee for the instant docket. Therefore, TOTI should be decreased by \$2,294 ($\$1,294 + \$1,000$).

¹¹ Order No. PSC-2018-0446-FOF-SU, issued September 4, 2018, in Docket No. 20170141-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

Issue 12: What adjustments, if any, should be made to the Utility's test year O&M expenses?

Recommendation: An adjustment should be made to decrease purchased power expense by \$3,498 and reduce chemicals expense by \$557. Rent expense should be increased by \$1,547. Additionally, miscellaneous expense should be increased by \$2,290. (D. Andrews, Knoblauch)

Staff Analysis: Based on its review of test year O&M expenses, staff recommends several adjustments to the Utility's O&M expenses as summarized below.

Excessive Unaccounted for Water

As discussed in Issue 5, staff is recommending an EUW adjustment of 6.8 percent. Based on adjustments reflected in Issues 11 and 14, staff is recommending purchased power expense of \$56,221 and chemicals expense of \$8,190. However, as discussed in Issues 5 and 14, EUW applies to purchased power only for the well and booster station. Staff is recommending purchased power expense for the well of \$51,439. As such, staff recommends reducing purchased power expense by \$3,498 (6.8 percent x \$51,439) and chemicals expense by \$557 (6.8 percent x \$8,190).

Rent Expense

In its filing, the Utility recorded rent expense of \$14,625. Lighthouse's rent expense consisted of rent associated with an office building, at \$1,922 per month, and a storage facility, at \$749 per month, both of which the Utility splits evenly with an affiliated real estate company. The Utility also has a one-time expense of \$144 related to a P.O. Box with the United States Postal Service included in rent expense.

Due to Hurricane Michael, the Utility did not record rent expense for the office for two months during the test year. Therefore, staff recommends increasing rent expense by \$1,922 to reflect a full year of rent. There was also an out of period expense associated with the storage facility recorded in the test year. Therefore, staff recommends reducing rent expense by \$375 ($\$749 / 2$). As a result of the adjustments above, staff recommends an adjustment to increase rent expense by \$1,547 ($\$1,922 - \375).

Amortized Permit Renewal Expense

The staff audit reclassified \$22,901 from plant in service as deferred debits for expense associated with renewing a consumptive use permit. The Utility argued, in its response to the audit, that the amortization expense associated with this permit renewal should be included in O&M expense. The application for the permit was completed in 2013 and runs through 2023. Staff believes this expense should be amortized over 10 years and should be included in miscellaneous expense. As such, staff recommends an adjustment to increase miscellaneous expense by \$2,290 ($\$22,901 / 10$).

Issue 13: What adjustments, if any, should be made to the Utility's salaries and wages expense?

Recommendation: An adjustment should be made to reduce salaries and wages - officers expense by \$40,000. (D. Andrews)

Staff Analysis: In its filing, the Utility recorded salaries and wages – officers expense of \$130,408. Lighthouse recorded \$76,000 for directors’ fees during the test year. This represents \$750 per month for eight directors and an extra \$500 per director in December as a bonus. This represents an annual compensation of \$9,500 per director. In its last rate case, the Utility was allowed recovery for four directors with an annual compensation of \$6,000 per director.

In response to a staff data request,¹² Lighthouse indicated that its President’s salary of \$54,408 is well below the range for a general manager of a small water system according the 2019 American Water Works Association (AWWA Survey). Further, the Utility suggested that taking four director salaries and adding them to the President’s salary of \$54,408 results in a total management cost well within the range of standard salaries for a general manager in the AWWA Survey. Staff recommends limiting the Utility to recovery for four directors, consistent with the last rate case. Further, staff believes it is not prudent to give annual bonuses to each director beyond their monthly compensation, and thus recommends eliminating the annual bonuses. As such, the total recommended directors’ fees are \$36,000 ($\$750 \times 12 \times 4$). The duties have not changed for the President or the directors since the last rate case.

As discussed above, staff recommends an adjustment to decrease salaries and wages – officers expense by \$38,000 ($\$9,500 \times 4$) to reduce the number of directors to four. Additionally, staff recommends an adjustment to reduce salaries and wages – officers expense by \$2,000 ($\500×4) to eliminate the bonus for each director. This results in a total reduction to salaries and wages – officers expense of \$40,000 ($\$38,000 + \$2,000$).

¹² Document No. 08995-2019, filed on September 23, 2019.

Issue 14: Should any adjustments be made to account for the Utility's pro forma expense?

Recommendation: Yes. Adjustments should be made to increase purchased power expense by \$4,572 and to increase chemicals expense by \$2,295. (Knoblauch, D. Andrews)

Staff Analysis: Based on its review of test year O&M expenses, staff recommends several adjustments to the Utility's O&M expenses as summarized below.

Purchased Power

The Utility estimated that its test year purchased power expense would double, based on the pro forma plant additions. As discussed in Issue 4, the Utility is planning to add a new 8 inch well and new high service pumps. During the test year, the Utility was almost entirely limited to one well and recorded \$51,649 for purchased power, which included power for the well, pumps, and offices. Based on staff's audit, the amount of purchased power for only the operation of the well and pumps was \$46,867 for the test year. In view of the new well, which will have a larger pumping capacity of 450 gpm compared to the existing well's pumping capacity of 410 gpm, the amount of purchased power will likely increase. However, staff does not believe that the additions will cause the purchased power expense to double, since the Utility did not provide support showing the customer demand would double. Except for two months during the test year when Lighthouse purchased water from the City of Port St. Joe, the Utility was able to meet demand utilizing its one well. Staff believes that an increase to purchased power expense proportional to the increase in well pumping capacity is more appropriate. Therefore, based on the increased well pumping capacity, staff recommends a purchased power expense amount of \$51,439 ($450/410 \times 46,867$) for the operation of the wells and pumps, an increase of \$4,572.

Chemicals

The Utility estimated that chemicals expense would increase by one-third based on the pro forma plant additions. As discussed in Issue 4, the Utility is planning to add a chlorinator at its booster station in part to address DEP compliance issues. During the test year, the Utility recorded \$6,884 for chemicals. In view of the new chlorinator, the amount of chemicals required will increase; however, the exact quantity and cost of chemicals needed will not likely be known until the chlorinator is in service. Considering the chlorinator will be added at a booster station, the amount of chemicals used is expected to be less than what would be required at the WTP. Therefore, staff believes a one-third increase to chemicals is reasonable to account for the new chlorinator, thus staff recommends an increase of \$2,295 to chemicals expense.

Conclusion

Based on the adjustments above, staff recommends that purchased power expense be increased by \$4,572 and that chemicals expense be increased by \$2,295.

Issue 15: What is the appropriate amount of rate case expense and over what period should it be amortized?

Recommendation: The appropriate amount of rate case expense is \$96,040. This expense should be recovered over four years for an annual expense of \$24,010. Therefore, annual rate case expense should be increased by \$373 from the expense included in the MFRs. (Blocker)

Staff Analysis: In its MFRs, Lighthouse requested \$94,547 for current rate case expense. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On March 5, 2020, the Utility submitted its last revised estimate of rate case expense, through completion of the PAA process, which totaled \$114,473. A breakdown of the Utility’s requested rate case expense is as follows:

**Table 15-1
 Lighthouse Initial and Revised Rate Case Expense Report**

Description	MFR Estimated	Actual	Additional Estimated	Revised Total
Legal Fees				
Holland & Knight, LLP	\$45,650	\$46,562	\$8,075	\$54,637
Accounting Fees				
Roberson & Associates, P.A.	31,950	22,620	3,236	25,856
Engineering Fees				
Dewberry Engineers, Inc.	0	987	4,916	5,903
Customer Notices	16,947	843	0	843
Limited Proceeding – Legal Fees	0	21,024	0	21,024
Limited Proceeding – Accounting Fees	0	6,210	0	6,210
Total	\$94,547	\$98,246	\$16,227	\$114,473

Source: MFR Schedules B-3 and B-10, along with Utility responses to staff data requests

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 Lighthouse’s requested rate case expense are appropriate.

Holland & Knight LLP (H&K)

In its MFRs, the Utility included \$45,650 in legal fees to complete the rate case. The Utility provided documentation detailing this expense through February 11, 2020. The actual fees and costs totaled \$46,562 with an estimated \$8,075 to complete the rate case, totaling \$54,637.

According to invoices, H&K identified and billed the Utility \$8,795 related to the correction of MFR deficiencies. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs. Consequently, staff recommends an adjustment to reduce H&K’s actual legal fees by \$8,795.

H&K’s estimate to complete the rate case includes fees for 19 hours at \$425 an hour, totaling \$8,075. Staff believes the full amount of the estimate to complete, \$8,075, is reasonable. Based on the above, staff recommends that the total legal fees from H&K be reduced by \$8,795.

Roberson & Associates, P.A. (R&A)

In its MFRs, the Utility included \$31,950 in accounting fees to complete the rate case. The Utility provided documentation detailing this expense through December 31, 2019. The actual fees total \$22,620 with an estimated \$3,236 to complete the rate case, totaling \$25,856. Staff reviewed supporting documentation and found 68.75 hours related to correcting deficiencies. As stated previously, the Commission has disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs. As such, staff recommends that R&A’s actual accounting consultant fees be reduced by \$6,749.

R&A’s estimate to complete the rate case includes fees for 26 hours at \$120. According to R&A’s summary, the consultant estimated the following:

**Table 15-2
 R&A’s Estimate Hours to Complete Case**

Estimated Hours	Activity
4.00	Attend customer meeting in Gulf County; pre- and post-meeting conferences with client.
10.00	Review Staff and Field Auditors recommendations, correspondence with client and consultants, respond to recommendations and resulting conference staff and client.
9.00	Travel to and from Tallahassee; Prepare for and attend Agenda conference; Discuss Agenda with client and staff.
2.00	Review PAA Order; conference with client and consultants regarding PAA order.
<u>1.00</u>	Prepare revised tariffs.
<u>26.00</u>	Total

Source: Utility’s response to staff’s third data request

At the time the above estimate was provided to staff, the Commission Conference had not been changed to a teleconference format in response to COVID-19. As such, estimated costs associated with travel to attend the Commission Conference are no longer necessary. Staff recommends that estimated cost to complete be reduced by four hours for travel, or \$480 (4 hrs. x \$120/hr.). Also, the \$116 of estimated travel expenses associated with attending the Commission Conference should be removed.

Based on the above, staff recommends that the total accounting fees for R&A be reduced by \$7,345 (\$6,749 + \$480 + \$116).

Dewberry Engineers, Inc. (DEI)

In its MFRs, the Utility did not include any engineering fees to complete the rate case. The Utility provided documentation detailing this expense through February 10, 2020. The actual fees total \$987 with an estimated \$4,916 to complete the rate case, totaling \$5,903.

DEI estimates that a total of 20 hours is needed to complete the case. According to DEI's summary, the consultant estimated the following:

Table 15-3
DEI's Estimate Hours to Complete Case

Estimated Hours	Activity
5.00	Respond to Staff requests for documentation, including research and correspondence and other information to answer each point in requests.
4.00	Attend customer meeting in Gulf County; pre- and post-meeting conferences with client.
9.00	Travel to and from Tallahassee; Prepare for and attend Agenda conference; Discuss Agenda with client and staff.
<u>2.00</u>	Review PAA Order; conference with client and consultants regarding PAA Order.
<u>20.00</u>	Total

Source: Utility's response to staff's third data request

At the time the above estimate was provided to staff, the customer meeting had already occurred and was not attended by a representative from DEI. As such, staff recommends that the estimated cost to complete be reduced by two hours or \$480 (2 hrs. x \$240/hr.) to reflect a reasonable amount of time that would have been allotted to attend the customer meeting. Additionally, at the time the above estimate was provided to the staff, the Commission Conference had not been changed to a teleconference format, as previously discussed. Costs associated with travel to attend the Commission Conference are no longer necessary. As such, staff recommends that the estimated cost to complete be reduced by an additional four hours or \$960 (4 hrs. x \$240/hr.). Also, the \$116 of estimated travel expenses associated with attending the agenda meeting should be removed.

Based on the above, staff recommends that the total engineering fees for DEI be reduced by \$1,556 (\$480 + \$960 + \$116).

Customer Notice

In its MFRs, Lighthouse included \$16,947 of expenses associated with customer notices. The Utility provided documentation detailing the actual expense through January 9, 2020. The actual costs total \$843 for one notice. An estimate to complete was not provided by the Utility. Staff believes it is reasonable to include the cost for two additional notices: a notice to customers regarding final rates and a notice reflecting the four-year rate case expense reduction. Using the Utility's actual cost for the one notice previously issued in this case results in additional noticing costs of \$1,685 (\$843 x 2). Accordingly, staff recommends that customer notices, printing, and shipping fees be increased by \$1,685.

Limited Proceeding

Lighthouse originally petitioned the Commission for a limited proceeding to increase its water rates in order to bring its water system into compliance with applicable water quality standards. Two weeks after the Utility's filing, the service area was greatly affected by damage caused by Hurricane Michael, destroying or damaging large portions of Lighthouse's distribution system and substantially impacting its customer base. Additionally, the Utility and OPC were still continuing to discuss whether a limited proceeding was the appropriate process for seeking rate relief based on its circumstances. To avoid any further delay and expense, Lighthouse withdrew its application for a limited proceeding and subsequently filed a full rate case.

In its update to actual rate case expense, Lighthouse included documentation to support \$27,234 in rate case expense from the limited proceeding docket. This case differs from the circumstances in the Commission's decision in Order No. PSC-16-0525-PAA-WS, issued November 21, 2016, In re: Application for increase in water rates in Lee County and wastewater rates in Pasco County by Ni Florida, LLC (Ni Florida). In Ni Florida, the Commission did not allow for the recovery of rate case expense from another docket where the utility had withdrawn the corresponding application on its own motion. In Ni Florida, the utility's withdrawal of its application was, in part, due to deficiencies in its own application, changes in ownership, and changes in the status of certain capital improvements. These were all circumstances over which the utility had some control.

In the instant docket, however, the circumstances are different. Here, the previous limited proceeding for which the Utility had applied was essentially "folded" into this proceeding and the application fee paid in that proceeding applied to this proceeding. Secondly, circumstances well beyond the control of the Utility (Hurricane Michael) were at least a partial factor in moving from a limited proceeding to a full rate case. Based on the above, staff believes the Utility's request to recover rate case expense associated with the limited proceeding docket is reasonable. Adjustments to the Utility's request are discussed below.

Legal Fees

Lighthouse provided documentation supporting \$21,024 of legal fees charged by H&K associated with the limited proceeding. Staff reviewed the supporting documentation and determined that 5.7 hours, or \$2,423 (5.7 x \$425/hr.), were related to correcting deficiencies. Accordingly, staff recommends that legal fees related to the limited proceeding should be reduced by \$2,423.

Accounting Fees

The Utility provided documentation supporting \$6,210 of accounting fees charged by R&A associated with the limited proceeding. Staff reviewed supporting documentation and believes that all expenses are reasonable. A breakdown of limited proceeding rate case expense is reflected in the table below.

**Table 15-4
 Limited Proceeding Rate Case Expense**

Description	Actual	Staff Adjustments	Recommended Total
Limited Proceeding – Legal Fees	\$21,024	(\$2,423)	\$18,602
Limited Proceeding – Accounting Fees	6,210	0	6,210
Total	<u>\$27,234</u>	<u>\$(2,423)</u>	<u>\$24,812</u>

Source: Utility’s responses to staff data requests

Conclusion

Based upon the adjustments discussed above, staff recommends that Lighthouse’s revised rate case expense of \$114,473 be decreased by \$18,434. A breakdown of staff’s recommended rate case expense of \$96,040 is as follows:

**Table 15-5
 Recommended Rate Case Expense**

Description	MFR Estimated	Utility Revised Act. & Est.	Staff Adjustments	Recom. Total
Legal Fees	\$45,650	\$54,637	(\$8,795)	\$45,842
Accounting Fees	31,950	25,856	(7,345)	18,511
Engineering Fees	0	5,903	(1,556)	4,347
Customer Notices	16,947	843	1,685	2,528
Limited Proceeding - Legal Fees	0	21,024	(2,423)	18,602
Limited Proceeding - Accounting Fees	0	6,210	0	6,210
Total	<u>\$94,547</u>	<u>\$114,473</u>	<u>(\$18,434)</u>	<u>\$96,040</u>

Source: MFR Schedules B-3 and B-10, along with Utility responses to staff data requests

In its MFRs, the Utility requested total rate case expense of \$94,547. When amortized over four years, this represents an annual expense of \$23,637. The recommended total rate case expense of \$96,040 should be amortized over four years, pursuant to Section 367.081(8), F.S., as the Utility did not request or justify a longer amortization period. This represents an annual expense of \$24,010. Based on above, staff recommends that annual rate case expense be increased by \$373 (\$24,010 - \$23,637) relative to the Utility’s original filing.

Issue 16: What is the appropriate revenue requirement for the test year ended December 31, 2018?

Recommendation: The following revenue requirement should be approved.

Test Year Revenues	\$ Increase	Revenue Requirement	% Increase
\$757,270	\$154,963	\$912,233	20.46%

(D. Andrews)

Staff Analysis: In its filing, Lighthouse requested a revenue requirement to generate annual revenue of \$984,348. This requested revenue requirement represents a revenue increase of \$284,800 or approximately 40.71 percent.

Consistent with staff's recommendations concerning rate base, cost of capital, and operating income issues, staff recommends approval of rates designed to generate a revenue requirement of \$912,233. Staff's recommended revenue requirement of \$912,233 is \$154,963 greater than staff's adjusted test year revenue of \$757,270. This results in an increase of 20.46 percent. Staff's recommended revenue requirement will allow the Utility the opportunity to recover its expenses and earn an 8.01 percent return on its investment in rate base.

Issue 17: What are the appropriate rate structures and rates for Lighthouse’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 sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Bruce)

Staff Analysis: Lighthouse is located in Gulf County in the Northwest Water Management District. The Utility provides water service to approximately 1,837 residential customers and 60 general service customers including multi-family units, recreational areas, a state park, and governmental properties. Typically, staff evaluates the seasonality of the Utility customers based on the percentage of bills at zero gallons, which is 13 percent in this case. However, based on billing data, it appears that the customers are in residence periodically throughout each month and there are also vacation rentals. Therefore, staff believes it is appropriate to evaluate the seasonality based on the percentage of bills at the 1,000 gallon level, which is 35 percent. As a result, it appears that the customer base is seasonal. The average residential water demand is 4,199 per month. The average residential demand excluding zero-gallon bills is 4,825 gallons per month. Currently, the Utility’s water rate structure consists of a monthly base facility charge (BFC) and uniform gallonage charge for residential and general service customers.

As discussed in Issue 10, staff used 2019 billing determinants to calculate test year revenues. The 2019 usage billing determinants are five percent greater than the usage reflected in the 2018 billing determinants. By designing rates using the Utility’s 2018 billing determinants reflected in the MFRs, revenues in excess of staff’s recommended revenue requirement would be generated immediately upon the rates becoming effective. Staff believes that 2019 billing determinants should be used to design rates on a prospective basis in order to reflect known and measurable post-Hurricane Michael changes in billing determinants.

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

It has been Commission practice to recover no more than 40 percent of the revenues to be generated from the BFC. However, due to the seasonality of the customer base, staff recommends that 50 percent of the water revenues be generated from the BFC.¹³ This will provide revenue stability while customers are out of residence. The average people per household served by the water system is approximately 2.5; therefore, based on the number of people per household, 50 gallons per day per person, and the number of days per month, the non-

¹³ Order No. PSC-17-0209-PAA-WU, issued May 30, 2017, in Docket No. 20160065-WU, *In re: Application for increase in water rates in Charlotte County by Bocilla Utilities, Inc.*

discretionary usage threshold should be 4,000 gallons per month.¹⁴ Staff recommends a traditional BFC with separate rate blocks for non-discretionary and discretionary usage for residential water customers. The rate blocks are: (1) 0-4,000 gallons and (2) all usage in excess of 4,000 gallons. This rate structure restricts repression at non-discretionary levels of consumption. General service customers should be billed based on a BFC and uniform gallonage charge.

Based on staff's recommended revenue increase of 20.6 percent, which excludes miscellaneous revenues, the residential consumption can be expected to decline by 2,069,000 gallons resulting in anticipated average residential demand of 4,106 gallons per month. Based on staff's evaluation of the billing data, a larger decrease in consumption may seem reasonable due to the amount of discretionary usage. However, as discussed above, Lighthouse customers are not all fulltime owner-occupied homes, but instead some are vacation rental properties. As is the case with the general service class, these homeowners may pass along increases to their customers. Therefore, to reflect this expected relative insensitivity to price changes, staff believes a price elasticity of demand should be -0.2 instead of -0.4, which is normally used to calculate repression adjustments. Staff's recommended elasticity indicates our belief that many of the Utility's customers will simply pass the increase in cost to their renters instead of reducing their consumption. Based on the above, staff recommends a 2.2 percent reduction in test year residential gallons for ratesetting purposes and corresponding reductions of \$986 for purchased power, \$204 for purchased water, \$143 for chemicals, and \$63 for RAFs to reflect the anticipated repression. These adjustments result in a post repression revenue requirement of \$906,941.

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 sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice

¹⁴ Average person per household was obtained from www.census.gov/quickfacts/gulfcountyflorida.

Issue 18: What are the appropriate initial customer deposits for Lighthouse's water system?

Recommendation: The appropriate initial customer deposit should be \$67 for the residential 5/8 inch by 3/4 inch meter size. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water. The approved initial customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding. (Bruce)

Staff Analysis: Rule 25-30.311, F.A.C., provides the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. An initial customer deposit ensures that the cost of providing service is recovered from the cost causer. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.¹⁵ Currently, the Utility's initial deposit for residential and general service water is \$25 for the 5/8 inch x 3/4 inch and 1 inch meter sizes and \$50 for the 1 1/2 inch and 2 inch meter sizes. However, these amounts do not cover two months' average bills based on staff's recommended rates. The Utility's average monthly residential water usage after repression is 4,106 gallons per customer. Therefore, the average residential monthly bill based on staff's recommended rates is approximately \$33.25.

Staff recommends the appropriate initial customer deposits should be \$67 for the residential 5/8 inch x 3/4 inch meter size for water. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water. The approved initial customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding.

¹⁵ Order Nos. 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.* and PSC-17-0113-PAA-WS, issued March 28, 2017, in Docket No. 20130105-WS, *In re: Application for certificates to provide water and wastewater service in Hendry and Collier Counties, by Consolidated Services of Hendry & Collier, LLC.*

Issue 19: What is the appropriate amount by which rates should be reduced to reflect the removal of the amortized rate case expense, as required by Section 367.081(8), F.S.?

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

Staff Analysis: The water rates should be reduced, as shown on Schedule No. 4, to remove the annual amortization of rate case expense grossed-up for RAFs. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period, pursuant to Section 367.081(8), F.S. Lighthouse 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 20: Should the Utility be required to notify, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) associated with the Commission-approved adjustments?

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

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

Issue 21: 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 notified staff that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket should be closed administratively. (Schrader)

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 notified staff that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket should be closed administratively.

Lighthouse Utilities Company, Inc.		Schedule No. 1-A				
Schedule of Water Rate Base		Docket No. 20190118-WU				
Test Year Ended 12/31/18						
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	
1 Plant in Service	\$3,540,547	\$994,000	\$4,534,547	\$136,039	\$4,670,586	
2 Land and Land Rights	0	0	0	0	0	
3 Non-used and Useful Components	0	0	0	0	0	
4 Accumulated Depreciation	(1,808,062)	(66,366)	(1,874,428)	(129,665)	(2,004,093)	
5 CIAC	(2,482,733)	0	(2,482,733)	41,275	(2,441,458)	
6 Amortization of CIAC	1,243,859	0	1,243,859	(5,256)	1,238,603	
7 Working Capital Allowance	<u>81,081</u>	<u>0</u>	<u>81,081</u>	<u>(8,954)</u>	<u>72,127</u>	
8 Rate Base	<u>\$574,692</u>	<u>\$927,634</u>	<u>\$1,502,326</u>	<u>\$33,440</u>	<u>\$1,535,766</u>	

Lighthouse Utilities Company, Inc.		Schedule No. 1-B
Adjustments to Rate Base		Docket No. 20190118-WU
Test Year Ended 12/31/18		
Explanation		Water
Plant In Service		
To reflect audit adjustment to UPIS.		<u>\$136,039</u>
Accumulated Depreciation		
1 To reflect audit adjustments to accumulated depreciation.		(\$148,937)
2 To reflect appropriate pro forma accumulated depreciation.		<u>19,272</u>
Total		<u>(\$129,665)</u>
CIAC		
To reflect audit adjustments to CIAC.		<u>\$41,275</u>
Accumulated Amortization of CIAC		
To reflect audit adjustments to accumulated amortization of CIAC.		<u>(\$5,256)</u>
Working Capital		
To reflect the appropriate amount of working capital.		<u>(\$8,954)</u>

Lighthouse Utilities Company, Inc.						Schedule No. 2		
Capital Structure-Simple Average						Docket No. 20190118-WU		
Test Year Ended 12/31/18								
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Debt	\$843,383	\$0	\$843,383	\$658,942	\$1,502,325	100.00%	8.01%	8.01%
2 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
3 Common Equity	(401,976)	401,976	0	0	0	0.00%	0.00%	0.00%
4 Customer Deposits	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
5 Total Capital	<u>\$441,407</u>	<u>\$401,976</u>	<u>\$843,383</u>	<u>\$658,942</u>	<u>\$1,502,325</u>	<u>100.00%</u>		<u>8.01%</u>
Per Staff								
6 Debt	\$843,383	\$994,000	\$1,837,383	(\$301,617)	\$1,535,766	100.00%	8.01%	8.01%
7 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
8 Common Equity	(401,976)	401,976	0	0	0	0.00%	10.55%	0.00%
9 Customer Deposits	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
10 Total Capital	<u>\$441,407</u>	<u>\$1,395,976</u>	<u>\$1,837,383</u>	<u>(\$301,617)</u>	<u>\$1,535,766</u>	<u>100.00%</u>		<u>8.01%</u>
						LOW	HIGH	
RETURN ON EQUITY						<u>9.55%</u>	<u>11.55%</u>	
OVERALL RATE OF RETURN						<u>8.01%</u>	<u>8.01%</u>	

Lighthouse Utilities Company, Inc. Statement of Water Operations Test Year Ended 12/31/18							Schedule No. 3-A Docket No. 20190118-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>\$728,696</u>	<u>\$255,652</u>	<u>\$984,348</u>	<u>(\$227,078)</u>	<u>\$757,270</u>	<u>\$154,963</u> 20.46%	<u>\$912,233</u>	
Operating Expenses								
2 Operation & Maintenance	\$648,651	\$23,638	\$672,289	(\$71,263)	\$601,026	\$0	\$601,026	
3 Depreciation	32,434	66,366	98,800	(11,573)	87,227	0	87,227	
4 Amortization	0	0	0	0	0	0	0	
5 Taxes Other Than Income	66,738	26,244	92,982	1,009	93,991	6,973	100,964	
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>747,823</u>	<u>116,248</u>	<u>864,071</u>	<u>(81,827)</u>	<u>782,244</u>	<u>6,973</u>	<u>789,218</u>	
8 Operating Income	<u>(\$19,127)</u>	<u>\$139,404</u>	<u>\$120,277</u>	<u>(\$145,251)</u>	<u>(\$24,974)</u>	<u>\$147,989</u>	<u>\$123,015</u>	
9 Rate Base	<u>\$574,692</u>		<u>\$1,502,326</u>		<u>\$1,535,766</u>		<u>\$1,535,766</u>	
10 Rate of Return	<u>(3.33%)</u>		<u>8.01%</u>		<u>(1.63%)</u>		<u>8.01%</u>	

Lighthouse Utilities Company, Inc.		Schedule 3-B
Adjustment to Operating Income		Docket No. 20190118-WU
Test Year Ended 12/31/18		
Explanation		Water
Operating Revenues		
1	Remove requested final revenue increase.	(\$284,800)
2	To reflect the appropriate amount of annualized revenues.	<u>57,722</u>
	Total	<u>(\$227,078)</u>
Operation and Maintenance Expense		
1	To reflect audit adjustments.	(\$43,970)
2	To reflect amortization of hurricane expenses.	5,685
2	To reflect amortization of permit renewal expense.	2,290
3	To reflect EUW adjustment to purchased power.	(3,498)
4	To reflect EUW adjustment to chemicals.	(557)
5	To reflect 12 months of rent.	1,547
6	To reduce number of directors to four.	(40,000)
7	To increase purchased power in relation to pro forma projects.	4,572
8	To increase chemicals in relation to pro forma projects.	2,295
9	To reflect appropriate rate case expense for current docket.	<u>373</u>
	Total	<u>(\$71,263)</u>
Depreciation Expense - Net		
1	To reflect audit adjustments to depreciation expense.	\$6,396
2	To reflect audit adjustments to CIAC amortization expense.	1,303
3	To reflect appropriate pro forma depreciation expense.	<u>(19,272)</u>
	Total	<u>(\$11,573)</u>
Taxes Other Than Income		
1	RAFs on revenue adjustments above.	(\$10,219)
2	To reflect audit adjustment to RAFs.	(1,294)
3	To reflect audit adjustments to remove filing fee.	(1,000)
4	To reflect property taxes on pro forma plant.	<u>13,522</u>
	Total	<u>\$1,009</u>

LIGHTHOUSE UTILITIES COMPANY, INC.					Schedule No. 4
TEST YEAR ENDED 12/31/2018					DOCKET NO. 20190118-WU
MONTHLY WATER RATES					
	RATES AT TIME OF FILING (A)	UTILITY CURRENT RATES (A) (1)	UTILITY PROPOSED RATES (A)	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
Residential and General Service					
Base Facility Charge by Meter Size					
5/8" x 3/4"	\$14.72	\$14.99	\$19.90	\$19.28	\$0.54
3/4"	N/A	N/A	N/A	\$28.92	\$0.81
1"	\$22.09	\$22.50	\$29.87	\$48.20	\$1.34
1-1/2"	\$36.82	\$37.50	\$49.79	\$96.40	\$2.68
2"	\$73.62	\$74.99	\$99.54	\$154.24	\$4.29
3"	\$117.80	\$119.99	\$159.28	\$308.48	\$8.59
4"	\$235.60	\$239.98	\$318.56	\$482.00	\$13.42
6"	\$368.12	\$374.97	\$497.75	\$964.00	\$26.84
8"	\$1,325.24	\$1,349.89	\$1,791.90	\$1,735.20	\$48.31
10"	\$2,135.10	\$2,174.81	\$2,886.93	\$2,795.60	\$194.30
Charge per 1,000 Gallons - Residential and General Service	\$3.60	\$3.67	\$4.87		
Charge per 1,000 Gallons - Residential					
0-4,000 gallons				\$3.36	\$0.09
Over 4,000 gallons				\$5.04	\$0.14
Charge per 1,000 gallons - General Service				\$4.17	\$0.12
Typical Residential 5/8" x 3/4" Meter Bill Comparison					
2,000 Gallons	\$21.92	\$22.33	\$29.64	\$26.00	
4,000 Gallons	\$29.12	\$29.67	\$39.38	\$32.72	
6,000 Gallons	\$36.32	\$37.01	\$49.12	\$42.80	

(A) The rates for the one inch through six inch meter sizes are incorrect due to meter factors. This error was made in the Utility's last rate case and has been corrected on a prospective basis with staff's recommended rates.

(1) The Utility's current rates are a result of a price index effective November 6, 2019.

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: April 23, 2020

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Engineering (Phillips, Ellis) *TB*
Office of the General Counsel (Passidomo, Murphy) *TLT*

RE: Docket No. 20200058-EG – Petition for approval of 2020 demand-side management plan, by Orlando Utilities Commission.

AGENDA: 05/05/20 – Regular Agenda – Proposed Agency Action - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brown

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

Enacted in 1980, Sections 366.80 through 366.83, and 403.519, Florida Statutes (F.S.), known collectively as the Florida Energy Efficiency and Conservation Act (FEECA), requires the Florida Public Service Commission (Commission or PSC) to adopt conservation goals to increase the efficiency of energy consumption. Additionally, FEECA emphasizes reducing the growth rates of weather-sensitive peak demand, reducing and controlling the growth rates of electricity consumption, reducing the consumption of expensive resources such as petroleum fuels, and encouraging demand-side renewable energy resources. The Commission most recently

established conservation goals by Order No. PSC-2019-0509-FOF-EG, issued November 26, 2019 (2019 Goalsetting Order).¹ The Commission found that it was in the public interest to continue with the goals established in the prior FEECA goalsetting proceeding for the period 2015 through 2024, which were established by Order No. PSC-14-0696-FOF-EU (2014 Goalsetting Order).²

Pursuant to Section 366.82(7), F.S., after goals are established, the Commission must require each utility to develop Demand-Side Management (DSM) Plans to meet the conservation goals. Rule 25-17.0021(4), Florida Administrative Code (F.A.C.), requires that DSM Plans be filed within 90 days of the order establishing goals. Therefore, new DSM Plans were required to be filed by February 24, 2020.

On February 24, 2020, Orlando Utilities Commission (OUC) filed a petition requesting approval of its DSM Plan. As part of this filing, OUC provided a cost-effectiveness analysis of the proposed programs pursuant to Rule 25-17.008, F.A.C. These include the Rate Impact Measure (RIM) Test, the Total Resource Cost (TRC) Test, and the Participants Test.

The Commission has jurisdiction over this matter pursuant to Sections 366.80 through 366.83 and 403.519, F.S.

¹ Order No. PSC-2019-0509-FOF-EG, issued November 26, 2019, Docket No. 20190015-EG, *In re: Commission review of numeric conservation goals (Florida Power & Light Company)*, Docket No. 20190016-EG, *In re: Commission review of numeric conservation goals (Gulf Power Company)*, Docket No. 20190017-EG, *In re: Commission review of numeric conservation goals (Florida Public Utilities Company)*, Docket No. 20190018-EG, *In re: Commission review of numeric conservation goals (Duke Energy Florida, LLC)*, Docket No. 20190019-EG, *In re: Commission review of numeric conservation goals (Orlando Utilities Commission)*, Docket No. 20190020-EG, *In re: Commission review of numeric conservation goals (JEA)*, and Docket No. 20190021-EG, *In re: Commission review of numeric conservation goals (Tampa Electric Company)*.

² Order No. PSC-14-0696-FOF-EU, issued December 16, 2014, Docket No. 20130199-EI, *In re: Commission review of numeric conservation goals (Florida Power & Light Company)*, Docket No. 20130200-EI, *In re: Commission review of numeric conservation goals (Duke Energy Florida, Inc.)*, Docket No. 20130201-EI, *In re: Commission review of numeric conservation goals (Tampa Electric Company)*, Docket No. 20130202-EI, *In re: Commission review of numeric conservation goals (Gulf Power Company)*, Docket No. 20130203-EM, *In re: Commission review of numeric conservation goals (JEA)*, Docket No. 20130204-EM, *In re: Commission review of numeric conservation goals (Orlando Utilities Commission)*, and Docket No. 20130205-EI, *In re: Commission review of numeric conservation goals (Florida Public Utilities Company)*.

Discussion of Issues

Issue 1: Is OUC's DSM Plan projected to meet the annual numeric conservation goals established by the Commission in the 2019 Goalsetting Order?

Recommendation: Yes. The DSM Plan proposed by OUC is projected to meet or exceed the annual numeric conservation goals approved by the Commission in the 2019 Goalsetting Order. OUC's 2020 DSM Plan is a continuation, with some modifications and additions, of its DSM plan approved by the Commission in 2015. OUC's DSM Plan is not projected to be cost-effective based upon the RIM Test. However, the Commission should allow OUC to continue programs considering OUC's status as a municipal utility, where the local governing body is given the latitude to make decisions regarding local community investment in energy efficiency. OUC's local governing body will make its own determination as to whether expenditures are reasonable and prudent and will decide if it is necessary to modify and or remove programs.

Staff also recommends that OUC file its administrative program standards for all programs within 30 days of the Consummating Order being issued in this docket. Staff further recommends that the Commission grant staff administrative authority to review and approve these standards. (Phillips)

Staff Analysis: The criteria used to review the appropriateness of the conservation programs were as follows: (1) whether the program advances the policy objectives of FEECA and its implementing rules; (2) whether the program is directly monitorable and yields measurable results; and (3) whether the program is cost-effective.³ Staff has reviewed OUC's DSM Plan, including its demand and energy savings, cost-effectiveness, and rate impact. OUC's DSM Plan meets or exceeds the goals set in the 2019 Goalsetting Order.

Description of DSM Plan

OUC's DSM Plan consists of 16 programs in total, eight residential and eight commercial. OUC has proposed to cancel two existing programs, continue two existing programs as is, continue ten existing programs with modifications to reflect current market conditions, and add four new programs. As required by Rule 25-17.003, F.A.C., OUC's DSM Plan continues to offer energy audits to residential customers, and OUC also continues to voluntarily offer audits to commercial/industrial customers. Table 1-1 provides a complete list of the programs and a brief description of each can be found in Attachment A.

OUC proposes to end the residential and commercial Window Film/Solar Screen Rebate Program. In this program, OUC provided rebates for the installation of solar window films in pre-existing homes and businesses. The solar window film reduces solar heating resulting in less energy needed to cool the home or business.

The primary change made to the modified programs was alterations to the rebate levels available within the program. For example, OUC reduced the residential and commercial duct repair program rebate from a maximum of \$160 to a maximum of \$100. While the residential and

³ PSC Order No. 22176, issued November 14, 1989, Docket No. 19890737-PU, In re: *Implementation of Section 366.80-.85, F.S., Conservation Activities of Electric and Natural Gas Utilities.*

commercial ceiling insulation program increased the available rebate from \$0.05 per square foot of attic insulation, to \$0.10 per square foot of attic insulation.

**Table 1-1
 OUC DSM Plan Program Listing**

Program Name	Program Status		
	Existing	Modified	New
Residential Programs			
Home Energy Survey	X		
Duct Repair/Replacement	X	X	
Ceiling Insulation Upgrade	X	X	
High Performance Windows	X	X	
Efficient Electric Heat Pump	X	X	
New Home Rebate	X	X	
Water Heater Heat Pump			X
Efficiency Delivered	X	X	
Commercial/Industrial Programs			
Energy Audits	X		
Efficient Electric Heat Pump	X	X	
Duct Repair Rebate	X	X	
Ceiling Insulation Rebates	X	X	
Cool/Reflective Roof	X	X	
Indoor Lighting Billed Solution			X
Indoor lighting Rebate			X
Custom Incentive			X

Source: Document No. 01070-2020

Program Savings

Seasonal peak demand and annual energy savings for the programs were reviewed. OUC estimates and measures savings by a program using a combination of methodologies, including site-specific engineering estimates as the most cost-effective method of evaluating program impacts. As required by Rule 25-17.003(10), F.A.C., OUC will conduct inspections of at least 10 percent of program installations to verify that installations were performed and meet quality standards.

Comparison of DSM Plan to Goals

Based on staff's review, OUC's DSM Plan will meet or exceed the Commission's established annual goals. The seasonal demand and energy savings associated with OUC's DSM Plan and the Commission's established goals are summarized in Table 1-2 and Table 1-3 for residential and commercial/industrial sectors, respectively.

**Table 1-2
 Commission’s Residential Goals vs. OUC’s DSM Plan**

Year	Summer (MW)		Winter (MW)		Annual Energy (GWh)	
	Goal	DSM Plan	Goal	DSM Plan	Goal	DSM Plan
2020	0.21	0.61	0.21	0.68	0.77	1.20
2021	0.21	0.61	0.22	0.69	0.80	1.20
2022	0.19	0.61	0.20	0.69	0.72	1.20
2023	0.19	0.61	0.18	0.69	0.66	1.20
2024	0.16	0.61	0.16	0.70	0.57	1.21
Total⁴	0.96	3.04	0.97	3.45	3.52	6.01

Source: Document No. 01070-2020

**Table 1-3
 Commission’s Commercial/Industrial Goals vs. OUC’s DSM Plan**

Year	Summer (MW)		Winter (MW)		Annual Energy (GWh)	
	Goal	DSM Plan	Goal	DSM Plan	Goal	DSM Plan
2020	0.39	1.50	0.70	1.40	0.85	7.68
2021	0.40	1.50	0.78	1.40	0.86	7.68
2022	0.37	1.47	0.78	1.37	0.85	7.50
2023	0.39	1.44	0.74	1.34	0.82	7.40
2024	0.36	1.31	0.70	1.20	0.80	6.62
Total⁵	1.91	7.24	3.70	6.72	4.18	63.88

Source: Document No. 01070-2020

The values presented above are projections based upon participation rates which may or may not occur. OUC will be responsible for monitoring actual participation rates. OUC is a municipal utility and its local governing body will decide if it is necessary to modify, add, or remove programs.

Section 366.82(10), F.S., requires the Commission to provide an annual report to the Governor and Legislature on the progress of each utility toward meeting the established goals. Rule 25-17.0021(5), F.A.C., requires OUC to submit an annual report no later than March 1 of each year summarizing the achieved results of its DSM Plan. Staff will continue to monitor and report the actual amount of DSM savings each year, on an annual and cumulative basis, as part of the FECCA Report.

⁴ Totals may not equal due to rounding.

⁵ Totals may not equal due to rounding.

Based on Table 1-2 and Table 1-3, OUC's 2020 DSM plan is projected to exceed the established FEECA policy goals set by the Commission. The programs are all monitorable and the results are measurable.

Cost-Effectiveness Review

As required by Rule 25-17.008, F.A.C., OUC provided a cost-effectiveness analysis of the proposed programs using the RIM Test, the TRC Test and the Participants Test. The Commission's last established goals were not based upon any particular cost-effectiveness test. Rather, the Commission found that it was in the public interest to continue with the goals established in the prior FEECA goalsetting proceeding for the period 2015 through 2024, which were based on an economic analysis conducted in 2015. Below, staff addresses the assumptions associated with OUC's avoided costs and the results of the cost-effectiveness analysis.

Avoided Costs

OUC does not plan any additions to its generation fleet within the study period for its DSM Plan. In addition, its avoided costs do not include capacity benefits associated with deferring or delaying its next generating unit. OUC's avoided costs are therefore based on avoided energy only.

Cost-Effectiveness Test Results

The cost-effectiveness analysis of OUC's demand-side programs shows that none are cost-effective under the RIM and Participants Tests, and only one, the custom incentive program, is cost effective under both the TRC and Participants Tests. For municipal utilities such as OUC, local decisions fall within the jurisdiction of OUC's governing body regarding the investment in energy efficiency that best suits local needs and values. Accordingly, as the Commission has recognized in prior proceedings, it is appropriate to defer to municipal utilities' governing bodies to determine the level of investment if measures are not cost-effective.⁶

⁶ Order No. PSC-15-0325-PAA-EG, issued, August 11, 2015, Docket No. 20150088-EG, *In re: Petition for approval of modifications to demand-side management plan by Orlando Utilities Commission.*

**Table 1-4
 OUC Cost-Effectiveness Test Results by Program**

Program Name	RIM Test	TRC Test	Participants Test
Residential Programs			
Duct Repair/Replacement	0.20	2.14	0.32
Ceiling Insulation Upgrade	0.18	0.46	0.10
High Performance Windows	0.13	0.62	0.09
Efficient Electric Heat Pump Seer	0.15 - 0.18	0.28 - 0.47	0.05 - 0.10
New Home Rebates	0.19	0.33	0.08
Heat Pump Water Heater Rebates	0.20	0.62	0.14
Residential Efficiency Delivered	0.14	1.29	0.17
Commercial Programs			
Efficient Electric Heat Pump Seer 15	0.23 - 0.26	0.29 - 0.48	0.07 - 0.12
Duct Repair rebates	0.29	1.10	0.32
Ceiling Insulation Upgrade rebates	0.25	0.48	0.12
Cool/Reflective Roof Rebates	0.52	0.69	0.37
Indoor Lighting Billed Solution	0.43	1.86	0.77
Indoor Lighting Rebates	0.51	1.55	0.76
Custom Incentive	0.39	3.67	1.28

Source: Document No. 01070-2020

Rate Impact

The costs to implement the programs within OUC’s DSM Plan would be established by the municipal utility’s governing body. Overall, the DSM programs are a small amount of the customer’s bill. Table 1-5 below is an estimate of the monthly bill impact on the typical residential and commercial customer over a five-year period. The estimated costs are based upon participation rates and administrative costs used in the cost-effectiveness analysis. Much like investments in generation, transmission, and distribution, investments in energy efficiency have an immediate rate impact, but may produce savings over time.

**Table 1-5
 OUC Estimated Monthly Bill Impact of Proposed DSM Plan**

Year	Residential Customer 1,200 kWh/mo
	Monthly Bill Impact (\$)
2020	0.43
2021	0.44
2022	0.44
2023	0.44
2024	0.44

Source: Document No. 01936-2020

Conclusion

The DSM Plan proposed by OUC is projected to meet or exceed the annual numeric conservation goals approved by the Commission in the 2019 Goalsetting Order. OUC's 2020 DSM Plan is a continuation, with some modifications and additions, of its DSM plan approved by the Commission in 2015. OUC's DSM Plan is not projected to be cost-effective based upon the RIM Test. However, the Commission should allow OUC to continue programs considering OUC's status as a municipal utility, where the local governing body is given the latitude to make decisions regarding local community investment in energy efficiency. OUC's local governing body will make its own determination as to whether expenditures are reasonable and prudent and will decide if it is necessary to modify and or remove programs.

Staff also recommends that OUC file its administrative program standards for all programs within 30 days of the Consummating Order being issued in this docket. Staff further recommends that the Commission grant staff administrative authority to review and approve these standards.

Issue 2: 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 PAA Order, a Consummating Order should be issued. If the Commission approves any programs, the programs should become effective on the date of the Consummating Order. However, if a protest is filed within 21 days of the issuance of the PAA Order, the programs should not be implemented until after the resolution of the protest. In either event, the docket should remain open for staff's verification that the program standards have been filed by the utility and approved by staff. When the PAA issues become final and the program standards have been approved, this docket should be closed administratively. (Passidomo, Murphy)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the PAA Order, a Consummating Order should be issued. If the Commission approves any programs, the programs should become effective on the date of the Consummating Order. However, if a protest is filed within 21 days of the issuance of the PAA Order, the programs should not be implemented until after the resolution of the protest. In either event, the docket should remain open for staff's verification that the program standards have been filed by the utility and approved by staff. When the PAA issues become final and the program standards have been approved, this docket should be closed administratively.

OUC 2020 DSM Plan

Residential Programs

Home Energy Survey Program

The home energy walk-through surveys were designed to provide residential customers with recommended energy efficiency measures and practices customers can implement, and to encourage participation in various OUC rebate programs. OUC provides participating customers specific tips on conserving electricity and water as well as details on customer rebate programs.

Duct Repair Rebates Program

The program is designed to encourage residential customers to repair leaking ducts on existing systems. Qualifying customers must have an existing central air conditioning system, within certain limits and ducts must be sealed with mastic and fabric tape or any other Underwriters Laboratory (UL) approved duct tape.

Maximum Incentive: Up to \$100

Ceiling Insulation Rebates Program

The program is designed to encourage customers to upgrade their attic insulation. The program applies to conditioned areas only.

Maximum Incentive: Up to \$0.10/sq.-ft.

High Performance Windows Rebates Program

The program is designed to encourage customers to install windows that improve energy efficiency in their homes by purchasing ENERGY STAR® rated energy efficient windows.

Maximum Incentive: \$1.50/sq.-ft.

Efficient Electric Heat Pump Rebates Program

The residential program provides rebates to qualifying customers in existing homes who install heat pumps having a seasonal energy efficiency ratio (SEER) of 15.0 or higher.

Maximum Incentive: Up to \$1,630

New Home Rebates Program

Previously known as the Residential Gold Ring Home Program, the program offers “a la carte” rebates for a variety of items the builder or home buyer may choose. The table below is an example of the incentives available.

Rebate	Rate of Rebate	Maximum Rebate
Ceiling Insulation Upgrade	\$0.03/sq.-ft.	\$60
Heat Pump	Up to \$1,630	\$500
Energy Star Heat Pump Water Heater	\$500	\$500
Solar Water Heater	\$900	\$900

Heat Pump Water Heater Rebates Program

The program provides rebates for the heat pumps commonly known as hybrid electric heat pump water heaters for qualifying installations.

Maximum Incentive: \$500

Residential Efficiency Delivered Program

Formerly known as the Home Energy Fix-Up, the program is available to residential customers (single family homes) and provides up rebates for energy and water efficiency upgrades based on the needs of the customer's home after a residential energy survey. The program is an income based program. The participant's income is also the basis for determining what maximum incentive and percentage of costs OUC will contribute toward the improvements. Specifically, OUC will contribute 85 percent, up to \$2,000 for households with incomes less than \$40,000, and 50 percent, up to \$1,000 for households with incomes up to \$60,000.

Maximum Incentive: Up to \$2,000

Commercial Programs

Energy Audits Program

The program is focused on increasing the energy efficiency of commercial buildings and includes a free survey comprised of a physical walk-through inspection of the commercial facility. Following the inspection the customer receives a written report detailing cost-effective recommendations to make the facility more energy and water efficient. Participating customers are encouraged to participate in other OUC commercial programs and directly benefit from energy conservation, which decreases their electric and water bills

Efficient Electric Heat Pump Rebates Program

The program provides rebates to qualifying customers in existing buildings who install heat pumps having a SEER of 15.0 or higher.

Maximum Incentive: Up to \$1,630

Duct Repair Rebates Program

The program is designed to encourage commercial customers to repair leaking ducts on existing systems. Qualifying customers must have an existing central air conditioning system of within certain limits and ducts must be sealed with mastic and fabric tape or any other UL approved duct tape.

Maximum Incentive: Up to \$100

Ceiling Insulation Rebates Program

The program is designed to increase a building's resistance to heat loss and gain. Participating customers receive a rebate for upgrading their attic insulation up to R-30 or greater.

Maximum Incentive: \$0.10/sq.-ft.

Cool/Reflective Roof Rebates Program

The program is designed to reflect the sun's rays and lower roof surface temperature while increasing the lifespan of the roof. OUC will rebate customers for ENERGY STAR® cool/reflective roofing that has an initial solar reflectance greater than or equal to 0.70.

Maximum Incentive: \$0.12/sq.-ft.

Indoor Lighting Billed Solution Program

The program assists commercial customers with investments in new lighting technologies. Through a competitive Request For Proposals process, OUC selects a qualified lighting contractor to work with customers to develop proposals. Customers enter into an Agreement with OUC to payback the cost of the project based on the expected savings through monthly charges applied to their bill. The program is a cash-flow neutral billed solution where the savings pay for the project's cost over the pay-back period or term. The term cannot exceed five years.

Indoor Lighting Rebates Program

The program offers commercial customers that upgrade the efficiency of their indoor lighting a rebate if they meet certain requirements. Participation is open to facilities located within OUC's service area that receive electric service under an OUC commercial rate.

Maximum Incentive; Up to \$250/kW

Custom Incentive Program

Through the program, commercial customers receive incentives based on the reduction in peak demand their projects achieve plus the first year energy savings. Incentives and other program must meet program requirements and caps; including incentives cannot exceed 50 percent of project costs and the project must have a greater than a two-year payback. Incentives are split between project completion and one year after project completion.

Maximum Incentive: Up to \$550/kW (\$250/kW for lighting) and \$0.032/kWh.

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: April 23, 2020

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Engineering (Doehling, Lewis) *TB*
Division of Accounting and Finance (Norris, Sowards) *AM*
Division of Economics (Bruce, Hudson) *JGH*
Office of the General Counsel (Murphy) *TLT*

RE: Docket No. 20190080-WS – Application for limited proceeding rate increase in Brevard County, by Aquarina Utilities, Inc.

AGENDA: 05/05/20 – Regular Agenda – Proposed Agency Action, Except for Issues 4 and 5
- Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Fay

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

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Case Background

Aquarina Utilities, Inc., (Aquarina or Utility) is a Class B utility providing water and wastewater services in Brevard County to 320 potable water, 119 non-potable water, and 342 wastewater customers. In its 2019 Annual Report, Aquarina reported operating revenues of \$192,312 for potable water, \$256,822 for non-potable water, and \$190,777 for wastewater service. The Utility's rates were last set in 2019.¹

On April 1, 2019, Aquarina filed a request for a limited proceeding rate increase. The minimum filing requirements were met, and the official filing date was established as July 31, 2019. Aquarina is seeking to recover the revenue it lost as a result of Aquarina Golf, Inc., an irrigation customer, leaving the system in August 2019. In addition, the Utility is seeking recognition of capital improvements that have taken place since the last rate case.

A customer meeting was scheduled for March 26, 2020, in Melbourne Beach, Florida. However, due to travel restrictions implemented by the Department of Management Services (DMS), the customer meeting was cancelled.² All customers were notified of the meeting cancellation and were advised that they may provide comments via letter, email, phone, fax, or through the Commission's website. Customers also received a form for mailing in written comments and the Rate Case Overview that would have been distributed at the customer meeting. Of the eighteen customers that submitted comments, as of April 16, 2020, sixteen expressed concern regarding the proposed rate increase.

On April 3, 2020, the Office of Public Counsel (OPC) filed a Motion to Reschedule the Customer Meeting and Continue the Docket (Motion). In its Motion, OPC asked the Commission to reschedule all remaining docket dates until a customer meeting could be held, or in the alternative, to reschedule the customer meeting to occur via videoconference prior to staff filing its recommendation.³ On April 6, 2020, Aquarina filed its Response in Opposition of OPC's Motion.⁴ By Order No. PSC-2020-0109-PCO-WS, issued April 16, 2020, the Prehearing Officer denied OPC's Motion.

This recommendation addresses Aquarina's requested water and wastewater rates. The Commission has jurisdiction pursuant to Sections 367.081 and 367.0822, Florida Statutes (F.S.).

¹ Order No. PSC-2019-0139-PAA-WS, issued April 22, 2019, in Docket No. 20150010-WS, *In re: Application for staff-assisted rate case in Brevard County by Aquarina Utilities, Inc.*, Order approving Phase II rates for potable water and wastewater.

² Department of Management Services, Travel Guidance for Employees of the State Personnel System, posted March 1, 2020, https://www.dms.myflorida.com/content/download/148251/989599/Travel_Guidance_for_Employees_of_the_State_Personnel_System.pdf

³ Document No. 01765-2020, filed April 3, 2020.

⁴ Document No. 01770-2020, filed April 6, 2020.

Discussion of Issues

Issue 1: Should the Commission approve Aquarina’s request for a limited proceeding?

Recommendation: Yes. The Commission should approve the Utility’s request for a limited proceeding rate increase as modified by staff. Aquarina should be allowed an annual increase of \$2,560 or 1.54 percent, for potable water, resulting in an adjusted revenue requirement of \$168,365. Regarding non-potable water, the Utility should be allowed an annual increase of \$2,108, or 0.85 percent, resulting in an adjusted revenue requirement of \$248,891. For wastewater, the Utility should be allowed an annual increase of \$1,387, or 0.77 percent, resulting in an adjusted revenue requirement of \$182,016. The adjusted revenue requirements are reflected on Schedule Nos. 3-A, 3-B, and 3-C. (Doehling, Lewis, Sowards)

Staff Analysis: Limited proceedings generally address specific or significant changes that would adversely affect the normal operating income of the utility and are usually narrow in scope. Staff believes that Aquarina’s case is sufficiently narrow in scope to qualify for a limited proceeding. Aquarina has also met all minimum filing requirements as set forth in Rule 25-30.445, Florida Administrative Code (F.A.C.).

Secondary Water Quality Standards

Pursuant to Rule 25-30.445(4)(o), F.A.C., utilities are required to provide the Commission with a copy of all customer complaints received by the utility regarding the Florida Department of Environmental Protection (DEP) secondary water quality standards during the past five years as well as a copy of the utility’s most recent secondary water quality standards test results. Within the past five years, the Utility received four complaints⁵ concerning grey discolored water. The Utility responded to these complaints stating the discoloration was due to a “slight increase in chlorine residual in the system.” Test results provided by Aquarina, dated October 24, 2018, indicated that the Utility is meeting the DEP’s secondary standards.⁶

Staff also reviewed complaints received by the Commission and the DEP for the same five-year period. None of the complaints received by the Commission addressed the DEP’s secondary water quality standards. However, the DEP received two complaints in February 2016 addressing secondary standards. The first of these complaints concerned cloudy water, which Aquarina stated was caused by air in the water. The second complaint raised concerns which were addressed in the prior rate case. The DEP conducted a sanitary survey on November 1, 2019, and determined the system to be in compliance with the DEP’s rules and regulations.

As addressed in the Case Background, a customer meeting was scheduled for March 26, 2020, in Melbourne Beach, Florida, but was cancelled due to travel restrictions implemented by the DMS. Customers received instructions on how to provide comments via letter, email, phone, fax, or through the Commission’s website. Of the eighteen customers that submitted comments, as of April 16, 2020, sixteen expressed concern regarding the proposed rate increase and not water quality.

⁵ March 2019.

⁶ Document No. 03431-2019, p. 69.

Aquarina has provided the necessary information to comply with Rule 25-30.445(4)(o), F.A.C. Based on review of the information provided by the Utility, as well as supplemental information gathered throughout the course of this docket, staff does not believe any actions need to be taken with respect to secondary standards.

Rate Base

Since its last rate case, the Utility made capital improvements to its potable and non-potable water systems, as well as its wastewater system, and requested that they be included in rate base as a part of this proceeding. The plant additions, as well as recommended adjustments to accumulated depreciation, depreciation expense, non-used and useful (U&U), and taxes other than income (TOTI) are reflected below.⁷ As Aquarina no longer provides service to the golf course, staff believes an adjustment is necessary based upon what staff recommends is a “forced abandonment” of plant items dedicated solely to the golf course.⁸ Additionally, as a result of recommended changes to operating expenses, the Utility’s working capital allowance should be updated. Staff’s calculations are reflected below.

Plant Additions

Potable Water System

Aquarina provided an invoice in the amount of \$16,500 for replacement of the water treatment plant’s roof. The Utility stated the roof was in disrepair and needed to be replaced. In response to staff’s first data request,⁹ the Utility noted that the old roof was installed in 2004 and that flat asphalt roofs do not last long on the island. Staff recommends approval of the request and the resulting net addition is \$4,125 after retirement.

In the prior rate case, the Commission approved Aquarina’s request to replace its reverse osmosis (RO) water treatment equipment due to the age and unavailability of parts for its existing equipment. Prior to the installation of the new RO equipment in December 2018, the RO service pump required a repair in June 2017 and was subsequently replaced in October 2017. The Utility provided invoices for the repair of the pump and associated fittings, along with the invoice for the new pump. Staff believes the purchases were prudent and notes that these additions were not included in the prior rate case. The total requested was \$12,976, resulting in a net addition of \$6,121 after retirements.

Non-Potable Water System

The Utility provided invoices in the amount of \$26,013 for repairs and replacement of pumps that primarily serve the golf course operations. A review of the invoices shows the costs were incurred in 2017. Staff agrees these costs were prudent as the costs were incurred before the golf course discontinued service in August 2019. As discussed below, staff believes the plant additions dedicated solely to the golf course should be considered a forced abandonment and amortized. Staff believes the remaining purchases were prudent, resulting in a net addition of \$1,248 after retirements.

⁷ Aquarina’s U&U percentages were set in Order No. PSC 16-0583-PAA-WS, issued December 29, 2016, in Docket No. 20150010-WS, *In re: Application for staff-assisted rate case in Brevard County by Aquarina Utilities, Inc.*

⁸ The concept of forced abandonment is discussed in more detail below under a separate heading.

⁹ Document No. 04267-2019.

Wastewater System

The Utility submitted invoices totaling \$19,369 for repairs and replacements of two electrical panels, electrical equipment, and pump. These repairs were needed due to rust and corrosion. The Utility noted that the lift station is on a barrier island and is exposed to corrosive elements. Staff recommends the costs were prudent, resulting in a net addition of \$4,842 after retirements.

Plant Additions Summary

In total, staff is recommending a net increase of \$10,246 (\$4,125 + \$6,121) for potable water system additions, \$1,248 for non-potable water system additions, and \$4,842 for wastewater system additions. Staff notes the Utility submitted final invoices only for the requested additions. No other bids were obtained due to the limited availability of local vendors. The adjustments for the additions and associated retirements are reflected in Schedule No. 1-D. The non-potable water system additions are discussed in the Forced Abandonment section below.

Based on the recommended plant additions, staff believes the following corresponding adjustments should also be made, as seen in Table 1-1.

**Table 1-1
 Corresponding Adjustments**

System	Accumulated Depreciation	Depreciation Expense	Non-U&U	TOTI
Potable Water	\$18,233	\$349	(\$1,757)	\$134
Non-Potable Water	\$3,555	\$62	\$0	\$20
Wastewater	\$13,720	\$269	\$0	\$78

Staff's adjustments to accumulated depreciation and non-U&U are shown in Schedule No. 1-D, and adjustments for depreciation expense and TOTI are shown in Schedule No. 3-D. Staff notes that the recommended potable water TOTI balance of \$134 consists of two adjustments, an increase of \$165 to recognize additional property taxes, and a decrease of \$31 to recognize the application of non-U&U to TOTI.

Forced Abandonment

As discussed above, Aquarina requested \$10,384 in plant additions for the non-potable water system, of which \$1,248 staff has included as pro forma in the recommended rate base. While staff believes the remaining non-potable water additions were prudent at this time, they were associated exclusively with the golf course that the Utility is no longer serving. Staff believes the plant additions should be considered a forced abandonment as the Utility is no longer serving the golf course and the associated costs should be amortized as described below. Staff also believes adjustments are necessary to recognize additional depreciation as it has been two years since the plant additions were put into service. Staff has made an adjustment to reduce the plant additions by \$456, to account for an additional year of accumulated depreciation.

In response to staff's third data request, Aquarina stated that it reviewed its records and concluded that no additional plant items were dedicated solely to the golf course. As additional plant items cannot be attributed to the golf course, staff believes the total amount of plant to be used in the calculation of the loss on abandonment is \$8,679 (\$10,384 - \$1,248 - \$456).

Rule 25-30.433(10), F.A.C., prescribes the calculation for determining the appropriate amortization period of forced abandonment or the prudent retirement of plant assets prior to the end of their depreciable life. Staff has calculated the amortization period and expense as established in the rule. Staff recommends an annual amortization expense of \$774 over 11.21 years. To calculate the amortization period, staff divided the net book value of \$8,679 by the annual amortization expense of \$774. Staff's calculations are summarized in Table 1-2.

Table 1-2
Forced Abandonment

Net Book Value	<u>\$8,679</u>
Rate of Return	<u>3.66%</u>
Return on Net Book Value	\$318
Depreciation Expense	<u>\$456</u>
Annual Amortization Expense	<u>\$774</u>
Annual Amortization Period	<u>11.21 Years</u>

Working Capital Allowance

Working capital is defined as the short-term, investor-supplied funds that are necessary to meet operating expenses of the utility. Following the same methodology used in the last rate case, staff has calculated increases of \$122 for potable water, \$123 for non-potable water, and \$122 for wastewater. Based on the above, staff recommends a working capital allowance of \$15,661 for potable water, \$23,914 for non-potable water, and \$19,058 for wastewater.

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate rate base is \$249,211 for potable water, \$177,513 for non-potable water, and \$63,569 for wastewater. Rate base is shown on Schedule Nos. 1-A, 1-B, and 1-C, and the related adjustments are shown on Schedule No. 1-D.

Rate of Return

The capital structure used to determine the cost of capital in this docket is consistent with the capital structure used in the Utility's last rate case. Rule 25-30.445(4)(e), F.A.C., requires that the weighted average cost of capital be calculated based on the most recent 12-month period and include all the appropriate capital structure components. Staff used the equity cost rate of 10.55 percent from the Utility's last rate case. Staff notes that the capital structure reflects a negative retained earnings balance of \$505,064. In the Utility's last rate case, staff identified the existence of negative retained earnings and removed the negative balance from its calculations. Consistent

with the last rate case, staff has removed the negative retained earnings balance of \$505,064 for purposes of calculating the Utility's rate of return.

The Utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends a return on equity of 10.55 percent, with a range of 9.55 percent to 11.55 percent, and an overall rate of return of 3.66 percent. The return on equity and overall rate of return are shown on Schedule No. 2.

Operating Expenses

The Utility has requested recovery of rate case expense. Staff is also recommending an adjustment to TOTI. Staff's adjustments are discussed below.

Rate Case Expense

Aquarina initially submitted \$28,296 in rate case expense, with an annual amortization expense of \$7,074. In response to staff's second and fourth data requests, the Utility provided updated rate case expenses. The updates reflected actual expenses of \$4,841 for legal and \$3,518 for the Utility's rate case consultant through December 2019, with an additional \$10,443 in estimated rate case expense. The breakdown of fees is shown below.

**Table 1-3
 Rate Case Expense**

Expense	Utility Actual	Utility Estimated	Total Actual & Est. Rate Case Expense
Legal Services & Fees (Dean Mead)	\$4,841	\$9,163	\$14,004
Consulting Services (OCBOA)	3,518	380	3,898
Noticing	<u>0</u>	<u>900</u>	<u>900</u>
Total	<u>\$8,359</u>	<u>\$10,443</u>	<u>\$18,802</u>

Pursuant to Section 376.081(7), F.S., the Commission shall determine the reasonableness of rate case expense and shall disallow all expenses determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current case. Based on its review, staff believes adjustments are necessary to the Utility's proposed rate case expense.

Legal Services

Aquarina requested \$14,004 in legal fees and costs. This amount included a \$1,200 filing fee. The Utility provided invoices from Dean, Mead, Egerton, Bloodworth, Capouano & Bozarth, P.A. (Dean Mead) through December 2019, showing actual expenses associated with the rate case totaling \$4,841, and estimated an additional \$9,163 to complete. According to invoices, Dean Mead identified and billed the Utility \$532 related to the correction of deficiencies. The Commission has previously disallowed rate case expense associated with correcting deficiencies,

as it is duplicative of costs included in the filing fees.¹⁰ As such, staff recommends an adjustment to reduce actual legal fees by \$532.

By letter dated March 13, 2020, staff informed the Utility that its customer meeting had been cancelled.¹¹ Dean Mead's estimate to complete included six hours for travel time and attendance of the customer meeting. As the customer meeting was cancelled, staff believes that the six hours, or \$2,280 (\$380 x 6) should be removed from the estimate to complete. Dean Mead's estimate to complete also included 10 hours for travel time and attendance at the Commission Conference. The Commission Conference was changed to a teleconference format in response to COVID-19, and all public participation must be telephonic or by written comment. Staff believes four hours is a more appropriate amount of time to prepare and participate in the Commission Conference telephonically. As such, staff recommends reducing the request by an additional six hours, or \$2,280, to remove travel time. Additionally, Dean Mead included \$658 in travel expenses for the firm to attend the customer meeting and Commission Conference, as well as \$525 for Utility expenses to attend the Commission Conference. Staff believes these expenses should be removed as well. Accordingly, staff believes that the appropriate amount of legal fees is \$7,729, which represents a total reduction of \$6,275 (\$532 + \$2,280 + \$2,280 + \$658 + \$525).

Consulting Services

The Utility requested actual consulting services expense of \$3,518 for services rendered by OCBOA Consulting, LLC through December 2019, and an additional \$380 in estimated costs to complete. However, staff only received invoices supporting \$2,710 of actual costs incurred. As such, staff recommends a reduction of \$808 to actual consulting fees but believes the additional \$380 for the estimated costs to complete is appropriate. Accordingly, staff believes that the appropriate amount of consulting services fees is \$3,090.

Noticing Costs

Aquarina included estimated noticing costs of \$900 in its request for rate case expense. The Utility is required by Rule 25-30.446, F.A.C., to provide notices of the customer meeting and of final rates in this case to its customers. Staff is also recommending that the Utility be required to provide notice of the rate reduction to its customers when the rates are reduced to remove the amortized rate case expense. Staff has reviewed the Utility's estimated costs and believes the Utility's estimate is reasonable and should be approved. Accordingly, staff recommends that the appropriate amount of noticing costs is \$900.

Rate Case Expense Summary

Based on the above, staff believes that Aquarina's total rate case expense should be decreased by \$7,083 (\$6,275 + \$808). Given these adjustments, the appropriate rate case expense should be \$11,719 and should be amortized over a four-year period at \$2,930 per year, pursuant to Section 367.081(8), F.S., as the Utility did not request or justify a longer amortization period. Consistent with the last rate case, staff has allocated one-third of the annual rate case expense to each of the potable water, non-potable water, and wastewater. This results in annual rate case expense of

¹⁰ Order No. PSC-17-0091-FOF-SU, issued March 13, 2017, Docket No. 20150071-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*, p. 54.

¹¹ Document No. 01413-2020.

\$977 for potable water, non-potable water, and wastewater. A breakdown of rate case expense is shown on Table 1-4.

**Table 1-4
 Recommended Rate Case Expense**

Expense	Utility Actual and Est	Staff Adjustments	Recommended Total Rate Case Expense
Legal Services & Fees (Dean Mead)	\$14,004	(\$6,275)	\$7,729
Consulting Services (OCBOA)	3,898	(808)	3,090
Noticing	<u>900</u>	<u>0</u>	<u>900</u>
Total	<u>\$18,802</u>	<u>(\$7,083)</u>	<u>\$11,719</u>

Taxes Other Than Income

As discussed above, staff has recommended corresponding adjustments of \$134 for potable water, \$20 for non-potable water, and \$78 for wastewater related to an increase of property taxes for pro forma plant. In addition to these adjustments staff recommends further adjustments to regulatory assessment fees (RAFs) to reflect the changes in revenue as discussed below. As such, staff recommends that RAFs be increased by \$115 for potable water, \$95 for non-potable water, and \$62 for wastewater, to reflect RAFs of 4.5 percent on the change in revenues. Based on these adjustments, staff recommends TOTI expenses of \$21,205 for potable water, \$26,026 for non-potable water, and \$23,072 wastewater.

Operating Expense Summary

Staff's recommended adjustments result in operating expenses of \$159,246 for potable water, \$242,394 for non-potable water, and \$172,015 for wastewater. Operating expenses are shown on Schedule Nos. 3-A, 3-B, and 3-C. The adjustments are shown on Schedule No. 3-D.

Revenue Requirement

The appropriate revenue requirement for potable water is \$168,365, resulting in an annual increase of \$2,560, or 1.54 percent. The appropriate revenue requirement for non-potable water is \$248,891, resulting in an annual increase of \$2,108, or 0.85 percent.

Staff notes that in the last rate case the operating ratio methodology was applied to the wastewater system. Aquarina was granted an increase of \$10,000. Commission practice at the time was to allow an operating margin of 10 percent, but capped increases to \$10,000. Consistent with that decision, staff has calculated a revenue requirement of \$182,016 for wastewater, resulting in an annual increase of \$1,387, or 0.77 percent. Staff's revenue requirement calculations are shown in Table 1-5, Table 1-6, and Table 1-7.

**Table 1-5
 Potable Water Revenue Requirement**

Adjusted Rate Base	\$249,211
Rate of Return	<u>x 3.66%</u>
Return on Rate Base	\$9,119
Adjusted O&M Expense	125,287
Net Depreciation Expense	12,754
Taxes Other Than Income	<u>21,205</u>
Revenue Requirement	\$168,365
Less Adjusted Test Year Revenues	<u>165,805</u>
Annual Increase	<u>\$2,560</u>
Percent Increase	<u>1.54%</u>

**Table 1-6
 Non-Potable Water Revenue Requirement**

Adjusted Rate Base	\$177,513
Rate of Return	<u>x 3.66%</u>
Return on Rate Base	\$6,497
Adjusted O&M Expense	191,309
Net Depreciation Expense	24,285
Amortization	774
Taxes Other Than Income	<u>26,026</u>
Revenue Requirement	\$248,891
Less Adjusted Test Year Revenues	<u>246,783</u>
Annual Increase	<u>\$2,108</u>
Percent Increase	<u>0.85%</u>

Table 1-7
Wastewater Revenue Requirement

Adjusted O&M	\$152,466
Operating Margin (%)	<u>x 6.56%</u>
Operating Margin (\$10,000 Cap)	\$10,000
Adjusted O&M Expense	152,466
Net Depreciation Expense	(3,523)
Taxes Other Than Income	<u>23,072</u>
Revenue Requirement	\$182,016
Less Adjusted Test Year Revenues	<u>180,628</u>
Annual Increase	<u>\$1,387</u>
Percent Increase	<u>0.77%</u>

Issue 2: What are the appropriate water and wastewater rates?

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

Staff Analysis:

Non-Potable Water Rates

The Utility's non-potable system provides water for irrigation as well as for hydrants located throughout the Utility's service area. In its 2015 rate case, the Utility was concerned that the non-potable water rates were set too high such that it would contribute to customers like the golf course, as well as other large users, seeking an alternative water supply for irrigation. In addition, the Utility indicated that the Commission-approved non-potable water rates for irrigation, which are based on a separate revenue requirement, gave no consideration to the fact that the non-potable system provides water to fire hydrants. In 2019, the golf course constructed its own source of water supply for irrigation and disconnected from the Utility's non-potable water system. Because the fire protection benefits all customers, the Utility indicated that some of the non-potable water revenues should be shifted to the other services. The Utility is seeking to recover lost non-potable water revenues due to the loss of the golf course irrigation customer.

Staff recognizes the additional burden that will be placed on the remaining non-potable water customers due to the loss of the golf course as a customer. Staff also recognizes the Utility's ongoing concern about the level of non-potable water rates. As discussed previously, the non-potable water system is also the fire flow system. The Commission determined in prior dockets that the non-potable water distribution system is first and foremost a fire protection system and benefits all customers.¹² If customers were to continue leaving the non-potable water system and find other irrigation sources, then the purpose of the non-potable water system would be just for fire flow and the cost would be ultimately borne by the general body of ratepayers.

Staff believes it is important to find a balance in terms of cost recovery for the non-potable water system. Because the system functions also as fire protection and benefits the general body of ratepayers, staff believes it is appropriate to allocate a portion of the non-potable water revenue requirement to the other services. In addition, the non-potable water rates should be restructured to account for the loss of the golf course and associated billing determinants.

Staff's recommended non-potable water revenue requirement is \$248,891, which is an incremental increase above the Phase II revenue requirement approved in the Utility's last rate

¹² Order Nos. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 20021228-WS, *In re: Application for staff-assisted rate case by Service Management Systems, Inc.*, p. 20; and PSC-95-1417-FOF-WS, issued November 21, 1995, in Docket No. 19941234-WS, *In re: Application for staff-assisted rate case in Brevard County by Aquarina Developments, Inc.*, p. 22.

case. The incremental increase represents pro forma items and rate case expense for the instant docket. However, subsequent to approval of the Phase II revenue requirement, the Utility had a price index increase in 2018 for the non-potable water system, which is not accounted for in the recommended revenue requirement. In past dockets relating to rate restructuring because of a loss in billing determinants, the Commission approved restructured rates that allowed the Utility to recover a prior approved revenue requirement and any additional revenue increases as a result of an index or pass-through adjustment.¹³ The incremental increase for the 2018 price index was \$2,457. Therefore, the non-potable water revenue requirement for purposes of restructuring the non-potable water rates should be adjusted to \$251,348 (\$248,891 + \$2,457).

The appropriate billing determinants for restructuring the non-potable water rates are the 2019 billing determinants, which are 5,160 equivalent residential connections (based on the number of metered irrigation customers) and 86,496,944 gallons. Based on 2019 billing determinants, excluding the golf course, the existing rates, and 2019 miscellaneous revenues of \$769, staff determined non-potable water revenues to be \$194,852. This is \$56,496 (\$251,348 - \$194,852) less than the adjusted revenue requirement for restructuring the non-potable water rates. Staff believes the non-potable water rates should be restructured with revenues of \$194,852, excluding miscellaneous revenues. The revenue difference of \$56,496 should be equally distributed between the potable water and wastewater services to recognize that the non-potable water system benefits all customers because of fire flow and to try to minimize any additional customer loss due to the level of non-potable water rates.

Potable Water and Wastewater Rates

As discussed above, staff's recommended revenue requirements are incremental increases to the Commission-approved Phase II revenue requirements. Subsequent to the implementation of Phase II rates, the Utility had a price index adjustment for the potable water and wastewater systems, which is not reflected in the Phase II revenue requirement calculations. As a result, staff believes the Phase II rates should be used as the basis for determining the incremental increase to be added to the Utility's current rates. Since the implementation of Phase I rates, the Utility's potable water system has been overearning and being netted against the wastewater system's revenues.

When there are overearnings for a water and wastewater system, it has been Commission practice to avoid decreasing water rates by netting the revenues of the water and wastewater systems if the customer bases are similar. Decreasing the potable water rates undermines conservation efforts. Due to the minimal difference between potable water and wastewater customers, the Commission approved netting the potable water overearnings with the wastewater system increase in order to avoid decreasing potable water rates. Therefore, for Phase I, the potable water rates remained unchanged. The netting was also done with the Phase II revenues since the potable water was still overearning, but not as much as with Phase I. When Phase II rates were designed, some of the wastewater revenues that were netted with the potable water system in Phase I were shifted back to the wastewater system.

¹³ Order Nos. PSC-17-0108-PAA-WU, issued March 27, 2017, in Docket No. 20160145-WU, *In re: Application for limited proceeding in St. Johns County, by Camachee Island Company, Inc. d/b/a Camachee Cove Yacht Harbor Utility.*; and PSC- 13-0647-PAA-WU, issued December 5, 2013, in Docket No. 20130155-WU, *In re: Application for limited proceeding increase in rates in Escambia county by Peoples Water Service Company of Florida, Inc.*

As discussed above, potable water and wastewater revenues should each be increased by revenues of \$28,248 (\$56,496/2) to reflect the reallocation of non-potable water revenues. Staff's recommended revenue requirement of \$168,365 for potable water is less than the revenues of \$170,848 generated by the Phase II potable water rates. With the reallocation of non-potable water revenues, the potable water system has an increase of \$25,765 (\$28,248 - \$2,483) and does not show an overearnings or a need for netting revenues with the wastewater system. For the wastewater system, the increase should be \$34,679, which is the \$5,043 returned from potable water system, the \$1,387 for the limited proceeding incremental increase, and the \$28,248 allocated from the non-potable water system. Table 2-1 reflects the revenues staff used for designing rates.

**Table 2-1
 Commission-Approved Phase II and
 Staff Recommended Revenue Requirements for Rate Setting**

		Phase II		Limited Proceeding	
		Potable Water	Wastewater	Potable Water	Wastewater
A	Commission-Approved/Staff Recommended Revenue Requirement	\$165,805	\$180,628	\$168,365	\$182,016
B	Revenue generated from rates	\$170,848	\$167,070	\$170,848	\$175,585
C	Revenue Increase/Decrease (A - B)	(\$5,043)	\$13,558	(\$2,483)	\$6,431
D	Netting	\$5,043	(\$5,043)	--	--
E	Reallocation of Non-Potable Revenues	--	--	\$28,248	\$28,248
F	Total Revenue Increase (C + E)	\$0	\$8,515	\$25,765	\$34,679
G	Percent Increase to Rates (F / B)	0%	5.10%	15.08%	19.75%
H	Revenue Requirement for Rate Setting (B + F)	\$170,848	\$175,585	\$196,613	\$210,264

For the limited proceeding, an allocation of non-potable water revenues to the potable water system results in an increase of 15.08 percent for the potable water system. The revenue increase of \$25,765, excluding miscellaneous revenues of \$3,413, results in 15.39 percent increase. For wastewater rates, an allocation of non-potable water revenues and return of revenues from potable water system results in an increase of 19.75 percent for the wastewater system. The revenue increase of \$34,679, excluding miscellaneous revenues of \$655, results in a 19.82 percent increase. The 15.39 percent increase for potable water and the 19.82 percent for wastewater should be applied as an across-the-board increase to the Phase II rates (excluding the 2018 index).

Subsequent to the implementation of the Phase II rates, the Utility was approved for a 2019 price index increase effective August 9, 2019. In order to maintain the price index increase, staff recommends that the incremental difference between the Phase II (excluding the 2018 index) and limited proceeding rates be added to the Utility's current potable water and wastewater rates.

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

Issue 3: What are the appropriate initial customer deposits for Aquarina's water and wastewater service?

Recommendation: The appropriate initial customer deposits for the residential 5/8 inch x 3/4 inch meter should be \$82 for water and \$87 for wastewater. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved initial customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding. (Bruce)

Staff Analysis: Rule 25-30.311, F.A.C., provides the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. An initial customer deposit ensures that the cost of providing service is recovered from the cost causer. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.¹⁴ Currently, the Utility's initial deposit for residential water is \$68 for the 5/8 inch x 3/4 inch meter size and two times the estimated bill for the general service meter sizes. For wastewater, the Utility's initial deposit for residential wastewater is \$62 for the 5/8 inch x 3/4 inch meter size and two times the estimated bill for the general service meter sizes. However, these amounts do not cover two months' average bills based on staff's recommended rates. The Utility's average monthly residential water usage is 2,236 gallons per customer. The Utility's average monthly residential wastewater usage is 2,217 gallons per customer. Therefore, the average residential monthly bill based on staff's recommended rates is approximately \$41.20 for water and \$43.65 for wastewater.

Staff recommends the appropriate initial customer deposits for the residential 5/8 inch x 3/4 inch meter should be \$82 for water and \$87 for wastewater. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved initial customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding.

¹⁴ Order Nos. 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.* and PSC-17-0113-PAA-WS, issued March 28, 2017, in Docket No. 20130105-WS, *In re: Application for certificates to provide water and wastewater service in Hendry and Collier Counties, by Consolidated Services of Hendry & Collier, LLC.*

Issue 4: What is the appropriate amount by which rates should be reduced to reflect the removal of the amortized rate case expense?

Recommendation: The water rates should be reduced, as shown on Schedule Nos. 4-A and 4-B, to remove the annual amortization of rate case expense grossed-up for RAFs. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. Aquarina should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Procedural Agency Action) (Bruce, Sowards)

Staff Analysis: The water rates should be reduced, as shown on Schedule Nos. 4-A and 4-B, to remove the annual amortization of rate case expense grossed-up for RAFs. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period, pursuant to Section 367.081(8), F.S. Aquarina should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 5: Should the recommended rates be approved for Aquarina on a temporary basis, subject to refund, in the event of a protest filed by a substantially affected person or party?

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

Staff Analysis: This recommendation proposes an increase in rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.081(2), F.S., which requires the Commission to "fix rates which are just, reasonable, compensatory, and not unfairly discriminatory," and consistent with prior Commission orders,¹⁵ in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

The Utility should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$4,915. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

¹⁵ Order No. PSC-16-0505-PAA-WS, issued October 31, 2016, in Docket No. 20150269-WS, *In re: Application for a limited proceeding water rate increase in Marion, Pasco, and Seminole Counties, by Utilities, Inc. of Florida*; Order No. PSC-09-0651-PAA-SU, issued September 28, 2009, in Docket No. 20090121-SU, *In re: Application for limited proceeding rate increase in Seminole County by Alafaya Utilities, Inc.*; and Order No. PSC-10-0682-PAA-WS, issued November 15, 2010, in Docket No. 20090349-WS, *In re: Application for limited proceeding rate increase in Polk County by Cypress Lakes Utilities, Inc.*

If the Utility chooses a bond as security, the bond should contain wording to the effect that it will be terminated only under the following conditions:

1. The Commission approves the rate increase; or,
2. If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

If the utility chooses a letter of credit as a security, it should contain the following conditions:

1. The letter of credit is irrevocable for the period it is in effect.
2. The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

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

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

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

The Utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the 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 should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 6: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, 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. Once these actions are complete, this docket should be closed administratively. (Murphy)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively.

AQUARINA UTILITIES, INC.		SCHEDULE NO. 1-A		
SCHEDULE OF POTABLE WATER RATE BASE		DOCKET NO. 20190080-WS		
DESCRIPTION	BALANCE PER 2015 SARC Phase II	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF	
1. UTILITY PLANT IN SERVICE	\$1,462,628	\$10,246	\$1,472,874	
2. LAND & LAND RIGHTS	37,582	0	37,582	
3. NON-USED AND USEFUL COMPONENT	(68,910)	(1,757)	(70,667)	
4. ACCUMULATED DEPRECIATION	(1,035,947)	18,233	(1,017,714)	
5. CIAC	(337,868)	0	(337,868)	
6. AMORTIZATION OF CIAC	149,343	0	149,343	
7. WORKING CAPITAL ALLOWANCE	<u>15,539</u>	<u>122</u>	<u>15,661</u>	
8. WATER RATE BASE	<u>\$222,367</u>	<u>\$26,844</u>	<u>\$249,211</u>	

AQUARINA UTILITIES, INC.		SCHEDULE NO. 1-B		
SCHEDULE OF NON-POTABLE WATER RATE BASE		DOCKET NO. 20190080-WS		
DESCRIPTION	BALANCE PER 2015 SARC Phase II	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF	
1. UTILITY PLANT IN SERVICE	\$945,345	\$1,248	\$946,593	
2. LAND & LAND RIGHTS	24,498	0	24,498	
3. NON-USED AND USEFUL COMPONENT	0	0	0	
4. ACCUMULATED DEPRECIATION	(805,374)	3,555	(801,818)	
5. CIAC	(35,785)	0	(35,785)	
6. AMORTIZATION OF CIAC	20,111	0	20,111	
7. WORKING CAPITAL ALLOWANCE	<u>23,791</u>	<u>123</u>	<u>23,914</u>	
8. WATER RATE BASE	<u>\$172,587</u>	<u>\$4,926</u>	<u>\$177,513</u>	

AQUARINA UTILITIES, INC.		SCHEDULE NO. 1-C		
SCHEDULE OF WASTEWATER RATE BASE		DOCKET NO. 20190080-WS		
DESCRIPTION	BALANCE PER 2015 SARC Phase II	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF	
1. UTILITY PLANT IN SERVICE	\$1,625,299	\$4,842	\$1,630,142	
2. LAND & LAND RIGHTS	33,680	0	33,680	
3. NON-USED AND USEFUL COMPONENT	(65,542)	0	(65,542)	
4. ACCUMULATED DEPRECIATION	(1,320,255)	13,720	(1,306,535)	
5. CIAC	(597,343)	0	(597,343)	
6. AMORTIZATION OF CIAC	350,109	0	350,109	
7. WORKING CAPITAL ALLOWANCE	<u>18,936</u>	<u>122</u>	<u>19,058</u>	
8. WASTEWATER RATE BASE	<u>\$44,885</u>	<u>\$18,684</u>	<u>\$63,569</u>	

AQUARINA UTILITIES, INC.		SCHEDULE NO. 1-D		
ADJUSTMENTS TO RATE BASE		DOCKET NO. 20190080-WS		
		POTABLE WATER	NON- POTABLE WATER	WASTEWATER
<u>UTILITY PLANT IN SERVICE</u>				
1.	To reflect appropriate pro forma plant additions.	\$29,476	\$4,990	\$19,369
2.	To reflect retirement associated with pro forma plant additions.	<u>(19,230)</u>	<u>(3,743)</u>	<u>(14,527)</u>
	Total	<u>\$10,246</u>	<u>\$1,248</u>	<u>\$4,842</u>
<u>ACCUMULATED DEPRECIATION</u>				
1.	To reflect pro forma plant additions.	(\$997)	(\$187)	(\$807)
2.	To reflect retirement associated with pro forma plant additions.	<u>19,230</u>	<u>3,743</u>	<u>14,527</u>
	Total	<u>\$18,233</u>	<u>\$3,555</u>	<u>\$13,720</u>
<u>NON-USED AND USEFUL</u>				
1.	To reflect the appropriate Non-U&U UPIS.	(\$1,947)	\$0	\$0
2.	To reflect the appropriate Non-U&U Accumulated Depreciation.	<u>189</u>	<u>0</u>	<u>0</u>
	Total	<u>(\$1,757)</u>	<u>\$0</u>	<u>\$0</u>
<u>WORKING CAPITAL ALLOWANCE</u>				
	To reflect 1/8 of test year O & M expenses.	<u>\$122</u>	<u>\$123</u>	<u>\$122</u>

AQUARINA UTILITIES, INC.							SCHEDULE NO. 2		
SCHEDULE OF CAPITAL STRUCTURE							DOCKET NO. 20190080-WS		
CAPITAL COMPONENT	PER UTILITY	STAFF ADJUSTMENTS	TEST YEAR BALANCE PER STAFF	ADJUSTMENTS TO RECONCILE TO RATE BASE	RECONCILED CAPITAL STRUCTURE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON STOCK	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
2. CAPITAL STOCK	0	0	0	0	0	0.00%	0.00%	0.00%	
3. RETAINED EARNINGS	0	0	0	0	0	0.00%	0.00%	0.00%	
4. OTHER PAID IN CAPITAL	0	0	0	0	0	0.00%	0.00%	0.00%	
5. OTHER COMMON EQUITY	<u>(505,064)</u>	<u>505,064</u>	<u>0</u>	<u>0</u>	<u>0</u>	0.00%	10.55%	0.00%	
TOTAL COMMON EQUITY	<u>(\$505,064)</u>	<u>\$505,064</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	0.00%	10.55%	0.00%	
6. LONG-TERM DEBT	\$446,751	\$0	\$446,751	\$43,381	\$490,132	99.97%	3.66%	3.66%	
7. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%	
8. PREFERRED STOCK	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
TOTAL DEBT	\$446,751	\$0	\$446,751	\$43,381	\$490,132	99.97%	3.66%	3.66%	
9. CUSTOMER DEPOSITS	<u>161</u>	<u>0</u>	<u>161</u>	<u>0</u>	<u>161</u>	<u>0.03%</u>	2.00%	<u>0.00%</u>	
10. TOTAL	<u>(\$58,152)</u>	<u>\$505,064</u>	<u>\$446,912</u>	<u>\$43,381</u>	<u>\$490,293</u>	<u>100.00%</u>		<u>3.66%</u>	
RANGE OF REASONABLENESS						LOW	HIGH		
RETURN ON EQUITY						<u>9.55%</u>	<u>11.55%</u>		
OVERALL RATE OF RETURN						<u>3.66%</u>	<u>3.66%</u>		

AQUARINA UTILITIES, INC.		SCHEDULE NO. 3-A				
SCHEDULE OF POTABLE WATER OPERATING INCOME		DOCKET NO. 20190080-WS				
	APPROVED IN 2015 SARC Phase II	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$165,805</u>	<u>\$0</u>	<u>\$165,805</u>	<u>\$2,560</u> 1.54%	<u>\$168,365</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$124,310	\$977	\$125,287	\$0	\$125,287	
3. DEPRECIATION	12,405	349	12,754	0	12,754	
4. AMORTIZATION	0	0	0	0	0	
5. TAXES OTHER THAN INCOME	20,956	134	21,090	115	21,205	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$157,670</u>	<u>\$1,461</u>	<u>\$159,130</u>	<u>\$115</u>	<u>\$159,246</u>	
8. OPERATING INCOME	<u>\$8,135</u>		<u>\$6,674</u>		<u>\$9,119</u>	
9. WATER RATE BASE	<u>\$222,367</u>		<u>\$249,211</u>		<u>\$249,211</u>	
10. RATE OF RETURN	<u>3.66%</u>				<u>3.66%</u>	

AQUARINA UTILITIES, INC.		SCHEDULE NO. 3-B				
SCHEDULE OF NON-POTABLE WATER OPERATING INCOME		DOCKET NO. 20190080-WS				
	APPROVED IN 2015 SARC Phase II	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$246,783</u>	<u>\$0</u>	<u>\$246,783</u>	<u>\$2,108</u> 0.85%	<u>\$248,891</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$190,332	\$977	\$191,309	\$0	\$191,309	
3. DEPRECIATION	24,222	62	24,285	0	24,285	
4. AMORTIZATION	0	774	774	0	774	
5. TAXES OTHER THAN INCOME	25,911	20	25,931	95	26,026	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$240,466</u>	<u>\$1,834</u>	<u>\$242,299</u>	<u>\$95</u>	<u>\$242,394</u>	
8. OPERATING INCOME	<u>\$6,317</u>		<u>\$4,483</u>		<u>\$6,497</u>	
9. WATER RATE BASE	<u>\$172,587</u>		<u>\$177,513</u>		<u>\$177,513</u>	
10. RATE OF RETURN	<u>3.66%</u>				<u>3.66%</u>	

AQUARINA UTILITIES, INC.		SCHEDULE NO. 3-C				
SCHEDULE OF WASTEWATER OPERATING INCOME		DOCKET NO. 20190080-WS				
	APPROVED IN 2015 SARC Phase II	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$180,628</u>	<u>\$0</u>	<u>\$180,628</u>	<u>\$1,387</u> 0.77%	<u>\$182,016</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$151,489	\$977	\$152,466	\$0	\$152,466	
3. DEPRECIATION (NET)	(3,792)	269	(3,523)	0	(3,523)	
4. AMORTIZATION	0	0	0	0	0	
5. TAXES OTHER THAN INCOME	22,932	78	23,010	62	23,072	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$170,628</u>	<u>\$1,324</u>	<u>\$171,953</u>	<u>\$62</u>	<u>\$172,015</u>	
8. OPERATING INCOME	<u>\$10,000</u>		<u>\$8,676</u>		<u>\$10,000</u>	
9. WASTEWATER OPERATING EXPENSES	<u>\$151,489</u>		<u>\$63,569</u>		<u>\$152,466</u>	
10. OPERATING MARGIN	<u>10.00%</u>		<u>13.65%</u>		<u>6.56%</u>	

AQUARINA UTILITIES, INC.		Schedule No. 3-D		
ADJUSTMENTS TO OPERATING INCOME		DOCKET NO. 20190080-WS		
	<u>WATER</u>	<u>NP WATER</u>	<u>WASTEWATER</u>	
OPERATION AND MAINTENANCE EXPENSES				
Regulatory Commission Expense (665/765)				
To reflect appropriate amortized rate case expense.	<u>\$977</u>	<u>\$977</u>	<u>\$977</u>	
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$977</u>	<u>\$977</u>	<u>\$977</u>	
DEPRECIATION EXPENSE				
1. To reflect net depreciation expense associated with pro forma plant additions.	\$431	\$62	\$269	
2. To reflect the appropriate Non-U&U	<u>(82)</u>	<u>0</u>	<u>0</u>	
Total	<u>\$349</u>	<u>\$62</u>	<u>\$269</u>	
AMORTIZATION EXPENSE				
1. To reflect loss on early abandonment	<u>\$0</u>	<u>\$774</u>	<u>\$0</u>	
TAXES OTHER THAN INCOME				
1. To reflect appropriate taxes associated with pro forma plant additions.	\$165	\$20	\$78	
2. To reflect the appropriate Non-U&U	<u>(31)</u>	<u>0</u>	<u>0</u>	
Total	<u>\$134</u>	<u>\$20</u>	<u>\$78</u>	

AQUARINA UTILITIES, INC.		SCHEDULE NO. 4-A				
MONTHLY WATER RATES		DOCKET NO. 20190080-WS				
	PHASE II RATES (1)	UTILITY CURRENT RATES	UTILITY REQUESTED FINAL	INCREMENTAL INCREASE (2)	STAFF RECOMMENDED RATES (3)	FOUR YEAR RATE REDUCTION
	[A]	[B]		[C]	[D]	
<u>Residential and General Service</u>						
Base Facility Charge by Meter Size						
5/8" x 3/4"	\$19.16	\$19.80	\$29.97	\$2.95	\$22.75	\$0.12
3/4"	\$28.74	\$29.70	\$44.95	\$5.39	\$34.13	\$0.18
1"	\$47.90	\$49.50	\$74.92	\$8.98	\$56.88	\$0.30
1-1/2"	\$95.79	\$99.00	\$149.84	\$17.96	\$113.75	\$0.60
2"	\$153.27	\$158.40	\$239.74	\$28.73	\$182.00	\$0.96
3"	\$306.55	\$316.80	\$479.49	\$57.45	\$364.00	\$1.92
4"	\$478.96	\$495.00	\$749.20	\$89.79	\$568.75	\$3.00
6"	\$957.93	\$990.00	\$1,498.40	\$179.57	\$1,137.50	\$6.00
Charge per 1,000 gallons - Residential and General S	\$6.95	\$7.18	\$10.87	\$1.07	\$8.25	\$0.04
<u>Irrigation Service - Non-Potable</u>						
Base Facility Charge by Meter Size						
5/8" x 3/4"	\$13.86	\$14.24	\$11.07	N/A	\$11.28	\$0.06
3/4"	\$20.79	\$21.36	\$16.61	N/A	\$16.92	\$0.09
1"	\$34.65	\$35.60	\$27.68	N/A	\$28.20	\$0.15
1-1/2"	\$69.30	\$71.20	\$55.35	N/A	\$56.40	\$0.30
2"	\$110.88	\$113.92	\$88.56	N/A	\$90.24	\$0.48
3"	\$221.76	\$227.84	\$193.73	N/A	\$197.40	\$1.05
4"	\$346.50	\$356.00	\$332.10	N/A	\$282.00	\$1.49
6"	\$693.00	\$712.00	\$691.88	N/A	\$564.00	\$2.99
8"	\$1,108.80	\$1,139.20	\$994.30	N/A	\$1,015.20	\$5.38
Charge per 1,000 gallons - Irrigation Service	\$1.38	\$1.42	\$0.89	N/A	\$1.57	\$0.01
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>						
2,000 Gallons	\$33.06	\$34.16	\$51.71		\$39.25	
6,000 Gallons	\$60.86	\$62.88	\$95.19		\$72.25	
8,000 Gallons	\$74.76	\$77.24	\$116.93		\$88.75	
1) Since the basis of the limited proceeding increase is the Phase II revenue requirement from the Utility's last rate case, the Phase II rates, excluding the 2018 price index should be the basis in determining the appropriate incremental increase to potable rates.						
2) C = A x 15.39						
3) The incremental increase between Phase II and limited proceeding has been added to the utility's current rates, which are the result of a price index effective August 4, 2019. (D = B+C).						

AQUARINA UTILITIES, INC.						SCHEDULE NO. 4-B	
MONTHLY WASTEWATER RATES						DOCKET NO. 20190080-WS	
	PHASE II RATES (1)	UTILITY CURRENT RATES	UTILITY REQUESTED FINAL	INCREMENTAL INCREASE (2)	STAFF RECOMMENDED RATES (3)	FOUR YEAR RATE REDUCTION	
	[A]	[B]		[C]	[D]		
<u>Residential</u>							
Base Facility Charge - All Meter Sizes	\$24.00	\$24.75	\$24.75	\$4.76	\$29.51	\$0.14	
Charge Per 1,000 gallons 8,000 gallon cap	\$5.19	\$5.35	\$5.35	\$1.03	\$6.38	\$0.03	
Flat Rate Service	\$37.61	\$38.79	\$38.79	\$7.45	\$46.24	\$0.23	
<u>General Service</u>							
Base Facility Charge by Meter Sizes							
5/8" x 3/4"	\$24.00	\$24.75	\$24.75	\$4.76	\$29.51	\$0.14	
3/4"	\$36.01	\$37.13	\$37.13	\$7.14	\$44.27	\$0.21	
1"	\$60.01	\$61.88	\$61.88	\$11.90	\$73.78	\$0.35	
1-1/2"	\$120.00	\$123.75	\$123.75	\$23.80	\$147.55	\$0.70	
2"	\$192.00	\$198.00	\$198.00	\$38.08	\$236.08	\$1.12	
3"	\$384.00	\$396.00	\$396.00	\$76.16	\$472.16	\$2.24	
4"	\$600.00	\$618.75	\$618.75	\$119.00	\$737.75	\$3.50	
6"	\$1,200.00	\$1,237.50	\$1,237.50	\$238.00	\$1,475.50	\$7.00	
Charge per 1,000 gallons - General Service	\$6.24	\$6.44	\$6.44	\$1.24	\$7.68	\$0.04	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>							
2,000 Gallons	\$34.38	\$35.45	\$35.45		\$42.27		
6,000 Gallons	\$55.14	\$56.85	\$56.85		\$67.79		
8,000 Gallons	\$65.52	\$67.55	\$67.55		\$80.55		
(1) Since the basis of the limited proceeding increase is the Phase II revenue requirement from the Utility's last rate case, the Phase II rates, excluding the 2018 price index should be the basis in determining the appropriate incremental increase for wastewater rates.							
(2) C = A x 19.82 percent							
(3) The incremental increase between Phase II and limited proceeding has been added to the utility's current rates, which are the result of a price index effective August 4, 2019. (D = B+C).							

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: April 23, 2020

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Engineering (Lewis, Johnson, Knoblauch, Ramos) *TB*
Division of Accounting and Finance (Norris, Thurmond) *AM*
Division of Economics (Bethea, Hudson) *JH*
Office of the General Counsel (Schrader) *JC*

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

AGENDA: 05/05/20 – Regular Agenda – Proposed Agency Action, Except for Issues 17, 18 and 19 - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Fay

CRITICAL DATES: 05/13/20 (5-Month Effective Date (PAA Rate Case))

SPECIAL INSTRUCTIONS: None

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Case Background

HC Waterworks, Inc. (HC or Utility) is a Class B utility providing water service to approximately 949 residential customers, 9 general service customers, and 1 private fire protection customer in the Leisure Lakes, Lake Josephine, and Sebring Lakes subdivisions in Highlands County. HC also provides wastewater service to 323 residential wastewater customers in the Leisure Lakes subdivision.¹ In the instant docket, the Utility is only requesting a rate increase for HC's water service, not the wastewater service. The service area is in the Southwest Florida Water Management District (SWFWMD) and is in a water use caution area.

By Order No. PSC-14-0314-PAA-WS, the Commission approved the transfer of Certificate Nos. 422-W and 359-S from Aqua Utilities Florida, Inc. (AUF) to HC.² Water rates were last established for the Utility in 2015.³ On October 15, 2019, HC filed its application for an increase in water rates. Accompanying the Utility's application were minimum filing requirement (MFRs) schedules required by Section 367.081, Florida Statutes (F.S.), and Rule 25-30.437, Florida Administrative Code (F.A.C.). The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and a test year ended June 30, 2019. The Utility was notified of deficiencies in the MFRs on November 12, 2019, and December 6, 2019. The deficiencies were cured and December 13, 2019, was established as the official filing date. In its 2019 Annual Report, HC reported total operating revenues of \$582,926 and a net operating income of \$106,946.

The Utility is requesting an increase to recover reasonable and prudent costs for providing service and a reasonable rate of return on its investments. These investments include: (1) a water main relocation project due to a road widening/realignment project required by Highlands County and Florida Department of Transportation (FDOT); (2) modifications to the Lake Josephine water treatment plant (WTP); and (3) modifications to the Leisure Lakes WTP. The upgrades to both WTPs were mandated by the Florida Department of Environmental Protection (DEP).

By Order No. PSC-2019-0547-PCO-WS, the Commission suspended final rates proposed by the Utility and approved interim rates to allow staff sufficient time to process this case.⁴ Staff conducted a customer meeting on February 20, 2020, in Sebring, Florida. Eighteen residential customers spoke at the meeting and approximately 35 residential customers were in attendance.

The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, 367.091, and 367.121, F.S.

¹Document No. 01811-2020, filed April 7, 2020.

²Order No. PSC-14-0314-PAA-WS, issued June 13, 2014, in Docket No. 20130171-WS, *In re: Application for approval of transfer of certain water and wastewater facilities and Certificate Nos. 422-W and 359-S of Aqua Utilities Florida, Inc. to HC Waterworks, Inc. in Highlands County.*

³Order No. PSC-15-0282-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.*

⁴Order No. PSC-2019-0547-PCO-WS, issued December 23, 2019, in Docket No. 20190166-WS, *In re: Application for increase in water rates in Highlands County by HC Waterworks, Inc.*

Discussion of Issues

Issue 1: Is the quality of service provided by HC Waterworks satisfactory?

Recommendation: No. While the Utility is in compliance with the DEP and customer complaints have declined overall since 2016, there are still many customer complaints on the pressure, color, and smell of the water provided by HC. Pursuant to Rule 25-30.433(1)(d), F.A.C., customer testimony, comments, and complaints shall be considered in the determination of the quality of service provided by the Utility. Therefore, the overall quality of service should be considered unsatisfactory due to the high number of customer complaints and the Utility's Return on Equity (ROE) should be reduced by 50 basis points. (Lewis, Johnson, Knoblauch)

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 analysis, outstanding citations, violations, and consent orders on file with the 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, and complaints shall also be considered.

Quality of Utility's Product

HC's water system consists of two independent water systems: the Leisure Lakes system and the Lake Josephine system. Previously, HC was composed of three water systems, but in October 2002, the Sebring Lakes system was interconnected with the Lake Josephine system. This connection was originally intended to only provide water to the Lake Josephine customers as necessary. However, due to system pressurization problems in the Lake Josephine water system, in 2010, the valve between the two systems was permanently opened. Since the permanent opening of the valve, the Lake Josephine and Sebring Lakes systems have been treated as one system by the DEP and the Commission; therefore, throughout this recommendation the Lake Josephine and Sebring Lakes systems are referred to as the Lake Josephine system.

In evaluating HC's 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.

Lake Josephine

As discussed in Order No. PSC-15-0282-PAA-WS, the previous owner attempted to address water quality issues primarily related to hydrogen sulfides. In 2012, the DEP approved the installation of AdEdge filtration systems at both the Lake Josephine and Leisure Lakes WTPs. However, the filters did not resolve the issues associated with disinfection byproducts reflected in the color, odor, and taste of the finished water. HC also instituted a flushing program, but it did not abate the problem either. On December 23, 2016, the DEP issued the Utility a permit to install packed tower aeration systems to remove hydrogen sulfides, in another effort to address HC's water quality issues.

On April 20, 2017, the DEP conducted a sanitary survey at the Lake Josephine WTP. On May 19, 2017, the DEP sent a warning letter to HC indicating the Utility was not in compliance with Rule 62-555.350(2), F.A.C., which states that the Utility shall maintain its necessary public water system components in good operating condition. HC was not in compliance with this rule since the manganese dioxide from its AdEdge filters was turning the potable water brown. The warning letter directed HC to arrange a meeting with the DEP within 15 days, to discuss the Sanitary Survey and the Utility's plans to resolve the manganese dioxide issue. It appears the DEP and the Utility came to an agreement, no enforcement action was taken, and the DEP closed its inquiry, on July 3, 2019. The DEP conducted a Sanitary Survey on January 29, 2020, at the Lake Josephine WTP. On March 30, 2020, the DEP issued its results and found two minor deficiencies: cracks in the pad at Well #1, and a protective screen was absent from the vent at Well #2. On April 6, 2020, the Utility indicated to staff that these deficiencies have been corrected.⁵

The DEP performed a chemical analysis at the Lake Josephine WTP on November 27, 2018, testing for compliance with all primary and secondary water standards. The WTP was deemed in compliance on December 17, 2018. On August 3, 2019, and November 19, 2019, partial chemical analyses were conducted and the WTP was again deemed in compliance both times. Full testing of primary and secondary water standards are performed every three years; therefore, the next scheduled analysis should be completed in 2021.

Leisure Lakes

The DEP conducted a Sanitary Survey on November 21, 2017, at the Leisure Lakes WTP. On January 18, 2018, the DEP issued the results and indicated the Utility was deficient with respect to Rule 62-555.350(2), F.A.C., and the Utility was cited for not keeping the WTP in good working condition. On October 1, 2018, the DEP executed a Consent Order against HC because of exceedances in the level of haloacetic acids, a primary water standard. Haloacetic acids are a type of chlorination disinfection by-product that are formed when the chlorine used to disinfect drinking water reacts with the naturally occurring organic matter in water. The Utility was required to make quarterly updates on its efforts to resolve the issue. On April 15, 2020, the DEP determined that all conditions of the Consent Order have been completed.

The DEP performed a chemical analysis at the Leisure Lakes WTP on October 3, 2018, testing for compliance with all primary and secondary water standards. The WTP was deemed in compliance on October 31, 2018. On August 18, 2019, a partial chemical analysis was conducted at the Leisure Lakes WTP which was deemed in compliance. Full testing of primary and secondary water standards are performed every three years; therefore, the next scheduled analysis should be completed in 2021.

⁵Document No. 01811-2020.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the complaints filed in the Commission's Consumer Activity Tracking System (CATS), with the DEP, and with the Utility from January 2015 through December 2019. Customer complaints are categorized as either billing or service issues. Customer complaints regarding billing disputes or meter readings are considered billing issues; whereas customer complaints regarding water outages, pressure, leaks, and quality are considered service issues. Table 1-1 provides the number of complaints by type, source, and year.

**Table 1-1
 Number of Complaints by Type, Source, and Year**

Year	CATS Records		DEP Records		Utility Records		Total
	Billing	Service	Billing	Service	Billing	Service	
2015	3	2	0	23	56	280	364
2016	5	1	0	22	87	393	508
2017	4	1	0	11	83	206	305
2018	5	3	0	41	94	192	335
2019	1	5	0	2	52	109	169
Total*	18	12	0	99	372	1,180	1,681

*A single customer complaint may be counted multiple times if it fits into multiple categories, was reported to multiple agencies, or was reported multiple times.

The complaints from the Commission's CATS records associated with billing issues are mainly attributable to improper billing disputes and the service issues are mainly attributable to water quality and pressure. The service issue complaints received by the DEP address the color, odor, and pressure of the water and peaked in 2018. The Utility received the most service related complaints compared to those received from CATS and the DEP. Of the 1,180 service related complaints received by the Utility, shown in Table 1-1, the majority were regarding water outages (448 complaints) and water quality (470 complaints). However, water outage complaints received by the Utility decreased annually from 167 complaints in 2015 to 41 complaints in 2019. The water quality complaints received by the Utility peaked in 2016 with 228 complaints and decreased to 35 complaints in 2019. In addition, customer comments provided at the customer meeting expressed frustration with the water quality and are discussed in greater detail below.

The noticed customer meeting was held on February 20, 2020, at the Highlands County Administration Building, in Sebring, Florida. Approximately 35 customers attended and 18 customers spoke. The majority of the 18 customers who spoke noted dark colored water around the time the Utility had to temporarily by-pass Lake Josephine's aeration treatment system to fix a hole in the ground storage tank on January 29, 2020. When the aeration system was by-passed, the hydrogen sulfides were not being removed. However, this problem was resolved once the aeration system came back online and extensive flushing was performed. Four customers also stated their experience with water pressure issues. Additionally, several customers stated they

recently experienced customer service issues when contacting the Utility for assistance. Specifically, one customer stated they were hung-up on while making a service request and two others stated their requests were not acted upon by the Utility. Five customers mentioned they had not received boil water notices (BWNs) in the past, but instead, only received notice rescinding the BWNs.⁶

Similar to the comments made at the customer meeting for the Utility's previous rate case in 2015, many customers at the 2020 customer meeting expressed their discontent with the water quality; specifically, odor and color. In addition, three customers noted skin irritation when bathing which they attribute to the chemicals in the water. The customers also described their water having particulates such as sand and clay. A few customers described the overall water quality as poor. Additionally, customers expressed that the cost of the water far exceeds its quality and they have no choice but to purchase bottled water, further stating the Utility should not receive a rate increase, but instead should be fined.

A representative from Highlands County attended the meeting and on April 7, 2020, a letter was filed with the Commission on behalf of the Highlands County Board of County Commissioners. The letter summarized the customer comments from the customer meeting and asked the Commission to investigate HC's water quality. Additionally, prior to filing its letter with the Commission, on February 18, 2019, a representative from Highlands County also filed a complaint with the DEP on behalf of several customers; the complaint included water contamination concerns related to finding bugs in the water and several customers developing stomach issues. Last, as of April 16, 2020, the Commission received comments from 12 customers which have been placed in the docket file. These customer comments also discuss poor water quality and objections to the overall rate increase.

After the customer meeting, the Utility reached out to the customers who spoke by sending the utility manager to each home on March 9 and 10, 2020.⁷ The Utility reported the majority of the customers were Lake Josephine customers that were upset with the water quality issues that arose during the time of the tank repair when the aeration system had to be temporarily bypassed, around January 29, 2020. The Utility further stated the majority of the customers were appreciative of the in-person visit and expressed that water quality has improved. The Utility filed a response to the Highlands County letter on April 9, 2020.⁸ In the letter, the Utility summarized its actions to address the water quality issues, including installation of the aeration treatment systems, and its follow up with customers after the customer meeting, as discussed above.

As discussed above, in the Utility's last rate case, HC attempted to correct its water quality issues. To address the foul odor of its water, HC converted its WTPs to chloramines for disinfection, and tests conducted subsequent to each conversion show that the conversions were effective in bringing the contaminant levels to well below the DEP standards. While the chloramine conversion provided the appropriate disinfection, the secondary considerations of

⁶The Utility's BWN is a door hanger that is hand-delivered to affected customers. Pursuant to Order No. PSC-15-0282-PAA-WS, while not foolproof, this is a method accepted by the DEP and it is generally an effective method for notifying customers.

⁷Document No. 01540-2020, filed March 2, 2020

⁸Document No. 01870-2020, filed April 10, 2020

taste and odor worsened for customers. The chloramines used to keep the disinfection byproduct levels low were less effective than free chlorine at disinfection. Since many Leisure Lakes customers are seasonal, the water in some areas of the service territory could become stagnant. This allowed the hydrogen sulfides to reform in the distribution system. Therefore, DEP issued a permit to add the packed aeration filters to both systems in 2016.

In HC's previous rate case, the Commission deemed the quality of service provided by the Utility as satisfactory. In that case, there were 111 complaints and majority of the complaints were regarding the overall rate increase. While the Utility's customer complaints have declined since 2016, the overall volume of complaints have increased since the Utility's last rate case, with the majority of complaints regarding the water quality. The appropriate agency, the DEP, has issued Consent Orders and has been working with the Utility to improve HC's water quality over the past several years, as discussed previously. HC is currently in compliance with the DEP and all of the Utility's system improvements have been in place since 2018. Additionally, staff reviewed HC's complaint records from CATS, the DEP, and the Utility from January 2020 through April 2020, and found additional complaints addressing the pressure, color, and smell of the water.

The Commission has discretion when determining the most appropriate action for a Utility whose quality of service is determined to be unsatisfactory. In past cases, the Commission has reduced ROE between 25 and 100 basis points.⁹ In addition, the Commission has reduced the utility president's or officer's salary.¹⁰ Staff recognizes the Utility is in compliance with the DEP and the overall customer complaints have been declining since 2016; however, due to the volume of customer complaints reviewed in the instant docket, staff recommends the Utility's quality of service be deemed unsatisfactory and its ROE reduced by 50 basis points.

Conclusion

While the Utility is in compliance with the DEP and customer complaints have declined overall since 2016, there are still many customer complaints on the pressure, color, and smell of the water provided by HC. Pursuant to Rule 25-30.433(1)(d), F.A.C., customer testimony, comments, or complaints shall be considered in the determination of the quality of service provided by the Utility. Therefore, the overall quality of service should be considered unsatisfactory due to customer complaints and the Utility's ROE should be reduced by 50 basis points.

⁹Order Nos. PSC-2011-0256-PAA-WS, issued June 13, 2011, in Docket. 20100330-WS, *In re: Application for increase in water/wastewater rates in Alachua, Brevard, DeSoto, Hardee, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.* and PSC-2017-0361-FOF-WS, issued September 25, 2017, 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.*

¹⁰Order Nos. PSC-2020-0087-PAA-WS, issued March 25, 2020, in Docket No. 20190125-WS, *In re: Application for staff-assisted rate case in Sumter County by the Woods Utility Company*; PSC-17-0209-PAA-WU, issued May 30, 2017, in Docket No. 20160065-WU, *In re: Application for increase in water rates in Charlotte County by Bocilla Utilities, Inc.* and PSC-15-0535-PAA-WU, issued November 19, 2015, in Docket No. 20140217-WU, *In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.*

Issue 2: Are the infrastructure and operating conditions of HC Waterworks, Inc.'s water systems in compliance with DEP regulations?

Recommendation: Yes. HC's water system infrastructure and operating conditions are currently in compliance with the DEP. (Johnson)

Staff Analysis: Rule 25-30.225(2), F.A.C., requires each water utility to maintain and operate its plant and facilities by employing qualified operators in accordance with the rules of the DEP. Rule 25-30.433(2), F.A.C., requires consideration of whether the infrastructure and operating conditions of the plant and facilities are in compliance with Rule 25-30.225, F.A.C. In making this determination, the Commission must consider testimony of the DEP and county health department officials, sanitary surveys, citations, violations, and consent orders issued to the utility, customer testimony, comments, and complaints, and utility testimony and responses to the aforementioned items.

Water System Operating Conditions

As discussed in Issue 1, HC's water system consists of two independent water systems: the Leisure Lakes system and the Lake Josephine system. Previously, HC was composed of three water systems, but in October 2002, the Sebring Lakes system was interconnected with the Lake Josephine system. The Lake Josephine and Sebring Lakes systems are treated as one system by the DEP and the Commission.

Lake Josephine

Lake Josephine's water system has a permitted design capacity of 600,000 gallons per day (gpd). The Lake Josephine water system has four wells with respective pumping capacities of 250, 400, 400, and 400 gallons per minute (gpm). This water system also has two ground storage tanks with capacities of 71,000 gallons and 15,000 gallons, along with a hydropneumatic storage tank with a 10,000-gallon capacity.

Staff reviewed the Lake Josephine sanitary surveys conducted by the DEP to determine the Utility's overall water facility compliance. A review of the inspection conducted on January 29, 2020, indicated that the water treatment facility had two minor compliance violations with the DEP's rules and regulations. The violations were a slight crack in the well pad and a protective screen was off a well. On April 6, 2020, the Utility indicated that these violations have been corrected.

Leisure Lakes

Leisure Lakes' water system has a permitted plant design capacity of 72,000 gpd. Leisure Lakes' water system has two wells with respective pumping capacities of 200 and 50 gpm, and a ground storage tank with a 50,000 gallons capacity.

HC and the DEP entered into a Consent Order, on October 1, 2018. This Consent Order required HC to install a packed tower aeration system/forced draft degasification tower and install a 4,000-gallon hydropneumatic (pressure) tank, among other modifications. The construction of the forced draft aeration system is the remedy for the non-compliance issues from 2017 that resulted in the October 1, 2018 Consent Order.

Staff reviewed Leisure Lakes' sanitary surveys conducted by the DEP to determine this system's overall water facility compliance. Also, staff received an email from the DEP, dated February 6, 2020, in which the DEP stated, "In regard to the Leisure Lakes Consent Order, all the corrective action items listed in the consent order have been completed." After completing items in the Consent Order, the Leisure Lakes WTP is currently in compliance with the DEP.

Conclusion

Staff believes that HC's water system infrastructure and operating conditions are currently in compliance with the DEP.

Issue 3: Should the audit adjustments to rate base to which the Utility agrees be made?

Recommendation: Yes. Plant should be decreased by \$7,383 and accumulated depreciation should be decreased by \$1,021. A corresponding adjustment should be made to decrease depreciation expense by \$261. (Thurmond)

Staff Analysis: Staff's audit report was filed on February 3, 2020. HC did not file a formal response to the audit because it did not oppose any of the findings. The audit adjustments are set forth in Table 3-1.

**Table 3-1
Audit Adjustments**

Audit Adjustment	Description	Plant	Accumulated Depreciation	Depreciation Expense
Finding 1	Commission-Ordered Adjustments	(\$7,383)	\$1,021	(\$261)

Source: Staff Audit Report

Issue 4: Should further adjustments be made to test year rate base?

Recommendation: Yes, plant should be increased by \$31,138 and accumulated depreciation should be decreased by \$7,707. A corresponding adjustment should be made to decrease depreciation expense by \$1,463. (Johnson, Knoblauch, Thurmond)

Staff Analysis: Staff has reviewed the test year rate base components along with support documentation. Staff believes further adjustments are necessary to HC's rate base, as discussed below.

Test Year Plant Additions

Highlands County and the FDOT initiated a road widening project, and notified HC that its water mains, in the right-of-way of Lake Josephine Drive, would need to be relocated. In its MFRs, HC requested \$516,589 for a water main relocation project within its Lake Josephine system. The Utility received two bids and the lowest bidder was selected. The selected bidder was also the contractor utilized by Highlands County; therefore, the contractor was already on-site. The water main relocation project was completed in January 2018, and the Utility provided invoices for an actual project cost of \$514,039, including engineering and permitting costs.

In its MFRs, HC recorded \$493,015 for a water quality improvement project at its Lake Josephine WTP required by the DEP. In May 2017, HC met with the DEP to discuss ongoing water quality issues with its Lake Josephine system. The Utility stated that the DEP had indicated it was prepared to issue a Consent Order if HC did not promptly address the hydrogen sulfide in the water. In September 2017, the DEP issued a construction permit to the Utility for the addition of a new treatment system at the Lake Josephine WTP. The new treatment system implemented was a packed tower aeration treatment system for removal of hydrogen sulfide. The Utility received three bids for the aeration project and the Utility chose the lowest bidder, U.S. Water Services Corporation (USWSC). The aeration tower was completed and placed into service in June 2018; having received partial clearance from the DEP. The DEP indicated that all portions of the project would need to be completed before granting full clearance. Some of the remaining portions of the project included the installation of a new hydropneumatic tank, chemical pumping skids, telemetry system, upgraded electrical controls, and bypass piping. These remaining portions were all completed in 2019. Based on the invoices provided by the Utility, the total cost for the project was \$547,980. The Utility stated that some expenditures had inadvertently not been included in its filing, but the correct project cost was \$547,980, which included engineering and permitting costs.¹¹

As both the Lake Josephine water main relocation project and the Lake Josephine water quality improvement project were required by governmental agencies, staff believes the projects were necessary. The Utility obtained multiple bids for each project, and invoices supporting the costs were reviewed by staff. Therefore, staff recommends approval of the Lake Josephine water main relocation project and the Lake Josephine water quality project at a cost of \$514,039 and \$547,980, respectively.

¹¹Document No. 01540-2020, filed on March 20, 2020.

Based on the additional amount and reclassification of plant additions in the test year, plant should be increased by \$31,138 and accumulated depreciation should be decreased by \$67. A corresponding adjustment should be made to decrease depreciation expense by \$74. Staff notes that the adjustments are based on using a half-year convention for test year additions and the use of a simple average rate base for the test year.¹²

Accumulated Depreciation

In the Utility's prior rate case, accumulated depreciation was removed for specific plant accounts without balances. One of these accounts, transportation, still maintained an accumulated depreciation balance in the current test year, along with depreciation expense. Consistent with the Commission's prior decision, staff reduced accumulated depreciation by \$7,640 to reflect the removal of this balance. Staff also made a corresponding adjustment to decrease depreciation expense by \$1,389.

Conclusion

Based on the adjustments above, plant should be increased by \$31,138, accumulated depreciation should be decreased by \$7,707 (\$67+\$7,640), and depreciation expense should be decreased by \$1,463 (\$74+\$1,389).

¹²A half-year convention method allows only half of the full-year depreciation in the first year the depreciable asset is placed into service, while the remaining balance is deducted in the final year of the depreciable asset's useful life.

Issue 5: What are the used and useful (U&U) percentages of HC Waterworks, Inc.'s water treatment plant (WTP), storage, and water distribution system?

Recommendation: HC's WTP should be considered 89.9 percent U&U, and its storage should be considered 100 percent U&U. The Utility's water distribution system should be considered 100 percent U&U. Additionally, staff recommends an adjustment of 2.23 percent be made to purchased power and chemical expenses for excessive unaccounted for water (EUW). To reflect the appropriate U&U percentages, staff recommends an increase to plant of \$35,793 and an increase to accumulated depreciation of \$7,419. Additionally, CIAC and accumulated amortization of CIAC should be decreased by \$1,944 and \$219, respectively. Collectively, these adjustments decrease the Utility's non-U&U component by \$30,098 (\$35,793 - \$7,419 + \$1,944 + \$219). Corresponding adjustments should be made to increase net depreciation expense by \$929. Further, a corresponding adjustment should be made to increase property tax by \$504. (Johnson, Knoblauch, Thurmond)

Staff Analysis: HC's three WTPs, and their associated storage and distribution systems, were initially owned and operated independently of one another. In their respective rates cases over the years, the Commission has assigned each system different U&U percentages. However, in its last rate case, the Commission combined the systems using a weighted average to obtain a single U&U percentage for the total system and staff utilized this same methodology in the instant docket.¹³

Used and Useful Percentages

Rule 25-30.4325, F.A.C., addresses the method by which the U&U of a water system is determined. HC's U&U percentages were last determined in Docket No. 20140158-WS. In that docket, the Commission determined the Utility's WTP to be 89.9 percent U&U and water storage to be 100 percent U&U. Additionally, the Utility's water distribution system should be considered 100 percent U&U, due to the lack of vacant lots. HC's water service area has had insignificant growth (less than one percent) for the past five years, and the Utility has not expanded its territory. Therefore, consistent with the Commission's previous decision, staff recommends the Utility's WTP be considered 89.9 percent and water storage be considered 100 percent U&U, and the Utility's water distribution system be considered 100 percent U&U.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., additionally provides factors to be considered in determining whether adjustments to operating expenses are necessary for EUW. Rule 25-30.425(1)(e), 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. 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.

According to HC's records, the Utility pumped a combined total of 53,224,000 gallons during the test year. In its MFRs, the Utility indicated that it purchased no water and estimated 12,944,919 gallons for other uses, including flushing for maintenance, filter backwash,

¹³Order No. PSC-15-0282-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.*

main/service line breaks or customer leak adjustments. In the Utility's response to staff's third data request, HC reported that there was an additional 585,000 gallons that were utilized for those other uses.¹⁴ According to staff's billing determinants, the Utility sold 33,186,000 gallons of water during the test year. Thus, staff calculated the total amount of unaccounted for water to be 6,508,081 gallons, or 12.23 percent (6,508,081/53,224,000), yielding an EUW of 2.23 percent. As such, staff recommends that a 2.23 percent adjustment to purchased power and chemical expenses be made for excessive EUW.

Conclusion

HC's WTP should be considered 89.9 percent U&U, and its storage should be considered 100 percent U&U. The Utility's water distribution system should be considered 100 percent U&U. Additionally, staff recommends an adjustment of 2.23 percent to be made to purchased power and chemical expenses for EUW.

In its filing, HC made non-U&U adjustments to decrease rate base by \$107,752, depreciation expense by \$6,614, and property tax expense by \$354. However, it did not include an adjustment to CIAC in its proposed adjustment. To reflect the appropriate non-U&U percentages applied to all components of rate base, staff recommends an increase of plant of \$35,793 and an increase to accumulated depreciation of \$7,419. Additionally, CIAC and accumulated amortization of CIAC should be decreased by \$1,944 and \$219, respectively. Collectively, these adjustments decrease the Utility's non-U&U component by \$30,098 ($\$35,793 - \$7,419 + \$1,944 + \219). Corresponding adjustments should be made to increase net depreciation expense by \$929. Further, a corresponding adjustment should be made to increase property tax by \$504.

¹⁴Document No. 00818-2020, filed February 7, 2020.

Issue 6: Should any adjustments be made to the Utility's pro forma plant?

Recommendation: Yes. Pro forma plant should be increased by \$56,499. Corresponding adjustments should also be made to increase accumulated depreciation by \$14,030 and depreciation expense by \$14,030. Additionally, property taxes should be increased by \$3,219. (Johnson, Knoblauch, Thurmond)

Staff Analysis: In its MFRs, HC requested \$525,970 for a water quality project at its Leisure Lakes WTP. HC and the DEP entered into a Consent Order, for the Leisure Lakes system, on October 1, 2018, for disinfection byproduct exceedances. The Utility also stated that like Lake Josephine, there were elevated levels of hydrogen sulfide in the water for the Leisure Lakes' system. As such, the Utility decided to implement the same packed tower aeration treatment system for Leisure Lakes that was being utilized at the Lake Josephine WTP. As with Lake Josephine, the Utility received three bids for the Leisure Lakes aeration project, and the Utility chose the lowest bidder, USWSU. The aeration system received clearance from the DEP and was placed into service in September 2019. Based on the invoices provided by the Utility, the total cost for the project will be \$582,468.

Considering that the Leisure Lakes water quality project was required by the DEP, staff believes the project is needed. The Utility obtained multiple bids for the project, and invoices supporting the costs were reviewed by staff. Therefore, staff recommends approval of Leisure Lakes' water quality project at a cost of \$582,468. The Utility stated that the bid amount requested for the project did not include engineering costs, and the updated project cost is \$582,468.¹⁵

In total, pro forma plant should be increased by \$56,499. Corresponding adjustments should also be made to increase accumulated depreciation by \$14,030 and depreciation expense by \$14,030. Additionally, property taxes should be increased by \$3,219.

¹⁵Document Nos. 00183-2020, filed on January 10, 2020, and 00818-2020, filed on February 7, 2020.

Issue 7: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is \$49,885. As such, the working capital allowance should be increased by \$1,586. (Thurmond)

Staff Analysis: Rule 25-30.433(3), F.A.C., requires Class B utilities to use the formula method, or one-eighth of operation and maintenance (O&M) expenses, to calculate the working capital allowance. The Utility has properly filed its allowance for working capital using the formula method. Staff recommended adjustments to HC's O&M expenses. As a result, staff recommends working capital of \$49,885. This reflects an increase of \$1,586 to the Utility's requested working capital allowance of \$48,299.

Issue 8: What is the appropriate rate base for the test year ended June 30, 2019?

Recommendation: Consistent with staff's other recommended adjustments, the appropriate rate base for the test year ended June 30, 2019, is \$3,116,734. (Thurmond)

Staff Analysis: In its MFRs, the Utility requested a rate base of \$3,010,098. Based on staff's previously recommended adjustments, the appropriate rate base is \$3,116,734. The schedule for rate base is attached as Schedule No. 1-A, and the adjustments are shown on Schedule No. 1-B.

Issue 9: What is the appropriate return on equity?

Recommendation: Based on the Commission's leverage formula currently in effect and staff's recommended adjustment for unsatisfactory quality of service discussed in Issue 1, the appropriate return on equity (ROE) is 9.17 percent with an allowed range of plus or minus 100 basis points. (Thurmond)

Staff Analysis: The ROE included in the Utility's MFRs is 9.67 percent. Based on the current leverage formula in effect and the equity ratio of 49.79 percent, the appropriate ROE is 9.67 percent.¹⁶ However, as discussed in Issue 1, staff is recommending a reduction of 50 basis points for unsatisfactory quality of service. Therefore, the appropriate ROE is 9.17 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

¹⁶Order No. PSC-2019-0267-PAA-WS, issued July 7, 2019, Docket No. 20190006, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

Issue 10: What is the appropriate weighted average cost of capital based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended June 30, 2019?

Recommendation: The appropriate weighted average cost of capital for the test year ended June 30, 2019, is 7.14 percent. (Thurmond)

Staff Analysis: In its filing, HC requested an overall cost of capital of 7.39 percent. The Utility's capital structure consists of long term debt, common equity, and customer deposits. Based upon the proper components, amounts, and cost rates associated with the capital structure, staff recommends a weighted average cost of capital of 7.14 percent. Schedule No. 2 details staff's recommended overall cost of capital.

Issue 11: What are the appropriate test year revenues for HC Waterworks' water system?

Recommendation: The appropriate test year revenues for HC's water system are \$561,027, which is a decrease of \$14,708 to the Utility's recorded test year revenues. (Bethea)

Staff Analysis: According to the Utility's MFRs, the Utility reflected total test year revenues of \$575,735 for water. The water revenues included \$559,693 of service revenues, \$10,237 of miscellaneous revenues, and \$5,805 of guaranteed revenues.

The Utility made adjustments to its billing data to account for duplicate bills that occurred as a result of move in/move outs and prorated bills for a rate change. For move ins/move outs, there is a final bill for the old customer and bill for the new customer at the same address. The billing analysis reflected both bills when there should only be one bill per address. The Utility's rates were increased for a price index rate adjustment in the first month of the test year. The change in the base facility charge was prorated and reflected as two separate charges on a customer's bill. However, the two separate charges were recognized as two separate bills in the Utility's billing analysis. Staff agrees with the Utility's adjustments because the two scenarios overstate the Utility's billing determinants. Subsequent to the test year, the Utility's rates decreased reflecting the expiration of amortized rate case expense. Since there was a rate change subsequent to the test year, staff has annualized the test year service revenues using the adjusted billing determinants and the rates that became effective August 6, 2019. Staff determined water test year service revenues to be \$550,790, which is a decrease of \$8,903 (\$559,693 - \$550,790).

In addition, the Utility included guaranteed revenues as part of its test year revenues. The revenues were actually a result of the Utility assessing its allowance for funds prudently invested (AFPI) charges. AFPI is considered below the line for ratemaking purposes. As a result, staff decreased test year revenues by \$5,805. Staff had no adjustments to miscellaneous revenues.

Based on the above, the appropriate test year revenues for HC's water system are \$561,027 (\$550,790 + \$10,237), which is a decrease of \$14,708 (\$8,903 + \$5,805) to the Utility's recorded test year revenues.

Issue 12: Should further adjustments be made to the Utility's O&M expense?

Recommendation: Yes. O&M expense should be increased by \$9,503. (Johnson, Knoblauch, Thurmond)

Staff Analysis: Based on its review of test year O&M expense, staff recommends several adjustments to the Utility's O&M expense as summarized below.

Purchased Power

In its filing, HC reflected purchased power expense of \$47,237, which included a pro forma increase of \$7,262. The Utility stated that the new water treatment system at the Leisure Lakes WTP would increase purchased power. This is because the water would have "to be pumped twice, once through the aeration then back out of the storage tank into the distribution system."¹⁷ However, the Utility did not provide any invoices or documentation to support the requested adjustment of \$7,262. Therefore, staff recommends no adjustment to purchased power expense for the Leisure Lakes new water treatment system. However, as discussed in Issue 5, staff recommends an adjustment of 2.23 percent be made to purchased power expense for EUW. As such, staff recommends reducing purchased power by \$1,053 (2.23 percent x \$47,237).

Chemicals

In its filing, HC reflected chemicals expense of \$38,625, which included a pro forma increase of \$3,473. The Utility explained that new chemicals were required for the water treatment system at the Leisure Lakes WTP, which was not captured in the test year expense. Invoices for the new chemicals were provided by the Utility from August 2019 through February 2020 totaling \$3,528.¹⁸ Utilizing these invoices, staff calculated the average monthly cost for the new chemicals, and subsequently calculated an annual cost of \$6,048. Therefore, staff recommends an increase of \$6,048 to chemicals expense. Additionally, as discussed in Issue 5, staff recommends an adjustment of 2.23 percent be made to chemicals expense for EUW, which results in a decrease of \$996 (2.23 percent x \$44,673). As such staff recommends increasing chemicals by \$5,052 (\$6,048 - \$996).

Contractual Services-Other

During the test year, the Utility recorded contractual services - other expense of \$263,131. HC receives all of its operational and administrative services under a contract with an affiliated company, USWSC. Pursuant to the contract, HC employed the services of USWSC to perform various functions: administrative management, operations, maintenance, and billing/collection for the Utility. These include management and financial oversight, water system operations, maintenance, and customer service.

On January 7, 2020, HC submitted documentation containing additional information related to its outside contractual services agreement with USWSC. According to the Utility, USWSC currently operates in 60 of Florida's 67 counties, providing service to over 1,000 utility systems, and over 1,000,000 customers daily. USWSC's president and majority shareholder has been in

¹⁷Document No. 01540-2020, filed on March 20, 2020.

¹⁸Document No. 01540-2020, filed on March 20, 2020.

the water utility management and operations industry for over 30 years. HC contracts with USWSC for the following services:

1. Water and Wastewater Operations
2. Meter Reading
3. System Maintenance and Repairs
4. Billing and Collections
5. Customer Service
6. Regulatory Affairs
7. Testing
8. Accounting
9. Office Space and Equipment

According to the Utility, each of the service contracts that USWSC enters into with a utility “are different and are priced differently depending on numerous factors.” These factors include the number of employees needed and the number of hours required per system for successful operation. Additional considerations include whether USWSC provides chemicals, power, offices, vehicles, etc., or if these items are provided by the utility.

Additional support offered by the Utility included the “2016 American Water Works Association Benchmarking Performance Indicators for Water and Wastewater” (AWWA Benchmark) and an independent third-party contract and benchmarking review commissioned by the Florida Governmental Utility Authority (FGUA), which was issued in 2013. According to the AWWA Benchmark, the median O&M expense per account of the 44 water companies surveyed is \$430.71, including customer service costs, with a range from \$331.25 to \$639.82.

The contract and benchmarking review commissioned by FGUA was undertaken to review charges by USWSC in comparison to similar water utilities throughout the United States. The FGUA study concluded that the USWSC costs on a per account basis fell within the top quartile (lower cost) of other utilities. These were charges to FGUA by USWSC. While the Utility represented that there was a flaw in the data presented in the 2013 study, staff’s greater concern is the age of some of the underlying data, which can be tied to AWWA’s 2011 Benchmarking Performance Indicators. As such, staff believes that the 2016 Benchmarking Performance Indicators are a more appropriate reference point.

Staff also compared HC to five “sister” water utilities that share common ownership and had a rate case approved in the last five years by calculating a three-year average O&M per equivalent residential connection (ERC) expense using information contained in each utility’s 2016, 2017, and 2018 Annual Reports.¹⁹ Staff then compared HC to five non-USWSC affiliated water

¹⁹Order Nos. PSC-2018-0553-PAA-WU, issued November 19, 2018, in Docket No. 20180021-WU, *In re: Application for staff-assisted rate case in Highlands County by Country Walk Utilities, Inc.*; PSC-16-0305-PAA-WU, issued July 28, 2016, in Docket No. 20150236-WU, *In re: Application for staff-assisted rate case in Lake County, by Lake Idlewild Utility Company*; 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.*; PSC-2017-0334-PAA-WS, issued August 23, 2017, in Docket No. 20160222-WS, *In re: Application for staff-assisted rate case in Highlands County by LP Waterworks, Inc.*; PSC-16-0256-PAA-WU, issued June 30, 2016, in Docket No. 20150199-WU, *In re: Application for staff-assisted rate case in Lake County by Raintree Waterworks, Inc.*

utilities using the same criteria. Table 12-2 reflects the comparative average O&M expense per ERC for HC, its USWSC sister utilities, and non-USWSC utilities. For comparison purposes, the average O&M expense per ERC incorporated in staff’s proposed water revenue requirements are also represented in Table 12-2.

Table 12-2
Water O&M Expense Per ERC

	Utility O&M Exp./ERC
USWSC Sister Utilities (3-Yr. Avg.)	\$306.60
Non-USWSC Utilities (3-Yr. Avg.)	\$486.71
HC Waterworks (Staff Recommended)	\$386.19

Source: 2016-2018 Annual Reports and staff calculations.

At the March 3, 2020 Commission Conference, the Commission approved the USWSC contractual services agreements for three additional “sister” utilities, based, in part, on comparisons to other utilities with similar agreements.²⁰ The contractual services agreements in those dockets also appeared reasonable when compared to the O&M expenses per ERC of industry peers as reflected in the AWWA Benchmark.

Staff notes that the Commission previously approved similar USWSC agreements and related costs in prior cases involving twelve of HC’s sister utilities during fourteen rate case proceedings. Two sister utilities, LP Waterworks, Inc. and Lakeside Waterworks, Inc., each had two SARCs in which the Commission reviewed and approved expenses related to USWSC management services contracts. In regard to the appropriateness of utility contracts with affiliated companies, the Utility cited *GTE v. Deason*, 642 So. 2d 545 (Fla. 1994), in which the Florida Supreme Court stated:

The mere fact that a utility is doing business with an affiliate does not mean that unfair or excess profits are being generated, without more. Charles F. Phillips, Jr., *The Regulation of Public Utilities* 254-255 (1988). We believe the standard must be whether the transactions exceed the going market rate or otherwise inherently unfair . . . if the answer is “no,” then the PSC may not reject the utility’s position.

GTE v. Deason, 642 So. 2d at 547-548.

On February 7, 2020, HC provided staff an internal audit conducted in 2018 to capture the actual costs of USWSC that demonstrate the reasonableness of the contract. After reviewing this audit, staff believes that despite the higher per ERC cost, HC’s contractual services agreement with

²⁰Order Nos. PSC-2020-0086-PAA-WU, issued March 24, 2020, in Docket No. 20190114-WU, *In re: Application for staff-assisted rate case in Alachua County, and request for interim rate increase by Gator Waterworks, Inc.*; PSC-2020-0088-PAA-SU, issued March 25, 2020, in Docket No. 20190116-SU, *In re: Application for staff-assisted rate case in Brevard County, and request for interim rate increase by Merritt Island Utility Company.*; PSC-2020-0087-PAA-WS, issued March 25, 2020, in Docket No. 20190125-WS, *In re: Application for staff-assisted rate case in Sumter County by The Woods Utility Company.*

USWSC is reasonable, especially given that the system requires additional resources to address water quality issues. Staff believes that USWSC and its employees bring considerable management and operational experience at a comparably reasonable cost. As a result, staff believes that the Utility's customers are experiencing operational benefits that might not be realized if HC was to purchase and provide these services itself.

Through its contract with USWSC, the Utility asserted that it made significant plant improvements. In the instant case, staff believes that the contract reflects the market conditions of the Utility's service area. HC asserted that if it was required to hire its own personnel for maintenance, customer service, accounting, regulatory compliance, etc., the cost would exceed that of the current USWSC contract. Absent the USWSC contract, staff believes the costs to provide service would most likely be higher. For the reasons discussed above, staff believes that the Utility's contract with USWSC is reasonable and the cost should be included for recovery in the Utility's proposed rates.

The USWSC contract amount increased over the test year to reflect an increase based on the 2018 audit in September 2018 and an index increase in April 2019 that mirrored the same amount approved by the Commission.²¹ This results in a total contract amount of \$273,067. As approved for its three sister utilities by the Commission at the March 3, 2020 Commission Conference,²² staff believes an adjustment should be made to annualize the increase in the test year. This adjustment results in an increase of \$9,936.

Bad Debt Expense

In its filing, HC reflected bad debt expense of \$8,151 in the test year and included an adjustment to increase the expense by \$3,432, which represented 2 percent of its requested revenue increase. Staff reviewed the test year amount and compared it to the 3-year average for the Utility. The difference is immaterial and staff believes the test year amount is reasonable.

Staff believes the Utility's request to include a factor for bad debt expense in respect to the revenue increase is also reasonable, as such a factor is consistent with similar factors used in the gas and electric industries. It is parallel to the inclusion of regulatory assessment fees (RAFs) factored into revenue requirement based on the revenue increase. However, staff believes the percentage applied to the revenue increase should reflect the Utility's three-year average, which is 1.37 percent. Staff removed the Utility's pro forma increase of \$3,432 in order to apply the 1.37 percent to staff's final recommended revenue increase addressed in Issue 14. In total, staff is recommending bad debt expense of \$10,657.

²¹Order No. PSC-2018-0612-PAA-WS, issued December 27, 2018, in Docket No. 20180005-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.*

²²Order Nos. PSC-2020-0086-PAA-WU, issued March 24, 2020, in Docket No. 20190114-WU, *In re: Application for staff-assisted rate case in Alachua County, and request for interim rate increase by Gator Waterworks, Inc.*; PSC-2020-0088-PAA-SU, issued March 25, 2020, in Docket No. 20190116-SU, *In re: Application for staff-assisted rate case in Brevard County, and request for interim rate increase by Merritt Island Utility Company.*; PSC-2020-0087-PAA-WS, issued March 25, 2020, in Docket No. 20190125-WS, *In re: Application for staff-assisted rate case in Sumter County by The Woods Utility Company.*

Miscellaneous

In its filing, HC reflected miscellaneous expense of \$9,273. However, in its response to staff's first data request HC stated that \$1,000 for FDEP annual permits included in miscellaneous expense should have been booked to wastewater. Thus, staff recommends a decrease to miscellaneous expense of \$1,000.

Summary

Based on the adjustments discussed above, O&M expense should be increased by \$9,503 (- \$1,053 + \$5,052 + \$9,936 - \$3,432 - \$1,000).

Issue 13: What is the appropriate amount of rate case expense?

Recommendation: The appropriate amount of rate case expense is \$7,915. This expense should be recovered over four years for an annual expense of \$1,979. Therefore, annual rate case expense should be increased by \$493. (Thurmond)

Staff Analysis: In its MFRs, HC requested \$5,945 for current rate case expense. Staff requested an update on the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On February 3, 2020, the Utility submitted its last revised estimate of rate case expense, through completion of the PAA process, which totaled \$7,137.

**Table 13-1
 HC's Initial and Revised Rate Case Expense Request**

	MFR B-10 Estimated	Actual	Additional Estimated	Revised Total
Noticing	\$1,995	\$1,004	\$2,008	\$3,012
Travel	450	400	225	625
Filing Fee	<u>3,500</u>	<u>3,500</u>	<u>0</u>	<u>3,500</u>
Total	<u>\$5,945</u>	<u>\$4,904</u>	<u>\$2,233</u>	<u>\$7,137</u>

Source: MFR Schedule B-10 and Utility responses to staff data requests

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 HC's rate case expense estimate are appropriate.

Noticing

The Utility's initial filing reflected costs associated with sending two notices—the customer meeting and final notice. In its revised estimate, it included an additional amount to reflect the interim notice. Upon review, staff noted that the Utility failed to include noticing costs for the four-year rate reduction. Using the noticing costs provided by the Utility, staff recommends increasing rate case expense by \$1,004 to reflect the additional notice.

Travel

HC's initial filing reflected estimated travel expenses of \$450. In its update of actual travel expenses, the Utility reflected \$400 associated with utility representatives attending the customer meeting and an additional estimate of \$225 to attend the Commission Conference. At the time the estimate was provided to staff, the Commission Conference was scheduled to be held in traditional in-person format. After HC filed its estimate, the Commission Conference was changed to a teleconference format in response to COVID-19. As such, estimated costs associated with travel to attend the Commission Conference are no longer necessary. Staff recommends that estimated travel expenses associated with attending the Commission

Conference should be removed. Accordingly, staff recommends that rate case expense be reduced by \$225.

Conclusion

Based upon the adjustment discussed above, staff recommends that HC’s revised rate case expense of \$7,137 be increased by \$779 (\$1,004 - \$225) to reflect staff’s adjustment, for a total of \$7,915. A breakdown of staff’s recommended rate case expense is as follows.

**Table 13-2
 Staff Recommended Rate Case Expense**

Description	MFR Estimated	Utility Revised Actual & Estimated	Staff Adjustment	Recommended Total
Noticing	\$1,995	\$3,012	\$1,004	\$4,016
Travel	450	625	(225)	\$400
Filing Fee	<u>3,500</u>	<u>3,500</u>	<u>0</u>	<u>\$3,500</u>
Total	<u>\$5,945</u>	<u>\$7,137</u>	<u>\$779</u>	<u>\$7,915</u>

Source: MFR Schedule B-10 and responses to staff data requests

In its MFRs, HC requested total rate case expense of \$5,945. When amortized over four years, this represents an annual expense of \$1,486. The recommended total rate case expense of \$7,915 should be amortized over four years, pursuant to Section 367.081(8), F.S., as the Utility did not request or justify a longer amortization period. This represents an annual expense of \$1,979. Based on the above, staff recommends that annual rate case expense be increased by \$493 (\$1,979 - \$1,486) compared to the original request in the MFRs.

Issue 14: What is the appropriate revenue requirement for the test year ended June 30, 2019?

Recommendation: Staff recommends the following revenue requirement be approved.

Test Year Revenue	\$ Increase	Revenue Requirement	% Increase
\$561,027	\$182,937	\$743,964	32.61%

(Thurmond)

Staff Analysis: In its filing, the Utility requested a revenue requirement to generate annual revenue of \$743,964. This requested revenue requirement represents a revenue increase of \$168,229, or approximately 29.57 percent, over the test year revenues of \$575,735 in HC's initial filing. Consistent with recommendations concerning rate base, cost of capital, and operating income issues, the resulting revenue requirement is \$775,366. However, it is Commission practice to limit the revenue requirement to the total amount sought in a utility's petition.²³ Therefore, staff recommends that the appropriate revenue requirement should be \$743,964. The schedule for operating income is attached as Schedule No. 3-A, and the adjustments are shown on Schedule No. 3-B.

²³Order Nos. PSC-16-0249-PCO-WS, issued June 29, 2016, in Docket No. 20160030-WS, *In re: Application for increase in water rates in Lee County and wastewater rates in Pasco County by Ni Florida, LLC.*; PSC-13-0673-FOF-WS, issued December 19, 2013, in Docket No. 20130212-WS, *In re: Application for increase in water/wastewater rates in Polk County by Cypress Lakes Utilities, Inc.*; PSC-07-0568-PAA-WU, issued July 9, 2007, in Docket No. 20070041-SU, *In re: Application for limited proceeding rate increase in Monroe County by Key Haven Utility Corporation*; PSC-05-0287-PAA-SU, issued March 17, 2005, in Docket No. 20040972-SU, *In re: Application for rate increase in Pinellas County by Ranch Mobile WWTP, Inc.*; and PSC-95-0191-FOF-WS, issued February 9, 1995, in Docket No. 19940917-WS, *In re: Application for rate increase for increased water and wastewater rates in Seminole, Orange, and Pasco Counties by Utilities, Inc. of Florida.*

Issue 15: What are the appropriate rate structures and rates for HC Waterworks' 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 sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of this notice. (Bethea)

Staff Analysis: The Utility is located in Highlands County within the SWFWMD. HC provides water service to approximately 949 residential and 9 general service customers. One of the general service customers is a 189 unit RV Park. In addition, the Utility has one private fire protection customer. Staff determined that approximately 23 percent of the residential customer bills during the test year had zero gallons, indicating a seasonal customer base. The average residential water demand is 2,483 gallons per month. The average water demand excluding zero gallon bills is 3,223 gallons per month. The Utility's current water system rate structure for residential customers consists of a traditional base facility charge (BFC) with separate rate blocks for non-discretionary and discretionary usage. The rate blocks are: 1) 0-3,000 gallons and 2) all usage in excess of 3,000 gallons. General service customers are billed based on a BFC and uniform gallonage charge. In addition, the Utility's private fire protection services rates are based on one-twelfth of the Utility's BFC for the respective meter size pursuant to Rule 25-30.465, F.A.C.

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

The Utility's current rates allow for 47 percent of the revenues to be recovered through the BFC. Due to the customers' low average monthly consumption and seasonal customer base, staff recommends 47 percent of the revenue requirement should continue to be recovered through the BFC in an effort to maintain revenue stability. The average people per household served by the water system is approximately 2.5; therefore, based on the number of people per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 4,000 gallons per month.²⁴ This rate structure sends the appropriate pricing signals to customers using in excess of 4,000 gallons of water per month, which represents approximately 22 percent of the usage. Staff recommends a traditional BFC with separate rate blocks for non-discretionary and discretionary usage for residential water customers. The rate blocks are: 1) 0-4,000 gallons and 2) all usage in excess of 4,000 gallons. General service customers should be billed based on a BFC and uniform gallonage charge. In addition, the utility's private fire protection services rates should be based on one-twelfth of the Utility's BFC for the respective meter size, pursuant to Rule 25-30.465, F.A.C.

²⁴Average person per household was obtained from www.census.gov/quickfacts/highlandscountyflorida.

Furthermore, in the last rate case, the Commission determined that the BFC for the RV park should be based on the demand the RV park places on the water system.²⁵ The water demand was 2,270,000 in the last rate case. During the test year, the RV park's water demand was 3,778,000 gallons, which is an approximately 66 percent increase since the last rate case. Consistent with the methodology in the last rate case, the water demand of the RV park compared to the average residential water demand of 2,483 gallons per month represents approximately 127 ERCs ($3,778,000/2,483/12$). This change in ERCs allows the RV park to pay its pro rata share of cost based on the water demand that it places on the system. Therefore, staff recommends a BFC based on 127 ERCs for the RV park and a uniform gallonage charge.

In addition, based on a recommended revenue increase of approximately 33.2 percent, excluding miscellaneous revenues, the residential consumption can be expected to decline by 830,000 gallons resulting in anticipated repressed average residential demand of 2,409 gallons per month. Staff recommends a 3 percent reduction in total residential consumption and corresponding reductions of \$1,155 for purchased power, \$1,093 for chemicals, and \$106 for RAFs to reflect the anticipated repression, which results in a post-repression revenue requirement of \$731,373.

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 sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of this notice.

²⁵Order No. PSC-15-0282-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.*

Issue 16: What are the appropriate water initial customer deposits for HC Waterworks?

Recommendation: The appropriate initial customer deposits should be \$108 for the residential 5/8 inch x 3/4 inch meter size for water. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding. (Bethea)

Staff Analysis: Rule 25-30.311, F.A.C., provides the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. An initial customer deposit ensures that the cost of providing service is recovered from the cost causer. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.²⁶ Currently, the Utility has an initial customer deposit of \$99 for the residential 5/8 inch x 3/4 inch meter size for water. However, this amount does not cover two months' average bills based on staff's recommended rates. The Utility's average monthly residential water usage after repression is 2,409 gallons per customer. Therefore, the average residential monthly bill based on staff's recommended rates is approximately \$54.

The appropriate initial customer deposits should be \$108 for the residential 5/8 inch x 3/4 inch meter size for water. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding.

²⁶Order Nos. 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.* and PSC-17-0113-PAA-WS, issued March 28, 2017, in Docket No. 20130105-WS, *In re: Application for certificates to provide water and wastewater service in Hendry and Collier Counties, by Consolidated Services of Hendry & Collier, LLC.*

Issue 17: What is the appropriate amount by which rates should be reduced 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 the annual amortization of rate case expense grossed-up for RAFs. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. HC 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. (Procedural Agency Action) (Bethea, Thurmond)

Staff Analysis: The water rates should be reduced, as shown on Schedule No. 4, to remove the annual amortization of rate case expense grossed-up for RAFs. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period, pursuant to Section 367.081(8), F.S. HC 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 18: In determining whether any portion of the interim water revenue increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The appropriate refund amount should be calculated using the same data used to establish final rates, excluding rate case expense and other items not in effects during the interim period. The revised revenue requirements for the interim collection period should be compared to the amount of interim revenues granted. Based on this methodology, no refund is necessary.(Procedural Agency Action) (Thurmond)

Staff Analysis: The Commission authorized HC to collect interim water rates, subject to refund, pursuant to section 367.082, F.S. The approved interim revenue requirement of \$636,075 represented an increase of \$66,364 or 11.65 percent.

According to Section 367.082, F.S., any refund should be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period that interim rates are in effect should be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ended June 30, 2019. HC's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest expense, and the lower limit of the last authorized range for equity earnings.

To establish the proper refund amount, staff calculated adjusted interim period revenue requirements utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period. Using the principles discussed above, staff calculated an adjusted interim revenue requirement of \$743,964. The adjusted interim revenue requirement of \$743,964 is higher than the interim revenue requirement of \$636,075, resulting in no refund.

Issue 19: Should the Utility be required to notify, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Commissioners Uniform System of Accounts (NARUC USOA) associated with the Commission approved adjustments?

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

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

Issue 20: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the Proposed Agency Action 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 accounts have been made. Once these actions are complete, this docket should be closed administratively. (Schrader)

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 Proposed Agency Action 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 accounts have been made. Once these actions are complete, this docket should be closed administratively.

HC Waterworks Schedule of Water Rate Base Test Year Ended 06/30/19		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	\$525,970	\$5,180,481	\$80,254	\$5,260,735
2	Land and Land Rights	25,450	0	25,450	0	25,450
3	Less: Non-used and Useful Components	0	(107,752)	(107,752)	30,098	(77,654)
4	Less: Accumulated Depreciation	(1,358,277)	(11,449)	(1,369,726)	(5,303)	(1,375,029)
5	Less: CIAC	(915,715)	0	(915,715)	0	(915,715)
6	Accumulated Amortization of CIAC	623,602	0	623,602	0	623,602
7	Acquisition Adjustments	(809,041)	0	(809,041)	0	(809,041)
8	Less: Accum. Amort. Of Acq. Adjustments	334,500	0	334,500	0	334,500
9	Working Capital Allowance	<u>0</u>	<u>48,299</u>	<u>48,299</u>	<u>1,586</u>	<u>49,885</u>
10	Rate Base	<u>\$2,555,030</u>	<u>\$455,068</u>	<u>\$3,010,098</u>	<u>\$106,636</u>	<u>\$3,116,734</u>

HC Waterworks Adjustments to Rate Base Test Year Ended 06/30/19		Schedule No. 1-B Docket No. 20190166-WS
Explanation	Water	
<u>Plant In Service</u>		
1 Per Audit.		(\$7,383)
2 To reflect test year adjustments to plant additions.		31,138
3 To reflect pro forma plant additions.		<u>56,499</u>
Total		<u>\$80,254</u>
<u>Non-used and Useful</u>		
To reflect net non-used and useful adjustment.		<u>\$30,098</u>
<u>Accumulated Depreciation</u>		
1 Per Audit		\$1,021
2 To reflect test year adjustments to plant additions.		67
3 To remove account with no plant balance.		7,640
4 To reflect pro forma plant additions.		<u>(14,030)</u>
Total		<u>(\$5,303)</u>
<u>Working Capital</u>		
To reflect the appropriate amount of working capital.		<u>\$1,586</u>

HC Waterworks Capital Structure-Simple Average Test Year Ended 06/30/19							Schedule No. 2 Docket No. 20190166-WS		
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	\$1,592,168	\$0	\$1,592,168	(\$96,766)	\$1,495,402	49.68%	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	(95,946)	1,482,729	49.26%	9.67%	4.76%
5	Customer Deposits	34,034	0	34,034	(2,068)	31,966	1.06%	2.00%	0.02%
6	Total Capital	<u>\$3,204,877</u>	<u>\$0</u>	<u>\$3,204,877</u>	<u>(\$194,780)</u>	<u>\$3,010,097</u>	<u>100.00%</u>		<u>7.39%</u>
Per Staff									
7	Long-term Debt	\$1,592,168	\$0	\$1,592,168	(\$44,259)	\$1,547,909	49.66%	5.25%	2.61%
8	Short-term Debt	0	0	0	\$0	0	0.00%	0.00%	0.00%
9	Preferred Stock	0	0	0	\$0	0	0.00%	0.00%	0.00%
10	Common Equity	1,578,675	0	1,578,675	(\$43,884)	1,534,791	49.24%	9.17%	4.52%
11	Customer Deposits	<u>34,034</u>	<u>0</u>	<u>34,034</u>	<u>0</u>	<u>34,034</u>	<u>1.10%</u>	2.00%	<u>0.02%</u>
12	Total Capital	<u>\$3,204,877</u>	<u>\$0</u>	<u>\$3,204,877</u>	<u>(\$88,143)</u>	<u>\$3,116,734</u>	<u>100.00%</u>		<u>7.14%</u>
						LOW	HIGH		
RETURN ON EQUITY						<u>8.17%</u>	<u>10.17%</u>		
OVERALL RATE OF RETURN						<u>6.65%</u>	<u>7.64%</u>		

HC Waterworks Statement of Water Operations Test Year Ended 06/30/19							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>\$574,165</u>	<u>\$169,799</u>	<u>\$743,964</u>	<u>(\$182,937)</u>	<u>\$561,027</u>	<u>\$182,937</u> 32.61%	<u>\$743,964</u> -	
Operating Expenses								
2 Operation & Maintenance	\$376,618	\$13,066	\$389,684	\$9,995	\$399,679	\$2,506	\$402,185	
3 Depreciation	129,717	4,835	134,552	13,235	147,787		147,787	
4 Amortization	(74,935)	0	(74,935)	0	(74,935)		(74,935)	
5 Taxes Other Than Income	55,559	16,651	72,210	(4,509)	67,701	8,232	75,933	
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>486,959</u>	<u>34,552</u>	<u>521,511</u>	<u>18,722</u>	<u>540,233</u>	<u>10,738</u>	<u>550,971</u> -	
8 Operating Income	<u>\$87,206</u>	<u>\$135,247</u>	<u>\$222,453</u>	<u>(\$201,659)</u>	<u>\$20,794</u>	<u>\$172,199</u>	<u>\$192,993</u> -	
9 Rate Base	<u>\$2,555,030</u>		<u>\$3,010,098</u>		<u>\$3,116,734</u>		<u>\$3,116,734</u> -	
10 Rate of Return	<u>3.41%</u>		<u>7.39%</u>		<u>0.67%</u>		<u>6.19%</u> (1)	

(1) Reflects the revenue requirement being limited, per Commission practice.

HC Waterworks		Schedule No. 3-B
Adjustment to Operating Income		Docket No. 20190166-WS
Test Year Ended 06/30/19		
Explanation	Water	
<u>Operating Revenues</u>		
1 To remove the requested increase.	(\$168,229)	
2 To reflect test year revenues.	<u>(14,708)</u>	
Total	<u>(\$182,937)</u>	
<u>Operation and Maintenance Expense</u>		
1 To reflect EUW adjustment. (Purch. Power & Chem.)	(\$2,050)	
2 To reflect appropriate pro forma chemicals expense.	6,048	
3 To annualize increase in contractual services contract.	9,936	
4 To adjust pro forma bad debt expense.	(3,432)	
5 To remove wastewater permit expense.	(\$1,000)	
6 To reflect the appropriate amount of rate case expense.	<u>493</u>	
Total	<u>\$9,995</u>	
<u>Depreciation Expense - Net</u>		
1 Per Audit.	(\$261)	
2 To reflect test year adjustments to plant additions.	(74)	
3 To remove account with no plant balance.	(1,389)	
4 To remove net depreciation on non-U&U adjustment.	929	
5 To reflect pro forma plant additions.	<u>14,030</u>	
Total	<u>\$13,235</u>	
<u>Taxes Other Than Income</u>		
1 To reflect removal of revenue increase.	(\$7,570)	
2 To reflect test year RAF's.	(662)	
3 To reflect property tax on non-used and useful plant.	504	
4 To reflect additional property taxes for pro forma plant.	<u>3,219</u>	
Total	<u>(\$4,509)</u>	

HC WATERWORKS INC. TEST YEAR ENDED JUNE 30, 2019 MONTHLY WATER RATES		SCHEDULE NO. 4 DOCKET NO. 20190166-WU			
	RATES AT TIME OF FILING	COMMISSION APPROVED INTERIM RATES	UTILITY REQUESTED FINAL	STAFF RECOMMENDED RATES	FOUR YEAR RATE REDUCTION
<u>Residential and General Service</u>					
Base Facility Charge by Meter Size					
5/8" X3/4"	\$20.99	\$23.48	\$31.63	\$26.21	\$0.07
3/4"	\$31.49	\$35.22	\$47.45	\$39.32	\$0.11
1"	\$52.48	\$58.70	\$79.08	\$65.53	\$0.18
1-1/2"	\$104.97	\$117.40	\$158.16	\$131.05	\$0.37
2"	\$167.95	\$187.84	\$253.06	\$209.68	\$0.59
3"	\$335.89	\$375.68	\$506.11	\$419.36	\$1.17
4"	\$524.83	\$587.00	\$790.80	\$655.25	\$1.83
6"	\$1,049.66	\$1,174.00	\$1,581.61	\$1,310.50	\$3.67
8"	\$1,679.46	\$1,878.40	\$2,530.57	\$2,096.80	\$5.87
10"	\$2,414.22	\$2,700.20	\$3,637.70	\$3,014.15	\$8.44
Charge per 1,000 gallons - Residential					
0 - 3,000 gallons	\$8.07	\$9.03	\$10.82	N/A	N/A
Over 3,000 gallons	\$10.10	\$11.30	\$16.23	N/A	N/A
Charge per 1,000 gallons - Residential					
0 - 4,000 gallons	N/A	N/A	N/A	\$11.42	\$0.03
Over 4,000 gallons	N/A	N/A	N/A	\$14.27	\$0.04
Charge per 1,000 gallons - General Service (GS1)					
	\$8.66	\$9.69	\$12.47	\$11.98	\$0.03
<u>General Service 2 - RV Park</u>					
3" Meter Size - (75 ERCs)	\$1,574.49	\$1,761.00	\$2,372.25	N/A	N/A
3" Meter Size - (127 ERC's)	N/A	N/A	N/A	\$3,328.67	\$9.32
Charge per 1,000 gallons - General Service (GS2)					
	\$8.66	\$9.69	\$12.47	\$11.98	\$0.03
<u>Private Protection</u>					
Base Facility Charge by Meter Size					
2"	\$14.00	\$15.65	\$21.09	\$17.47	
3"	\$27.99	\$31.31	\$42.18	\$34.95	
4"	\$43.74	\$48.92	\$65.90	\$54.60	
6"	\$87.47	\$97.83	\$131.80	\$109.21	
8"	\$139.95	\$156.53	\$210.88	\$174.73	
10"	\$201.19	\$225.02	\$303.14	\$251.18	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>					
2,000 Gallons	\$37.13	\$41.54	\$53.27	\$49.05	
4,000 Gallons	\$55.30	\$61.87	\$80.32	\$71.89	
6,000 Gallons	\$75.50	\$84.47	\$112.78	\$100.43	

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: April 23, 2020

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Coston) *WC, ED, JH*
Office of the General Counsel (Crawford) *JC*

RE: Docket No. 20200120-GU – Petition for approval of emergency modification to tariff, by Sebring Gas System, Inc.

AGENDA: 05/05/20 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 06/08/20 (60-Day Suspension Date)

SPECIAL INSTRUCTIONS: None

Case Background

On April 9, 2020, Sebring Gas Systems, Inc. (Sebring or utility) petitioned for approval of an emergency modification to its tariff sheet No. 48 which addresses delinquent bills and late payment charges. On March 1, 2020, Governor Ron DeSantis declared a public health emergency in Florida as a result of the outbreak of the COVID-19 coronavirus and on March 9, 2020, the Governor declared a state of emergency and implemented the state's Emergency Management Plan. In addition, the Governor has issued additional Executive Orders to address the current emergency to include a statewide "Safer at Home" requirement. As a result of this emergency, the utility recognizes the economic impact to some residential and commercial customers. Many businesses are struggling financially and have instituted lay-offs or limited their employees' hours.

Sebring states that during this public emergency, it does not plan to disconnect service to customers for non-payment, as allowed under its current tariff. However, Sebring's current tariff

Docket No. 20200120-GU

Date: April 23, 2020

does not provide the utility the ability to suspend late payment charges during this, or similar, emergency declarations. The proposed tariff modification would allow the utility flexibility to waive late payment charges during emergency situations, such as natural disasters and the current public health emergency.

Sebring's revised tariff sheet is Attachment 1 to this recommendation. The Commission has jurisdiction over this matter pursuant to Sections 366.04, 366.05, 366.06, Florida Statutes.

Discussion of Issues

Issue 1: Should the Commission approve Sebring's proposed modifications to Tariff Sheet No. 48?

Recommendation: Yes, the Commission should approve the modifications to Tariff Sheet No. 48, effective May 5, 2020. (Coston)

Staff Analysis: Currently, Sebring's tariff does not provide the utility the ability to waive late payment charges for any reason. This proposed modification would provide the utility with the flexibility to waive late fees during natural disasters and declared public emergencies issued by an authorized governmental body, including the current public health emergency. The language in this modification is similar to tariff language approved by the Commission for Florida Power & Light Company¹ and Duke Energy Florida, LLC.²

Staff believes the modifications will allow Sebring the flexibility to mitigate customer impact during the current public health emergency and the related Executive Orders issued by Governor DeSantis while still reliably serving its customers. Therefore, staff recommends the Commission should approve the modifications to Tariff Sheet No. 48, effective May 5, 2020.

¹ Order No. PSC-92-0912A-FOF-EI, issued September 16, 1992, in Docket No. 920800-EI, *In re: Petition by Florida Power & Light Company to Waive Certain Service Charges For Good-Paying Customers*. See Tariff Sheet No. 4.020.

² Order No. PSC-2020-0096-TRF-EI, issued April 6, 2020, in Docket No. 2020095-EI, *In re: Petition of approval of emergency modification to Duke Energy's rate schedule SC-1, tariff sheet 6.110 by Duke Energy Florida, LLC.*

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. (Crawford)

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.

Original~~First Revised~~
Sheet No. 48

Sebring Gas System, Inc.
Original Volume No. 2

- G. POOL MANAGER'S CHARGES. Company shall include Pool Manager's charges for the sale of Gas, and may include such reasonable deposit requirements as the Pool Manager may establish, on its monthly bill to Aggregated Transportation Service Customers. Pool Manager's Gas charges shall be separately identified on Company's monthly bill to Customers. The Company shall remit payments received from Customer Accounts for the purchase of Gas to Pool Manager in accordance with procedures established in the Aggregated Transportation Service Agreement. Company shall have no obligation to Pool Manager for non-payment by Customer of amounts due Pool Manager. In the event Company receives a partial payment for the total bill rendered, Company shall first apply any partial payment amount received to satisfy any taxes or fees levied by government to the Company; second to Pool Manager's Gas sales or deposit charges. The remaining balance, if any, shall be applied to Company's Transportation Service or other charges. The Company shall be responsible for a periodic reconciliation of the Pool Managers' Gas charges billed to the payment amounts received from Customer Accounts, including an accounting of bill adjustments, non-payments, partial payments and payments received through collection activities and other means. The Company's payment remittance to Pool Manager, as established in the Aggregated Transportation Services Agreement, shall provide for the periodic true-up of such remittance amounts to account for the payment hierarchy and reconciliation process identified in this section. Company may, at its sole option, include Pool Manager's charges for other services on Company's monthly bill to Customers.
- H. NON-RECEIPT OF BILLS. Failure of Customer to receive a bill shall not relieve Customer of its obligation to pay the bill.
- I. DELINQUENT BILLS AND LATE PAYMENT CHARGES. A bill shall be considered delinquent upon the expiration of twenty (20) days from the date of mailing or other delivery by Company. Charges for services due and rendered which are unpaid as of the past due date are subject to a Late Payment Charge of eighteen (18) percent per year, except the accounts of federal, state, and local governmental entities, agencies, and instrumentalities. A Late Payment Charge shall be applied to the accounts of federal, state, and local governmental entities, agencies, and instrumentalities at a rate no greater than allowed, and in a matter permitted by applicable law. The Company shall have the discretion to waive the Late Payment Charge in the event payment is delayed as a result of significant damage to the customer's premises as a result of a natural disaster, or during periods of declared emergencies issued by a governmental body authorized to make such declaration.
- J. DISCONTINUANCE OF TRANSPORTATION SERVICE FOR NON-PAYMENT. Transportation Service will be discontinued for non-payment of amounts due Company for Transportation Service, but only after Company has made a diligent attempt to have Customer make payment, including at least five (5) business days' written notice to Customer, such notice being separate and apart from any bill for Transportation Service, unless the Customer, submits to the Company in writing, a dispute of the nonpayment amount. Such dispute shall be resolved in a manner prescribed by FPSC regulations.

Issued by: Jerry Melendy, Jr., Vice President
Sebring Gas System, Inc.
3515 U.S. Highway 27, South
Sebring, FL 33870-5452

Effective: JUN-01-2004