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Commission Conference Agenda
February 8, 2023

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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: January 27, 2023

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (D. Buys, Mouring) *ALM*
Office of the General Counsel (Watrous) *JSC*

RE: Docket No. 20220218-GU – Application for authorization to issue common stock, preferred stock and secured and/or unsecured debt, and to enter into agreements for interest rate swap products, equity products and other financial derivatives in 2023, by Chesapeake Utilities Corporation.

AGENDA: 02/08/2023 – Consent Agenda – Final Action – Interested Persons May Participate

SPECIAL INSTRUCTIONS: None

Please place the following Securities Application on the consent agenda for approval.

Docket No. 20220218-GU – Application for authorization to issue common stock, preferred stock and secured and/or unsecured debt, and to enter into agreements for interest rate swap products, equity products and other financial derivatives in 2023, by Chesapeake Utilities Corporation.

Chesapeake Utilities Corporation (Chesapeake or Utility) requests authority to issue during calendar year 2023: up to 8.75 million shares of Chesapeake common stock; up to 2 million shares of Chesapeake preferred stock; up to \$650 million in secured and/or unsecured debt; to issue short-term obligations in an amount not to exceed \$500 million, and enter into agreements up to \$400 million in interest rate swap products, equity products and other financial derivatives.

Chesapeake allocates funds to the Chesapeake Utilities Corporation – Florida Division, Florida Public Utilities Company (FPUC), FPUC – Indiantown Division, and FPUC – Fort Meade Division on an as-needed basis. Chesapeake acknowledges that in no event will such allocations to the Florida Divisions exceed 75 percent of the proposed equity securities (common stock and preferred stock), long-term debt, short-term debt, interest rate swap products, equity products, and financial derivatives issued by Chesapeake.

The amount requested by Chesapeake exceeds its expected 2023 capital expenditures of approximately \$251 million for Chesapeake Utilities Corporation (\$98 million for the Florida Divisions). The additional amount requested exceeding the projected capital expenditures allows for financial flexibility for the purposes described in the Utility's petition, as well as, unexpected

Docket No. 20220218-GU

Date: January 27, 2023

events such as hurricanes, financial market disruptions, and other unforeseen circumstances. Staff believes the requested amounts are reasonable and appropriate, and therefore, recommends the Utility's petition to issue the securities enumerated in its petition during the calendar year 2023 be approved.

For monitoring purposes, this docket should remain open until May 3, 2024, to allow the Utility time to file the required Consummation Report.

Item 2

FILED 1/27/2023
DOCUMENT NO. 00599-2023
FPSC - COMMISSION CLERK

State of Florida



Public Service Commission

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

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

DATE: January 27, 2023

TO: Office of Commission Clerk (Teitzman)

FROM: Office of the General Counsel (Sunshine) *SC*
Division of Economics (Guffey) *JGH*
Office of Industry Development and Market Analysis (Fogleman, Deas) *CH*

RE: Docket No. 20230011-TP – Proposed amendment of Rule 25-4.0665, F.A.C., Lifeline Assistance.

AGENDA: 02/08/23 – Regular Agenda – Rule Proposal – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Graham

RULE STATUS: Proposal May Be Deferred

SPECIAL INSTRUCTIONS: Pursuant to Section 120.74(5), F.S., the deadline to publish the proposed rule is April 1, 2023.

Case Background

This rulemaking, to amend Rule 25-4.0665, Florida Administrative Code (F.A.C.), Lifeline Assistance, was initiated as a result of changes to Section 364.10, Florida Statutes (F.S.), made in the 2022 Legislative Session to conform to current federal regulations. The amendments are intended to comport with the recent changes to Section 364.10, F.S.

The amendment to Section 364.10, F.S., clarifies that an eligible telecommunications carrier (ETC) must notify a Lifeline subscriber of impending termination of Lifeline service if there is reason to believe the subscriber no longer qualifies for the service and requires a subscriber to provide proof of continued eligibility for Lifeline service upon request of the ETC, the Federal Communications Commission (FCC) or its designee. Additionally, the amendment to Section 364.10, F.S., removed obsolete provisions relating to income eligibility standards that were

inconsistent with current FCC requirements; removed references to state agencies no longer involved in the development of procedures for promoting Lifeline, leaving only the Commission and the Department of Children and Families (DCF); clarified that the Commission and DCF may exchange information with ETCs, and the FCC or its designee, in order to enroll eligible customers in Lifeline service; and requires any state agency that determines a person is eligible for Lifeline service to coordinate with the FCC or its designee to verify eligibility.

Notice of the rule development appeared in the October 17, 2022, edition of the Florida Administrative Register, Vol. 48, No. 202. No workshop was requested and none was held. This recommendation addresses whether the Commission should amend Rule 25-4.0665, F.A.C. Rulemaking is necessary to implement Section 364.10, F.S., as identified in the Commission's 2022 Regulatory Plan. Accordingly, pursuant to Section 120.74(5), F.S., the Commission must publish a notice of proposed rule amending Rule 25-4.0665, F.S., by April 1, 2023.

The Commission has jurisdiction pursuant to Sections 120.54, 350.127(2), 364.01, and 364.10, F.S.

Discussion of Issues

Issue 1: Should the Commission propose the amendment of Rule 25-4.0665, F.A.C.?

Recommendation: Yes, the Commission should propose the amendment of Rule 25-4.0665, F.A.C., as set forth in Attachment A. The Commission should also certify Rule 25-4.0665, F.S., as a minor violation rule. (Sunshine, Fogleman, Deas, Guffey)

Staff Analysis: Staff is recommending amendments to Rule 25-4.0665, F.A.C., to clarify and update the rule, and to implement changes necessitated by the amendment to Section 364.10, F.S., made in the 2022 Legislative Session.

Specifically, the recommended proposed amendments to the rule include: (1) removal of obsolete language relating to ETC approval of applications and use of specific application forms; (2) incorporating by reference, and changing the program enrollment process from Lifeline Simplified Enrollment Process to Lifeline Promotion Process, which facilitates the electronic transfer of eligible customer information from the DCF and the Commission to ETCs; (3) clarifying the responsibilities of ETCs and the Commission regarding the Lifeline Promotion Process; and (4) moving the existing Lifeline availability advertising criteria from Section (11) to Section (4) in the recommended proposed amended rule for cohesiveness.

Minor Violation Rules Certification

Pursuant to Section 120.695, F.S., for each rule filed for adoption, the agency head shall certify whether any part of the rule is designated as a rule the violation of which would be a minor violation.¹ Rule 25-4.0665, F.A.C., is currently listed on the Commission's website as a rule for which a violation would be minor because violation of the rule would not result in economic or physical harm to a person or have an adverse affect on the public health, safety, or welfare or create a significant threat of such harm.

The amendments to Rule 25-4.0665, F.A.C., would not change its status as a minor violation rule. Thus, staff recommends that the Commission certify Rule 25-4.0665, F.A.C., as a minor violation rule.

Statement of Estimated Regulatory Costs

Pursuant to Section 120.54(3)(b), F.S., agencies are encouraged to prepare a statement of estimated regulatory costs (SERC) before the adoption, amendment, or repeal of any rule. A SERC was prepared for this rulemaking and is appended as Attachment B to this recommendation.

The SERC concludes that the amendment of Rule 25-4.0665, F.A.C., will not likely, directly or indirectly, increase regulatory costs in excess of \$200,000 in the aggregate in Florida within one year after implementation. Further, the SERC's economic analysis concludes that the amendment to the rule will not likely have an adverse impact on economic growth, private sector job creation or employment, private sector investment, business competitiveness, productivity, or innovation

¹ Section 120.695(2)(c)3., F.S.

in excess of \$1 million in the aggregate within five years of implementation. Thus, the rule does not require legislative ratification pursuant to Section 120.541(3), F.S.

In addition, the SERC states that the rule amendments will not have an adverse impact on small businesses and will have no impact on small cities or counties. The SERC concludes that there will be no transactional costs likely to be incurred by individuals and entities required to comply with the requirements of the rule. No regulatory alternatives were submitted pursuant to Section 120.541(1)(a), F.S. None of the impact/cost criteria established in Section 120.541(2)(a), F.S., will be exceeded as a result of the recommended amendment to Rule 25-4.0665, F.A.C.

Conclusion

Based on the foregoing analysis, staff recommends that the Commission propose the amendment of Rule 25-4.0665, F.A.C., as set forth in Attachment A. Staff also recommends that the Commission certify Rule 25-4.0665, F.A.C., as a minor violation rule.

Issue 2: Should this docket be closed?

Recommendation: Yes. If no requests for hearing, information regarding the SERC, proposals for a lower cost regulatory alternative, or Joint Administrative Procedures Committee (JAPC) comments are filed, the rule should be filed with the Department of State, and the docket should be closed. (Sunshine)

Staff Analysis: If no requests for hearing, information regarding the SERC, proposals for a lower cost regulatory alternatives, or JAPC comments are filed, the rule may be filed with the Department of State and the docket should be closed. (Sunshine)

1 **25-4.0665 Lifeline Assistance.**

2 (1) Eligible Telecommunications Companies must offer Lifeline Assistance as prescribed
3 by the Federal Communications Commission in Title 47, Code of Federal Regulations, Part
4 54, Subpart E, Universal Service Support for Low-Income Consumers, Sections 54.400
5 through 54.42317, in effect as of September 8, 2022~~as amended October 1, 2017~~, which are
6 hereby incorporated into this rule by reference, and which are available at

7 <http://www.flrules.org/Gateway/reference.asp?No=Ref-10061>.

8 (2) Eligible telecommunications carriers may assist customers with ~~When enrolling~~
9 ~~customers~~ in the Lifeline program through the provider portal with the National Lifeline
10 Eligibility Verifier, as defined in Title 47, Code of Federal Regulations, Part 54, Subpart E,
11 Universal Service Support for Low-Income Consumers, Section 54.400(o), ~~eligible~~
12 ~~telecommunications carriers shall accept FCC Form 5629 (09/18), OMB APPROVAL~~
13 ~~EDITION 3060-0819, entitled “Lifeline Program Application Form,” which is incorporated~~
14 ~~into this rule by reference and which is available at~~
15 <http://www.flrules.org/Gateway/reference.asp?No=Ref-10073> ~~or from the Universal Service~~
16 ~~Administrative Company’s website at~~

17 https://www.usac.org/_res/documents/li/pdf/nv/LI_Application_UniversalForm.pdf. The

18 ~~Spanish version of this form, FCC Form 5629 (09/18), OMB APPROVAL EDITION 3060-~~
19 ~~0819, entitled “Programa de Lifeline: Formulario de Aplicación,” is also incorporated into this~~
20 ~~rule by reference and is available at~~ [http://www.flrules.org/Gateway/reference.asp?No=Ref-](http://www.flrules.org/Gateway/reference.asp?No=Ref-10075)
21 [10075](http://www.flrules.org/Gateway/reference.asp?No=Ref-10075) ~~or from the Universal Service Administrative Company’s website at~~

22 https://www.usac.org/_res/documents/li/pdf/nv/LI-SP_Application_UniversalForms.pdf.
23 Eligible telecommunications carriers shall also accept Form PSC 1023 (08/18), entitled
24 “~~Lifeline Florida On-line Application for Recipients of Medicaid or Supplemental Nutrition~~
25 ~~Assistance Program (SNAP),” which is incorporated into this rule by reference and which is~~

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

1 available at ~~<http://www.flrules.org/Gateway/reference.asp?No=Ref-10052>~~ or from the
2 Commission's website at ~~www.floridapsc.com~~, by selecting "Lifeline Assistance," then
3 selecting "Public Service Commission Secure On-Line Application Form."
4 (3) When recertifying customers in the Lifeline program, eligible telecommunications
5 carriers shall accept FCC Form 5630 (09/18), OMB APPROVAL EDITION 3060-0819,
6 entitled "Lifeline Program Annual Recertification Form," which is incorporated into this rule
7 by reference and which is available at ~~[http://www.flrules.org/Gateway/reference.asp?No=Ref-](http://www.flrules.org/Gateway/reference.asp?No=Ref-10078)~~
8 ~~[10078](http://www.flrules.org/Gateway/reference.asp?No=Ref-10078)~~ or from the Universal Service Administrative Company's website at
9 ~~https://www.usac.org/_res/documents/li/pdf/nv/LI_Recertification_UniversalForms.pdf~~. The
10 Spanish version of this form, FCC Form 5630 (09/18), OMB APPROVAL EDITION 3060-
11 0819, entitled "Programa de Lifeline: Formulario de Recertificación," is also incorporated into
12 this rule by reference and is available at
13 ~~<http://www.flrules.org/Gateway/reference.asp?No=Ref-10080>~~ or from the Universal Service
14 Administrative Company's website at ~~[https://www.usac.org/_res/documents/li/pdf/nv/LI-](https://www.usac.org/_res/documents/li/pdf/nv/LI-SP_Recertification_UniversalForms.pdf)~~
15 ~~[SP_Recertification_UniversalForms.pdf](https://www.usac.org/_res/documents/li/pdf/nv/LI-SP_Recertification_UniversalForms.pdf)~~.
16 (4) To obtain information necessary to confirm whether a customer is eligible for Lifeline
17 assistance in instances where the customer shares an address with another Lifeline recipient,
18 eligible telecommunications carriers shall accept FCC Form 5631 (09/18), OMB APPROVAL
19 EDITION 3060-0819, entitled "Lifeline Program Household Worksheet," which is
20 incorporated into this rule by reference and which is available at
21 ~~<http://www.flrules.org/Gateway/reference.asp?No=Ref-10081>~~ or from the Universal Service
22 Administrative Company's website at
23 ~~https://www.usac.org/_res/documents/li/pdf/nv/LI_Worksheet_UniversalForms.pdf~~. The
24 Spanish version of this form, FCC Form 5631 (09/18), OMB APPROVAL EDITION 3060-
25 0819, entitled "Programa de Lifeline: Planilla de Hogar," is also incorporated into this rule by

CODING: Words underlined are additions; words in ~~struck through~~ type are deletions from existing law.

1 reference and is available at <http://www.flrules.org/Gateway/reference.asp?No=Ref-10082> or
2 from the Universal Service Administrative Company's website at

3 https://www.usac.org/_res/documents/li/pdf/nv/LI-SP_Worksheet_UniversalForms.pdf.

4 ~~(5) Eligible telecommunications carriers must allow customers the option to submit~~
5 ~~Lifeline application and recertification forms via U.S. Mail or facsimile, and may allow~~
6 ~~applications to be submitted electronically. Eligible telecommunications carriers must also~~
7 ~~allow customers the option to submit copies of supporting documents via U.S. Mail or~~
8 ~~facsimile.~~

9 ~~(3)~~(6) All eligible telecommunications carriers shall participate in the Lifeline Promotion
10 Simplified Enrollment Process. For purposes of this rule, the Lifeline Promotion Simplified
11 Enrollment Process is an electronic interface between the Department of Children and
12 Families ~~Services~~, the Commission, and the eligible telecommunications carrier to provide
13 eligible consumers information on how to apply for Lifeline assistance that allows low income
14 individuals to enroll in Lifeline following enrollment in a qualifying public assistance
15 program.

16 (a) The eligible telecommunications carrier shall maintain with the Commission the
17 name(s), email address(es) and telephone number(s) of at least one company representative
18 who will manage the user accounts on the Commission's Lifeline secure website.

19 ~~(b)~~(a) The Commission shall send an email to the eligible telecommunications carrier
20 informing the eligible telecommunications carrier that a list of customers enrolled in a Lifeline
21 qualifying public assistance program is applications are available for retrieval from the
22 Commission's Lifeline secure website.

23 ~~(b)~~ The eligible telecommunications carrier shall maintain at least one current email
24 address with the Commission, which the Commission will use to inform the eligible
25 telecommunications carrier of the Commission's Lifeline secure website address and that new

1 ~~Lifeline applications are available for retrieval.~~

2 (c) Eligible telecommunications carriers shall contact customers on the list to whom they
3 provide service and that do not already participate in Lifeline, to inform them of the Lifeline
4 application process with the National Lifeline Eligibility Verifier. For customers on the list
5 that are not contacted by the eligible telecommunications carrier, within 20 calendar days of
6 receiving the Commission's email notification, the eligible telecommunications carrier shall
7 provide to the Commission the customer identification number, name, address, telephone
8 number, and the Department of Children and Families application date. This information can
9 be provided via the Commission's dedicated Lifeline facsimile telephone line at (850) 717-
10 0108, an electronic response via the Commission's Lifeline secure website, or file the
11 information with the Office of Commission Clerk.~~The eligible telecommunications carrier~~
12 ~~shall maintain with the Commission the names, email addresses and telephone numbers of at~~
13 ~~least one company representative who will manage the user accounts on the Commission's~~
14 ~~Lifeline secure website.~~

15 ~~(d) Within 20 calendar days of receiving the Commission's email notification that the~~
16 ~~Lifeline application is available for retrieval, the eligible telecommunications carrier shall~~
17 ~~provide a facsimile response to the Commission via the Commission's dedicated Lifeline~~
18 ~~facsimile telephone line at (850)717-0108, or an electronic response via the Commission's~~
19 ~~Lifeline secure website, identifying the customer name, address, telephone number, and date~~
20 ~~of the application for:~~

- 21 ~~1. Misdirected Lifeline applications; or~~
- 22 ~~2. Applications for customers currently receiving Lifeline assistance.~~

23 ~~In lieu of a facsimile or electronic submission, the eligible telecommunications carrier may~~
24 ~~file the information with the Office of Commission Clerk.~~

25 ~~(d)(e)~~ Pursuant to Ssection 364.107(1), F.S., information filed by the eligible

1 telecommunications carrier in accordance with paragraph ~~(36)(c)~~ of this rule is confidential
2 and exempt from Ssection 119.07(1), F.S. However, the eligible telecommunications carrier
3 may disclose such information consistent with the criteria in Ssection 364.107(3)(a), F.S. For
4 purposes of this rule, the information filed by the eligible telecommunications carrier will be
5 presumed necessary for disclosure to the Commission pursuant to the criteria in Ssection
6 364.107(3)(a)4., F.S.

7 (4) Eligible telecommunications carriers must advertise the availability of Lifeline
8 assistance. Pursuant to Title 47, Code of Federal Regulations, Part 54, Subpart E, Section
9 54.405(b), all eligible telecommunications carriers are obligated to publicize the availability of
10 Lifeline assistance in a manner reasonably designed to reach those likely to qualify for the
11 assistance. Only posting the availability of Lifeline assistance on an eligible
12 telecommunications carrier's website is insufficient to meet this requirement. Advertising the
13 availability of Lifeline assistance can be achieved by using any of the following media: flyers,
14 local newspaper ads, local TV ads, mail, email, web advertisements, bill inserts and other text-
15 based methods of advertisement or a combination of such media. Pursuant to Title 47 of the
16 United States Code, Section 214(e)(1)(B), as amended December 1, 1997, which is hereby
17 incorporated into this rule by reference, and which is available at
18 <http://www.flrules.org/Gateway/reference.asp?No=Ref-10057>, charges must also be included
19 in the Lifeline advertisement. The company may redirect consumers to a toll free customer
20 service number and website to see applicable charges and fees in lieu of listing all charges in
21 an advertisement.

22 ~~(7) An eligible telecommunications carrier shall not impose additional verification~~
23 ~~requirements on subscribers beyond those which are required by this rule.~~

24 ~~(8) Within 20 calendar days of rejecting a Lifeline application, an eligible~~
25 ~~telecommunications carrier must provide written notice to the customer providing the reason~~

1 ~~for rejecting the Lifeline application, and providing contact information for the customer to~~
2 ~~get information regarding the application denial. Rejected applications received by way of the~~
3 ~~Simplified Enrollment Process under subsection (6) must also be reported to the Commission~~
4 ~~via the Commission's dedicated Lifeline facsimile telephone line at (850)717-0108 or~~
5 ~~electronically via the Commission's Lifeline secure website, with the reason why the~~
6 ~~application was rejected. In lieu of a facsimile or electronic submission, the eligible~~
7 ~~telecommunications carrier may file the information with the Office of Commission Clerk.~~

8 ~~(5)(9)~~ An eligible telecommunications carrier or its designee must provide written notice
9 prior to the termination of Lifeline assistance pursuant to Title 47, Code of Federal
10 Regulations, Part 54, Subpart E, Section 54.405(e) Carrier obligation to offer Lifeline, De-
11 enrollment, as amended October 1, 2017. The notice of impending termination shall contain
12 the telephone number at which the subscriber can obtain information about the subscriber's
13 Lifeline assistance from the eligible telecommunications carrier. The notice shall also inform
14 the subscriber of the availability, pursuant to section 364.105, F.S., of discounted residential
15 basic local telecommunications service.

16 ~~(6)(10)~~ All eligible telecommunications carriers shall provide current Lifeline program
17 company information to the Universal Service Administrative Company at
18 www.lifelinesupport.org so that the information can be posted on the Universal Service
19 Administrative Company's consumer website.

20 ~~(11)~~ Eligible telecommunications carriers must advertise the availability of Lifeline
21 assistance. Pursuant to Title 47, Code of Federal Regulations, Part 54, Subpart E, Section
22 54.405(b), all eligible telecommunications carriers are obligated to publicize the availability of
23 Lifeline assistance in a manner reasonably designed to reach those likely to qualify for the
24 assistance. Only posting the availability of Lifeline assistance on an eligible
25 telecommunications carrier's website is insufficient to meet this requirement. Advertising the

1 availability of Lifeline assistance can be achieved by using any of the following media: flyers,
2 local newspaper ads, local TV ads, mail, email, web advertisements, bill inserts and other text-
3 based methods of advertisement or a combination of such media. Pursuant to Title 47 of the
4 United States Code, Section 214(e)(1)(B), as amended December 1, 1997, which is hereby
5 incorporated into this rule by reference, and which is available at
6 <http://www.flrules.org/Gateway/reference.asp?No=Ref-10057>, charges must also be included
7 in the Lifeline advertisement. The company may redirect consumers to a 1-800 customer
8 service number and website to see applicable charges and fees in lieu of listing all charges in
9 an advertisement.

10 ~~(7)(12)~~ Eligible telecommunications carriers must file all reports with the Commission in
11 accordance with Title 47, Code of Federal Regulations, Part 54, Subpart E, Section 54.422(c),
12 Annual reporting for eligible telecommunications carriers that receive low-income support, as
13 amended October 1, 2017, which is hereby incorporated into this rule by reference, and which
14 is available at <http://www.flrules.org/Gateway/reference.asp?No=Ref-10058>.

15 *Rulemaking Authority 120.80(13)(d), 350.127(2), 364.10(2)(ij) FS. Law Implemented*
16 *364.10, 364.105, 364.183(1) FS. History—New 1-2-07, Amended 12-6-07, 6-23-10, 11-21-18,*
17 _____.

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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: January 18, 2023
TO: Douglas Sunshine, Senior Attorney, Office of the General Counsel
FROM: Sevini K. Guffey, Public Utility Analyst III, Division of Economics *SKG*
RE: Statement of Estimated Regulatory Costs (SERC) for Proposed Amendments to Rule 25-4.0665, Florida Administrative Code (F.A.C.), Lifeline Assistance

Current Rule 25-4.0665, F.A.C., Lifeline Assistance, establishes the requirements prescribed by the Federal Communications Commission (FCC), which the Eligible Telecommunications Carriers (ETCs) must follow when they offer Lifeline assistance to qualified residential subscribers.

The purpose of the proposed amendments to Rule 25-4.0665, F.A.C., are to clarify and meet the requirements of the updated Lifeline rules of the FCC and to reflect the 2022 legislative changes to Section 364.10, Lifeline Service, Florida Statutes (F.S.). Specifically, the proposed amendments to Rule 25-4.0665, F.A.C., include: (1) removal of obsolete language relating to ETC approval of applications and use of specific application forms, (2) incorporate by reference, and change the program enrollment process from Lifeline Simplified Enrollment Process to Lifeline Promotion Process which facilitates the electronic transfer of eligible customer information from the Department of Children and Families and the Public Service Commission to ETCs, (3) clarify the responsibilities of ETCs and the Commission regarding the Lifeline Promotion Process, and (4) move the existing Lifeline availability advertising criteria from Section (11) to Section (4) in the proposed amended rule.

The SERC analysis indicates that none of the adverse impact/cost criteria established in Sections 120.541(2)(a), (c), (d), and (e), F.S., will be exceeded as a result of the proposed amendments. If the proposed amendments would impose any cost impacts, the incremental cost would be minimal as the electronic transfer of eligible customer information process is essentially the same process. No requests for a rule development workshop were made, and no workshop was held pursuant to Section 120.54(2)(c), F.S. No regulatory alternatives were submitted pursuant to Section 120.541(2)(g), F.S.

cc: SERC file

FLORIDA PUBLIC SERVICE COMMISSION
STATEMENT OF ESTIMATED REGULATORY COSTS
Rule 25-4.0665, F.A.C., Lifeline Assistance

1. Will the proposed rule have an adverse impact on small business? [120.541(1)(b), F.S.] (See Section E., below, for definition of small business.)

Yes No

If the answer to Question 1 is "yes", see comments in Section E.

2. Is the proposed rule likely to directly or indirectly increase regulatory costs in excess of \$200,000 in the aggregate in this state within 1 year after implementation of the rule? [120.541(1)(b), F.S.]

Yes No

If the answer to either question above is "yes", a Statement of Estimated Regulatory Costs (SERC) must be prepared. The SERC shall include an economic analysis showing:

A. Whether the rule directly or indirectly:

(1) Is likely to have an adverse impact on any of the following in excess of \$1 million in the aggregate within 5 years after implementation of the rule? [120.541(2)(a)1, F.S.]

Economic growth Yes No

Private-sector job creation or employment Yes No

Private-sector investment Yes No

(2) Is likely to have an adverse impact on any of the following in excess of \$1 million in the aggregate within 5 years after implementation of the rule? [120.541(2)(a)2, F.S.]

Business competitiveness (including the ability of persons doing business in the state to compete with persons doing business in other states or domestic markets) Yes No

Productivity Yes No

Innovation Yes No

(3) Is likely to increase regulatory costs, including any transactional costs, in excess of \$1 million in the aggregate within 5 years after the implementation of the rule? [120.541(2)(a)3, F.S.]

Yes

No

Economic Analysis: Rule 25-4.0665, F.A.C., is being amended to meet the Lifeline program requirements of the Federal Communications Commission (FCC) and to reflect 2022 legislative changes to Section 364.10, F.S., Lifeline Service. Specifically, the proposed amendments reflect the updated effective date of Title 47, Code of Federal Regulations (CFR) and change the program from “Lifeline Simplified Enrollment Process” to “Lifeline Promotion Process” to facilitate the electronic transfer of eligible customer information from the Department of Children and Families and the PSC to Eligible Telecommunications Carriers (ETCs). If there would be any cost impacts due to the modified enrollment process, the incremental cost would be minimal as the process is essentially the same.

B. A good faith estimate of: [120.541(2)(b), F.S.]

(1) The number of individuals and entities likely to be required to comply with the rule.

While there are 20 ETCs that would be affected by the rule, only 14 ETCs are currently offering Lifeline assistance service.

(2) A general description of the types of individuals likely to be affected by the rule.

While there are 20 ETCs that would be affected by the rule, only 14 ETCs are currently offering Lifeline assistance service.

C. A good faith estimate of: [120.541(2)(c), F.S.]

(1) The cost to the Commission to implement and enforce the rule.

None. To be done with the current workload and existing staff.

Minimal. Provide a brief explanation. Due to the increased number of consumers qualifying for Lifeline assistance, there may be an increase in the number of letters to be mailed by the PSC to eligible Lifeline consumers, which would increase postage cost.

Other. Provide an explanation for estimate and methodology used.

(2) The cost to any other state and local government entity to implement and enforce the rule.

- None. The rule will only affect the Commission.
- Minimal. Provide a brief explanation.
- Other. Provide an explanation for estimate and methodology used.

(3) Any anticipated effect on state or local revenues.

- None.
- Minimal. Provide a brief explanation.
- Other. Provide an explanation for estimate and methodology used.

D. A good faith estimate of the transactional costs likely to be incurred by individuals and entities (including local government entities) required to comply with the requirements of the rule. "Transactional costs" include filing fees, the cost of obtaining a license, the cost of equipment required to be installed or used, procedures required to be employed in complying with the rule, additional operating costs incurred, the cost of monitoring or reporting, and any other costs necessary to comply with the rule. [120.541(2)(d), F.S.]

- None. The rule will only affect the Commission.
- Minimal. Provide a brief explanation. The proposed amendments remove obsolete language and change the Lifeline Simplified Enrollment Process to the Lifeline Promotion Process to facilitate the electronic transfer of eligible customer information to ETCs. If there would be any cost impacts due to changing the Lifeline Simplified Enrollment Process to the Lifeline Promotion Process, the incremental cost would be minimal as the process is essentially the same.
- Other. Provide an explanation for estimate and methodology used.

E. An analysis of the impact on small businesses, and small counties and small cities: [120.541(2)(e), F.S.]

(1) "Small business" is defined by Section 288.703, F.S., as an independently owned and operated business concern that employs 200 or fewer permanent full-time employees and that, together with its affiliates, has a net worth of not more than \$5 million or any firm based in this state which has a Small Business Administration 8(a) certification. As to sole proprietorships, the \$5 million net worth requirement shall include both personal and business investments.

No adverse impact on small business.

Minimal. Provide a brief explanation.

Other. Provide an explanation for estimate and methodology used.

(2) A "Small City" is defined by Section 120.52, F.S., as any municipality that has an unincarcerated population of 10,000 or less according to the most recent decennial census. A "small county" is defined by Section 120.52, F.S., as any county that has an unincarcerated population of 75,000 or less according to the most recent decennial census.

No impact on small cities or small counties.

Minimal. Provide a brief explanation.

Other. Provide an explanation for estimate and methodology used.

F. Any additional information that the Commission determines may be useful. [120.541(2)(f), F.S.]

None.

Additional Information:

G. A description of any regulatory alternatives submitted and a statement adopting the alternative or a statement of the reasons for rejecting the alternative in favor of the proposed rule. [120.541(2)(g), F.S.]

No regulatory alternatives were submitted.

A regulatory alternative was received from

Adopted in its entirety.

Rejected. Describe what alternative was rejected and provide a statement of the reason for rejecting that alternative.

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: January 27, 2023

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (Buys, Cicchetti, Mouring) *ALM*
Office of the General Counsel (Dose) *JSC*

RE: Docket No. 20220210-EI – Petition requesting approval of an AFUDC rate, effective January 1, 2023, by Florida Public Utilities Company.

AGENDA: 02/08/23 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

Florida Public Utilities Company (FPUC or Company) does not currently have an authorized rate for an Allowance for Funds Used During Construction (AFUDC). On December 9, 2022, FPUC (the electric division) filed its petition requesting approval of an AFUDC rate of 6.80 percent, effective on January 1, 2023. The Company's request did not comport with the filing requirements specified in Rule 25-6.0141, Florida Administrative Code (F.A.C). On December 20, 2022, FPUC filed its amended petition requesting approval of an AFUDC rate of 6.80 percent, effective on October 1, 2022. 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.

Discussion of Issues

Issue 1: Should the Commission approve FPUC's request to establish an AFUDC rate of 6.80 percent?

Recommendation: Yes. The appropriate AFUDC rate for FPUC is 6.80 percent based on a 13-month average capital structure for the period ended September 30, 2022. (D. Buys)

Staff Analysis: In its amended petition filed on December 20, 2022, FPUC requested approval of an AFUDC rate of 6.80 percent. Rule 25-6.0141(3), F.A.C., Allowance for Funds Used During Construction, provides the following guidance:

(3) 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 6.80 percent, FPUC provided its calculations and capital structure in Schedules A and B attached to its request. Schedule A included the 13-month average capital structure ending September 30, 2022. Staff reviewed the schedules and determined that the proposed rate was calculated in accordance with Rule 25-6.0141(3), F.A.C. In its calculation, the Company appropriately used the mid-point return on equity of 10.25 percent, which was approved by Order No. PSC-2014-0517-S-EI.¹ The AFUDC rate calculation is presented in Attachment 1.

Based on its review, staff believes that the requested AFUDC rate of 6.80 percent is appropriate and should be approved

¹Order No. PSC-2014-0517-S-EI, issued September 29, 2014, in Docket No. 20140025-EI, *In re: Application for rate increase by Florida Public Service Commission*.

Issue 2: What is the appropriate monthly compounding rate to achieve FPUC's requested annual AFUDC of 6.80 percent?

Recommendation: The appropriate compounding rate to achieve an annual AFUDC rate of 6.80 percent is 0.005497. (D. Buys)

Staff Analysis: FPUC requested a monthly compounding rate of 0.005497 to achieve an annual AFUDC rate of 6.80 percent. In support of the requested monthly compounding rate of 0.005497, the Company provided its calculations in Schedule C attached to its request. Rule 25-6.0141(4)(a), F.A.C., provides the following formula for discounting the annual AFUDC rate to reflect monthly compounding.

$$M = [(1 + A/100)^{1/12} - 1] \times 100$$

Where: M = discounted monthly AFUDC rate

A = annual AFUDC rate

The rule also requires that the monthly compounding rate be calculated to six decimal places.

Staff reviewed the Company's calculation and determined it was derived accordance with Rule 25-6.0141(4), F.A.C. Accordingly, the appropriate monthly compounding rate is 0.005497 as shown on Attachment 2. Therefore, staff recommends that a discounted monthly AFUDC rate of 0.005497 be approved.

Issue 3: Should the Commission approve FPUC's requested effective date of October 1, 2022, for implementing the AFUDC rate?

Recommendation: Yes. The AFUDC rate should be effective October 1, 2022, for all purposes. (D. Buys)

Staff Analysis: FPUC's requested AFUDC rate was calculated using the most recent 13-month average capital structure for the period ended September 30, 2022. Rule 25-6.0141(6), 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 October 1, 2022, 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. (Dose)

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.

**FLORIDA PUBLIC UTILITIES COMPANY
 CAPITAL STRUCTURE USED FOR THE REQUESTED AFDUC RATE
 AS OF SEPTEMBER 30, 2022**

COMPANY AS FILED				
<u>CAPITAL COMPONENTS</u>	<u>JURISDICTIONAL AVERAGE</u>	<u>CAPITAL RATIO</u>	<u>COST OF CAPITAL</u>	<u>WEIGHTED COST OF CAPITAL</u>
COMMON EQUITY	\$62,165,119	57.23%	10.25%	5.87%
LONG-TERM DEBT	25,723,579	23.68%	3.29%	0.78%
SHORT-TERM DEBT	5,278,592	4.86%	1.54%*	0.07%
CUSTOMER DEPOSITS	3,922,366	3.61%	2.29%*	0.08%
DEFERRED INCOME TAXES	11,535,009	10.62%	0.00%	0.00%
TOTAL	\$108,624,665	100.00%		6.80%

* 13-MONTH AVERAGE

**FLORIDA PUBLIC UTILITIES COMPANY
METHODOLOGY FOR COMPOUNDING AFUDC RATE
AS OF SEPTEMBER 30, 2022**

COMPANY AS FILED

<u>MONTHS</u>	<u>AFUDC BASE</u>	<u>MONTHLY AFUDC RATE</u>	<u>CUMULATIVE AFUDC RATE</u>
1	1.000000	0.005497	0.005497
2	1.005497	0.005528	0.011025
3	1.011025	0.005558	0.016583
4	1.016583	0.005589	0.022171
5	1.022171	0.005619	0.027791
6	1.027791	0.005650	0.033441
7	1.033441	0.005681	0.039122
8	1.039122	0.005712	0.044834
9	1.044834	0.005744	0.050578
10	1.050578	0.005775	0.056354
11	1.056354	0.005807	0.062161
12	1.062161	0.005839	0.068000

Annual Rate (R) = 0.0680

Monthly Rate = $((1+R)^{(1/12)})-1 = 0.005497$

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: January 27, 2023

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Engineering (Knoblauch, Ramos) *TB*
 Division of Accounting and Finance (Higgins, Mouring, Richards) *ALM*
 Division of Economics (Hudson) *JGH*
 Office of the General Counsel (Imig, Tierweiler) *AH*

RE: Docket No. 20210098-WU – Application for staff-assisted rate case in Pasco County by A Utility Inc.

AGENDA: 02/08/23 – Regular Agenda – Proposed Agency Action Except for Issue Nos. 11, 13, and 14 - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Graham

CRITICAL DATES: 07/12/2023 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

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Case Background

A Utility Inc. (AUI or Utility) is a Class C utility serving 118 residential water customers in Pasco County. The service area is located in the Southwest Florida Water Management District (SWFWMD). The water system was initially built in 1963 to serve the residents of Tropical Trailer Park in Zephyrhills, Florida. The Utility was granted an original certificate in 1974, and was subsequently transferred four times before being transferred to AUI on May 20, 2021.¹

The Utility's rates were last set by the Commission in 1988.² According to AUI's 2020 Annual Report, total gross revenues were \$20,667, and total operating expenses were \$18,171, resulting in net operating income of \$1,950. On May 14, 2021, AUI filed an application for a staff-assisted rate case. Staff selected a test year ended December 31, 2020, for the instant case.

A virtual customer meeting was held on December 1, 2022, and four customers participated. The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, 367.091, and 367.121, Florida Statutes (F.S.).

¹ Order No. 6020, issued February 4, 1974, in Docket No. 1974037-W, *In re: Application of John W. Beeman for a certificate to operate a water utility in Pasco County, Florida*; Order No. 6998, issued November 14, 1975, in Docket No. 1974544-W, *In re: Application for transfer of water utility d/b/a Tropical Utilities and Certificate No. 165-W from John W. Beeman to Fisher Ames and his wife, Helen Ames, in Pasco County, Florida*; Order No. 10151, issued July 21, 1981, in Docket No. 19800253-W, *In re: Application for the transfer of Certificate No. 165-W from Fisher Ames and His Wife, Helen Ames, to Dale Hendryx, in Pasco County*; Order No. 11946, issued May 19, 1983, in Docket No. 19830048-W, *In re: Application for transfer of Certificate No. 165-W from Dale Hendryx to Barbara Cobb in Pasco County, Florida*; Order No. 19163, issued April 18, 1988, in Docket No. 19871156-WU, *In re: Application for transfer of Certificate No. 165-W from Melvin Cobb to Allen LaFortune and Otis Fonder (Tropical Park Water System) in Pasco County*.

² Order No. 21652, issued August 2, 1989, in Docket No. 19881601-WU, *In re: Application of Allen LaFortune and Otis Fonder for a staff-assisted rate case in Pasco County*.

Discussion of Issues

Issue 1: Is the quality of service provided by A Utility Inc. satisfactory?

Recommendation: AUI is currently in compliance with the Department of Environmental Protection (DEP) standards; therefore, the quality of service should be considered satisfactory. (Knoblauch)

Staff Analysis: Pursuant to Section 367.081(2)(a)1, F.S., and 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 requires 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. The operating condition of the water system is addressed in Issue 2.

Quality of Utility's Product

In evaluation of AUI's product quality, staff reviewed the Utility's compliance with DEP 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. The most recent comprehensive chemical analyses were performed on August 3, 2021. All results were in compliance with the DEP's standards.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the complaints filed in the Commission's Consumer Activity Tracking System (CATS), filed with the DEP, and received by the Utility for the test year and four years prior. No complaints were recorded through the CATS system, the DEP, or the Utility during this time period.

Staff conducted a virtual customer meeting on December 1, 2022. Four customers participated at the customer meeting and addressed several issues including the rate increase, the operation of the system, and the water pressure. Two of the customers expressed concerns regarding the size of the increase and indicated they had experienced issues of low water pressure. Another customer voiced concerns regarding AUI's financial state and the expenses required to maintain the system. Finally, one customer stated that the water quality was good and the water pressure had increased after improvements had been made to the system.

Representatives from the Utility and OPC attended the customer meeting. Mr. Troy Fonder, representing AUI, stated that the Utility was in the process of replacing water mains in the system, which would improve many of the water pressure problems; however, some of the service lines to customers' homes were very small in size and likely was the reason for the low pressure. Comments from two customers were also filed in the docket file. One of the customer's comments stated an opposition to the size of the rate increase, and provided pictures of residue in their water filter. The second customer comment stated that they had experienced low water

pressure and AUI's well sheds were in disrepair. This customer's comments on the Utility's facilities will be addressed further in Issue 2.

Specific to water quality, the comments made by customers were largely related to low water pressure and residue in the water. AUI indicated it is replacing water mains to address the low pressure concerns. However, some of the low pressure issues experienced by customers were likely due to the size of the customers' individual water lines, which are not the responsibility of the Utility. Additionally, no complaints were filed in CATS, with the DEP, or the Utility, and AUI is in compliance with DEP water standards according to its last chemical analysis. Therefore, staff recommends that the quality of service provided by the Utility is satisfactory.

Conclusion

AUI is currently in compliance with the DEP standards; therefore, the quality of service should be considered satisfactory.

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

Recommendation: Staff recommends the infrastructure and operating conditions of A Utility Inc.'s water system are in compliance with DEP regulations. (Knoblauch)

Staff Analysis: Rule 25-30.225 F.A.C., requires that each water utility shall operate and maintain its plant and facilities by employing qualified operators in accordance with the rules of the DEP in order to provide safe and efficient service up to and including the point of delivery into the piping owned by the customer. During a rate making proceeding, 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 for water systems and compliance evaluation inspections for wastewater systems, 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

AUI's water system has two wells with a combined pumping capacity range of 50 to 70 gallons per minute (gpm), one 220-gallon hydropneumatic storage tank, and two 850-gallon bladder storage tanks. Staff reviewed the sanitary survey conducted by the DEP for determination of the Utility's overall water facility compliance. The sanitary survey conducted on December 27, 2022, indicated that the system was determined to be in compliance. As stated in Issue 1, one customer provided comments in the docket stating that the Utility's well sheds were in disrepair. The customer stated that they would be more accepting of the rate increase if improvements to the system were addressed. No deficiencies related to AUI's water sheds were noted in the DEP sanitary survey, and the system was determined to be in compliance.

Conclusion

Staff recommends the infrastructure and operating conditions of A Utility Inc.'s water system are in compliance with DEP regulations.

Issue 3: What are the used and useful (U&U) percentages of A Utility Inc.'s water treatment plant (WTP) and water distribution system?

Recommendation: AUI's WTP and water distribution system should be considered 100 percent U&U. Additionally, staff recommends no adjustment to purchased power and chemicals expenses should be made for excessive unaccounted for water (EUW). (Knoblauch)

Staff Analysis: AUI's WTP consists of two wells with a combined pumping capacity ranging between 50 to 70 gpm, a 220-gallon hydropneumatic storage tank, and two 850-gallon hydropneumatic bladder storage tanks. AUI's water distribution system is composed of approximately 2,200 feet of 2-inch polyvinyl chloride (PVC) pipe, 1,800 feet of 1.5-inch PVC pipe, 1,000 feet of 1.25-inch PVC pipe, 1,200 feet of 1.25-inch galvanized pipe, and 300 feet of 1-inch galvanized pipe.

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. AUI's U&U percentages were last determined in Docket No. 19881601-WU. In that docket, the Commission determined the Utility's treatment facilities and distribution system were 100 percent U&U. The Utility has not increased the capacity of its facilities and the service area is built out. Therefore, consistent with the Commission's previous decision, staff recommends the Utility's WTP and 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. EUW is defined 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. AUI's customers are unmetered; therefore, staff is unable to calculate EUW and recommends no adjustment to purchased power and chemicals.

Conclusion

AUI's WTP and distribution system should be considered 100 percent U&U. Additionally, staff recommends no adjustment to purchased power and chemicals expenses should be made for EUW.

Issue 4: What is the appropriate average test year rate base for A Utility Inc.?

Recommendation: The appropriate average test year rate base for AUI is \$10,026. (Richards)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service (UPIS), land and land rights, accumulated depreciation, contributions-in-aid-of-construction (CIAC), accumulated amortization of CIAC, and working capital. Staff selected the test year ended December 31, 2020, for the instant rate case. According to Audit Finding No. 7, Commission audit staff determined that the Utility does not maintain a general ledger to record its transactions, instead relying on a profit and loss (P&L) statement and a balance sheet in order to track the balances in its accounts. As such, audit staff determined that the Utility's books and records are not in compliance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). Staff discusses the corrective measures in Issue 7 of this recommendation. A summary of each component of rate base and the recommended adjustments are discussed below.

Utility Plant in Service

The Utility recorded UPIS of \$97,700. During the audit, it was found that the Utility did not make the Commission ordered adjustments stemming from Order No. PSC-2021-0183-PAA-WU (2017 Transfer Order).³ Therefore, staff decreased UPIS by \$43,107. Staff made no further adjustments to UPIS and therefore recommends an average UPIS balance of \$54,593 (\$97,700 - \$43,107).

Land and Land Rights

The Utility recorded a land value of \$19,300. In the 2017 Transfer Order, the Commission determined the original cost of the land was \$1,000. There have been no additions to this account since the prior rate case. To reflect the prior Commission Order, staff decreased land and land rights by \$18,300. Therefore, staff recommends land and land rights balance of \$1,000 (\$19,300 - \$18,300).

Accumulated Depreciation

The Utility recorded accumulated depreciation of \$15,267. During the audit, it was found that the Utility did not properly record accumulated depreciation. Staff recalculated accumulated depreciation from January 1, 2017, to December 31, 2020, using the adjusted UPIS plant balances from the 2017 Transfer Order, and the depreciation rates established by Rule 25-30.140(2), F.A.C. As such, staff increased accumulated depreciation by \$33,692. Staff further made an adjustment decreasing accumulated depreciation by \$315 to reflect an averaging adjustment. Therefore, staff recommends average accumulated depreciation of \$48,645 (\$15,267 + \$33,692 - \$315).

Contributions-In-Aid-Of-Construction

The Utility did not record any CIAC on its P&L statement or its balance sheet as of December 31, 2020. However, the Commission established a CIAC balance of \$26,625 in its 2017 Transfer

³ Order No. PSC-2021-0183-PAA-WU, issued May 20, 2021, in Docket No. 20170114-WU, *In re: Application for transfer of facilities and water Certificate No. 165-W in Pasco County from Allen LaFortune and Otis Fonder to A Utility Inc.*

Order. There have been no additions to CIAC since the last rate proceeding. Therefore, staff recommends a CIAC balance of \$26,625.

Accumulated Amortization of CIAC

The Utility did not record any accumulated amortization of CIAC on its P&L statement or its balance sheet as of December 31, 2020. According to the 2017 Transfer Order, CIAC is fully amortized, therefore staff recommends accumulated amortization of CIAC of \$26,625.

Working Capital Allowance

Working Capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(3), F.A.C., staff used the one-eighth operation and maintenance (O&M) expense (less rate case expense) formula for calculating the working capital allowance. Section 367.081(9), F.S., prohibits a utility from earning a return on the unamortized balance of rate case expense. As such, for this calculation staff removed the recommended rate case expense of \$341. This resulted in an adjusted O&M expense of \$24,617 (\$24,958 - \$341). Applying this formula, staff recommends a working capital allowance of \$3,077 ($\$24,617 \div 8$).

Rate Base Summary

In its response to the Commission audit, the Utility stated that as of January 1, 2021, the Commission-ordered adjustments have been made for UPIS, land and land rights, and accumulated depreciation.⁴ Based on the foregoing, staff recommends that the appropriate average test year rate base is \$10,026. Rate Base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

⁴ Document No. 03342-2022, filed June 2, 2022.

Issue 5: What is the appropriate return on equity and overall rate of return for A Utility Inc.?

Recommendation: The appropriate return on equity (ROE) is 10.45 percent with a range of 9.45 percent to 11.45 percent. The appropriate overall rate of return is 9.95 percent. (Richards)

Staff Analysis: AUI's capital structure consists entirely of long-term debt and has been reconciled with staff's recommended rate base. The appropriate ROE is 10.45 percent which is based on the Commission-approved leverage formula currently in effect.⁵ Staff recommends an ROE of 10.45 percent with a range of 9.45 percent to 11.45 percent, and an overall rate of return of 9.95 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁵ Order No. PSC-2022-0208-PAA-WS, issued June 15, 2022, in Docket No. 20220006-WS, *In re: Water and wastewater industry annual reestablishment of authorized rate of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

Issue 6: What are the appropriate test year revenues for A Utility Inc.'s water system?

Recommendation: The appropriate test year revenues for AUI are \$21,608. (Hudson)

Staff Analysis: AUI recorded total test year revenues of \$20,722. The water revenues included only service revenues. There are no miscellaneous revenues. AUI had a price index rate increase subsequent to the test year. As a result, staff annualized the test year revenues. Based on staff's review of the Utility's billing determinants and the price index rate increase, staff determined test year service revenues should be \$21,608. This results in an increase of \$886 (\$21,608 - \$20,722) to service revenues. The Utility has no miscellaneous service charges and thus, no miscellaneous revenues. Based on the above, the appropriate test year revenues for the Utility are \$21,608.

Issue 7: What is the appropriate operating expense for A Utility Inc.?

Recommendation: The appropriate amount of operating expense for AUI is \$27,242. (Richards)

Staff Analysis: The Utility recorded operating expense of \$12,614. The test year O&M expenses have been reviewed by staff, including invoices and other supporting documentation. Staff has made several adjustments to the Utility's operating expenses as described below. Many of staff's adjustments reflect updated invoices from 2021, which staff believes more accurately reflect the expense levels going forward. On November 16, 2022, the Utility provided a response to the Staff Report filed on November 1, 2022.⁶ In its response, the Utility prioritized concerns which have been addressed in this recommendation.

Operation and Maintenance Expenses

Salaries and Wages – Employees (601)

The Utility did not record any salaries expense for the test year. In response to Staff's Second Data Request (DR No. 2), the Utility calculated salaries expense of \$3,874.⁷ Staff believes this amount is reasonable, and therefore recommends salaries expense of \$3,874.

Purchased Power (615)

The Utility recorded purchased power expense of \$401. Through discovery, the Utility provided purchased power invoices for both of its locations.^{8,9} Based on its calculations, staff increased purchased power expense by \$772, recommending a total purchased power expense of \$1,173 (\$401 + \$772).

Chemicals Expense (618)

The Utility recorded chemicals expense of \$84. In response to Staff's First Data Request (DR No. 1), the Utility provided invoices for two chlorine purchases during 2021. The first invoice was from January 2021, for \$89, and the second was from July 2021, for \$90; totaling \$179 (\$89 + \$90). Therefore, staff recommends chemicals expense of \$179.

Materials and Supplies (620)

The Utility recorded materials and supplies expense of \$3,723. Staff made an audit adjustment decreasing this amount by \$76, and therefore recommends materials and supplies expense of \$3,647 (\$3,723 - \$76).

Contractual Services – Professional (631)

The Utility recorded contractual services – professional expense of \$3,450. In response to DR No. 1, the Utility provided invoices totaling \$5,326 paid to MCL Environmental Services (MCL) for plant operations in 2021. This amount included \$2,610 (\$217.50 monthly) for well operations, and invoices for work orders totaling \$2,716 from January 2021 through December 2021. Therefore, staff recommends a contractual services – professional expense of \$5,326.

⁶ Document No. 11370-2022, filed November 16, 2022.

⁷ Document No. 03343-2022, filed June 2, 2022.

⁸ Document No. 00041-2022, filed January 4, 2022.

⁹ Document No. 06273-2022, filed September 13, 2022.

Contractual Services – Accounting (632)

The Utility did not record any expenses for contractual services – accounting for the test year. Staff believes it is necessary for the Utility to obtain professional accounting services in order to maintain its books and records in accordance with NARUC standards. Because of this, through DR No. 2, staff requested the Utility obtain an estimate for professional accounting services. In response to DR No. 2, the Utility provided an estimate from Henson & Murtha CPAs (Firm) to bring the Utility’s books and records in compliance with Rule 25-30.110, F.A.C., and maintain the books on a going-forward basis. The Firm provided a quote of \$3,900 for its services. Staff believes this is a necessary service for the Utility, and therefore recommends contractual services – accounting fee of \$3,900.

In the past, the Commission has approved pro forma expenses with the requirement that the Utility file an affidavit attesting that it has performed the related actions.¹⁰ Therefore, staff recommends, as pro forma, the inclusion of the requested contractual services – accounting fee of \$3,900, with a requirement that the Utility file an affidavit with the Commission, no later than May 1, 2023, attesting that it has entered into a contract with the Firm. Should the Utility not enter into a contract with the Firm by May 1, 2023, Commission staff shall file a recommendation addressing potential actions to be taken.

Contractual Services – Testing (635)

The Utility did not record any contractual services – testing expense for the test year. In response to DR No. 1, the Utility provided invoices from MCL for performing lab testing from January 2021 through December 2021. These tests totaled \$3,529, and therefore staff recommends contractual services – testing expense of \$3,529.

Contractual Services – Other (636)

The Utility did not record any contractual services – other expense for the test year. In response to DR No. 2, the Utility provided a contract effective January 1, 2023, between itself and Rich Allbright Property Maintenance (Maintenance Company). This contract was for the performance of professional property maintenance at a cost of \$40 per month for each of the Utility’s three lots. Combined, property maintenance for the Utility is \$120 per month, or \$1,440 annually. Therefore, staff recommends contractual services – other expense of \$1,440.

Similar to contractual services – accounting, staff recommends the inclusion of the requested contractual services – other fee of \$1,440, with a requirement that the Utility file an affidavit with the Commission, no later than May 1, 2023, attesting that it has executed the contract with the Maintenance Company. Should the Utility not execute the contract with the Maintenance Company by May 1, 2023, Commission staff shall file a recommendation addressing potential actions to be taken.

Transportation Expense (650)

The Utility did not record any transportation expense for the test year. In response to DR No. 2, the Utility estimates it travels 100 total miles monthly in providing water services. Using the 2022 IRS business mileage rate of \$0.625 per mile, staff calculated transportation expense of

¹⁰ Order No. PSC-2013-0646-PAA-WU, issued December 5, 2013, in Docket No. 20130025-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*

\$750 ($\$0.625 \times 100 \text{ miles} \times 12 \text{ months}$).¹¹ Therefore, staff recommends transportation expense of \$750.

Rate Case Expense (665)

The Utility did not record any rate case expense. The Utility is required by Rule 25-22.0407, F.A.C., to mail notices of the rate case overview, final rates, and four-year rate reduction. Staff calculated noticing costs to be \$348. Staff calculated the distance from the Utility to Tallahassee as 253 miles. Based on the 2022 IRS mileage rate, staff calculated a round-trip travel expense to the Commission Conference, to include lodging, of \$516. Additionally, the Utility paid a \$500 filing fee.¹²

Staff calculated total rate case expense as \$1,364 ($\$348 + \$516 + \500). This amount amortized over four years is \$341 ($\$1,364 \div 4 \text{ years}$). Therefore, staff recommends an amortized rate case expense of \$341.

Bad Debt Expense (670)

The Utility did not record any bad debt expense for the test year. In the past, the Commission has used a percentage of total revenues to determine bad debt expense when a three year average was not available.¹³ As such, staff recommends bad debt expense of 1 percent of total revenues. Therefore, staff recommends bad debt expense of \$216.

Miscellaneous Expense (675)

The Utility did not record any miscellaneous expense for the test year. However, in response to DR No. 2, the Utility provided a list of costs which are necessary for running its operations. These costs are listed in Table 7-1 below:

**Table 7-1
Miscellaneous Expenses**

Expense	Amount
Consumer Confidence Report	\$125
Valve Exercising Cost	150
Meter Accuracy Testing	48
Florida Rural Water Association Annual Fee	161
DEP Licensing Fee	100
Total Miscellaneous Expenses	<u>\$583</u>

Source: Staff's Second Data Request

¹¹ <https://www.irs.gov/newsroom/irs-increases-mileage-rate-for-remainder-of-2022>.

¹² Document No. 07094-2021, filed June 28, 2021.

¹³ Order No. PSC-2018-0552-PAA-WU, issued November 19, 2018, in Docket No. 20180022-WU, *In re: Application for staff-assisted rate case in Lake County by Pine Harbour Waterworks, Inc.*; Order No. 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.*; Order No. 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.*

Staff believes the costs provided by the Utility in its response to DR No. 2 are appropriate. Therefore, staff recommends a miscellaneous expense of \$583.

Operation and Maintenance Expense Summary

The Utility recorded test year O&M expense of \$7,658. Based on the above adjustments, staff recommends the O&M expense be increased by \$17,300. This results in total O&M expense of \$24,958 ($\$7,658 + \$17,300$). Staff's recommended adjustments to O&M expense are shown on Schedule No. 3-C.

Depreciation Expense

The Utility recorded depreciation expense of \$3,818. Using the depreciation rates prescribed in Rule 25-30.140, F.A.C., staff decreased this amount by \$3,385 based on certain plant accounts being fully depreciated. Therefore, staff recommends a depreciation expense of \$433 ($\$3,818 - \$3,385$).

Taxes Other Than Income (TOTI)

The Utility recorded TOTI of \$1,138. Staff increased TOTI by \$292 due to an audit adjustment. Additionally, staff increased TOTI by \$34 to reflect the appropriate regulatory assessment fees (RAFs) based on corrected Utility test year revenues. These adjustments result in a test year TOTI increase of \$326 ($\$292 + \34).

As discussed in Issue 9, staff recommends revenues be increased by \$8,588 to reflect the change in revenue required to cover expenses and allow an opportunity to recover an operating margin of 12 percent. As a result, TOTI should be increased by \$386 to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$1,851 ($\$1,138 + \$326 + \386).

Operating Expense Summary

The Utility recorded operating expenses of \$12,614. The application of staff's recommended adjustments to the Utility's operating expense result in a total operating expense of \$27,242. Operating expenses are shown on Schedule No. 3-A and the related adjustments are shown on Schedule No. 3-B.

Issue 8: Does A Utility Inc. meet the criteria for application of the operating ratio methodology?

Recommendation: Yes. AUI meets the requirement for application of the operating ratio methodology for calculating revenue requirement. (Richards)

Staff Analysis: Rule 25-30.4575(2), F.A.C., provides that, in rate cases processed under Rule 25-30.455, F.A.C., the Commission will use the operating ratio methodology to establish the Utility's revenue requirement when its rate base is not greater than 125 percent of O&M expenses, less rate case expense, and the use of the operating ratio methodology does not change the Utility's qualification for a SARC.

With respect to AUI, staff has recommended a rate base of \$10,026. After removal of rate case expense, staff has calculated an O&M expense of \$24,617 (\$24,958 - \$341). Based on staff's recommended amounts, the Utility's rate base is 41 percent of its adjusted O&M expense. Based on this ratio, the Utility qualifies for application of the operating ratio methodology.

Issue 9: What is the appropriate revenue requirement for A Utility Inc.?

Recommendation: The appropriate revenue requirement for AUI is \$30,196, resulting in an annual increase of \$8,588 (39.75 percent). (Richards)

Staff Analysis: AUI should be allowed an annual increase of \$8,588 (39.75 percent). This should allow the Utility the opportunity to recover expenses and earn an operating margin of 12 percent. The calculations are shown below in Table 9-1.

Table 9-1
Water Revenue Requirement

Adjusted O&M Expense	\$24,617
Operating Margin (%)	<u>12.00%</u>
Operating Margin (\$)	<u>\$2,954</u>
Water O&M Expense	24,958
Depreciation Expense	433
Taxes Other Than Income	<u>1,851</u>
Revenue Requirement	<u>\$30,196</u>
Less Test Year Revenues	<u>\$21,608</u>
Annual Increase	<u>\$8,588</u>
Percent Increase	39.75%

Source: Staff calculations.

Issue 10: What are the appropriate rate structure and rates for A Utility Inc.?

Recommendation: Staff recommends a monthly flat rate for residential service of \$21.33 per month as shown on Schedule No. 4. The Utility should file a revised tariff sheet and a proposed customer notice to reflect the Commission-approved rate. The approved rate should be effective for service rendered or connections made on or after the stamped approval date on the tariff sheet provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility should provide proof of noticing within 10 days of rendering its approved notice. (Hudson)

Staff Analysis: AUI is located in Pasco County and currently provides water service to 118 residential and no general service customers. The Utility's current rate structure for residential customers consists of a monthly flat rate of \$15.26. AUI currently does not have any meters to measure water usage. In this proceeding, the Utility has not proposed to install any meters. The Commission's preferred rate structure is a base facility and gallonage charge rate structure. The conversion from flat to metered rates would include the Utility earning a return on the meter investment as well as additional billing costs. At this time, the Utility does not have any issues in terms of its permitted withdrawal and a need for conservation-oriented rates. Thus, staff does not believe it would be cost effective to require AUI to install meters and bill based on metered water usage. Therefore, staff recommends a continuation of the Utility's current flat rate structure is appropriate. As a result, staff's recommended increase of 39.75 percent should be applied to the existing monthly flat rate.

Based on the above, staff recommends a monthly flat rate for residential service of \$21.33 per month as shown on Schedule No. 4. The Utility should file a revised tariff sheet and a proposed customer notice to reflect the Commission-approved rate. The approved rate should be effective for service rendered or connections made on or after the stamped approval date on the tariff sheet provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility should provide proof of noticing within 10 days of rendering its approved notice.

Issue 11: What is the appropriate amount by which rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense?

Recommendation: The rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. Pursuant to Section 367.081(8), F.S., the decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. AUI should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and rationale no later than one month prior to the effective date of the new rates. If the Utility files revised tariffs reflecting 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 and the reduction in the rates due to the amortized rate case expense. (Richards, Hudson)

Staff Analysis: Section 367.081(8), F.S., requires that the rates be reduced by the amount of the rate case expense previously included in rates immediately following the expiration of the recovery period. With respect to AUI, the reduction will reflect the removal of revenue associated with the amortization of rate case expense and the gross-up for RAFs. The total reduction is \$357.

Staff recommends that the rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. Pursuant to Section 367.081(8), F.S., the decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. AUI should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and rationale no later than one month prior to the effective date of the new rates. If the Utility files revised tariffs reflecting 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 and the reduction in the rates due to the amortized rate case expense.

Issue 12: What are the appropriate miscellaneous service charges for A Utility Inc.?

Recommendation: The appropriate miscellaneous service charges are shown on Table 12-2 and should be approved. The Utility should file revised tariff sheets to reflect the Commission-approved charges. The approved charges 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. AUI should be required to charge the approved miscellaneous service charges until authorized to change them by the Commission in a subsequent proceeding. (Hudson)

Staff Analysis: Section 367.091, F.S., authorizes the Commission to establish miscellaneous service charges. The purpose of these charges is to place the burden for requesting or causing these services on the cost causer rather than the general body of ratepayers.

Violation Reconnection Charges

The Utility requested a violation reconnection charge. Pursuant to Rule 25-30.460, F.A.C., a violation reconnection charge is levied prior to reconnection of an existing customer after discontinuance of service for cause according to subsection 25-30.320(2), F.A.C. AUI does not have any on-site personnel to perform disconnections. Therefore, a third-party vendor, MCL Environmental Services, LLC, which is also the contract operator, will be used for this function. The third-party vendor estimates \$85 for disconnection and \$70 for reconnection, or a total of \$155. AUI customers are not metered. As a result, disconnections and reconnections are labor intensive, which involves digging up lines in order to cap and re-digging up lines to restore service. Staff believes the proposed disconnection and reconnection charges are reasonable.

Late Payment Charge

Currently, AUI does not have a late payment charge. A late payment charge recovers administrative and supply cost for processing late payment notices. Historically, the Commission has allowed 15 minutes for processing late payment notices, actual cost of postage which is currently \$0.60, and supplies of \$0.15. Based on the salary of the Utility personnel who processes late notices, the labor component of the late payment charge is \$3.50 (\$14.00 hr x .25 hr). This results in a late payment charge of \$4.45. The cost for the late payment charge is shown below on Table 12-1.

Table 12-1
Late Payment Cost Justification

Labor	\$3.50
Supplies/Postage	\$.75
Mark Up for RAFs	.20
Total Calculated Charge	\$4.45

Source: Staff's Calculation

Nonsufficient Funds Charges (NSF)

The Utility requested NSF charges pursuant to Section 68.065, F.S. Staff believes that AUI should be authorized to collect NSF charges consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Section 68.065(2), F.S., the following NSF charges may be assessed:

- 1) \$25, if the face value does not exceed \$50,
- 2) \$30, if the face value exceeds \$50 but does not exceed \$300,
- 3) \$40, if the face value exceeds \$300,
- 4) or 5 percent of the face amount of the check, whichever is greater.

Staff's recommended miscellaneous service charges are shown in Table 12-2.

Table 12-2
Staff Recommended Miscellaneous Service Charges

Violation Reconnection Charge - Disconnect	\$85.00
Violation Reconnection Charge - Reconnection	\$70.00
Late Payment Charge	\$4.45
NSF Charges	Pursuant to Section 68.065(2), F.S.

The appropriate miscellaneous service charges are shown above and should be approved. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved charges. The approved charges 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. AUI should be required to charge the approved miscellaneous service charges until authorized to change them by the Commission in a subsequent proceeding.

Issue 13: Should the recommended rates be approved for A Utility Inc., on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the utility. AUI should file revised tariff sheets and a proposed customer notice reflecting the Commission-approved rates. The approved rates should be effective for services 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. Further, prior to implementing any temporary rates, the utility should provide appropriate financial security.

If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating both the current monthly and total amount 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. (Richards)

Staff Analysis: This recommendation proposes an increase in rates. A timely protest might delay a rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the utility, staff recommends that the proposed rates be approved on a temporary basis. AUI should file revised tariff sheets and a proposed customer notice reflecting 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 it has been received by the customers. The additional revenue produced by staff's recommended rates and collected by the Utility should be subject to the refund provisions discussed below.

AUI should be authorized to initiate the temporary rates upon staff's approval of an appropriate security for the potential refund and cost of the proposed customer notice. Security should be in the form of either a bond or letter of credit in the amount of \$5,862. Alternatively, the Utility may establish an escrow agreement with an independent financial institution.

If the Utility chooses a bond for securing the potential refund, 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 for securing the potential refund, the letter of credit 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 Commission Clerk's office no later than the 20th of every month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 14: Should A Utility Inc. be required to notify the Commission 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?

Recommendation: Yes. AUI should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. AUI should submit a letter within 90 days of the Commission's final order in this docket, confirming that the adjustments to all applicable NARUC USOA primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, a notice providing good cause should be filed not less than seven days prior to the deadline. Upon providing a notice of good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Richards)

Staff Analysis: AUI should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. AUI should submit a letter within 90 days of the Commission's final order in this docket, confirming that the adjustments to all applicable NARUC USOA primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, a notice providing good cause should be filed not less than seven days prior to the deadline. Upon providing a notice of good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Issue 15: Should this docket be closed?

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

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. Once these actions are complete, this docket should be closed administratively.

A UTILITY INC.		SCHEDULE NO. 1-A		
TEST YEAR ENDED 12/31/2020		DOCKET NO. 20210098-WU		
SCHEDULE OF WATER RATE BASE				
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST.	BALANCE PER STAFF	
1. UTILITY PLANT IN SERVICE	\$97,700	(\$43,107)	\$54,593	
2. LAND & LAND RIGHTS	19,300	(18,300)	1,000	
3. ACCUMULATED DEPRECIATION	(15,267)	(33,378)	(48,645)	
4. CIAC	0	(26,625)	(26,625)	
5. ACCUMULATED AMORTIZATION OF CIAC	0	26,625	26,625	
6. ACQUISITION ADJUSTMENT	0	0	0	
7. WORKING CAPITAL ALLOWANCE	<u>\$0</u>	<u>\$3,077</u>	<u>\$3,077</u>	
8. WATER RATE BASE	<u>\$101,733</u>	<u>(\$91,707)</u>	<u>\$10,026</u>	

A UTILITY INC.		SCHEDULE NO. 1-B
TEST YEAR ENDED 12/31/2020		DOCKET NO. 20210098-WU
ADJUSTMENTS TO RATE BASE		
		<u>WATER</u>
	<u>UTILITY PLANT IN SERVICE</u>	
	To reflect Commission-ordered adjustments.	<u>(\$43,107)</u>
	<u>LAND & LAND RIGHTS</u>	
	To reflect an audit adjustment.	<u>(\$18,300)</u>
	<u>ACCUMULATED DEPRECIATION</u>	
1.	To reflect audit adjustments.	(\$33,692)
2.	To reflect an averaging adjustment.	<u>\$315</u>
	Total	<u>(\$33,378)</u>
	<u>CIAC</u>	
	To reflect an audit adjustment.	<u>(\$26,625)</u>
	<u>ACCUMULATED AMORTIZATION OF CIAC</u>	
	To reflect an audit adjustment.	<u>\$26,625</u>
	<u>WORKING CAPITAL ALLOWANCE</u>	
	To reflect 1/8 of test year O&M expenses.	<u>\$3,077</u>

A UTILITY INC.						SCHEDULE NO. 2	
TEST YEAR ENDED 12/31/2020						DOCKET NO. 20210098-WU	
SCHEDULE OF CAPITAL STRUCTURE							
<u>CAPITAL COMPONENT</u>	<u>PER UTILITY</u>	<u>SPECIFIC ADJUST-MENTS</u>	<u>PRO RATA ADJUST-MENTS</u>	<u>BALANCE PER STAFF</u>	<u>PERCENT OF TOTAL</u>	<u>COST</u>	<u>WEIGHTED COST</u>
1. LONG-TERM DEBT	\$118,000	\$0	(\$107,974)	\$10,026	100.00%	9.95%	9.95%
2. SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
3. COMMON EQUITY	0	0	0	0	0.00%	10.45%	0.00%
4. CUSTOMER DEPOSITS	0	0	0	0	0.00%	2.00%	0.00%
5. DEFERRED INCOME TAXES	<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 CAPITAL	<u>\$118,000</u>	<u>\$0</u>	<u>(\$107,974)</u>	<u>\$10,026</u>	<u>100.00%</u>		<u>9.95%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>
RETURN ON EQUITY						9.45%	11.45%
OVERALL RATE OF RETURN						9.95%	9.95%

A UTILITY INC.		SCHEDULE NO. 3-A				
TEST YEAR ENDED 12/31/2020		DOCKET NO. 20210098-WU				
SCHEDULE OF WATER OPERATING INCOME						
	TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR	ADJUST FOR INCREASE	REVENUE REQUIREMENT	
1.	TOTAL OPERATING REVENUES	<u>\$20,722</u>	<u>\$886</u>	<u>\$21,608</u>	<u>\$8,588</u> 39.75%	<u>\$30,196</u>
OPERATING EXPENSES:						
2.	OPERATION & MAINTENANCE	\$7,658	\$17,300	\$24,958	\$0	\$24,958
3.	DEPRECIATION (NET)	3,818	(3,385)	433	0	433
4.	AMORTIZATION	0	0	0	0	0
5.	TAXES OTHER THAN INCOME	1,138	326	1,464	386	1,851
6.	INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	TOTAL OPERATING EXPENSES	<u>\$12,614</u>	<u>\$14,241</u>	<u>\$26,856</u>	<u>\$386</u>	<u>\$27,242</u>
7.	OPERATING INCOME / (LOSS)	\$8,108		(\$5,248)		\$2,954
8.	WATER RATE BASE	\$101,733				\$10,026
9.	OPERATING MARGIN					12.00%

A UTILITY INC.		SCHEDULE NO. 3-B
TEST YEAR ENDED 12/31/2020		DOCKET NO. 20210098-WU
ADJUSTMENTS TO OPERATING INCOME		PAGE 1 OF 2
		<u>WATER</u>
OPERATING REVENUES		
1.	To reflect an auditing adjustment to Service Revenues.	\$136
2.	To reflect the appropriate test year Service Revenues.	<u>750</u>
	Total	<u>\$886</u>
OPERATION AND MAINTENANCE EXPENSE		
1.	Salaries and Wages - Employees (601) To reflect 2021 salaries per DR No. 2.	<u>\$3,874</u>
2.	Purchased Power (615) To reflect annual amount per DR No. 1.	<u>\$772</u>
3.	Chemicals Expense (618) To reflect 2021 chlorine expenses per DR No. 1.	<u>\$95</u>
4.	Materials and Supplies (620) To reflect an auditing adjustment.	<u>(\$76)</u>
5.	Contractual Services - Professional (631) To reflect 2021 operating fees per DR No. 1.	<u>\$1,876</u>
6.	Contractual Services - Accounting (632) To reflect estimate provided in DR No. 2.	<u>\$3,900</u>
7.	Contractual Services - Testing (635) To reflect 2021 testing per DR No. 1.	<u>\$3,529</u>
8.	Contractual Services - Other (636) To reflect lawn maintenance bid per DR No. 2.	<u>\$1,440</u>
9.	Transportation Expense (650) To reflect 2022 IRS travel expense for 1,200 annual miles per DR No. 2.	<u>\$750</u>
10.	Rate Case Expense (665) To reflect 1/4 rate case expense.	<u>\$341</u>

A UTILITY INC.	SCHEDULE NO. 3-B
TEST YEAR ENDED 12/31/2020	DOCKET NO. 20210098-WU
ADJUSTMENTS TO OPERATING INCOME	PAGE 2 OF 2
	<u>WATER</u>
11. Bad Debt Expense (670)	
To reflect 1.0 percent of test year revenues.	<u>\$216</u>
12. Miscellaneous Expense (675)	
a. To reflect Consumer Confidence Report cost.	\$125
b. To reflect valve exercising cost.	150
c. To reflect meter accuracy testing.	48
d. To reflect Florida Rural Water Association annual fee.	161
e. To reflect DEP licensing fee.	<u>100</u>
Subtotal	<u>\$583</u>
TOTAL OPERATION AND MAINTENANCE ADJUSTMENTS	<u>\$17,300</u>
DEPRECIATION EXPENSE	
To reflect an auditing adjustment.	<u>(\$3,385)</u>
TAXES OTHER THAN INCOME	
1. To reflect audit adjustments.	\$292
2. To reflect appropriate test year RAF's.	<u>34</u>
Total	<u>\$326</u>
TOTAL OPERATING EXPENSE ADJUSTMENTS	<u>\$14,241</u>

A UTILITY INC.		SCHEDULE NO. 3-C		
TEST YEAR ENDED 12/31/2020		DOCKET NO. 20210098-WU		
ANALYSIS OF WATER O&M EXPENSE				
ACCT. #	DESCRIPTION	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
601	Salaries and Wages - Employees	\$0	\$3,874	\$3,874
615	Purchased Power	401	772	1,173
618	Chemicals	84	95	179
620	Materials and Supplies	3,723	(76)	3,647
631	Contractual Services - Professional	3,450	1,876	5,326
632	Contractual Services - Accounting	0	3,900	3,900
635	Contractual Services - Testing	0	3,529	3,529
636	Contractual Services - Other	0	1,440	1,440
650	Transportation Expense	0	750	750
665	Rate Case Expense	0	341	341
670	Bad Debt Expense	0	216	216
675	Miscellaneous Expenses	<u>0</u>	<u>583</u>	<u>583</u>
	Total O&M Expense	<u>\$7,658</u>	<u>\$17,300</u>	<u>\$24,958</u>
	Working Capital is 1/8 of O&M Less RCE			\$3,077

A UTILITY INC. MONTHLY WATER RATES		DOCKET NO. 20210098-WU SCHEDULE NO. 4	
	EXISTING RATES	STAFF RECOMMENDED RATES	FOUR-YEAR RATE REDUCTION
<u>Residential</u>			
Flat Rate	\$15.26	\$21.33	\$0.25

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: January 27, 2023

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Bruce, Hudson) *JGH*
Division of Accounting and Finance (Sowards) *ALM*
Division of Engineering (P. Buys, King) *TB*
Office of the General Counsel (Trierweiler, Harper, Sparks) *AH*

RE: Docket No. 20220099-WS – Application for staff-assisted rate case in Highlands County by LP Waterworks, Inc.

AGENDA: 02/08/23 – Regular Agenda – Proposed Agency Action Except Issues Nos. 13, 14, and 15 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Graham

CRITICAL DATES: 10/16/23 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

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Case Background

LP Waterworks, Inc. (LP or utility) is a Class C water and wastewater utility located in Highlands County. The utility is currently providing service to approximately 425 residential customers, 21 general service customers, and 2 fire flow customers for its water system. The utility is located in the water use caution area of the Southwest Florida Water Management District (SWFWMD). According to the utility's 2021 Annual Report, the utility's operating revenues were \$133,280 and operating expenses were \$143,523 for water.

On March 13, 2014, the Commission approved the transfer of L.P. Utilities Corporation's water and wastewater systems and Certificate Nos. 620-W and 533-S to LP Waterworks, Inc.¹ The Commission last established LP's rates in a limited alternative rate increase proceeding in 2019.²

On May 17, 2022, the utility filed an application for a staff-assisted rate case (SARC) requesting an increase for its water rates only. Staff selected the test year ended December 31, 2021. The official filing date was established as July 15, 2022. LP's request for a SARC is due to the significant decrease in water consumption. A virtual customer meeting was held on November 15, 2022. No customers spoke at the customer meeting.

The Commission has jurisdiction pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, 366.091, and 367.121, Florida Statutes (F.S.).

¹Order No. PSC-2014-0130-PAA-WS, issued March 17, 2014, in Docket No. 20130055, *In re: Application for approval of transfer of LP Utilities Corporation's water and wastewater systems and Certificate Nos. 620-W and 533-S, to LP Waterworks, Inc., in Highlands County.*

²Order No. PSC-2019-0141-PAA-WS, issued April 22, 2019, in Docket No. 20180215-WS, *In re: Petition for limited alternative rate increase in Highlands County by LP Waterworks, Inc.*

Discussion of Issues

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

Recommendation: Yes. LP has been responsive to customer complaints and is currently in compliance with the Department of Environmental Protection (DEP) standards; therefore, the quality of service should be considered satisfactory. (P. Buys)

Staff Analysis: Pursuant to Section 367.081(2)(a)1, F.S., and 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 requires 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. The operating condition of the water system is addressed in Issue 2.

Quality of Utility's Product

In evaluation of LP's product quality, staff reviewed the utility's compliance with the DEP 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. The most recent comprehensive chemical analysis was performed on November 29, 2021. All results were in compliance with the DEP's standards.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the complaints filed in the Commission's Consumer Activity Tracking System (CATS), filed with the DEP, and received by the utility for the test year and four years prior. During this time period, there were nine customer complaints filed in CATS, which were regarding billing and quality of service. These complaints addressed items such as poor water taste and poor customer service. There was one complaint received by the DEP stating the water was not properly chlorinated. However, DEP staff visited the facility and tested the chlorine residual and found it to be within the appropriate range.

Over the past five years, the utility received 22 complaints associated with service interruptions, 8 complaints regarding pressure issues, and 7 complaints addressing water quality. Several of the service interruption complaints were due to outages the system experienced following Hurricane Irma and the remaining complaints were related to issues such as water main breaks or disconnections due to non-payment. Customer complaints regarding water quality included reports of odor or cloudy water. All complaints were resolved by the utility. Staff notes that customer complaints have been decreasing over the past five years.

A virtual customer meeting was held on November 15, 2022. No customers spoke at the customer meeting. Staff performed a supplemental review of the complaints filed in CATS following the customer meeting and found no additional complaints. Four written comments were submitted, three regarding billing and one regarding service quality.

Conclusion

LP has been responsive to customer complaints and is currently in compliance with the DEP standards; therefore, the quality of service should be considered satisfactory.

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

Recommendation: Yes. LP's water system is currently in compliance with the DEP regulations. (P. Buys)

Staff Analysis: Rule 25-30.225 F.A.C., requires that each water utility shall operate and maintain its plant and facilities by employing qualified operators in accordance with the rules of the DEP in order to provide safe and efficient service up to and including the point of delivery into the piping owned by the customer. During a rate making proceeding, 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 for water systems and compliance evaluation inspections for wastewater systems, 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

LP's water system has two wells; one well is rated at 300 gallons per minute (gpm) and the other well is rated at 280 gpm. Staff reviewed the November 19, 2020, sanitary survey conducted by the DEP to determine the utility's overall water facility compliance. The DEP found no deficiencies or violations, and the system was determined to be in compliance.

Conclusion

LP's water system is currently in compliance with the DEP regulations.

Issue 3: What are the used and useful (U&U) percentages for LP's water treatment plant (WTP) and water distribution system?

Recommendation: LP's water treatment plant (WTP) and water distribution system should be considered 100 percent U&U. Additionally, there is 12.2 percent excessive unaccounted for water (EUW); therefore, staff recommends a 12.2 percent adjustment be made to operating expenses for chemicals and purchased power. (P. Buys)

Staff Analysis: LP's water treatment system has two wells. One well is rated at 300 gpm and the second well is rated at 280 gpm. The utility's water system has two hydropneumatic storage tanks totaling 22,000 gallons in capacity. The distribution system is comprised of varying sizes of polyvinyl chloride pipes.

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. LP's U&U percentages were last determined in Docket No. 20160222-WS, and the Commission found the treatment facilities and distribution system were 100 percent U&U. The utility has not increased the capacity of its facilities and the service area is built out. Therefore, consistent with the Commission's previous decision, staff recommends the utility's WTP and 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. EUW is defined 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. A review of the utility's Monthly Operating Reports, 2021 Annual Report, and audited billing data indicate that LP treated 12,522,000 gallons and sold 6,929,000 gallons with 236,950 gallons used for flushing and 2,580,000 gallons recorded for water main breaks during the test year. The resulting calculation $([12,522,000 - 6,929,000 - 236,950 - 2,580,000]/12,522,000)$ for unaccounted for water is 22.2 percent; therefore, there is 12.2 percent EUW.

Conclusion

LP's WTP and water distribution system should be considered 100 percent U&U. Additionally, there is 12.2 percent EUW; therefore, staff recommends a 12.2 percent adjustment be made to operating expenses for chemicals and purchased power.

Issue 4: What is the appropriate average test year rate base for LP?

Recommendation: The appropriate average test year rate base for LP is \$176,001 for the water system. (Sewards, P. Buys)

Staff Analysis: The appropriate components of the utility’s rate base include utility plant in service (UPIS), land and land rights, accumulated depreciation, contributions in aid of construction (CIAC), accumulated amortization of CIAC, and working capital. Staff selected the test year ended December 31, 2021, for the instant case. Commission audit staff determined that the utility’s books and records are in compliance with the National Association of Regulatory Utility Commissioners’ Uniform System of Accounts (NARUC USOA). A summary of each component and the recommended adjustments are discussed below.

Utility Plant in Service

The utility recorded UPIS of \$664,237 for its water system. There were auditing adjustments increasing UPIS by a net amount of \$1,912 to reflect unrecorded retirements and to capitalize an item that was expensed. In order to reflect the test year beginning and ending UPIS average balance, staff made an adjustment decreasing UPIS by \$16,328.

Pro Forma Plant Additions

The utility requested one pro forma item be included in rate base. The utility replaced the generator controller at the water treatment plant due to a high voltage issue. The paid invoice for this project shows a cost of \$3,174. As shown in Table 4-1, staff made a net adjustment increasing UPIS by \$794 for water pro forma plant additions.

As is Commission practice, staff requested that three bids be provided for the pro forma project. However, due to the time-sensitive nature of this repair, the utility did not obtain three bids. The new G series conversion on the transfer switch was replaced due to a high voltage issue. This repair was necessary to ensure the generator remained functional in the event of a power loss. The replacement of the generator controller at the water treatment plant was necessary for the utility to provide safe and reliable service to its customers. Staff reviewed the paid invoice provided by the utility and recommends that the cost for this project is appropriate.

**Table 4-1
 Pro Forma Plant Addition**

Project	Acct. No.	Description	Amount
			Water
Generator Controller	310	Installed and programed new G series conversion.	\$3,174
		Associated Retirement	(\$2,381)
Net Adjustment			\$794

Source: Document No. 05055-2022.

Based on the above, staff increased UPIS by \$3,174 to reflect pro forma additions, offset by a decrease of \$2,381 for pro forma retirements.

As described above and summarized in Table 4-2 below, staff's adjustments to UPIS result in a decrease of \$13,622. Thus, staff recommends an average UPIS balance of \$650,615 (\$664,237 - \$13,622) for the water system.

**Table 4-2
Staff Adjustments to UPIS**

Description	Adjustment
To reflect auditing adjustments.	\$1,912
To reflect an averaging adjustment.	(16,328)
To reflect pro forma additions.	3,174
To reflect pro forma retirements.	(2,381)
Total adjustment to UPIS.	<u>(\$13,622)</u>

Land and Land Rights

The utility recorded a land and land rights balance of \$27,412 for its water system. Staff made no adjustments to this account, and therefore recommends a land and land rights balance of \$27,412 for the water system.

Accumulated Depreciation

The utility recorded an accumulated depreciation balance of \$460,542 for its water system. Staff made auditing adjustments increasing accumulated depreciation by \$21,358 to reflect unrecorded retirements and to capitalize an item that was expensed. In order to reflect the test year beginning and ending accumulated average balance, staff decreased accumulated depreciation by \$19,329. Staff also made an adjustment decreasing accumulated depreciation by \$2,334 to reflect pro forma adjustments.

As described above and summarized in Table 4-3 below, staff's adjustments to accumulated depreciation result in a decrease of \$305. As such, staff recommends an average accumulated depreciation balance of \$460,237 (\$460,542 - \$305) for the water system.

**Table 4-3
Staff Adjustments to Accumulated Depreciation**

Description	Adjustment
To reflect auditing adjustments.	(\$21,358)
To reflect an averaging adjustment.	19,329
To reflect pro forma adjustments.	<u>2,334</u>
Total adjustment to accumulated depreciation.	<u>\$305</u>

Contributions in Aid of Construction

The utility recorded a CIAC balance of \$268,967 for its water system. In order to reflect the test year beginning and ending accumulated average balance, staff decreased CIAC by \$125. Thus, staff recommends an average CIAC balance of \$268,842 (\$268,967 - \$125) for the water system.

Date: January 27, 2023

Accumulated Amortization of CIAC

The utility recorded an accumulated amortization of CIAC balance of \$215,860 for its water system. Using the correct composite rates to calculate amortization expense staff made auditing adjustments decreasing accumulated amortization of CIAC by \$312. In order to reflect the test year beginning and ending accumulated average balance, staff decreased accumulated amortization of CIAC by \$3,954. Staff's adjustments to accumulated amortization of CIAC result in a decrease of \$4,266. As such, staff recommends an average accumulated amortization of CIAC balance of \$211,595 (\$215,860 - \$4,266) for the water system.

Working Capital Allowance

The utility recorded a working capital balance of \$15,221 for its water system. Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(3), F.A.C., staff used the one-eighth operation and maintenance (O&M) expense (less rate case expense) formula for calculating the working capital allowance. Section 367.081(9), F.S., prohibits a utility from earning a return on the unamortized balance of rate case expense. As such, for this calculation staff removed the rate case expense balance of \$698. This resulted in an adjusted O&M expense balance of \$123,669 (\$124,367 - \$698). Applying this formula, staff recommends a working capital allowance of \$15,459 (\$123,669/8) for the water system. Thus, staff recommends working capital allowance should be increased by \$238 (\$15,459 - \$15,221).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$176,001 for the water system. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

Issue 5: What is the appropriate return on equity and overall rate of return for LP?

Recommendation: The appropriate return on equity (ROE) is 7.84 percent with a range of 6.84 percent to 8.84 percent. The appropriate overall rate of return is 7.33 percent. (Sewards)

Staff Analysis: The utility's reported capital structure consists of \$200,588 in common equity and \$19,094 in customer deposits. The utility has no debt. Staff recommends no test year adjustments are necessary. The utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE is 7.84 percent based upon the Commission-approved leverage formula currently in effect.³ Staff recommends an ROE of 7.84 percent, with a range of 6.84 percent to 8.84 percent, and an overall rate of return of 7.33 percent. The ROE and overall rate of return are shown on Schedule No. 2.

³Order No. PSC-2022-0208-PAA-WS, issued June 15, 2022, in Docket No. 20220006-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 6: What are the appropriate test year revenues for LP's water system?

Recommendation: The appropriate test year revenues for LP's water system are \$122,343.
(Bruce)

Staff Analysis: LP recorded test year revenues of \$133,280. The water revenues included \$128,056 of service revenues and \$5,224 of miscellaneous revenues. Staff annualized service revenues by applying the number of billing determinants to the utility's existing rates, which became effective September 22, 2021. As a result, staff determined that service revenues should be \$117,062, which is a decrease of \$10,994 ($\$128,056 - \$117,062$). Using the number of occurrences and the approved miscellaneous service charges, staff determined that miscellaneous revenues should be \$5,281, which is an increase of \$57 ($\$5,281 - 1,224$). Based on the above, the appropriate test year revenues for LP's water system, including miscellaneous revenues are \$122,343 ($\$117,062 + \$5,281$).

Issue 7: What is the appropriate amount of operating expense for LP?

Recommendation: The appropriate amount of operating expense for LP is \$151,509 for its water system. (Sewards, P. Buys)

Staff Analysis: The utility recorded operating expense of \$149,439 for its water system. The test year O&M expenses have been reviewed by staff, including invoices and other supporting documentation. Staff has made several adjustments to the utility's operating expenses as described below.

Operation and Maintenance Expenses

Purchased Power (615)

The utility recorded a purchased power expense of \$2,406 for its water system. Staff made an auditing adjustment to increase purchased power expense by \$132 based on the calculation of actual power bills. Additionally, as discussed in Issue 3, staff has recommended a 12.2 percent reduction to purchased power expense to reflect EUW. As such, staff made an adjustment to reduce purchased power expense by \$310. Staff's adjustments result in a net decrease of \$178. Therefore, staff recommends a purchased power expense of \$2,228 (\$2,406 - \$178) for the water system.

Chemicals (618)

The utility did not record any chemicals expense for its water system as it did not purchase chemicals in the test year. To correct this error, LP requested a pro forma increase to chemicals expense of \$1,000. Additionally, as discussed in Issue 3, staff has recommended a 12.2 percent reduction to chemicals expense to reflect EUW. As such, staff made an adjustment to reduce chemicals expense by \$122. Thus, staff recommends a chemicals expense of \$878 (\$1,000 - \$122) for the water system.

Rental Expense (640)

The utility recorded a rental expense of \$855 for its water system. Staff made an auditing adjustment to reclassify the rental expense as a miscellaneous expense. As such, staff recommends a rental expense of \$0 for the water system.

Insurance Expense (655)

The utility recorded an insurance expense of \$878 for its water system. Staff made an auditing adjustment to increase insurance expense by \$75 based on the actual bill amount. Therefore, staff recommends an insurance expense of \$953 (\$878 + \$75) for the water system.

Rate Case Expense (665)

The utility recorded a rate case expense of \$619. The utility is required by Rule 25-22.0407, F.A.C., to mail notices of the rate case overview, final rates, and four-year rate reduction. Staff calculated noticing costs to be \$1,322. Staff calculated the distance from the utility to Tallahassee as 215 miles. Based on the 2022 IRS business mileage rate of \$0.625, staff calculated a round-trip travel expense to the Commission Conference and back, as well as one night of lodging to be \$469. Staff calculated a total amount of noticing costs and travel expense of \$1,790 (\$1,322 + \$469). Additionally, the utility paid a filing fee of \$1,000. Staff recommends total rate case expense of \$2,790 (\$1,790 + \$1,000), which amortized over four years is \$698

(\$2,790 ÷ 4 years); Thus, staff recommends an increase to rate case expense of \$79 and an annual rate case expense of \$698 (\$619 + \$79) for the water system.

Miscellaneous Expenses (675)

The utility recorded miscellaneous expenses of \$863. As discussed above, staff made an auditing adjustment to reclassify \$855 recorded in rental expense as a miscellaneous expense. LP requested a pro forma increase of \$1,127 to account for emergency monitoring system services. As such, staff recommends miscellaneous expenses of \$2,845 (\$863 + \$1,127 + \$855) for the water system.

Operation and Maintenance Expense Summary

The utility recorded test year O&M expenses of \$122,386 for its water system. Based on the above adjustments, staff recommends the O&M expense be increased by \$1,981. This results in total O&M expenses of \$124,367 (\$122,386 + \$1,981) for the water system. Staff's recommended adjustments to O&M expenses are shown on Schedule 3-C.

Depreciation Expense (Net of Amortization of CIAC)

The utility recorded net depreciation expense of \$12,015 (\$20,233 depreciation expense less \$8,218 CIAC amortization expense) for its water system. Using the depreciation rates prescribed in Rule 25-30.140, F.A.C., staff increased depreciation expense for water by \$47 to reflect the incremental depreciation expense associated with pro forma investments. LP recorded CIAC amortization expense of \$8,218. Using the correct composite rates, staff made an auditing adjustment to increase CIAC amortization expense by \$1,626. As such, staff recommends CIAC amortization expense of \$9,844 (\$8,218 + \$1,626) for the water system. Therefore, staff recommends net depreciation expense of \$10,436 (\$20,233 + \$47 - 9,844) for the water system.

Amortization Expense

The utility recorded amortization expense of \$4,299 for a non-recurring expense related to sandblasting and painting of a hydro tank completed in January, 2019. LP provided an invoice supporting the expense.⁴ According to the provided invoice, the total cost was \$21,494. Rule 25-30.433(9), F.A.C., requires that non-recurring expenses be amortized over a five-year period unless a shorter or longer period of time can be justified. Staff verified one year of amortization expense to be \$4,299 (\$21,494/5). Additionally, a five-year period will not expire until 2024. Therefore, staff recommends an amortization expense of \$4,299 for the water system.

Taxes Other Than Income (TOTI)

The utility recorded TOTI of \$10,739 for its water system. Staff made auditing adjustments to decrease TOTI by \$222 to reflect the proper amount of property taxes, as well as Regulatory Assessment Fees (RAFs) based on the auditor's test year revenues. Staff further decreased TOTI by \$12 to reflect the RAFs based on corrected utility test year revenues. Staff increased TOTI by \$10 to reflect property taxes associated with pro forma additions. As discussed in Issue 9, staff recommends revenues be increased by \$42,071 in order to reflect the change in revenue required to cover expenses and allow an opportunity to earn the recommended rate of return. As a result, TOTI should be increased by \$1,893 to reflect RAFs of 4.5 percent of the change in revenues. As

⁴ DN 00218-2023

such, staff recommends TOTI of \$12,408 ($\$10,739 - \$222 - \$12 + \$10 + \$1,893$) for the water system.

Operating Expenses Summary

The utility recorded operating expenses of \$149,439 for its water system. The application of staff's recommended adjustments to the utility's operating expenses result in a total operating expense of \$151,509. Operating expenses are shown on Schedule No. 3-A, and the related adjustments are shown on Schedule No. 3-B.

Issue 8: Does LP meet the criteria for the application of the Operating Ratio Methodology?

Recommendation: No. LP does not meet the requirement for application of the Operating Ratio Methodology for calculating the revenue requirement. (Sewards)

Staff Analysis: Rule 25-30.4575(2), F.A.C., provides that, in rate cases processed under Rule 25-30.455, F.A.C., the Commission will use the operating ratio methodology to establish the utility's revenue requirement when its rate base is not greater than 125 percent of O&M expenses and the use of the Operating Ratio Methodology does not change the utility's qualification for a SARC.

Under the Operating Ratio Methodology, instead of calculating the utility's revenue requirement based on a rate of return on rate base, the revenue requirement is calculated using a margin of 12 percent of O&M expenses, not to exceed \$15,000. Purchased water and wastewater expenses, if any, must be removed from O&M expense prior to calculating the margin of 12 percent.

With respect to LP, staff has recommended a rate base of \$176,001 for the water system (Issue 4). Staff has also calculated an O&M expense of \$124,367 (Issue 7). Based on staff's recommended amounts, the utility's rate base is 142 percent of its O&M expense for its water system. Based on the above, the utility does not qualify for application of the Operating Ratio Methodology.

Issue 9: What is the appropriate revenue requirement for LP's water system?

Recommendation: The appropriate revenue requirement is \$164,414 for the water system, resulting in an annual increase of \$42,071 (34.39 percent). (Sewards)

Staff Analysis: LP should be allowed an annual increase of \$42,071 (34.39 percent) for its water system. This should allow the utility the opportunity to recover its expenses and earn a 7.33 percent return on rate base. The calculations for the water system are shown in Table 8-1.

Table 8-1
Water Revenue Requirement

Water Rate Base	\$176,001
Rate of Return	7.33%
Return on Rate Base	<u>\$12,905</u>
Water O&M Expense	\$124,367
Depreciation Expense	\$10,436
Amortization Expense	\$4,299
Taxes Other Than Income	<u>\$12,408</u>
Revenue Requirement	<u>\$164,414</u>
Less Test Year Revenues	<u>\$122,343</u>
Annual Increase	\$42,071
Percent Increase	34.39%

Source: Staff calculations.

Issue 10: What are the appropriate rate structure and rates for LP's water system?

Recommendation: The recommended rate structure and monthly water rates are shown on Schedule No. 4. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets 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: LP is located in Highlands County within the SWFWMD. The utility provides water service to approximately 425 residential customers, 2 fire flow customers, and 21 general service customers. Approximately 51 percent of the residential customer bills had zero gallons indicating a very seasonal customer base. The average water demand is 1,100 gallons per month. The average water demand excluding zero gallon bills is 2,266 gallons per month. Currently, the utility's residential water rate structure consists of a base facility charge (BFC) and a two-tier inclining block rate structure. The rate blocks are: (1) 0-3,000 gallons and (2) all usage in excess of 3,000 gallons per month. The general service rate consists of a BFC and uniform gallonage charge. Moreover, the utility's private fire protection service rates are based on one-twelfth of the utility's BFC for each meter size pursuant to Rule 25-30.465, F.A.C.

Staff performed an analysis of the utility's billing 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.

As mentioned above, the customer base is very seasonal coupled with low average consumption. The utility's current BFC allocation is 52 percent, which is typical for a seasonal customer base. In this case, the utility has experienced a significant decrease in consumption and staff believes it is appropriate to have more of the cost recovery in the BFC. For this reason, staff recommends that 60 percent of the revenue requirement be recovered through the BFC in an effort to provide revenue stability for this utility. Furthermore, the average people per household served by the water system is 2; therefore, based on the number of people per household, 50 gallons per day per person, and the number of days per month the discretionary usage threshold should be 3,000 gallons per month.⁵ Staff's review of the billing data indicate that discretionary usage above 3,000 gallons represents 7 percent of the bills, which accounts for approximately 37 percent of the water demand. This is an indication that there is a significant amount of discretionary usage above 3,000 gallons.

For this case, staff recommends a continuation of the utility's current rate structure, which includes separate gallonage charges for discretionary and non-discretionary usage for residential water customers. The rate blocks are: (1) 0-3,000 gallons and (2) all usage in excess of 3,000 gallons per month. Due to the high usage above 3,000 gallons per month staff believes that it is

⁵Average person per household was obtained from www.census.gov/quickfacts/polkcouny.

appropriate in this case to recommend a rate factor of 1.50 in the second tier because it will target those customers with high consumption levels. General service customers should continue to be billed a BFC and a gallonage charge.

Based on staff's recommended revenue increase of 35.9 percent, which excludes miscellaneous revenues, the residential consumption can be expected to decline by 105,000 gallons resulting in anticipated average residential demand of 1,078 gallons per month. Staff recommends a 2.1 percent reduction in test year gallons for ratesetting purposes. As a result, the corresponding reductions are \$34 for purchased power expense, \$13 for chemical expense, and \$2 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$159,084.

Issue 11: Should LP's miscellaneous service charges be revised to conform to amended Rule 25-30.460, F.A.C.?

Recommendation: Yes. Staff recommends the miscellaneous service charges for both water and wastewater be revised to conform to the recent amendment to Rule 25-30.460, F.A.C. The tariff should be revised to reflect the removal of initial connection and normal reconnection charges. LP should be required to file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bruce)

Staff Analysis: Effective June 24, 2021, Rule 25-30.460, F.A.C., was amended to remove initial connection and normal reconnection charges.⁶ The definitions for initial connection charges and normal reconnection charges were subsumed in the definition of the premises visit charge.

LP's current miscellaneous service charges consist of initial connection and normal reconnection charges. Since the premises visit entails a broader range of tasks, staff believes the premises visit should reflect the amount of normal reconnection charges of \$57.89 for normal hours and \$65.50 for after hours. Although this proceeding is for the water system, in order to maintain uniformity with the miscellaneous service charges, the wastewater miscellaneous service charges should be revised pursuant to the amended rule. Therefore, staff recommends that the initial connection and normal reconnection charges be removed for both water and wastewater, and the definition for the premises visit charge be updated to comply with amended Rule 25-30.460, F.A.C. The premises visit charge should be revised from \$31.53 for normal hours and \$36.70 for after hours to \$57.89 for normal hours and \$65.60 for after hours for both water and wastewater. The violation reconnection will also remain at \$57.89 for normal hours and \$65.60 for after hours and at actual cost for wastewater. The utility's current miscellaneous service charges and staff's recommended miscellaneous service charges are shown below in Tables 11-1 and 11-2.

Table 11-1

⁶Order No. PSC-2021-0201-FOF-WS, issued June 4, 2020, in Docket No. 20200240-WS, *In re: Proposed amendment of Rule 25-30.460, F.A.C., Application for Miscellaneous Service Charges.*

Utility's Current Miscellaneous Service Charges

	<u>Normal Hours</u>	<u>After Hours</u>
Initial Connection Charge	\$31.53	\$36.70
Normal Reconnection Charge	\$57.89	\$65.60
Violation Reconnection Charge - Water	\$57.89	\$65.60
Violation Reconnection Charge - Wastewater	Actual Cost	Actual Cost
Premises Visit Charge (in lieu of disconnection)	\$31.53	\$36.70

**Table 11-2
 Staff Recommended Miscellaneous Service Charges**

	<u>Normal Hours</u>	<u>After Hours</u>
Violation Reconnection Charge - Water	\$57.89	\$65.60
Violation Reconnection Charge -Wastewater	Actual Cost	Actual Cost
Premises Visit Charge	\$57.89	\$65.60

Conclusion

Based on the above, staff recommends the miscellaneous service charges for both water and wastewater be revised to conform to the recent amendment to Rule 25-30.460, F.A.C. The tariff should be revised to reflect the removal of initial connection and normal reconnection charges. LP should be required to file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

Issue 12: What are the appropriate initial customer deposits for LP's water service?

Recommendation: The appropriate initial customer deposits should be \$48 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. (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.⁷ Currently, the utility's initial deposit for residential water is \$45 for the 5/8 inch x 3/4 inch meter size and two times the average estimated bill for all other meter sizes and all general service meter sizes. 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 1,078 gallons per customer. Therefore, the average residential monthly bill based on staff's recommended rates is approximately \$23.94.

Staff recommends the appropriate initial customer deposits should be \$48 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.

⁷Order No. PSC-2015-0142-PAA-SU, issued March 26, 2015, in Docket No. 20130178-SU, *In re: Application for staff-assisted rate case in Polk County by Crooked Lake Park Sewerage Company*.

Issue 13: What is the appropriate amount by which rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense?

Recommendation: The rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for regulatory assessment fees (RAFs) and amortized over a four-year period. Pursuant to Section 367.081(8), F.S., the decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. LP 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, the utility shall file separate data 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, Sowards)

Staff Analysis: Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the recovery period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense and the gross-up for RAFs. The total reduction for water is \$730.

Staff recommends that the rates be reduced as shown on Schedule No 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period, pursuant to Section 367.081(8), F.S. LP 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, the utility shall file separate data 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 14: Should the recommended rates be approved for LP on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the utility?

Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the utility. LP should file revised tariff sheets and a proposed customer notice reflecting the Commission-approved rates. The approved rates should be effective for services 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. Further, prior to implementing any temporary rates, the utility should provide appropriate financial security.

If the recommended rates are approved on a temporary basis, the rates collected by the utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating both the current monthly and total amount 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. (Sewards)

Staff Analysis: This recommendation proposes an increase in rates. A timely protest might delay a rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the utility, staff recommends that the proposed rates be approved on a temporary basis. LP should file revised tariff sheets and a proposed customer notice reflecting 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 it has been received by the customers. The additional revenue produced by staff's recommended rates and collected by the utility should be subject to the refund provisions discussed below.

LP should be authorized to initiate the temporary rates upon staff's approval of an appropriate security for the potential refund and cost of the proposed customer notice. Security should be in the form of either a bond or letter of credit in the amount of \$28,816. Alternatively, the utility may establish an escrow agreement with an independent financial institution.

If the utility chooses a bond for securing the potential refund, 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 for securing the potential refund, the letter of credit 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 Commission Clerk's office no later than the 20th of every month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 15: Should LP be required to notify the Commission 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)?

Recommendation: Yes. LP should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. LP should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all applicable NARUC USOA primary accounts as shown on Schedule No. 5 have been made to the utility's books and records. In the event the utility needs additional time to complete the adjustments, notice providing good cause should be filed not less than seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Sewards)

Staff Analysis: LP should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. LP should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts as shown on Schedule No. 5 have been made to the utility's books and records. In the event the utility needs additional time to complete the adjustments, notice providing good cause should be filed not less than seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Issue 16: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the 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. Once these actions are complete, this docket should be closed administratively. (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 Proposed Agency Action Order, a consummating order should be issued. This docket should remain open for staff's verification that the revised tariff sheets and customer notices have been filed by the utility and approved by staff. Once these actions are complete, this docket should be closed administratively.

LP WATERWORKS, INC.		SCHEDULE NO. 1-A		
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220099-WS		
SCHEDULE OF WATER RATE BASE				
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST.	BALANCE PER STAFF	
1. UTILITY PLANT IN SERVICE	\$664,237	(\$13,622)	\$650,615	
2. LAND & LAND RIGHTS	27,412	0	27,412	
3. ACCUMULATED DEPRECIATION	(460,542)	305	(460,237)	
4. CIAC	(268,967)	125	(268,842)	
5. ACCUMULATED AMORT. CIAC	215,860	(4,266)	211,595	
6. WORKING CAPITAL ALLOWANCE	<u>15,221</u>	<u>238</u>	<u>15,459</u>	
7. WATER RATE BASE	<u>\$193,221</u>	<u>(\$17,220)</u>	<u>\$176,001</u>	

LP WATERWORKS, INC. TEST YEAR ENDED 12/31/2021 ADJUSTMENTS TO RATE BASE	SCHEDULE NO. 1-B DOCKET NO. 20220099-WS
	<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
1. To reflect unrecorded retirements and reclassify expense.	\$1,912
2. To reflect an averaging adjustment.	(16,328)
3. To reflect pro forma additions.	3,174
4. To reflect pro forma retirements.	<u>(2,381)</u>
Total	<u>(\$13,622)</u>
<u>ACCUMULATED DEPRECIATION</u>	
1. To reflect corresponding adjustments made to plant.	(\$21,358)
2. To reflect an averaging adjustment.	19,329
3. To reflect pro forma adjustments.	<u>2,334</u>
Total	<u>\$305</u>
<u>CIAC</u>	
To reflect an averaging adjustment.	<u>\$125</u>
<u>ACCUMULATED AMORTIZATION OF CIAC</u>	
1. To reflect calculations using correct composite rates.	(\$312)
2. To reflect an averaging adjustment.	<u>(3,954)</u>
Total	<u>(\$4,266)</u>
<u>WORKING CAPITAL ALLOWANCE</u>	
To reflect 1/8 of test year O&M expenses.	<u>\$238</u>

LP WATERWORKS, INC. TEST YEAR ENDED 12/31/2021 SCHEDULE OF CAPITAL STRUCTURE				SCHEDULE NO. 2 DOCKET NO. 20220099-WS		
COMPONENT	BALANCE PER UTILITY	PRO RATA ADJUST- MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. LONG-TERM DEBT	\$0	\$0	\$0	0.00%	0.00%	0.00%
2. SHORT-TERM DEBT	0	0	0	0.00%	0.00%	0.00%
3. COMMON EQUITY	200,588	(39,885)	160,703	91.31%	7.84%	7.16%
4. CUSTOMER DEPOSITS	19,094	(3,797)	15,297	8.69%	2.00%	0.17%
5. DEFERRED INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
6. TOTAL CAPITAL	<u>\$219,682</u>	<u>(\$43,681)</u>	<u>\$176,001</u>	<u>100.00%</u>		<u>7.33%</u>
RANGE OF REASONABLENESS					<u>LOW</u>	<u>HIGH</u>
RETURN ON EQUITY					6.84%	8.84%
OVERALL RATE OF RETURN					6.42%	8.25%

LP WATERWORKS, INC. TEST YEAR ENDED 12/31/2021 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 20220099-WS			
	TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR	ADJUST FOR INCREASE	REVENUE REQUIREMENT	
1.	TOTAL OPERATING REVENUES	\$133,280	(\$10,937)	\$122,343	\$42,071 34.39%	\$164,414
	OPERATING EXPENSES					
2.	OPERATION & MAINTENANCE	\$122,386	\$1,981	\$124,367	\$0	\$124,367
3.	NET DEPRECIATION	12,015	(1,579)	10,436	0	10,436
4.	AMORTIZATION	4,299	0	4,299	0	4,299
5.	TAXES OTHER THAN INCOME	10,739	(224)	10,515	1,893	12,408
6.	INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	TOTAL OPERATING EXPENSES	<u>\$149,439</u>	<u>\$177</u>	<u>\$149,616</u>	<u>\$1,893</u>	<u>\$151,509</u>
7.	OPERATING INCOME / (LOSS)	<u>(\$16,159)</u>		<u>(\$27,273)</u>		<u>\$12,905</u>
8.	WATER RATE BASE	<u>\$193,221</u>		<u>\$176,001</u>		<u>\$176,001</u>
9.	RATE OF RETURN	<u>(8.36%)</u>		<u>(15.50%)</u>		<u>7.33%</u>

LP WATERWORKS, INC.		SCHEDULE NO. 3-B
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220099-WS
ADJUSTMENTS TO OPERATING INCOME		
		<u>WATER</u>
OPERATING REVENUES		
1.	To reflect an auditing adjustment to service revenues.	(\$10,994)
2.	To reflect an auditing adjustment to miscellaneous revenues.	<u>57</u>
	Total	<u>(\$10,937)</u>
OPERATION AND MAINTENANCE EXPENSE		
1.	Purchased Power (615)	
	a. To reflect actual amount from power bills.	\$132
	b. To reflect EUW adjustment.	<u>(310)</u>
	Total	<u>(\$178)</u>
2.	Chemicals Expense (618)	
	a. To reflect pro forma for unrecorded chemical expense.	\$1,000
	b. To reflect EUW adjustment.	<u>(122)</u>
	Total	<u>\$894</u>
3.	Rental Expense (640)	
	To reclassify property owner's association fees.	<u>(\$855)</u>
4.	Insurance Expense (655)	
	To reflect actual bill amounts.	<u>\$75</u>
5.	Rate Case Expense (665)	
	To reflect 1/4 rate case expense.	<u>\$79</u>
6.	Miscellaneous Expense (675)	
	a. To reclassify property owner's association fees.	\$855
	b. To reflect pro forma for emergency monitoring service.	<u>1,127</u>
	Total	<u>\$1,982</u>
	TOTAL OPERATION AND MAINTENANCE EXPENSE	<u>\$1,981</u>
NET DEPRECIATION EXPENSE		
1.	To reflect corresponding adjustments of pro forma plant additions.	\$47
2.	To reflect auditing adjustment to amortization of CIAC expense	<u>(1,626)</u>
	Total	<u>(\$1,579)</u>

LP WATERWORKS, INC.		SCHEDULE NO. 3-B
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220099-WS
ADJUSTMENTS TO OPERATING INCOME		
		<u>WATER</u>
TAXES OTHER THAN INCOME		
1.	To reflect auditing calculation of RAFs and property tax.	(\$222)
2.	To reflect appropriate test year RAFs.	(12)
3.	To reflect property taxes associated with pro forma adjustment.	<u>10</u>
	Total	<u>(\$224)</u>
TOTAL OPERATING EXPENSE ADJUSTMENTS		<u>\$177</u>

LP WATERWORKS, INC.		SCHEDULE NO. 3-C		
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220099-WS		
ANALYSIS OF WATER O&M EXPENSE				
ACCT.	DESCRIPTION	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
601	Salaries and Wages – Employees	\$6,300	\$0	\$6,300
615	Purchased Power	2,406	(178)	2,228
618	Chemicals	0	878	878
632	Contractual Services – Accounting	425	0	425
633	Contractual Services – Legal	150	0	150
636	Contractual Services – Other	109,890	0	109,890
640	Rental Expense	855	(855)	0
655	Insurance Expense	878	75	953
665	Rate Case Expense	619	79	698
675	Miscellaneous Expenses	<u>863</u>	<u>1,982</u>	<u>2,845</u>
	Total O&M Expense	<u>\$122,386</u>	<u>\$1,981</u>	<u>\$124,367</u>
	Working Capital is 1/8 O&M less RCE	<u>\$15,221</u>	<u>\$238</u>	<u>\$15,459</u>

LP WATERWORKS, INC.		SCHEDULE NO. 4	
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220099-WS	
MONTHLY WATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$11.78	\$14.51	\$0.07
3/4"	\$17.67	\$21.77	\$0.10
1"	\$29.45	\$36.28	\$0.17
1-1/2"	\$58.90	\$72.55	\$0.33
2"	\$94.24	\$116.08	\$0.53
3"	\$188.48	\$232.16	\$1.07
4"	\$294.50	\$362.75	\$1.67
6"	\$589.00	\$725.50	\$3.33
Charge per 1,000 gallons - Residential			
0-3,000 gallons	\$6.77	\$8.57	\$0.04
Over 3,000 gallons	\$9.95	\$12.86	\$0.06
Charge per 1,000 gallons - General Service	\$8.15	\$9.33	\$0.04
<u>Private Fire Protection Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$0.98	\$1.21	\$0.01
3/4"	\$1.47	\$1.81	\$0.01
1"	\$2.45	\$3.02	\$0.01
1-1/2"	\$4.91	\$6.05	\$0.03
2"	\$7.85	\$9.67	\$0.04
3"	\$15.71	\$19.35	\$0.09
4"	\$24.54	\$30.23	\$0.14
6"	\$49.08	\$60.46	\$0.28
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$25.32	\$31.65	
6,000 Gallons	\$61.94	\$78.80	
10,000 Gallons	\$101.74	\$130.24	

LP WATERWORKS, INC.			SCHEDULE NO. 5
TEST YEAR ENDED 12/31/2021			DOCKET NO. 20220099-WS
SCHEDULE OF WATER PLANT, DEPRECIATION, CIAC, & CIAC AMORTIZATION BALANCES			
ACCT.	DESCRIPTION	UPIS	ACCUMULATED DEPRECIATION
301	Organization	\$471	(\$251)
304	Structures and Improvements	75,171	(74,124)
307	Wells and Springs	41,707	(38,091)
309	Supply Mains	1,040	(732)
310	Power Generation Equipment	12,086	(11,375)
311	Pumping Equipment	616	(1,989)
320	Water Treatment Equipment	42,547	(6,129)
330	Dist. Reservoirs and Standpipes	123,439	(54,878)
331	Trans. and Distribution Lines	212,706	(152,537)
333	Services	60,079	(52,974)
334	Meters and Meter Installations	78,344	(73,904)
335	Hydrants	5,364	(4,258)
336	Backflow Prevention Devices	1,874	(2,869)
340	Office Furniture and Equipment	698	(710)
346	Communication Equipment	9,281	(6,984)
347	Miscellaneous Equipment	<u>726</u>	<u>(95)</u>
	Total	<u>\$666,149</u>	<u>\$481,900</u>
		<u>CIAC</u>	Accum.
		(\$268,967)	Amort.
			<u>CIAC</u>
			\$215,548