

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: October 20, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Bruce, Hudson)
Division of Accounting and Finance (Brown)
Division of Engineering (Hill)
Office of the General Counsel (Mapp)

Handwritten signatures and initials:
AS, J, CRB, ALM, M, K, J, M, J

RE: Docket No. 160030-WS – Application for increase in water rates in Lee County and wastewater rates in Pasco County by Ni Florida, LLC.

AGENDA: 11/01/16 – Proposed Agency Action – Except Issue Nos. 15 and 20 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Graham

CRITICAL DATES: 11/1/2016 (5-Month Effective Date Waived Through November 1, 2016)

SPECIAL INSTRUCTIONS: None

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Case Background

Ni Florida, LLC (Ni Florida or utility) is a Class A utility serving approximately 745 water connections in Lee County and 2,757 wastewater connections in Pasco County. Water and wastewater rates were last established for the utility in 2013.¹ On April 4, 2016, Ni Florida filed its application to increase rates.

On May 3, 2016, staff sent the utility a letter indicating deficiencies in the filing of its minimum filing requirements (MFRs). On May 13, 2016, the utility provided corrections to the MFRs and staff determined that the MFRs were complete. Therefore, the official filing date is May 13, 2016. The utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for final rates is based on a 13-month average for the period ended December 31, 2015. Ni Florida requested final revenue increases of \$87,150 (37.1 percent) for water and \$475,000 (24.6 percent) for wastewater.

By Order No. PSC-16-0249-PCO-WS, issued June 29, 2016 (Interim Order), the Commission authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, Florida Statutes (F.S.). The approved interim revenue requirement for water was \$310,891, which represented an increase of \$87,202 or 38.98 percent. The approved interim revenue requirement for wastewater was \$2,264,770, which represented an increase of \$332,619 or 17.21 percent.

The five-month statutory deadline for the Commission to vote on the utility's proposed rates was September 13, 2016. However, by letter dated August 23, 2016, the utility agreed to waive the time to the November 1, 2016 Commission Conference. The Office of the Public Counsel (OPC) is actively monitoring this docket and provided a letter of concerns and issues on August 30, 2016.

This recommendation addresses Ni Florida's request for final rates. The Commission has jurisdiction pursuant to Section Nos. 367.081, 367.0816, and 367.091, F.S.

¹Order No. PSC-13-0611-PAA-WS, issued November 19, 2013, in Docket No. 130010-WS, *In re: Application for increase in water rates in Lee County and wastewater rates in Pasco County by Ni Florida, LLC.*

Discussion of Issues

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

Recommendation: Yes. Staff recommends that the condition of the water distribution system and wastewater collection systems are satisfactory. It also appears that the utility has attempted to address customers' concerns. Therefore, staff recommends that the overall quality of service for the Ni Florida water and wastewater systems in Lee and Pasco Counties is satisfactory. (Hill)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water and wastewater rate cases, the Commission shall determine the overall quality of service provided by the utility. This is derived from an evaluation of three separate components of the utility's operations. These components are: (1) the quality of the utility's product; (2) the operating conditions of the utility's plant and facilities; and (3) the utility's attempt to address customer satisfaction. The Rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered. Additionally, Section 367.0812(1)(c), F.S., requires the Commission to consider the extent to which the utility provides water service that meets secondary water quality standards as established by the DEP.

Quality of Utility's Product and Operating Conditions of the Utility's Facilities

Ni Florida's service areas are located in Lee and Pasco Counties. Ni Florida's water system is located in Lee County. The Utility purchases all of the water it sells to customers from Lee County Utilities. The Utility maintains and operates the distribution system that delivers the treated water to its customers. Ni Florida's wastewater collection system is located in Pasco County. All wastewater is pumped to Pasco County Utilities for treatment and disposal pursuant to an agreement made in 1990. Similar to its water system, Ni Florida maintains and operates its wastewater collection system. Because Ni Florida does not have water or wastewater treatment plants, its existing facilities are not inspected by DEP. Staff notes however, that the Utility's facility operators maintain licenses issued by the DEP.

Staff reviewed analyses of water samples dated December 15, 2015, and all results were deemed satisfactory by the Lee County Health Department. Based on the discussion above, staff believes that the quality of Ni Florida's product and the condition of its facilities are satisfactory at this time.

The Utility's Attempt to Address Customer Satisfaction

In Ni Florida's last rate case, the Commission determined that the utility's quality of service with regards to its wastewater system in Pasco County was satisfactory. The Commission found the quality of service for the utility's water system, in Lee County, to be marginal based on the utility's responsiveness to customers. Based on the Commission's prior decision and the difference in the size of the customer base of Ni Florida's two systems, staff will analyze the utility's attempt to address its water and wastewater customer satisfaction separately.

Wastewater

Staff held a customer meeting for Ni Florida’s wastewater customers on July 27, 2016, in New Port Richey, Florida. No customers attended this meeting. Three wastewater customers provided written comments to the Commission (docket correspondence) expressing concern with the proposed rate increase.

In its MFRs the utility provided customer complaints filed with the utility during the test year and four years prior. The utility provided 31 complaints as well as the utility’s resolution of each respective complaint. The majority of the complaints dealt with billing issues. Many of these complaints were resolved by the utility making an adjustment to the customer’s bill. All complaints filed with the Commission were contained in the utility’s filing. Subsequent to the test year, two complaints have been filed with the Commission, both of which have been closed. Table 1-1 below summarizes the complaints considered and reviewed by staff in evaluating the utility’s attempt to address its wastewater customers’ concerns.

**Table 1-1
 Summary of Wastewater Complaints**

Subject of Complaint	PSC’s Records (CATS)	Utility’s Records	Docket Correspondence	Customer Meeting
Billing Related	25	27	1	
Opposing Rate Increase			3	
Quality of Service	1			
Other	4	4		
Total*	30	31	3	0

* A customer may appear twice in this table if they made multiple complaints.

Based on the small number of complaints, considering more than 2,500 wastewater connections, it appears that Ni Florida’s wastewater customers are satisfied with the service provided by the utility. Additionally, it appears that the utility has adequately responded to customers when a complaint was received. Therefore, staff believes that the Ni Florida has satisfactorily attempted to address its wastewater customers’ concerns.

Water

As previously stated, in Ni Florida’s last rate case the quality of the utility’s water service was deemed marginal by the Commission. Commission Order No. PSC-13-0611-PAA-WS, specifically states “it is clear from customer comments at the service hearing and before this Commission that the Utility has continued to fail to provide timely responses and service when problems do arise in Lee County.” The Commission further stated that “[q]uality of service is totally within the control of the Utility and there is no excuse for the Utility’s continued failure to resolve billing and service problems both quickly and politely.”

On August 30, 2016, the Office of Public Counsel (OPC) submitted a letter² stating that it believes that the customers continue to experience problems communicating with the utility.

²Document No. 07117-16

Staff's analysis outlined below gives consideration to the Commission's decision in Ni Florida's previous rate case as well as the concerns expressed by OPC.

A customer meeting was held in Fort Myers, Florida, on July 28, 2016, for the customers of Ni Florida's water system. Eighty customers attended the meeting and seven spoke. The concerns raised during the meeting included the amount of the rate increase and the quality of the water. Two customers expressed concern regarding the utility's responsiveness to customer inquiries or requests and no customers asserted that the utility was impolite. In addition to the customers who spoke at the meeting, four customers have sent written comments to the Commission. These four comments address similar concerns raised at the customer meeting regarding the rate increase and the water quality.

In its August 30, 2016, letter, OPC identified three events that it believes demonstrates that the utility continues to have issues communicating with its customers. First, in May 2016, Tamiami Village & RV Park (Park) asserted it had sent a letter to the utility to coordinate future infrastructure work, and that Ni Florida had not responded. In a letter³ responding to this specific allegation, the utility stated that, at the time the Park contacted the utility, it had no infrastructure work to coordinate and thus had not communicated with the Park.

Second, at the customer meeting held on July 28, 2016, Park representatives stated that they have never met the new utility contract operator and wished to do so considering how much the Park works as a liaison between the customers and the utility. OPC states that to date the utility had not made an effort to organize such a meeting since. The utility responded that it had provided cell phone numbers for the Chief Financial Officer of Ni America and the President of the Utility Group of Florida, and that they had directed the contract operator to stop by the Park office to introduce himself to the staff at the Park.

Third, OPC's letter notes that the utility was not responsive when Park representatives attempted to reach it regarding flooding caused by a water main break. While the break was subsequently found to be on Lee County Utilities' system, the Park was concerned about the contract operator's lack of response. Ni Florida responded that it assumed Lee County would respond to the affected customers. The utility additionally stated that it would attempt to improve its communication with customers in cases where the problem is outside of the utility's control.

In its MFRs, the utility provided customer complaints filed with the utility during the test year and four years prior. The utility provided six complaints as well as the utility's resolution of each respective complaint. All six complaints dealt with billing issues. All complaints filed with the Commission were contained in the utility's filing and all have been closed. Table 1-2 below summarizes the complaints considered and reviewed by staff in evaluating the utility's attempt to address its water customers' concerns.

³Document No. 07475-16

**Table 1-2
 Summary of Water Complaints**

Subject of Complaint	PSC's Records (CATS)	Utility's Records	Docket Correspondence	Customer Meeting
Billing Related	6	6		
Opposing Rate Increase			3	3
Quality of Water			1	2
Quality of Service			1	2
Other			2	1
Total*	6	6	4	8

* A customer may appear twice in this table if they made multiple complaints.

As previously discussed, no customer input in the current docket has specified that the utility's customer service is impolite as was the circumstance in the utility's previous rate case. Furthermore, only one complaint has been filed with Commission since the utility's last rate case in 2013. Therefore, it is reasonable to believe that customer satisfaction has improved since the last rate case in which the utility's quality of service was deemed marginal. Staff last notes that, the overall number of complaints is minimal considering that the utility serves more than 700 water connections. Based on this review, staff believes that utility has improved the quality of its service to water customers since its last rate case and the utility has satisfactorily attempted to address its water customer's concerns.

Summary

Staff recommends that the condition of the water distribution system and wastewater collection systems are satisfactory. It also appears that the utility has attempted to address customers' concerns. Therefore, staff recommends that the overall quality of service for the Ni Florida water and wastewater systems in Lee and Pasco Counties is satisfactory.

Issue 2: Should the audit adjustments to which the utility and staff agree be made?

Recommendation: Yes. Based on the audit adjustments agreed to by the utility and staff, increases of \$6,568 and \$3,634 should be made to wastewater contribution-in-aid-of construction (CIAC) and deferred income taxes, respectively. Wastewater operating expense should also be increased by \$2,845 to reflect the appropriate level of amortization expense. (Brown)

Staff Analysis: In its response to staff's Ni Florida audit report and the audit of affiliate transactions, received September 22, 2016, the utility agreed to the audit adjustments as set forth in the table below.

**Table 2-1
Ni Florida Audit Adjustments**

Audit Finding	Description of Adjustments
Audit Finding No. 4	This finding relates to the correction of the cost rate for customer deposits. Audit staff found that the utility has been applying a cost rate of 6% instead of 2% in the MFRs.
Audit Finding No. 6	This finding relates to adjustments made to correct the number of customer bills for water and wastewater and to take into account a four-year rate reduction in calculating the annualized test year.

Source: Staff audit and utility responses to audit reports

Staff made the appropriate change to the customer deposit cost rate as part of Issue 9 and is reflected in Schedule No. 2. While the utility agreed to Audit Finding No. 6, staff notes that a different adjustment to operating revenues is recommended in a subsequent issue.

In addition to the specific findings agreed to by Ni Florida, there were several other audit adjustments that the utility did not explicitly address in its audit response. Staff included discussion of those adjustments here because they were not objected to in writing. Since Ni Florida took the time to file audit responses for 8 of the 12 audit findings, staff believes that if the utility had any issues or concerns with the 4 audit findings below, they would have been included with the other audit responses. As such, staff believes that the audit adjustments as set forth in the table below should be considered uncontested for purposes of this recommendation.

**Table 2-2
 Ni Florida Audit Adjustments – No Utility Response**

Audit Finding	Description of Adjustments
Aff. Audit Finding No. 4	This finding relates to the appropriate amount of debt and the cost rate for debt to be included in cost of capital.
Audit Finding No. 2	This finding relates to the appropriate adjustment to accumulated amortization of wastewater CIAC using the current composite rate.
Audit Finding No. 3	This finding relates to a \$50,119 adjustment made to wastewater working capital to correct a mathematical error, prepayments, and accrued interest
Audit Finding No. 5	This finding relates to the removal of a deferred income tax credit balance of \$3,634 for wastewater from rate base. The amount is still reflected in the capital structure schedule.

Source: Staff audit and utility responses to audit reports

In Affiliate Audit Finding No. 4, audit staff found that the subsidiary included two long-term debts that were paid off during the test year and recommended that they not be included in the utility's cost of capital calculations. However, the audit finding also noted that zero debt is reflected from March 2015 to August 2015. Starting in September 2015, the parent allocated a portion of its debt to Ni Florida in the amount \$4,736,843 for September, October, and November. This amount increased to \$5,000,000 in December 2015. Staff believes the amounts included in the utility's MFRs accurately reflect the capital structure and are representative of the long-term debt on the utility's books during the historic test year. Using a 13-month average, the utility has reflected when debt was paid off and included new debt as it was incurred, including a several month period where the balance was zero. As such, staff believes that no audit adjustment needs to be made.

In regard to Audit Finding No. 2, the utility amortized wastewater CIAC using the composite rate from the previous rate case. Ni Florida should have amortized CIAC based on the plant that it is related to, which would require an updated composite rate. Audit staff calculated the current composite rate and applied that rate to amortized CIAC for wastewater. Based on the updated composite rate, the 13-month average accumulated amortization of CIAC for wastewater should be increased by \$6,568 and amortization expense should be increased by \$2,845.

Staff also reduced working capital by \$50,119 in Issue 6 and removed the deferred income tax credit balance of \$3,634 for wastewater from rate base. Rule 25-30.433(3) F.A.C. states that a credit deferred tax balance shall be included only in capital structure. As such, staff made the appropriate adjustment.

Based on the audit adjustments agreed to by the utility and staff above, staff recommends increasing wastewater CIAC by \$6,568 and decreasing deferred income taxes by \$3,634. Wastewater amortization expense should be reduced by \$2,845.

Issue 3: Should any audit adjustments contested by the utility be made?

Recommendation: Yes. Ni Florida's test year Operations & Maintenance (O&M) expenses should be reduced by \$10,277 for water and \$39,742 for wastewater. Taxes other than income (TOTI) should be decreased by \$835 for water and \$1,378 for wastewater. (Brown)

Staff Analysis: Staff's audit reports were released on August 12, 2016,⁴ and the utility's response was received on September 22, 2016. The following recommendation addresses the contested audit adjustment and the appropriate adjustments that should be made.

Affiliate Audit Finding No. 1

The staff audit report noted non-utility expense adjustments, allocated down, in the amount of \$187 for water and \$717 for wastewater. These adjustments consisted of late payment fees, country club membership fees, non-utility office expenses, non-supported expenses, and outside the test year expenses. The utility did not specifically disagree with these adjustments and staff believes that they are appropriate. In its response to OPC's concerns, Ni Florida also agreed to remove the cost of the country club membership for the entire year. Membership fees for the year are \$2,508 (\$209 per mo. x 12 months) and staff auditors had already removed approximately \$1,885 as part of their review. To calculate the additional adjustment necessary, staff then allocated the difference, \$623 (\$2,508 - \$1,885), to Ni Florida. On an allocated basis, this represents a reduction of \$11 to water and \$43 to wastewater. As such, staff believes that water and wastewater miscellaneous expense should be reduced by \$198 and \$760, respectively.

Staff's audit report also noted that adjustments to Director and Officer Liability (DOL) Insurance were necessary. Audit staff calculated a total annualized cost of \$19,479 (\$14,568 + \$4,911). This amount consisted of a six-year coverage in the amount of \$4,911 (\$29,464/6) and \$14,568 annually for a DOL policy. In the utility's last rate case, the Commission determined that the cost of DOL insurance benefits both the ratepayers and the shareholders, and should be shared equally between them.⁵ Using that methodology, and the utility's allocation percentages, the audit report recommended DOL insurance costs of \$173 for water and \$665 for wastewater. The resulting audit adjustments, \$610 for water and \$2,340 for wastewater, reflect the allocation of the six-year coverage insurance and the removal of the shared costs. The utility did not specifically disagree with these adjustments. Staff agrees that the appropriate amount of DOL insurance is \$173 for water and \$665 for wastewater. Staff's adjustments differ slightly from the audit since it is being made to the amount included in the MFRs. According to the utility, the MFRs included \$851 and \$3,267 for water and wastewater, respectively, for DOL insurance.⁶ As such, staff recommends a reduction of \$678 (\$173 - \$851) for water and \$2,602 (\$665 - \$3,267) for wastewater.

In addition, audit staff recommended the reclassification of \$390 to water and \$13,195 to wastewater based on Ni America Operating, LLC's books. The water adjustment consisted of \$390 for legal expenses, while the wastewater adjustments consisted of \$3,900 for legal expenses and \$9,295 for transportation expenses. These particular adjustments were the only ones the utility disagreed with in its response. The utility believes that this is effectively what was done

⁴Document Nos. 06552-16 (Rate Case Audit) and 06553-16 (Audit of Affiliate Transactions).

⁵Order No. PSC-13-0611-PAA-WS, p.17.

⁶ Document No. 08250-16, filed October 14, 2016.

with these costs in the specific assignment of these costs in the MFRs. Although these costs were recorded on the books of Ni America, they were specifically assigned to Ni Florida's water and wastewater systems. Staff agrees with the utility that these assignments were adequately addressed in the MFRs. As such, no reclassification is necessary.

Based on the above analysis, expense water should be reduced by \$876 (\$198 + \$678) and for wastewater should be reduced by \$3,362 (\$760 + \$2,602).

Affiliate Audit Finding No. 2

Audit staff reviewed the descriptions of employee duties and responsibilities and identified five employees who appeared to work only in South Carolina or Texas. The total salaries and benefits for the employees that work in South Carolina or Texas utilities according to their job descriptions was \$459,461 (\$382,799 for salaries and \$76,662 for benefits). In addition, 5 percent of another employee's salary was allocated to due diligence, which was disallowed in the utility's last rate case.⁷ In total, audit staff believed that corporate salaries and benefits were overstated by \$40,349.

The utility did not specifically disagree with the adjustment related to due diligence, but objected to the removal of salaries and benefits for two of the five employees identified in audit staff's adjustments. In regard to those two employees, Ni Florida argued the following:

Both of these employees perform corporate functions and effectively do tasks for all utilities. These employees' payroll and benefits should remain as an allocable expense.⁸

The job descriptions for the contested positions at issue are included in Table 3-1, below:

**Table 3-1
Title and Duties of Contested Positions**

Title	Duties
Senior Analyst	Responsible for handling general accounting for the South Carolina utilities owned by Ni America, prepares each of the utilities' monthly financial statements in accordance with U.S. GAAP. Also responsible for determining and reevaluating Equivalent Residential Customers (ERCs) for each of the South Carolina utilities owned by Ni America.
Office Manager	Responsible for managing the South Carolina office for employees of Ni America. Orders supplies, coordinates mailroom activities, assists with making bank deposits from the personnel posting payments, and assists other employees as needed.

Source: Audit workbook 44-3.3

Staff believes that both positions should be removed. The Senior Auditor position should be removed because the job duties provided above clearly reflect work activity performed for Ni America's South Carolina utilities alone. Similarly, the Office Manager's duties also reflect ties

⁷Order No. PSC-13-0611-PAA-WS, pp.13-14

⁸Document No. 07734-16, filed September 22, 2016.

to Ni America's South Carolina operations and provide no clear indication of how the position benefits Florida customers. Staff acknowledges that some of the office manager's duties may also overlap with services being provided through the management services contract with utility Group of Florida, LLC. Additionally, staff believes that the utility's removal of salaries and benefits from overhead for a similar position in Texas is a compelling reason to remove the salaries and benefits associated with the South Carolina Office Manager here.⁹

In its audit response, Ni Florida indicated that it identified one additional employee whose salary and benefits should be part of the reduction since their duties are limited to South Carolina. Staff agrees that it is appropriate to remove salaries and benefits for this employee as well. Because this adjustment is specific to one employee and the salary information is confidential, staff will not disclose salary and benefit information here. Staff included the employee's salary and benefits in the reduction below.

In total, staff believes that allocated corporate salaries and benefits were overstated by \$63,297. Staff removed \$13,086 from water and \$50,211 from wastewater.

Affiliate Audit Finding No. 3

The affiliated audit recommended that depreciation expense not be allocated to Ni Florida in the amount of \$1,575 because the fixed assets are not allocated to Ni Florida. The utility argued that this is likely the result of a misunderstanding in the response given by Ni Florida when asked about these assets. According to the utility, these assets are not allocated to Ni Florida, because they reside on the books of Ni America. The utility added, and staff agrees, that the assets in question support the corporate employees of Ni America; therefore, the depreciation expense of these assets should be allocated to Ni Florida, the same as is done with the payroll and benefits of these employees. As such, staff does not believe the audit adjustment should be included.

Audit Finding No. 1

The utility began a construction project to provide utility service to an outreach center (Rhodes Road Project) in 2015. In March of the same year, the utility calculated the wastewater CIAC for this center using a residential service tariff to calculate the CIAC amount because they do not have an authorized general service tariff. Using this, the utility calculated a CIAC requirement of \$77,760, which the utility booked in March 2015 and reflected in their MFRs. The project was still in construction work in progress (CWIP) at the end of 2015. The utility has not included CWIP in rate base. As such, audit staff recommended removing this amount from CIAC and the fall out amounts charged to Accumulated Amortization of CIAC and CIAC expense pending completion of the project. Ni Florida did not agree with the audit finding that the CIAC should be removed. The utility explained that in its rate filing, Ni Florida included the Rhodes Road Project CWIP as a pro forma addition to plant in service. As discussed in Issue 4, this project is currently in service. Because the utility included the project in pro forma plant and the project is now complete, staff believes that CIAC should remain in rate base as reflected in the utility's MFRs. As such, the audit adjustment is not required.

⁹Audit workpaper 44-3.3 identified a Texas employee with the title of Office Manager whose job duties were very similar to the Office Manager position listed above. This employee was one of several employees whose salaries and benefits were excluded from overhead. The Texas office manager's duties follow: Ms. Rotermund is responsible for managing the Houston office for corporate employees of Ni America. She orders supplies, coordinates mailroom activities, assists with preparing expense reports, and assists other employees as needed.

Audit Finding No. 7

Audit staff determined that O&M expenses should be \$240,935 and \$1,524,366 for water and wastewater, respectively, representing net increases of \$2,425 for water and \$8,853 for wastewater. As part of the adjustment, auditors removed out of period expenses and pollution insurance, added the current cost of a general liability insurance policy, and made several reclassification adjustments. The utility only references the removal of the pollution insurance in its audit response. Staff notes that the auditors recommended the removal of the pollution insurance because Ni Florida was not included when the policy was renewed. In its response, the utility explained that it was inadvertently left off of the Ni Pacolet Milliken Utilities policy, but has since been added. The utility provided support documentation, including premium information, in response to Staff's 4th Data Request, Question No. 5.¹⁰ The \$6,000 premium associated with adding Ni Florida to the pollution insurance policy should be allocated to water and wastewater and included in O&M. This results in an increase of \$574 to Account 659 for water and \$2,106 to Account 759 for wastewater. Staff believes that the following audit adjustments are also appropriate:

1. Increase insurance-general liability by \$3,111 and \$12,001 for water and wastewater respectively, to reflect current renewal policy premiums.
2. Remove \$126 from wastewater materials and supplies for out of period costs.
3. Remove \$150 from contractual services-testing for out of period costs.

As such, staff increased water and wastewater O&M by \$3,685 (\$574 + \$3,111) and \$13,831 (\$2,106 + 12,001 - \$126 - \$150), respectively, for Audit Finding 7.

Audit Finding No. 8

Staff's audit report reduced water related Regulatory Assessment Fees (RAF) by \$835, and increased wastewater RAF fees by \$582. Real estate and property taxes were also reduced by \$1,572 for wastewater and an additional reduction of \$388 was made to remove late fees. The only portion of the audit finding that the utility appears to disagree, is with the portion related to the Pasco County property tax discount for early payment. The utility indicated that the bill was paid two months in advance and that Ni Florida received a 2 percent discount. It is longstanding Commission practice to recognize the maximum discount, whether the utility receives the discount or not. As such, staff agrees with the auditors that the property tax expense should reflect the maximum discount available. The maximum discount available was on November 30, 2015 and property taxes should be reduced by \$1,572. The utility did not specifically address the RAF adjustment or the removal of the late fees. As such, staff reduced RAFs for water by \$835 and reduced the amount for wastewater by \$1,378 (\$582 - \$1,572 - \$388).

Based on the audit adjustments discussed above, staff recommends that the adjustments set forth in Table 3-2 be made.

¹⁰Document No. 07638-16, filed September 19, 2016.

Table 3-2
Recommended Contested Audit Adjustments

Audit Finding	Water	Wastewater
Affiliate Audit Finding No. 1	(\$876)	(\$3,362)
Affiliate Audit Finding No. 2	(13,086)	(50,211)
Affiliate Audit Finding No. 3	0	0
Audit Finding No. 1	0	0
Audit Finding No. 7	3,685	13,831
Total O&M	<u>(\$10,277)</u>	<u>(\$39,742)</u>
Audit Finding No. 8	(\$835)	(\$1,378)
Total TOTI	<u>(\$835)</u>	<u>(\$1,378)</u>

Additional O&M adjustments are addressed in Issue 12.

Issue 4: Should any adjustments be made to the utility's pro forma plant additions and associated expenses?

Recommendation: Yes. The appropriate amount of pro forma plant additions net of retirements is \$299,194 for wastewater. Ni Florida's wastewater pro forma plant should be increased by \$32,306, accumulated depreciation reduced by \$44,844, depreciation expense reduced by \$735, and property taxes increased by \$10,037. In addition, accumulated deferred income taxes (ADITs) should be reduced by \$596. (Hill, Brown)

Staff Analysis: In its MFRs, Ni Florida reflected two pro forma wastewater additions totaling \$266,889, net of retirements. The following table provides a breakdown of each pro forma plant addition.

**Table 4-1
 Ni Florida's Pro Forma Projects**

Pro Forma Projects	Wastewater
Tower Dr. Collection System Replacement Project	\$729,262
Retirement for Tower Dr. Replacement Project	(545,254)
ROPES – Rhodes Rd. Project (New Service)	<u>82,880</u>
Net Addition	<u>\$266,888</u>

Source: MFR Schedule No. A-3

Tower Drive Project

Ni Florida's MFRs included \$729,262 for the replacement of wastewater collection lines to address inflow and infiltration along Tower Drive. There is a corresponding \$545,254 retirement associated with this work, so the net impact on plant in service for this project is \$184,008. On April 20, 2015, DEP authorized the construction and installation of the discussed components. Ni Florida received final clearance from DEP on June 15, 2016, and placed the project into service on September 30, 2016.

The utility provided staff with four bids, ranging from approximately \$646,000 to \$1,174,000, for the Tower Drive project. Bid information is provided below:

**Table 4-2
 Tower Drive Bids**

Bid Provider	Amount
Flave A. Williams III Dozer Service, Inc.	\$645,937 ¹¹
Utility Group of Florida, LLC	\$710,872
JMJ Site Development Inc.	\$1,159,091
Environmental Equipment Sales, Inc.	\$1,173,430

Source: Response to Staff's Second Data Request

Ni Florida selected the bid provided by Utility Group of Florida. While not the lowest bid, the Utility Group of Florida bid did not contain the exclusions that the lowest bid contained.

¹¹Bid contained numerous exclusions, including landscaping, fencing, fees & permits, and fencing.

The utility included \$729,262 in its MFRs for this pro forma plant, and staff's review of the actual expense totaled \$854,860. Since no original cost invoices were available, 75 percent of the cost of the replacement was used as the retirement value by the utility and staff. This is consistent with Commission practice.¹² The utility calculated retirements at \$545,254. Based on the actual cost of the project, staff calculated retirements at \$639,159. Staff has reviewed the bids as well as recent invoices and recommends that the Commission approve \$854,860 for this project.

ROPES-Rhodes Road Project

Ni Florida's MFRs included \$82,880 for a project to connect a new general service customer at 7839 Rhodes Road. The utility has since submitted an invoice of \$613 for DEP certification and final testing, which brings the total for this project to \$83,493. The project was completed on April 26, 2016, has been approved by DEP, and has been placed into service.

The utility provided a feasibility report for the Rhodes Road project prepared by a professional engineer which estimated costs for this project at \$75,000. As mentioned previously, the utility included \$82,880 in its MFRs for the this pro forma project, and staff's review of the actual expense totaled \$83,493. Staff believes that the difference between the estimated cost and the actual cost of the project is likely a result of the report being prepared in 2011. Staff notes that the final cost for the Rhodes Road project included \$6,500 for contingencies. It appears that these costs were part of the billing for a fixed-amount, lump-sum project, which was intended to be billed at 100 percent of the accepted bid. There were no retirements associated with this project because it was new construction. Staff recommends that the Commission approve \$83,493 for this project.

Conclusion

Staff made adjustments to reflect the difference between actual costs and estimated pro forma plant. Staff's adjustments to plant resulted in corresponding flow-through adjustments to accumulated depreciation, depreciation expense, property taxes, and accumulated deferred income taxes (ADITs). Staff's recommended adjustments, excluding ADITs, are shown in the following tables.

¹²Order Nos. PSC-13-0187-PAA-WS, issued May 2, 2013, in Docket No. 120152-WS, *In re: Application for increase in water and wastewater rates in Orange County by Pluris Wedgefield, Inc.*; PSC-11-0587-PAA-SU, issued December 21, 2011, in Docket No. 110153-SU, *In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge*; PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, *In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida*; PSC-09-0632-PAA-WU, issued September 17, 2009, in Docket No. 080353-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*; and PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, *In re: Application for rate increase in Martin County by Indiantown Company, Inc.*

**Table 4-3
 Plant Adjustments**

Pro Forma Projects	MFR Plant	Staff Plant	Plant Adj.
Tower Dr. Collection System Replacement Project	\$729,262	\$854,860	\$125,598
Retirement for Tower Dr. Replacement Project	(545,254)	(639,159)	(93,905)
ROPES – Rhodes Rd. Project (New Service)	<u>82,880</u>	<u>83,493</u>	<u>613</u>
Total	<u>\$266,888</u>	<u>\$299,194</u>	<u>\$32,306</u>

Source: MFRs and responses to staff data requests

**Table 4-4
 Additional Adjustments**

Adjustment	MFR	Staff	Adj.
Accumulated Depreciation	\$545,254	\$590,098	\$44,844
Depreciation Expense	14,287	13,552	(\$735)
Property Tax	\$4,564	\$14,601	\$10,037

Source: MFRs and responses to staff data requests

Based on the information above, staff recommends that the appropriate pro forma plant addition net of retirements is \$299,194 for wastewater. This results in an incremental decrease of \$32,306 from the amounts requested in the utility MFRs. Using the depreciable lives pursuant to Rule 25-30.140, F.A.C., corresponding adjustments should be made to reduce accumulated depreciation by \$44,844 for wastewater. Depreciation expense should be reduced by \$735 for wastewater. In addition, pro forma property taxes should be increased by \$10,037 for wastewater. Based on the additional pro forma plant and changes in depreciation recommended above, an ADIT debit of \$596 is created. Staff has removed this amount in the capital structure shown in Schedule No. 2.

Issue 5: What are the used and useful (U&U) percentages for Ni Florida's water and wastewater systems?

Recommendation: Ni Florida's water distribution system should be considered 100 percent U&U and its wastewater collection system should be considered 100 percent U&U. Staff recommends that wastewater purchased power and purchased wastewater expenses should be reduced by 1.81 percent for excessive I&I. No adjustment is recommended for excessive unaccounted for water (EUW). (Hill)

Staff Analysis: Both Ni Florida's water distribution and wastewater collection systems were deemed 100 percent U&U during its previous rate case. Since the utility's last rate case, there has been no change in circumstances. Therefore, consistent with the Commission's prior decision, staff recommends that Ni Florida's water distribution and wastewater collection systems should be considered 100 percent U&U.

Infiltration and Inflow (I&I)

Typically, infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas, inflow results from water entering a wastewater collection system through manholes or lift stations. By convention, the allowance for infiltration is 500 gpd per inch diameter pipe per mile, and an additional 10 percent of residential water billed is allowed for inflow. Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider I&I. Additionally, adjustments to operating expenses such as chemical and electrical costs are also considered necessary.

All wastewater collection systems experience I&I. The conventions noted above provide guidance for determining whether the I&I experienced at a wastewater treatment plant (WWTP) is excessive. Staff calculates the allowable infiltration based on system parameters and allowable inflow based on water sold to customers. The sum of these amounts is the allowable I&I. Staff next calculates the estimated amount of wastewater returned to the WWTP from customers. The estimated return is determined by summing 80 percent of the water sold to residential customers with 90 percent of the water sold to non-residential customers. Adding the estimated return to the allowable I&I yields the maximum amount of wastewater that should be treated by a WWTP without incurring adjustments to operating expenses. If this amount exceeds the actual amount treated, no adjustment is made. If it is less than the gallons treated, then the difference is the excessive amount of I&I.

The utility has 133,669 feet of 8-inch collecting mains, 440 feet of 3-inch force mains, 21,043 feet of 4-inch force mains, 38,303 feet of 6-inch force mains, 4,000 feet of 8-inch force mains, and 3,810 feet of 12-inch force mains. Given these parameters and performing the necessary conversions to express the result in gallons per year (gpy), the allowance for infiltration is 50,546,347 gpy.

The utility's records indicated that it billed for 96,230,000 gallons of wastewater based on estimated return rates of water usage during the test year. Thus, the allowance for inflow is 10 percent of that amount, or 9,623,000 gpy. Therefore, the total allowance for inflow and infiltration is 60,169,347 gpy.

The utility reported the wastewater customers had water usage during the test year of 149,727,000 gallons (80,153,000 residential, 37,605,000 multi-family, 31,969,000 non-residential). Estimating the residential return at 80 percent and the non-residential return at 90 percent, the total estimated return to the WWTP is 96,230,000 gallons. Thus, the estimated maximum amount of wastewater that the WWTP should treat, the estimated return plus the allowable I&I, is 156,399,347 gpy. Any amount treated in excess of this amount is considered excessive I&I.

According to the staff audit, the utility purchased 159,287,000 gallons of wastewater treatment during the test year. This is greater than the estimated maximum amount allowable. Therefore, the excessive I&I is 2,887,652 gpy. Expressed as a percentage of wastewater treated, it is 1.81 percent. Thus, a 1.81 percent adjustment to wastewater purchased power and purchased wastewater expenses should be made for excessive I&I.

Excessive Unaccounted for Water (EUW)

Pursuant to Rule 25-30.4325, F.A.C., the calculation of U&U for a water treatment plant must consider EUW. Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. When establishing the Rule, the Commission recognized that some uses of water are readily measurable and others are not.¹³ Unaccounted for water is all water that is produced that is not sold, metered, or accounted for in the records of the utility. The unaccounted for water is calculated by subtracting both the gallons used for other purposes, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year. The Rule additionally provides that to determine whether adjustments to plant and operating expenses, such as purchased electrical power and chemicals cost, are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible.

According to the MFRs, the utility purchased 21,460,000 gallons of water and used 1,500,000 gallons of water for other uses during the test year. According to the staff audit report, the utility sold 18,083,140 gallons of water for the test year. Based on the values above, unaccounted for water is 8.75 percent. Therefore, staff recommends no adjustment be made to operating expenses for chemicals and purchase power due to EUW.

Summary

Based on the analysis above, staff recommends Ni Florida's water distribution system should be considered 100 percent U&U and its wastewater collection system should be considered 100 percent U&U. Staff recommends that wastewater purchased power and purchased wastewater expenses should be reduced by 1.81 percent for excessive I&I. No adjustment is recommended for EUW.

¹³Order No. PSC-93-0455-NOR-WS, issued on March 24, 1993, in Docket No. 911082-WS, *In re: Proposed revisions to Rules 25-22.0406, 25-30.020, 25-30.025, 25-30.030, 25-30.032 through 25-30.037, 25-30.060, 25-30.110, 25-30.111, 25-30.135, 25-30.255, 25-30.320, 25-30.335, 25-30.360, 25-30.430, 25-30.436, 25-30.437, 25-30.443, 25-30.455, 25-30.515, 25-30.565; adoption of Rules 25-22.0407, 25-22.0408, 25-22.0371, 25-30.038, 25-30.039, 25-30.090, 25-30.117, 25-30.432 through 25-30.435, 25-30.4385, 25-30.4415, 25-30.456, 25-30.460, 25-30.465, 25-30.470, 25-30.475; and repeal of Rule 25-30.441, F.A.C., pertaining to water and wastewater regulation*, at p. 102

Issue 6: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is \$77,050 for water and \$217,123 for wastewater. As such, the working capital allowance should be decreased by \$4,534 for water and \$65,795 for wastewater. (Brown)

Staff Analysis: Rule 25-30.433(2), F.A.C., requires Class A utilities to use the balance sheet approach to calculate the working capital allowance. According to its filing, Ni Florida utilized the balance sheet approach and calculated a total company working capital allowance of \$364,502, which was allocated to each of Ni Florida's systems based on ERCs as of December 31, 2015. The balance sheet approach is essentially current assets less current liabilities. As discussed in Issue 2, the utility agreed to audit adjustments to decrease wastewater working capital by \$50,119. Based on further review, staff believes additional adjustments are necessary to address the appropriate amounts for deferred rate case expense (DRCE) and current rate case expense.

The utility included \$60,448 in its working capital calculation for DRCE. It is Commission practice to include one-half of the approved amount of rate case expense from prior cases that have not been fully amortized, as well as half of the approved amount in the instant docket in working capital under the balance sheet method.¹⁴ In the utility's last rate case, the Commission approved total rate case expense of \$149,321 to be amortized over four years.¹⁵ Staff believes that one-half of the prior Commission-approved rate case expense, or \$74,661, is the appropriate amount of DRCE to be included in working capital. As such, DRCE should be increased by \$14,213 (\$74,661 - \$60,448), \$2,738 for water and \$11,475 for wastewater.

As addressed in a subsequent issue, staff is recommending total rate case expense of \$95,082. Consistent with Commission practice, the allocation of one-half of the recommended rate case expense for the instant case results in \$9,984 for water and \$37,557 for wastewater. This is a reduction of \$7,272 and \$27,151 for water and wastewater respectively over the amount of current rate case expense included in the MFRs.

Based on the adjustments above, staff recommends a working capital allowance of \$77,050 for water and \$217,123 for wastewater. This reflects decreases of \$4,534 for water and \$65,795 for wastewater. These adjustments are illustrated in the Table 6-1 below.

¹⁴Order Nos. PSC-09-0057-FOF-SU, issued January 27, 2009, in Docket No. 070293-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*; PSC-04-0369-AS-EI, issued April 6, 2004, in Docket No. 030438-EI, *In re: Petition for rate increase by Florida Public Utilities Company*; and PSC-010326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, *In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.*

¹⁵Order No. PSC-13-0611-P AA-WS, p.20.

Table 6-1
Working Capital Adjustments

Description	Water	Wastewater
MFR Amount	\$81,584	\$282,918
Agreed Upon Audit Adjustments	0	(50,119)
DRCE Adjustments	2,738	11,475
Current RCE Adjustment	<u>(7,272)</u>	<u>(27,151)</u>
Staff Calculated WCA	<u>\$77,050</u>	<u>\$217,123</u>
Staff Working Capital Adjustment	<u>(\$4,534)</u>	<u>(\$65,795)</u>

Source: MFRs, Audit Report for Ni Florida, LLC

Issue 7: What is the appropriate rate base for the test year ending December 31, 2015?

Recommendation: Consistent with staff's other recommended adjustments, the appropriate rate base for the test year ended December 31, 2015, is \$340,468 for water and \$3,964,854 for wastewater. (Brown)

Staff Analysis: In its MFRs, the utility requested rate base of \$345,002 for water and \$3,943,297 for wastewater. Based on staff's recommended adjustments, the appropriate rate base for the test year ended December 31, 2015, is \$340,468 for water and \$3,964,854 for wastewater. Staff adjustments as recommended in the preceding issues result in a \$4,534 reduction to water rate base and a \$21,557 increase to wastewater rate base. Staff's recommended water and wastewater rate bases are shown on Schedule Nos. 1-A and 1-B, respectively. The adjustments are shown on Schedule No. 1-C.

Issue 8: What is the appropriate return on equity?

Recommendation: Based on the Commission leverage formula currently in effect, the appropriate return on equity (ROE) is 9.56 percent with an allowed range of plus or minus 100 basis points. (Brown)

Staff Analysis: The utility requested an ROE of 9.27 percent. Based on the current leverage formula in effect and an equity ratio of 76.92 percent, the appropriate ROE is 9.56 percent.¹⁶ Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

¹⁶Order No. PSC-16-0254-PAA-WS, issued June 29, 2016, in Docket No. 160006-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), Florida Statutes.*

Issue 9: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure?

Recommendation: The appropriate weighted average cost of capital for the test year ended December 31, 2015 is 8.11 percent. (Brown)

Staff Analysis: In its filing, Ni Florida requested an overall cost of capital of 8.15 percent. Staff recommends several adjustments to the utility's capital components included in its capital structure.

First, the utility included a cost rate of 6.00 percent for customer deposits. Pursuant to Rule 25-30.311, F.A.C., Customer Deposits, the minimum interest rate for residential customer deposits is 2.00 percent per annum. Going forward, staff recommends that 2.00 percent is the appropriate cost rate for customer deposits.

Second, the utility has requested to include pro forma plant additions in the instant docket. Due to tax timing differences between the Internal Revenue Service and state regulatory depreciation, the additional plant investment caused changes to the balance of accumulated deferred income taxes (ADITs). Ni Florida included in its filing an adjustment to its capital structure to reflect the proper amount of deferred income taxes on its pro forma plant additions. The amount of ADITs included in Ni Florida's capital structure was reduced by \$596 based on staff's pro forma calculations.

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2015, including the aforementioned adjustments, staff recommends a weighted average cost of capital of 8.11 percent. Schedule No. 2 details staff's recommended overall cost of capital.

Issue 10: Should any further adjustments be made to test year revenues?

Recommendation: Yes. Test year revenues for the Ni Florida's water system and wastewater systems should be increased by \$159 and \$10,075, respectively. (Bruce)

Staff Analysis: In its MFRs, Ni Florida's adjusted test year revenues were \$243,169 for water and \$1,929,738 for wastewater. The water revenues include \$236,812 of service revenues and \$6,357 of miscellaneous revenues. The wastewater revenues include \$1,875,982 of service revenues and \$53,756 of miscellaneous revenues. In review of the utility's adjusted test year billing data for water, staff found that the utility understated the number of residential bills. Based on the audit, staff made the adjustments to reflect the appropriate number of billing determinants. Furthermore, the utility had a four year rate reduction that became effective on November 20, 2015. Staff annualized test year revenues by applying the rates in effect at the end of the test year to the adjusted billing determinants. Therefore, the test year service revenues for water should be \$218,090, which results in a decrease of \$18,721 (\$236,812 - \$218,090). For wastewater, staff found that the utility overstated the number of residential bills during the test year. The utility also did not provide any billing determinants for wastewater general service 5/8" x 3/4" meter size. Staff made the necessary adjustments to reflect the appropriate billing determinants, which results in an increase of \$12,664. The test year service revenues for wastewater should be \$1,888,646 (\$1,875,982 + \$12,664).

Staff also made adjustments to miscellaneous revenues for water and wastewater. Staff found that the utility understated the number of occurrences for late payments during the test year. Therefore, staff increased miscellaneous revenues for water and wastewater revenues by \$159 and \$123, respectively. Staff also increased wastewater miscellaneous revenues to reflect the appropriate number of premises visits, which resulted in an increase of \$125. For wastewater, the utility did not record an initial connection charge, which resulted in \$27 increase. Furthermore, as discussed in Issue 16, staff is recommending approval violation reconnection charge based on a joint agreement with Pasco County. Therefore, staff imputed revenues of \$9,800 [$(\$125 - \$27) \times 100$] to reflect the additional miscellaneous revenues. For the reasons outlined above, the miscellaneous revenues for water should be \$6,516 ($\$6,357 + 159$) and \$54,031 ($53,756 + \$123 + \$125 + \$27 + 9,800$) for wastewater. Based on the above, the appropriate test year revenues for Ni Florida's water and wastewater systems, including miscellaneous service revenues are \$224,606 and \$1,952,477. Table 10-1, represents a summary of staff's adjustments for test year revenues.

**Table 10-1
 Test Year Revenues**

	Water	Wastewater
Service Revenues		
Utility Recorded Service Revenues	\$236,812	\$1,875,982
Staff's Adjustment	<u>(\$18,721)</u>	<u>\$12,664</u>
Total Service Revenues	\$218,090	\$1,888,646
Miscellaneous Revenues		
Utility Recorded Miscellaneous Revenues	\$6,357	\$53,756
Staff's Miscellaneous Revenue Adjustments	<u>\$159</u>	<u>\$10,075</u>
Total Miscellaneous Revenues	\$6,516	\$63,831
Total Test Year Revenues	\$ 224,606	\$1,952,477

Source: Utility's general ledger and staff's calculations

Issue 11: What is the appropriate amount of current rate case expense?

Recommendation: The appropriate amount of rate case expense for the instant case is \$95,082. This expense should be recovered over four years for an annual expense of \$4,992 for water and \$18,779 for wastewater. Thus, Ni Florida’s requested annual rate case expense should be reduced by \$3,636 for water and \$13,575 for wastewater from the respective levels of expense included in the MFRs. (Brown)

Staff Analysis: The utility included in its MFRs an estimate of \$163,928 for current rate case expense. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On September 1, 2016, the utility submitted a revised estimate of rate case expense through completion of the PAA process of \$107,517 with \$82,166 already incurred.¹⁷ The components of the estimated rate case expense are presented in the table below:

**Table 11-1
 Estimated Rate Case Expense**

	MFR Estimated	Actual	Additional Estimated	Total
Legal Fees	\$62,500	\$41,599	\$14,875	\$56,474
Accounting Fees	70,000	35,000	0	35,000
Filing Fee	0	5,500	0	5,500
Customer Notices/FedEx	<u>31,428</u>	<u>67</u>	<u>10,476</u>	<u>10,543</u>
Total	<u>\$163,928</u>	<u>\$82,166</u>	<u>\$25,351</u>	<u>\$107,517</u>

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

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case.

Legal Fees (Sundstrom & Mindlin, LLP)

The utility included in its MFRs \$62,500 in legal fees to complete the rate case. The utility provided invoices through July 31, 2016, showing legal expenses associated with the rate case totaling \$41,599 plus an additional \$14,875 to complete this PAA rate case for a total of \$56,474 in legal fees.

According to the invoices provided, the law firm of Sundstrom & Mindlin, LLP (Sundstrom) billed the utility approximately \$2,900 related to the correction of MFR deficiencies. Sundstrom believes that it should be allowed to recover the expense associated with deficiency correction because it is part of the “normal process,” and that “few rate filings are accepted without

¹⁷Document No. 07251-16, filed on September 1, 2016.

revisions to correct for deficiencies.”¹⁸ Staff disagrees, noting that the Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.¹⁹ Accordingly, staff believes that \$2,891 (8.26 hours x \$350/hour) should be removed as duplicative and unreasonable rate case expense.

Based on its response to Staff’s Second Data Request, Question 10, the utility appears to have spent approximately \$74,000 in its preparation and filing of the rate proceeding in Docket No. 150170-WS, and believes that a portion of that expense should be included in the current docket. In support, Sundstrom argues the following:

While the great majority of the costs related to this proceeding are not relevant to the current rate case proceeding, most of the costs related to legal services incurred during the three months prior rate case filing are directly related to the information necessary in order to file the current rate proceeding in Docket 160030-WS. The costs for drafting of pleadings, organization of tariffs and exhibits which were the focus of the three legal bills just prior to the filing were substantially similar to those filed in the instant rate proceeding. As such, the utility believes that a significant portion of the rate case expenses incurred for legal services in those three months directly benefit the current rate proceeding. In an attempt to estimate conservatively, the utility has allocated 50% of the cost of those services as costs related to the current rate proceeding.²⁰

Sundstrom included \$8,203 of legal expense related to Docket No. 150170-WS in the current docket. The utility withdrew its application for an increase in rates in that docket on January 21, 2016 citing, in part, the following factors: (1) the deficiencies noted by the Commission Staff to the Application as originally filed; (2) recognition of the changes that have occurred as a result of a change in ownership of the utility in 2015; and (3) changes in status of capital improvements to the utility system.²¹ Staff adds that the utility’s decision to withdraw its 2015 rate case was on its own motion, not at the Commission’s urging. As such, staff does not believe that any expense related to Docket No. 150170-WS should be included in the current docket. Accordingly, staff believes that \$8,203 should be removed from current rate case expense.

An adjustment to actual rate case expense should also be made to remove a portion of travel expenses related to the customer meeting in July. Support documentation provided by Sundstrom included approximately \$218 for a meal attended by the attorney and five utility employees. Staff believes that is inappropriate to include the cost of the meal as it relates to the five utility employees, but the attorney’s portion of the meal should be allowed. It is likely that the utility employees’ other travel related expenses were submitted to the utility for reimbursement. If paid for individually, staff believes that the meal expense would have also been submitted to the utility for reimbursement, and not included in rate case expense. As such, staff believes that 1/6th

¹⁸Document No. 07475-16, filed September 13, 2016.

¹⁹Order Nos. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, *In re: Application for rate increase in Martin County by Indiantown Company, Inc.*; and PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, *In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.*

²⁰Document No. 07475-16.

²¹Document No. 00366-16, filed on January 21, 2016.

of the cost, or \$36, should be included in rate case expense. The remaining \$181 should be removed from legal rate case expense.

Sundstrom's estimate to complete the rate case includes fees of \$13,825 for responding to various commission documents and preparing for and attending the agenda conference. The estimate to complete also included costs of \$1,050 for photocopies, postage, and other expenses. Since the estimate to complete was submitted on September 1, 2016, staff sent two additional data requests and the utility also responded to OPC's issues and concerns. As such, staff believes the full amount of the estimate to complete, \$14,875 (\$13,825 + \$1,050), is reasonable.

Based on the above, staff believes that the appropriate amount of legal fees is \$45,199 (\$56,474 - \$11,275).

Accounting Fees (Tangibil)

Ni Florida included \$70,000 in its MFRs for accounting costs. The utility's updated rate case expense reflected actual fees of \$35,000 with no additional costs for the estimate to complete. In response to Staff's First Data Request, the utility attached an invoice from Tangibil for \$35,000. Based on the supporting documentation, Tangibil's work is based on a lump sum quote for preparation of the rate case MFRs and assistance in responding to data requests and analyses. No additional invoices were received by staff addressing work related to deficiency corrections or responding to additional staff data requests. Staff notes that in the utility's last rate case, Ni Florida was allowed to recover \$81,000 for accounting fees.²² As such, staff believes that the lump sum of \$35,000 for preparation of the MFRs and responding to staff's data requests appears reasonable.

Filing Fee

The utility did not include a filing fee in its MFR Schedule B-10, but did include the \$5,500 filing fee as part of its updated rate case expense. Staff verified that the amount was not already included in the legal fees to avoid double recovery of this fee. Since the filing fee was not included in legal fees, there is no double recovery of this fee, and should be included in rate case expense.

Customer Notices, Printing, Shipping, and FedEx

In its MFRs, Ni Florida included estimated costs of \$31,428 for printing and shipping. The utility provided a revised total for final noticing which totaled \$10,476 and \$67 for FedEx expense. Ni Florida is responsible for sending four notices: the interim notice, the initial notice, customer meeting notice, and notice of the final rate increase. The initial notice and the initial notice were combined in this docket. The Commission has historically approved recovery of noticing and postage, despite the lack of support documentation, based on a standard methodology to estimate the total expense using the number of customers and the estimated per unit cost of envelopes, copies, and postage.²³ In the calculations that follow, staff used the actual number of pages of the interim notice (two) and the combined initial and customer meeting notice (four), and estimated that the final notice would be four pages.

²²Order No. PSC-13-0611-PAA-WS, p.19.

²³Order No. PSC-14-0025-PAA-WS issued January 10, 2014, in Docket No. 120209-WS, *In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.*

Staff estimates the postage cost for the notices to be approximately \$4,938 (3,502 customers x \$0.47 x 3 notices).²⁴ Staff estimates envelope costs to be \$525 (3,502 customers x \$0.05 per envelope x 3 notices) and copying costs to be \$3,852 (\$0.10 per copy x 38,522 pages).²⁵ The utility also included \$67 in FedEx expense which staff believes is reasonable. Based on these components, the total cost for customer notices and postage is \$9,382 (\$4,938 + \$525 + \$3,852 + \$67). In the utility's last rate case, Ni Florida was allowed to recover \$9,009 for customer notices and postage.²⁶ Staff believes that its calculated expense is reflective of the actual conditions in the instant docket while remaining comparable to the expense in the 2013 rate case. As such, staff recommends that rate case expense be decreased by \$1,161 (\$9,382 - \$10,543) for customer mailings.

Conclusion

In summary, we find that the utility's revised rate case expense should be decreased by \$12,436. The appropriate total rate case expense is \$95,082. A breakdown of rate case expense is as follows:

**Table 11-2
 Staff Recommended Rate Case Expense**

	MFR Estimated	Utility Revised Actual & Est.	Staff Adjustment	Recom. Total
Legal Fees	\$62,500	\$56,474	(\$11,275)	\$45,199
Accounting Fees	70,000	35,000	0	35,000
Filing Fee	0	5,500	0	5,500
Customer Notices/FedEx	<u>31,428</u>	<u>10,543</u>	<u>(1,161)</u>	<u>9,382</u>
Total Rate Case Expense	<u>\$163,928</u>	<u>\$107,517</u>	<u>(\$12,436)</u>	<u>\$95,082</u>
Annual Amortization	<u>\$40,982</u>	<u>\$26,879</u>	<u>(\$3,109)</u>	<u>\$23,770</u>

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

The recommended total rate case expense should be amortized over four years, pursuant to Section 367.0816, F.S. Based on the data provided by Ni Florida and the recommended adjustments discussed above, staff recommends the appropriate amount of rate case expense is \$95,082. This expense should be recovered over four years for an annual expense of \$23,770.

The utility also included in its MFRs prior rate case expense of \$144,179. However, in the utility's last rate case, the Commission approved total rate case expense of \$149,321 to be amortized over four years.²⁷ As such, staff used the Commission-approved amount for prior rate

²⁴First class postage rate of \$0.47, effective January 17, 2016.

²⁵Staff anticipates that the final notice will be four pages.

²⁶Order No. PSC-13-0611-PAA-WS, p.19.

²⁷Order No. PSC-13-0611-P AA-WS, p.20.

case expense here. When amortized over four years, total prior unamortized rate case expense represents an annual expense of \$37,330. Staff's recommended total current rate case expense and prior rate case expense total \$244,403 (\$95,082 + \$149,321), or \$61,101 on an annual basis. As a result, annual rate case expense should be decreased by \$3,636 for water and \$13,575 for wastewater from the respective levels of expense included in the MFRs.

Issue 12: Should additional adjustments be made to test year O&M expenses?

Recommendation: Yes. Based on adjustments set forth above, staff recommends decreasing O&M expense by \$20,724 for water and \$136,054 for wastewater. Adjustments to O&M expense are shown on Schedule No. 3-C. (Brown)

Staff Analysis: Staff has reviewed the test year O&M expenses and examined invoices, canceled checks, and other supporting documentation. As a result, staff is recommending several adjustments to the utility's operating expenses, as summarized below.

Staff notes that in regard to purchased water and wastewater contractual services-engineering, no adjustments were identified by staff. There were also no audit findings pertaining to these issues. Several other accounts had adjustments made as a result of an audit finding or due to I&I, and are addressed in other issues. As such, they are identified in the table below, but are not discussed within this issue.

**Table 12-1
 O&M Accounts Not Discussed in Issue**

Water		Wastewater	
Acct. No.	Name	Acct. No.	Name
610	Purchased Water	710	Purchased Sewer Treatment
657	Insurance – General Liability	715	Purchased Power
659	Insurance – Other	720	Materials and Supplies
		731	Contractual Services - Engineering
		735	Contractual Services – Testing
		757	Insurance – General Liability
		759	Insurance – Other

Contractual Services – Legal (633/733)

In its MFRs, Ni Florida reflected an expense of \$4,420 for contractual services-legal in the wastewater test year. No legal expense was allocated to water in the MFRs. In its response to Staff's First Data Request, the utility provided support documentation for the expense which indicated some costs were legitimately wastewater, additional costs that should be shared between water and wastewater, and still others that appear to relate only to water. Staff notes that \$3,165 related to various activities surrounding a four-year rate reduction in Docket No. 100149-WU,²⁸ a docket that only addressed water rates in Lee County, were included in wastewater's legal expense. Staff believes that another \$180 should be allocated to water because the legal services were of a general utility nature, and not system specific. As such staff believes that \$3,345 (\$3,165 + \$180) should be removed from contractual services-legal expense for wastewater. Staff believes that the \$3,165 related to the four-year rate reduction should be amortized over four years, or \$791 (\$3,165/4 years) per year. The resulting adjustment to contractual services-legal expense for water is an increase of \$971 (\$180 + \$791). Based on the

²⁸Order No. PSC-11-0199-PAA-WU, issued April 22, 2011, Docket No. 100149-WU, *In re: Application for increase in water rates in Lee County by Ni Florida, LLC.*

discussion above, staff believes the appropriate contractual services-legal expense for the test year should be \$971 for water and \$1,075 (\$4,420 - \$3,345) for wastewater.

Contractual Services – Management Fees (634/734)

The utility included contractual services management expense of \$37,368 for water and \$169,266 for wastewater. The utility provided a copy of the most recent professional services contract with Utility Group of Florida, LLC (UGF), as well as related invoices.²⁹ This contract provides for the general management of Ni Florida's facilities and additions, which include, but are not limited to, all supervision, labor, transportation, tools, equipment and operational consultants to operate and maintain the facilities. In addition, UGF performs billing and collection services per the utility's tariff and policies, maintains a customer service office, reads meters once each month, and performs certain bookkeeping services among other things.

In its response, the utility also included an addendum to the original contract which amended the monthly amount from \$3,000 to \$3,300 per month. This amendment was executed in July 2010. The utility did not provide a written amendment to the contract related to wastewater, but stated in response to Staff's First Data Request that "The contract in more recent years is verbal and the amount has changed to \$14,000/month." This change took place on January 1, 2013 according to the utility.

The utility provided invoices for water which indicated a monthly professional services fee of \$3,114, not \$3,330 per month as the addendum states. As such, staff believes that the amount included in the test year, \$37,368 (\$3,114 x 12 months), is accurate and no adjustments are necessary. Invoices supporting the \$14,000 monthly wastewater management fee, which total \$168,000, were also provided. The documentation included an invoice for \$1,266 for meter reading which staff believes should be removed. This amount does not need to be reallocated as staff believes that meter reading is included in the professional services contract. This will be addressed in additional detail in Contractual Services – Other, below. As such, \$1,266 should be removed from wastewater contractual services - management fees.

Contractual Services – Testing (635)

The utility included \$8,193 for water testing. Accounting and engineering staff reviewed the support documentation provided by the utility in response to Staff's First Data Request and believes the testing to be appropriate. The only adjustment staff identified was the removal of \$100 for the annual operating license which staff believes should be reclassified to Miscellaneous Expense (675).

Contractual Services – Other (636/736)

In its MFRs, Ni Florida reflected water and wastewater expense of \$9,123 and \$206,030, respectively, for contractual services-other in the test year. In response to Staff's First Data Request, the utility provided support documentation for water. Within those documents, staff identified \$1,085 related to the preparation and mailing of four-year rate reduction notices. Staff believes this portion of the expense is appropriate since it is not typically included within a docket's rate case expense. As such, the expense should be amortized over four years, or \$271

²⁹Document Nos. 03579-16 (Response to Staff's First Data Request), filed June 16, 2016 and 07475-16 (Response to OPC Issues and Concerns), filed September 13, 2016.

per year. This is consistent with staff's adjustments to other four-year reduction items contained in this recommendation. As a result, contractual services-other for water should be reduced by \$814 (\$1,085 - \$271). Staff believes that no additional adjustments to contractual services-other for water are necessary.

Support documentation was also provided for wastewater contractual services-other which included \$31,616 for billing and customer service, \$19,236 for contract labor, \$728 for customer work orders, \$24,924 for Mission Unit monitoring, and \$129,437 for other. Staff made no adjustments to customer work orders. Staff will discuss each of the remaining categories in more detail below.

Billing/Customer Service

The utility included \$31,616 in wastewater contractual services-other for billing and customer service. In response to Staff's Fourth Data Request, the utility requested that \$4,014 had been included for "annual software maintenance and updates" be removed since the expense was related to Ni America Texas, LLC. Staff made the requested adjustment. Staff also believes that additional adjustments related to postage, forms, and imaging are necessary. According to support documentation, the utility incurred costs of \$12,105 for postage and \$13,472 related to the imaging and mailing of monthly bills. Staff believes that all of the costs related to monthly billing \$25,577 (\$12,105 + \$13,472) should be removed since the professional services contract with UGF appears to already include them. In support, staff has included the applicable portions of the professional services contract, which state, in part:

2.02 METER READING AND BILLING AND COLLECTIONS - FUGH shall perform billing and collection services per the UTILITY's tariff and policies for the UTILITY's water and wastewater services. FUGH shall bill each customer of the UTILITY monthly in accordance with the UTILITY's approved rate structure.

and

3.11 POSTAGE - FUGH will pay for all billing postage. The compensation cited in EXHIBIT "B" includes a Reserve Account to cover the cost of postage expenditures.

Based on the sections of the professional services contract provided above, staff believes that the monthly management fee includes the very expenses that Ni Florida is seeking to recover here. When asked whether the contract included this activity, the utility gave the following response:

At times the operations contractor, Utility Group of Florida, LLC, provides invoices for work done that Ni Florida personnel determine are included in the contract. Alternatively, sometimes the operations contractor provides invoices for work done that Ni Florida personnel determine is not included in the contract. After careful review of these costs by both the utility and the contractor it was

determined that these costs were not covered by the contract and as such were billed separately.³⁰

The utility added that “The process is more substance over form and based on each party's interpretation of the contract.”³¹

Staff believes that the contract is explicit in regard to billing, postage, and meter reading (discussed in the following section). Furthermore, if the contract has outlived its useful life and no longer reflects the parties current relationship, then the parties should renegotiate the contract so that it is reflective of the current situation. That has not happened in this instance. Instead, staff must rely on the contract that was entered into between the parties and executed in 2008. Other than the change to amount charged for the monthly management fee, there are no other revisions to the contract. Ni Florida stated in response to Staff's Fourth Data Request that this is the contract that the parties are still operating under.

As such, staff believes that the contract provides for the creation of monthly bills as well as postage and that the monthly contractual services management fee adequately compensates UGF for its services. If the Commission approves the contractual services management fee for wastewater and the expense requested for billing here, staff believes the utility would essentially be allowed to recover those costs twice. Accordingly, staff recommends the removal of \$12,105 for postage and \$13,472 related to imaging and mailing. Accordingly, staff recommends a reduction of \$29,591 (\$4,014 - \$12,105 - \$13,472) to billing and customer service.

Contract Labor

The utility included contract labor costs of \$19,236 and provided support documentation for the same. Staff believes that an adjustment is necessary to remove \$17,450 associated with meter reading since the professional services contract with UGF already includes meter reading. Section 2.02(B) of the professional services contract states:

B. Meter Reading - FUGH shall read meters served by the UTILITY once each month in compliance with UTILITY's rate order/tariff and billing schedules.

Based on the meter reading section of the professional services contract, and the discussion in billing and customer service above, staff believes that the monthly management fee includes the meter reading expense that Ni Florida is seeking to recover here. Staff believes that the contract includes meter reading and that the monthly management fee adequately compensates UGF. If the Commission approves the contractual services management fee for wastewater and the expense requested for billing here, staff believes the utility would essentially be allowed to recover those costs twice. Accordingly staff recommends the removal of \$17,450 for meter reading from wastewater.

Mission Unit Monitoring

The utility included \$24,924 for Mission Unit monitoring and provided support documentation which included annual renewal invoices and the customer service agreement.³² These costs relate

³⁰Document No. 07514-16, filed September 14, 2016, Utility Response to Staff's Third Data Request, Question 5.

³¹Document No. 07514-16.

³²Document No. 07551-16, filed September 15, 2016.

to the monitoring of 42 lift stations in Pasco County. In response to Staff's Third Data Request, the utility requested pro forma consideration of \$3,380 related to monitoring services for 6 additional lift stations that are being added in conjunction with the utility's pro forma plant projects.³³ Based on the support documentation provided, there is no duplication of costs since the Rhodes Road project is for new service and the Tower Drive project had no monitoring prior to the pro forma project. As such, staff believes it is appropriate to add \$3,880 to Mission Unit monitoring.

Other

The utility included \$129,437 for other test year O&M expenses. Most of the items included appear to be related to various wastewater system repairs. The utility provided support documentation, from which staff identified additional adjustment that it believes should be made.

Staff identified two charges, which total \$5,341, to write off amounts from a prior year. The invoices for these are for charges incurred outside the test year and should not be included in test year expense. Four charges which total \$557 that were related to use tax on Aquafix purchases made in 2014 should also be removed from test year expense. As such, staff believes it is appropriate to remove \$5,898 (\$5,341 + \$557) from test year expense.

Staff also identified \$28,341 related to storm repair. The utility said that the expense was due to severe weather in the wastewater service territory over a two-week period. During this time, there was flooding, power surges, and wind which caused damage and power outages in the area. This in turn caused sanitary sewer overflows at several of the utility's lift stations and emergency situations. Ni Florida used vacuum trucks to haul sewer flow to another location to avoid spill and used temporary pumps to pump sewer flow around the lift station. According to the utility, the amount also included spill cleanup work and disassembly of pumps and hoses. While severe weather is expected in Florida, staff believes that these events were extraordinary. As such, staff believes that these storms related costs should be amortized over five years, or \$5,668 (\$28,341/5 years) per year. As a result, staff is recommending a reduction of \$22,672 (\$28,341 - \$5,668).

The utility included \$17,851 for an audit of its collection system. In response to OPC's concerns, the utility stated that the amount spent on the audit could be considered for amortization over a three-year period, especially since Ni Florida's plan is to conduct the a similar audit every three years. As such, staff recommends amortizing this expense over three years, or \$5,950 (\$17,851/3 years) per year. As a result, staff is recommending a reduction of \$11,901 (\$17,851 - \$5,950).

In addition, staff found additional meter reading charges of \$1,681 that should be removed. Staff does not believe that the argument provided earlier in this recommendation regarding meter reading needs to be repeated here. As such, staff recommends removing \$1,681 for meter reading that is included in the cost of the professional services contract. Accordingly, staff recommends a reduction of \$42,152 (\$5,898 + \$22,672 + \$11,901 + \$1,681).

Based on the adjustments discussed above, the total reduction to wastewater contractual services-other is \$85,813 (\$3,880 - \$29,591 - \$17,450 - \$42,152).

³³Document No. 07514-16.

Bad Debt Expense (670/770)

On MFR Schedules B-5 and B-6, the utility recorded test year bad debt expense of \$1,110 for water and (\$1,518) for wastewater. Ni Florida adjusted its test year bad debt expense to \$1,176 and \$25,187 for water and wastewater, respectively, to reflect bad debts at the three-year average. The utility requested further bad debt expense increases of \$421 for water and \$6,574 for wastewater in order to reflect the requested revenue increase at an amount equal to 0.48 percent and 1.38 percent, respectively. This represents total requested bad debt expense of \$1,597 for water and \$31,761 for wastewater.

It is Commission practice to set bad debt expense using the three-year average based on the premise that a 3-year average fairly represented the expected bad debt expense. Overall, the basis for determining bad debt expense has been whether the amount is representative of the bad debt expense to be incurred by the utility. Using the utility's annual reports, staff calculated three-year average bad debt expense of \$1,176 for water and \$25,189 for wastewater. Based on the calculations above, staff recommends that the utility's requested bad debt expense for water be reduced by \$421 and wastewater be reduced by \$6,572.

Miscellaneous Expense (675/775)

The Utility included miscellaneous expense of \$90,377 for water and \$323,700 for wastewater. It is comprised of the following amounts:

**Table 12-2
 Summary of Miscellaneous Expenses**

Summary	Water	Wastewater
Allocated Corporate Overhead Costs	\$75,932	\$291,406
Direct Assignment:		
Specifically Assigned Corp. Overhead - Legal	390	3,900
Specifically Assigned Corp. Overhead - Travel	0	9,296
Ni Florida, LLC Allocated Costs	435	1,669
Billing/Customer Service Expenses	10,668	0
Bank Fees	2,952	10,321
Telephone Expenses	0	7,107
Total	\$90,377	\$323,700

Source: MFRs and responses to staff data requests

The utility recorded test year direct assignment expense of \$14,445 for water and \$32,294 for wastewater. Staff believes that adjustments to travel and billing/customer service are necessary. In the audit workpapers, staff found several airline charges related to cabin upgrades and change fees, which totaled \$1,502. Staff does not believe the utility's customers should be responsible for these charges and they should be removed from wastewater's direct assignment expenses. Staff also believes that \$10,668 included in direct assignment expenses for water billing should be removed. As addressed elsewhere in this issue, staff believes that postage, imaging, and mailing of monthly bills is included in the professional service contract. As such, \$10,668 should be removed from water direct assignments expenses. All other direct assignment costs identified in Table 12-2 above, appear appropriate based on the support documentation provided by the utility.

The largest portion of miscellaneous expense for both water and wastewater is allocated corporate overhead costs. The utility recorded test year allocated parent overhead of \$75,932 for water and \$291,406 for wastewater. The allocated overhead was recorded in the utility's miscellaneous expense account based on equivalent residential connections (ERC). In the utility's last rate case, the Commission ordered the removal of due diligence costs as well as the equity sponsor fee paid to Metalmark Capital, LLC, and non-utility costs related to a possible sale of the utility.³⁴ Staff notes that due diligence costs were removed in an audit adjustment in an earlier issue. The equity sponsor fee and non-utility costs were excluded from overhead allocation in the utility's filing.

As discussed previously, in response to staff's first data request, the utility provided a contract for the management services of UGF. The contract provides that the operator "shall perform billing and collection services per the utility's tariff and policies for the utility's water and wastewater services." It further states that the operator "shall bill each customer of the utility monthly in accordance with the utility's approved rate structure." Additionally, the contract provides that the operator will provide a customer service office where customers may pay their bills, apply for service, obtain information, register complaints, and generally receive normal and customary billing and collecting services. OPC questioned why Ni America is allocating overhead costs that include these functions when the professional services contract indicates that UGF is providing these services. OPC identified five positions³⁵ included in the allocation that appear to duplicate functions included in the professional services contract. OPC argued that these salaries and the related benefits should be removed from the test year expenses. OPC's total of salaries and bonuses related to these positions is \$311,801, or \$5,546 for water and \$21,284 for wastewater on an allocated basis.

The utility argued that the professional services contract lists some tasks to be performed under the contract, but the situation is more substance over form. According to the utility, Ni Florida and UGF have developed a working relationship of who should perform what tasks. This working relationship has changed over the years, but remains a workable situation. The employees in the South Carolina billing and customer service office perform tasks related to all utilities, including Ni Florida, and should therefore remain allocable to all utilities. The utility added that these employees handle new customer applications, post all customer payments received by mail or electronically, take customer service calls (shared with the Florida office), initiate customer refund checks, balance and audit customer accounts at month-end, and perform monthly billing of customers. The utility believes these tasks are done for all utilities and the costs should remain allocable to all utilities, including Ni Florida.

Based on the contract for professional services and the position descriptions provided during the course of this docket, staff believes many of the duties included as part of the allocated overhead costs are duplicative of services performed by UGF. Absent additional information to the contrary, staff believes the removal of all salaries and benefits related to the five corporate positions is appropriate. Staff has already recommended the removal of duplicative costs for meter reading and customer billing based on the professional services contract. The removal of

³⁴Order No. PSC-13-0611-PAA-WS, pp.13-14, 16.

³⁵Billing Supervisor, Customer Service Department Manager, Customer Service Representative – In Charge, Billing, Customer Service Representative – Part-Time.

duplicative salaries and benefits here is in keeping with those previous adjustments. As a result, staff believes that it is appropriate to remove all of the expense related to the five positions in order to address the overlap of duties between the allocated positions and those provided in the professional services contract with UGF. After allocation, staff calculated that \$5,678 for water and \$21,786 for wastewater should be removed for salaries and benefits.³⁶

Staff also identified one additional position, Vice President of Capital Improvements, that should be removed. Staff notes that the utility excluded the salaries and benefits for one of the Vice President of Capital Improvements in its MFRs, but left a portion of the salary for the second position. Staff believes that the portion related to the second position should be removed as well. This results in reductions of \$341 for water and \$1,309 for wastewater.

During the course of this rate case, the utility provided general ledgers which indicated that Ni America paid \$209,460 for consulting services related to an ERC Project. According to the utility, the ERC Project was set up to reconcile customers in South Carolina. In response to OPC's concerns and a staff data request, the utility agreed that the cost should not be allocated to Ni Florida. Staff has removed the expense from the corporate overhead allocation, which results in the reduction of \$3,728 for water and \$14,306 for wastewater on an allocated basis.

Staff also made an adjustment to correct an error made in calculating the allocable portion of miscellaneous expense in MFR Schedule B-12. The utility calculated that Ni Florida's portion of allocable miscellaneous expenses was \$367,338. Staff calculated Ni Florida's portion of allocable miscellaneous expenses to be \$367,138. Staff reduced allocable miscellaneous expense by \$200, which resulted in a \$45 reduction to water and a \$155 reduction to wastewater.

Finally, in the contractual services – testing recommendation, staff reclassified \$100 related to the annual operating license which should be reclassified to miscellaneous expense. This reclassification does not impact the overall adjustment to operations and maintenance expense, just the individual balances for contractual services – testing and miscellaneous expense. As such, it is not reflected in the adjustment calculation below. Accordingly, staff recommends that miscellaneous expense be reduced by \$20,460 ($\$10,668 + \$5,678 + \$341 + \$3,728 + \45) for water and \$39,058 ($\$1,502 + \$21,786 + \$1,309 + \$14,306 + \155) for wastewater.

Summary

Based on adjustments set forth above, staff recommends decreasing O&M expense by \$20,724 for water and \$136,054 for wastewater as depicted below. Adjustments to O&M expense are shown on Schedule No. 3-C.

³⁶This amount differs slightly from OPC's recommended adjustment of \$5,546 for water and \$21,284 for wastewater. Staff based its calculation on information provided in Confidential Document No. 06556-16.

Table 12-3
Summary of Staff O&M Adjustments

Account	Staff Adj. to Water	Staff Adj. to Wastewater
Contractual Services – Legal (633/733)	\$971	(\$3,345)
Contractual Services – Management Fees (634/734)	0	(1,266)
Contractual Services – Other (636/736)	(814)	(85,813)
Bad Debt Expenses (670/770)	(421)	(6,572)
Miscellaneous Expense (675/775)	<u>(20,460)</u>	<u>(39,058)</u>
Total	<u>(\$20,724)</u>	<u>(\$136,054)</u>

Issue 13: What is the appropriate revenue requirement for the test year ended in December 31, 2015?

Recommendation: Staff recommends the following revenue requirement be approved.

	Test Year Revenue	\$ Increase/ (Decrease)	Revenue Requirement	% Increase/ (Decrease)
Water	\$224,606	\$65,265	\$289,872	29.06%
Wastewater	\$1,952,477	\$311,050	\$2,263,527	15.93%

(Brown)

Staff Analysis: In its filing, Ni Florida requested revenue requirements to generate annual revenue of \$322,091 for water and \$2,404,738 for wastewater. These requested revenue requirements represent revenue increases of \$87,150, or approximately 39 percent, for water, and \$475,000, or approximately 24.60 percent, for wastewater.

Consistent with staff's recommendations concerning rate base, cost of capital, and operating income issues, staff recommends approval of rates designed to generate a water revenue requirement of \$289,872, and a wastewater revenue requirement of \$2,263,527. Staff's recommended water revenue requirement exceeds staff's adjusted test year revenue by \$65,265, or 29.06 percent. Staff's recommended wastewater revenue requirement exceeds staff's adjusted test year revenue by \$311,050, or 15.93 percent. These recommended pre-repression revenue requirements will allow the utility the opportunity to recover its expenses and earn a 8.11 percent return on its investment in water and wastewater rate base.

Issue 14: What are the appropriate rate structures and rates for Ni Florida's water and wastewater systems?

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

Staff Analysis:

Water Rates

Ni Florida's water system is located in Lee County within the South Florida Water Management District. The utility buys bulk water from Lee County and resells the water to a mobile home and RV park. Approximately 30 percent of the residential customer bills during the test year had zero gallons during the test year, indicating a seasonal customer base. The average residential water demand was 1,442 gallons per month. The average water demand excluding zero gallon bills is 2,056 per month. The utility's current rate structure consists of a base facility charge (BFC) and three-tier inclining block rate structure. The rate blocks are (1) 0-3,000 gallons; (2) 3,001-6,000 gallons; and (3) all usage in excess of 6,000 gallons per month. The RV park's rate structure consists of a BFC based on 104.76 equivalent residential connections (ERC), which was approved in a settlement in Docket No. 050819-WU.³⁷ All other general service customers are billed based on a BFC and gallonage charge. In addition, the utility has a per incident charge for private fire protection.

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

The utility's proposed BFC allocation is 59.31 percent. Typically, the Commission allocates no greater than 40 percent of the water revenue to the BFC. However, when the utility's customer base is seasonal, it has been the Commission's practice to allocate greater than 40 percent of the revenue requirement to the BFC to address revenue stability. Due to the low monthly average consumption and seasonal customer base, staff believes that it is appropriate to allocate 55 percent of the water revenue to the BFC for revenue stability purposes.

The average persons per household served by the water system is two; therefore, based on the number of person per household, 50 gallons per day per persons, and the number of days per month, the non-discretionary usage threshold should be 3,000 gallons per month. Staff

³⁷Order No. PSC-06-0338-AS-WU, issued April 24, 2006, in Docket No. 050819-WU, *In re: Request to establish new class of service for RV park in Lee County, by Tamiami Village Water Company, Inc.*

recommends a traditional BFC and gallonage charge rate structure with separate gallonage charges for discretionary and non-discretionary usage for residential water customers.

Furthermore, staff evaluated whether the BFC for the RV park should be based on the existing water demand the RV park places on the water system or the 104.76 ERCs approved in a settlement. The RV park has a three-inch meter; the BFC for a general service three-inch meter is typically 16 times the 5/8" x 3/4" meter size BFC. During the test year, the RV park used 1,537,000 gallons of water. Compared with the average residential water demand of 1,442 gallons per month, the RV park demand represents approximately 89 ERCs (1,537,000/1,442/12). Therefore, staff recommends a BFC based on 89 ERCs for the RV park and a uniform gallonage charge. All other general service customers should be billed a BFC based on a meter size and uniform gallonage charge. The private fire protection charge is obsolete and there are no customers. Therefore, the private fire protection charge should be discontinued. Table 14-1, contains staff's recommended rate structure and rates and alternative rate structure, which includes varying BFC allocations and rate blocks.

On the following page, although provided as alternatives, staff is not in support of alternative one because of the very seasonal customer base coupled with a very low average consumption, the percentage increase in price at average consumption and below puts the utility at a risk of a revenue shortfall. For alternative two, staff is not opposed to this alternative because the BFC allocation provides revenue stability in regards to the very seasonal customer base.

**Table 14-1
 Staff's Recommended and Alternative Water Rate Structures and Rates**

	Rates at Time of Filing	Staff Recommended Rates (55% BFC)	Alternative I (50% BFC)	Alternative II (59% BFC)
<u>Residential</u>				
5/8" x 3/4" Meter Size	\$12.64	\$15.10	\$13.72	\$16.20
Charge per 1,000 gallons – Residential				
0-3,000 gallons	\$4.47			
3,001-6,000 gallons	\$5.66			
Over 6,000 gallons	\$7.88			
0-3,000 gallons		\$7.05	\$7.83	\$6.42
Over 3,000 gallons		\$7.88	\$8.95	\$7.06
Charge Per 1,000 gallons- General Service	\$4.81	\$7.15	\$7.96	\$6.62
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
2,000 Gallons	\$21.58	\$29.20	\$37.21	\$29.04
6,000 Gallons	\$43.03	\$59.89	\$64.06	\$56.64
8,000 Gallons	\$58.79	\$75.65	\$81.96	\$70.76

Source: Current tariff and staff's calculations

Wastewater Rates

Ni Florida's wastewater system is located in Pasco County. The utility purchases bulk wastewater treatment from Pasco County. Ni Florida provides service to residential and general service customers. The general service customers include a mobile home park classified as a bulk customer, which is provided service via a four-inch meter. Approximately 27 percent of the residential customers' bills during the test year had zero gallons, which indicates a seasonal customer base. The average water demand for wastewater customers was 2,812 gallons per month. The average wastewater demand excluding zero gallon bills is 3,841 per month. The utility's wastewater system rate structure consists of a uniform BFC for all meter sizes and a gallonage charge with a 8,000 gallon cap for residential customers. General service customers are billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

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

The utility's proposed BFC allocation is 39.81 percent. Typically, the Commission's practice is to set the BFC allocation to at least 50 percent due to the capital intensive nature of wastewater plants. As mentioned earlier, the customer base is seasonal; therefore, 50 percent of the

wastewater revenue should be allocated to the BFC. Based on staff's review of the billing analysis, 84 percent of the residential gallons are captured at the 6,000 gallon consumption level. Approximately 95 percent of the residential water gallons are included at the 8,000 gallons consumption level. The wastewater gallonage cap recognizes that not all water used by the residential customers is returned to the wastewater system. It is Commission practice to set the wastewater cap at approximately 80 percent of residential water sold. Therefore, staff recommends a residential gallonage cap of 6,000 gallons per month.

Furthermore, staff evaluated whether a BFC for the mobile home park should be based on a four-inch meter (25 ERCs). The mobile home park consists of 475 manufactured homes, a clubhouse, and a pool. During the test year, the water demand for the mobile home park was 37,605,000. The average water demand for the bulk customer is 6,597 gallons. Compared with the average residential water demand of 2,812 gallons per month, the mobile home park demand represents approximately 1,114 ERCs ($37,605,000/2,812/12$). However, the average water demand also includes the clubhouse, pool and irrigation of common areas. Staff recognizes that not all water demand will return to the wastewater system. As result, staff believes it is appropriate to assign an ERC of .8 to each of the manufactured homes behind the meter pursuant to Rule 25-30.055 (1)(a) which states that a mobile home should be .8 ERC. Therefore, staff recommends that the rate structure for the mobile home be based on 380 ERCs ($475 \times .8$ ERC) for the BFC and the residential gallonage charge with a 6,000 gallon cap per ERC.

In addition, staff evaluated whether a BFC for the condominiums, a gated vacation community, should be based on a six-inch meter (50 ERCs). The condominiums consist of 333 units, a clubhouse, and pools. The water demand for the condominium was 6,796,000. The average water demand is 1,701 gallons. Compared with the average residential water demand 2,812 gallons per month, the condominiums demand represents approximately 201 ERCs ($6,796,000/2,812/12$). Therefore, staff recommends a BFC based on 201 ERCs for the condominiums and a uniform gallonage charge. All other general service customers should be billed a BFC based on a meter size and uniform gallonage charge. Staff also recommends that general service gallonage charge be 1.2 times greater than the residential gallonage charge which is consistent with Commission practice.

On the following page, although staff provided alternatives, staff is not in support of alternative one because of the highly seasonal customer base coupled with a very low average consumption. For alternative two, staff is not opposed to this alternative because the BFC allocation provides revenue stability in regards to the very seasonal customer base.

**Table 14-2
 Staff's Recommended and Alternative Wastewater Rate Structures and Rates**

	Rates at Time of Filing	Staff Recommended Rates (50% BFC)	Alternative I (45% BFC)	Alternative II (55% BFC)
<u>Residential</u>				
Base Facility Charge	\$20.95	\$26.03	\$23.43	\$28.64
Charge per 1,000 gallons				
8,000 gallon cap	\$6.87	N/A	N/A	N/A
6,000 gallon cap	N/A	\$6.90	\$7.59	\$6.21
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
2,000 Gallons	\$34.69	\$39.83	\$38.61	\$41.06
6,000 Gallons	\$62.17	\$67.43	\$68.97	\$65.90
8,000 Gallons	\$75.91	\$67.43	\$68.97	\$65.90

Summary

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

Issue 15: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Sections 367.0816,³⁸ Florida Statutes?

Recommendation: The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S., Ni Florida should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Brown, Bruce)

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. This results in a reduction of \$6,075 for water and \$22,853 for wastewater.

The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Ni Florida should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

³⁸Section 367.0816, F.S., was repealed by Laws 2016, c. 2016-216, § 5, effective July 1, 2016. However, the statute was implemented in this case because it was effective at the time the application was filed.

Issue 16: Should the Commission approve Ni Florida's proposed rates for reconnection and meter re-reads based on a contract with Pasco County?

Recommendation: Yes. Staff recommends that Ni Florida's proposed violation reconnection charge of \$125.00 and \$187.50 during normal business hours and after hours, respectively, and a \$20.00 meter re-read based on a contract with Pasco County should be approved. (Bruce)

Staff Analysis: Ni Florida provides wastewater-only service for its customers in Pasco County. The water service is provided by two utilities: Hudson Water Works and Pasco County. In the past, the utility experienced a high level of bad debt expense due to uncollectable accounts. Ni Florida does not have the ability to disconnect water service when a customer is delinquent in paying for wastewater service. In the last rate case, the Commission approved pro forma additions for the installation of elder valves, which are lockable, disconnection, cleanout devices consisting of a special tee and plunger that is used to stop all flow from the customer's property to the wastewater system. As in the past, the Ni Florida currently has customers with large outstanding balances.

Ni Florida believes that customer service and billing issues can be better addressed through a joint agreement. Such agreement will eliminate the need for Ni Florida to install elder valves to shut off a customer's service for non-payment and will provide meter reading and violation reconnection services for their wastewater-only customers within the Pasco County service area. Pursuant to Pasco County's Contract (agreement), Sections 3.1-3.2 state that Pasco County will disconnect water service for a delinquent account within five days of a written notice from Ni Florida. Pasco County will assess Ni Florida its current prevailing charge of \$125.00 (normal hours) and \$187.50 (after-hours) for shut-off and restoration services, which is a violation reconnection charge pursuant to Rule 25-30.460, F.A.C. As result, Ni Florida requested to increase its normal reconnection and violation reconnection charges to \$125.00 and \$187.50 for normal hours and after-hours, respectively. The agreement addresses reconnections only in terms of reconnecting service after a disconnection. Therefore, staff does not believe it is appropriate to increase the normal reconnection charge.

In addition, Pasco County provides meter reading for Ni Florida's wastewater billing. Pursuant to Section 2.2 of the agreement, Pasco County will perform a meter re-read, at the request of Ni Florida, if there is a discrepancy in the billing. The cost of meter re-read is \$20 if the meter reading is correct and no charge if the initial reading is determined to be incorrect. Therefore, Ni Florida requested to implement a meter re-read at \$20. Staff believes this agreement is reasonable remedy for handling delinquent accounts and meter re-reads on going-forward basis.

Based on the above, staff recommends that Ni Florida's proposed violation reconnection charge of \$125.00 and \$187.50 during normal business hours and after hours, respectively, and a \$20.00 meter re-read based on a contract with Pasco County should be approved.

Issue 17: What are the appropriate customer deposits for Ni Florida's water and wastewater systems?

Recommendation: The appropriate initial customer deposits should be \$51 and \$91 for the residential 5/8 inch x 3/4 inch meter size for water and wastewater, respectively. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved initial customer deposits should be effective for 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.³⁹ Currently, the utility's initial deposits for residential and general service are \$40 for 5/8 x 3/4 inch meter size, \$50 for 1 inch meter size, and \$60 for 1 1/2 inch meter size for water. For wastewater, the current initial customer deposit for the 5/8 x 3/4 inch meter size is \$72 and two times the average estimated bill for the general service meter sizes. Based on the staff recommended water rates and post repression average residential demand, the appropriate initial customer deposit should be \$51 to reflect an average residential customer bill for two months. The appropriate initial customer deposit for wastewater should be \$91 to reflect an average residential customer bill for two months.

Staff recommends the appropriate initial customer deposits should be \$51 and \$91 for the residential 5/8 inch x 3/4 inch meter size for water and wastewater, respectively. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved initial customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding.

³⁹Order No. PSC-15-0142-PAA-SU, issued March 26, 2015, in Docket No. 130178-SU, *In re: Application for staff-assisted rate case in Polk County by Crooked Lake Park Sewerage Company.*

Issue 18: Should Ni Florida's existing service availability charges be revised, and if so, what are the appropriate charges?

Recommendation: Yes. Ni Florida's existing wastewater service availability charges should be revised. For the wastewater system, a main extension charge of \$1,405 per ERC and a plant capacity charge of \$2,500 per ERC should be approved. The recommended service availability charges should be based on an estimated 173 gallons per day per ERC of treated wastewater demand. For water, the utility should continue to not have service availability charges. The approved service availability charges should be effective for service rendered on or after the stamped approval date of the tariff pursuant to Rule 25-30.475, F.A.C. (Bruce)

Staff Analysis: In its filing, the utility did not propose to change its service availability charges. The utility does not currently have any service availability charges for its water system. In Docket No. 830558-WS, the Commission determined that no service availability charges were appropriate because the CIAC level was appropriate and the utility's service area was nearly built out.⁴⁰ The current service availability charges for wastewater were last approved in Docket No. 020254-SU,⁴¹ which consists of a system capacity charge of \$2,400.

A system capacity charge is a single service availability charge that includes the cost of both plant and lines. For a utility that receives donated lines from a developer, an individual customer connecting to those lines should only be responsible for a service availability charge that reflects plant costs. Therefore, separate charges are typically developed to reflect the customer's share of plant costs (plant capacity charges) and the cost of lines in lieu of donated lines (main extension charges). Rule 25-30.580, F.A.C., establishes guidelines for designing service availability charges. Pursuant to the rule, the maximum amount of contributions-in-aid-of construction (CIAC), net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of the Utility's facilities and plant when the facilities and plant are at their designed capacity. The minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution system and sewage collection systems.

The current contribution levels are zero percent and 30.51 percent for water and wastewater, respectively. Current policy for water requires developers to donate or contribute the lines and facilities necessary to serve customers in service territory that the utility does not have facilities. In Docket No. 830558-WS, the Commission imputed CIAC for the cost of the lines. Ni Florida's CIAC for water is fully amortized. Therefore, staff believes a main extension charge is not appropriate for the water system. In addition, for the water system, the service territory is approximately 97 percent built out and historically, customers have not paid service availability charges. As result, staff does not believe it is appropriate to impose a charge on the remaining three percent. As result, staff recommends that the water system continues with no service availability charges and its existing policy that requires the developers to donate or contribute the lines and facilities necessary to serve customers in service territory that the utility does not have

⁴⁰Order No. 13796, issued October 22, 1984, in Docket No. 830558-WS, In Re: *Application of Tamiami Utility Company for increased water and sewer rates and charges to customers in Lee County, Florida.*

⁴¹Order No. PSC-02-1626-PAA-SU, issued November 25, 2002, in Docket No. 020254-SU, In Re: *Application for increase in service availability charges in Pasco County by Hudson Utilities, Inc.*

facilities. Below is the discussion in regards to the appropriate wastewater service availability charges.

Main Extension Charge

Ni Florida's current service availability policy for wastewater requires that the utility installs all of the facilities necessary to provide sewer service to a property. The customers must pay their pro rata share of the cost of the wastewater collection system which is installed by the utility. The cost of the sewage collection system is \$5,339,566 and the lines have a design capacity of 3,800 ERCs. Based on the historical cost of the existing sewage collection systems, staff recommends a charge of \$1,405 per ERC for the wastewater system.

Staff's recommended main extension charges for wastewater, is consistent with the guidelines in Rule 25-30.580, F.A.C., which require that, at a minimum, the cost of the utility's lines should be contributed. Staff's recommended main extension charge wastewater will allow the utility to recover a portion of its investment wastewater collection system from future connections consistent with Rule 25-30.580 (2), F.A.C. In addition, the service availability policy for wastewater service should be revised to allow either donated lines or a main extension charge from new connections.

Plant Capacity Charge

Staff reviewed the contribution level of the wastewater system and found that the contribution level is less than the 75 percent maximum guideline provided in Rule 25-30.580, F.A.C. The minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by wastewater collection systems. Based on staff's review, increasing the contribution level to 75 percent, for wastewater, creates a relatively high plant capacity charge. For wastewater, the minimum contribution level is 56.42 percent and the current contribution level is 30.51 percent. As a result, staff recommends a plant capacity charge of \$2,500, which would allow the utility to be at a 57 percent contribution level at build out.

Based on the above, Ni Florida's existing wastewater service availability charges should be revised. For the wastewater system, a main extension charge of \$1,405 per ERC and a plant capacity charge of \$2,500 per ERC should be approved. The recommended service availability charges should be based on an estimated 173 gallons per day per ERC of treated wastewater demand. For water, the utility should continue to not have service availability charges. The approved service availability charges should be effective for service rendered on or after the stamped approval date of the tariff pursuant to Rule 25-30.475, F.A.C.

Table 18-1
Current and Recommended Service Availability Charges

	Wastewater	
	Current Charge	Recommended Charge
Main Extension Charge	\$0	\$1,405
Plant Capacity Charge	\$0	\$2,500
System Capacity Charge	\$2,400	\$0

Issue 19: In determining whether any portion of the interim water and wastewater revenue increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any

Recommendation: The appropriate refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. The revised revenue requirements for the interim collection period should be compared to the amount of interim revenues granted. This results in a refund of 8.44 percent for water and 0.92 percent for wastewater. The refund should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as Contributions in Aid of Construction (CIAC) pursuant to Rule 25-30.360(8), F.A.C. Further, the letter of credit should be released upon staff's verification that the required refunds have been made. (Brown)

Staff Analysis: By Order No. PSC-16-0249-PCO-WS, issued June 29, 2016, the Commission approved an interim revenue requirement of \$310,891 for water and \$2,264,770 for wastewater, subject to refund. The approved interim revenue requirements represented an increase of 38.98 percent for water and 17.21 percent for wastewater.

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

In this proceeding, the test period for establishment of interim and final rates is the 12-month period, which ended December 31, 2015. Ni Florida's approved interim rates did not include any provisions for pro forma operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the lower limit of the last authorized range of return on equity. To establish the proper refund amount, staff calculated revised interim revenue requirements utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, staff calculated an adjusted interim revenue requirements of \$284,644 for water and \$2,243,863 for wastewater. The adjusted water interim revenue requirement of \$284,644 is lower than the interim revenue requirement of \$310,891, resulting in a refund of 8.44 percent. The adjusted wastewater interim revenue requirement of \$2,243,863 is lower than the interim revenue requirement of \$2,264,770, resulting in a refund of 0.92 percent. As such, the letter of credit for Ni Florida's funds should be released upon staff's verification that the required refunds have been made.

Issue 20: Should the utility be required to notify, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) associated with the Commission approved adjustments?

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

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

Issue 21: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the outstanding Phase I pro forma items have been completed, the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and the utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. (Mapp)

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

Ni Florida, LLC Schedule of Water Rate Base Test Year Ended 12/31/15			Schedule No. 1-A Docket No. 160030-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$568,878	\$0	\$568,878	\$0	\$568,878
2 Accumulated Depreciation	(303,287)	0	(303,287)	0	(303,287)
3 CIAC	(110,779)	0	(110,779)	0	(110,779)
4 Amortization of CIAC	110,779	0	110,779	0	110,779
5 Acquisition Adjustments	1,047,160	(1,047,160)	0	0	0
6 Accumulated Deferred Income Taxes	0	(2,173)	(2,173)	0	(2,173)
7 Working Capital Allowance	<u>64,328</u>	<u>17,256</u>	<u>81,584</u>	<u>(4,534)</u>	<u>77,050</u>
8 Rate Base	<u>\$1,377,079</u>	<u>(\$1,032,077)</u>	<u>\$345,002</u>	<u>(\$4,534)</u>	<u>\$340,468</u>

Ni Florida, LLC Schedule of Wastewater Rate Base Test Year Ended 12/31/15		Schedule No. 1-B Docket No. 160030-WS			
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$9,155,410	\$266,889	\$9,422,299	\$32,306	\$9,454,605
2 Land and Land Rights	9,513	0	9,513	0	9,513
3 Accumulated Depreciation	(4,520,375)	545,254	(3,975,121)	44,844	(3,930,277)
4 CIAC	(3,638,516)	0	(3,638,516)	0	(3,638,516)
5 Amortization of CIAC	1,946,580	0	1,946,580	6,568	1,953,148
6 Construction Work in Progress	479,348	(479,348)	0	0	0
7 Acquisition Adjustments	5,726,865	(5,726,865)	0	0	0
8 Accumulated Deferred Income Taxes	(3,634)	(100,742)	(104,376)	3,634	(100,742)
9 Working Capital Allowance	<u>218,210</u>	<u>64,708</u>	<u>282,918</u>	<u>(65,795)</u>	<u>217,123</u>
10 Rate Base	<u>\$9,373,401</u>	<u>(\$5,430,104)</u>	<u>\$3,943,297</u>	<u>\$21,557</u>	<u>\$3,964,854</u>

Ni Florida, LLC Adjustments to Rate Base Test Year Ended 12/31/15		Schedule No. 1-C Docket No. 160030-WS	
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
Reflect appropriate pro forma plant adjustments. (Issue 4)	<u>\$0</u>	<u>\$32,306</u>	
<u>Accumulated Depreciation</u>			
Reflect appropriate pro forma plant adjustments. (Issue 4)	<u>\$0</u>	<u>\$44,844</u>	
<u>Amortization of CIAC</u>			
Reflect agreed upon audit adjustments. (Issue 3)	<u>\$0</u>	<u>\$6,568</u>	
<u>Accumulated Deferred Income Taxes</u>			
Reflect agreed upon audit adjustments. (Issue 3)	<u>\$0</u>	<u>\$3,634</u>	
<u>Working Capital</u>			
1 Reflect appropriate deferred rate case expense. (Issue 6)	(\$4,534)	(\$15,676)	
2 Reflect agreed upon audit adjustments. (Issue 3)	<u>0</u>	<u>(50,119)</u>	
Total	<u>(\$4,534)</u>	<u>(\$65,795)</u>	

Ni Florida, LLC Capital Structure – 13-Month Average Test Year Ended 12/31/15							Schedule No. 2 Docket No. 160030-WS		
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Prorata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
Per Utility									
1 Long-term Debt - Fixed Rate	48,567	0	48,567	0	48,567	1.13%	8.50%	0.10%	
2 Long-term Debt - Variable Rate	896,661	0	896,661	0	896,661	20.92%	4.50%	0.94%	
3 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
4 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
5 Common Equity	3,149,915	0	3,149,915	0	3,149,915	73.48%	9.27%	6.81%	
6 Customer Deposits	85,202	0	85,202	0	85,202	1.99%	6.00%	0.12%	
7 Deferred Income Taxes	<u>3,634</u>	<u>102,915</u>	<u>106,549</u>	<u>0</u>	<u>106,549</u>	<u>2.49%</u>	0.00%	<u>0.00%</u>	
8 Total Capital	<u>\$4,183,979</u>	<u>\$102,915</u>	<u>\$4,286,894</u>	<u>\$0</u>	<u>\$4,286,894</u>	<u>100.00%</u>		<u>7.97%</u>	
Per Staff									
9 Long-term Debt- Fixed Rate	48,567	0	48,567	226	48,793	1.13%	8.50%	0.10%	
10 Long-term Debt - Variable Rate	896,661	0	896,661	4,165	900,826	20.92%	4.50%	0.94%	
11 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
12 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
13 Common Equity	3,149,915	0	3,149,915	14,633	3,164,548	73.50%	9.56%	7.03%	
14 Customer Deposits	85,202	0	85,202	0	85,202	1.98%	2.00%	0.04%	
15 Deferred Income Taxes	<u>3,038</u>	<u>102,915</u>	<u>105,953</u>	<u>0</u>	<u>105,953</u>	<u>2.46%</u>	0.00%	<u>0.00%</u>	
16 Total Capital	<u>\$4,183,383</u>	<u>\$102,915</u>	<u>\$4,286,298</u>	<u>\$19,024</u>	<u>\$4,305,322</u>	<u>100.00%</u>		<u>8.11%</u>	
						<u>LOW</u>	<u>HIGH</u>		
RETURN ON EQUITY						<u>8.56%</u>	<u>10.56%</u>		
OVERALL RATE OF RETURN						<u>7.37%</u>	<u>8.84%</u>		

Ni Florida, LLC Statement of Water Operations Test Year Ended 12/31/15		Schedule No. 3-A Docket No. 160030-WS					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$243,169</u>	<u>\$78,922</u>	<u>\$322,091</u>	<u>(\$97,485)</u>	<u>\$224,606</u>	<u>\$65,265</u> 29.06%	<u>\$289,872</u>
Operating Expenses							
2 Operation & Maintenance	\$238,510	\$9,115	\$247,625	(\$34,637)	\$212,988	\$0	\$212,988
3 Depreciation	19,513	817	20,330	0	20,330	0	20,330
4 Amortization	0	0	0	0	0	0	0
5 Taxes Other Than Income	10,943	3,922	14,865	(5,222)	9,643	2,937	12,580
6 Income Taxes	<u>0</u>	<u>12,882</u>	<u>12,882</u>	<u>(19,963)</u>	<u>(7,081)</u>	<u>23,454</u>	<u>16,373</u>
7 Total Operating Expense	<u>268,966</u>	<u>26,736</u>	<u>295,702</u>	<u>(59,822)</u>	<u>235,880</u>	<u>26,391</u>	<u>262,271</u>
8 Operating Income	<u>(\$25,797)</u>	<u>\$52,186</u>	<u>\$26,389</u>	<u>(\$37,663)</u>	<u>(\$11,274)</u>	<u>\$38,874</u>	<u>\$27,600</u>
9 Rate Base	<u>\$1,377,079</u>		<u>\$345,002</u>		<u>\$340,468</u>		<u>\$340,468</u>
10 Rate of Return	<u>-1.87%</u>		<u>7.65%</u>		<u>-3.31%</u>		<u>8.11%</u>

Ni Florida, LLC Statement of Wastewater Operations Test Year Ended 12/31/15		Schedule No. 3-B Docket No. 160030-WS					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$1,929,738</u>	<u>\$475,000</u>	<u>\$2,404,738</u>	<u>(\$452,261)</u>	<u>\$1,952,477</u>	<u>\$311,050</u> 15.93%	<u>\$2,263,527</u>
Operating Expenses							
2 Operation & Maintenance	1,515,833	65,633	1,581,466	(203,345)	1,378,121	0	1,378,121
3 Depreciation	166,265	18,132	184,397	(735)	183,622	0	183,662
4 Amortization	0	0	0	(2,845)	(2,845)	0	(2,845)
5 Taxes Other Than Income	164,261	25,939	190,200	(11,693)	178,507	13,997	192,504
6 Income Taxes	<u>47,244</u>	<u>99,746</u>	<u>146,990</u>	<u>(68,101)</u>	<u>78,889</u>	<u>111,781</u>	<u>190,670</u>
7 Total Operating Expense	<u>\$1,893,603</u>	<u>\$209,450</u>	<u>\$2,103,053</u>	<u>(\$286,719)</u>	<u>\$1,816,334</u>	<u>\$125,778</u>	<u>\$1,942,112</u>
8 Operating Income	<u>\$36,135</u>	<u>\$265,550</u>	<u>\$301,685</u>	<u>(\$165,542)</u>	<u>\$136,143</u>	<u>\$185,272</u>	<u>\$321,415</u>
9 Rate Base	<u>\$9,373,401</u>		<u>\$3,943,297</u>		<u>\$3,964,854</u>		<u>\$3,964,854</u>
10 Rate of Return	<u>0.39%</u>		<u>7.65%</u>		<u>3.43%</u>		<u>8.11%</u>

Ni Florida, LLC Adjustment to Operating Income Test Year Ended 12/31/15		Schedule 3-C Docket No. 160030-WS	
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase.	(\$87,150)	(\$475,000)	
2 Reflect the appropriate amount of test year revenues. (Issue 10)	<u>(10,335)</u>	<u>22,739</u>	
Total	<u>(\$97,485)</u>	<u>(\$452,261)</u>	
<u>Operation and Maintenance Expense</u>			
1 Reflect contested audit adjustments. (Issue 3)	(\$10,277)	(\$39,742)	
2 To adjust purchased wastewater for excess I & I. (Issue 5)	0	(13,478)	
3 To adjust purchased power for excess I & I. (Issue 5)	0	(496)	
4 Reflect appropriate rate case expense amortization. (Issue 11)	(3,636)	(\$13,575)	
5 Reflect further adjustments to O&M expense. (Issue 12)	<u>(20,724)</u>	<u>(136,054)</u>	
Total	<u>(\$34,637)</u>	<u>(\$203,345)</u>	
<u>Depreciation Expense - Net</u>			
Reflect appropriate pro forma plant adjustments. (Issue 4)	<u>\$0</u>	<u>(\$735)</u>	
<u>Amortization Expense</u>			
Reflect agreed upon audit adjustments. (Issue 2)	<u>\$0</u>	<u>(\$2,845)</u>	
<u>Taxes Other Than Income</u>			
1 Remove RAFs on revenue adjustments above.	(\$4,387)	(\$20,352)	
2 Reflect contested audit adjustments. (Issue 3)	(835)	(1,378)	
3 Reflect appropriate pro forma plant adjustments. (Issue 4)	<u>0</u>	<u>10,037</u>	
Total	<u>(\$5,222)</u>	<u>(\$11,693)</u>	

NI FLORIDA, LLC.		SCHEDULE NO. 4-A			
TEST YEAR ENDED 12/31/15		DOCKET NO. 160030-WS			
MONTHLY WATER RATES					
	RATES AT TIME OF FILING	COMMISSION APPROVED INTERIM	UTILITY REQUESTED 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"	\$12.64	\$17.70	\$18.34	\$15.10	\$0.32
3/4"	\$18.96	\$26.54	\$27.52	\$22.65	\$0.49
1"	\$31.60	\$44.24	\$45.86	\$37.75	\$0.81
1-1/2"	\$63.21	\$88.49	\$91.73	\$75.50	\$1.62
2"	\$101.13	\$141.57	\$146.76	\$120.80	\$2.59
3"	\$202.27	\$312.69	\$293.54	\$241.60	\$5.18
4"	\$316.04	\$442.43	\$458.65	\$377.50	\$8.09
6"	\$632.08	\$884.86	\$917.29	\$755.00	\$16.19
8"	\$1,011.20	\$1,415.60	\$1,467.48	\$1,208.80	\$25.90
RV Park	\$1,324.36	\$1,854.00	\$1,921.95	\$1,343.90	\$28.81
Charge per 1,000 Gallons - Residential					
0-3,000 gallons	\$4.47	\$6.26	\$6.49		
3,001-6,000 gallons	\$5.66	\$7.92	\$8.21		
Over 6,000 gallons	\$7.88	\$11.03	\$11.44		
0-3,000 gallons				\$7.05	\$0.15
Over 3,000 gallons				\$7.88	\$0.17
Charge per 1,000 Gallons - General Service	\$4.81	\$6.73	\$6.98	\$7.28	\$0.15
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>					
2,000 Gallons	\$21.58	\$30.22	\$31.32	\$15.10	
6,000 Gallons	\$43.03	\$60.24	\$62.44	\$59.89	
8,000 Gallons	\$58.79	\$82.30	\$85.32	\$75.65	

NI FLORIDA, LLC. TEST YEAR ENDED 12/31/15 MONTHLY WASTEWATER RATES		SCHEDULE NO. 4-B DOCKET NO. 160030-WS			
	RATES AT TIME OF FILING	COMMISSION APPROVED INTERIM	UTILITY REQUESTED RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential</u>					
Base Facility Charge - All Meter Sizes					
Charge Per 1,000 gallons	\$20.95	\$24.66	\$26.12	\$26.03	\$0.27
6,000 gallon cap				\$6.90	\$0.07
8,000 gallon cap	\$6.87	\$8.09	\$8.56		
<u>General Service</u>					
Base Facility Charge by Meter Size					
5/8" x 3/4"	\$20.95	\$24.66	\$26.12	\$26.03	\$0.27
3/4"	\$31.43	\$36.99	\$39.18	\$39.05	\$0.41
1"	\$52.38	\$61.65	\$65.30	\$65.08	\$0.68
1-1/2"	\$105.46	\$123.30	\$130.60	\$130.15	\$1.35
2"	\$167.64	\$197.28	\$208.96	\$208.24	\$2.16
3"	\$335.27	\$394.56	\$391.80	\$416.48	\$4.33
4"	\$523.86	\$616.50	\$653.00	\$650.75	\$6.76
6"	\$1,047.73	\$1,233.00	\$1,306.00	\$1,301.50	\$13.52
8"	\$1,676.37	\$1,972.80	\$2,089.60	\$2,082.40	\$21.63
10"	\$2,409.78	\$2,835.90	\$3,003.80	\$2,993.45	\$31.10
Mobile Home Park	\$523.86	\$616.50	\$653.00	\$9,891.40	\$102.76
Condominiums	\$1,047.73	\$1,233.00	\$1,306.00	\$5,232.03	\$54.36
Charge per 1,000 Gallons - General Service	\$8.24	\$9.70	\$10.27	\$8.28	\$0.09
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>					
2,000 Gallons	\$34.69	\$40.84	\$43.23	\$39.83	
6,000 Gallons	\$62.17	\$73.20	\$77.47	\$67.43	
8,000 Gallons	\$62.17	\$73.20	\$77.47	\$68.90	