

State of Florida



Public Service Commission

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

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

DATE: February 15, 2017

TO: Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk

FROM: Phillip O. Ellis, Public Utilities Supervisor, Division of Engineering ^{POE}

RE: DN 160165-SU - Application for staff-assisted rate case in Gulf County by ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.

Please file the attached Staff Report in the above mentioned Docket File.

Thank You.

Attachment

State of Florida



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

DATE: February 14, 2017

TO: Laura V. King, Chief of Reliability & Resource Planning, Division of Engineering

FROM: Division of Engineering (Matthews, Ellis) ^{PQE} *TM* *MC*
Division of Accounting and Finance (T. Brown)
Division of Economics (Friedrich) *MF* *AK*
Office of the General Counsel (Murphy) *CM*

RE: Docket No. 160165-SU – Application for staff-assisted rate case in Gulf County by ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.

--STAFF REPORT--

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting.

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Case Background

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc. (Beaches or Utility) is a Class C wastewater-only utility operating in Gulf County, Florida. The Utility currently serves approximately 316 residential and 4 general service wastewater customers. Water service is provided by the City of Port St. Joe.

Pursuant to Order No. 17638, issued June 2, 1987, the Commission granted Certificate No. 422-S to Gulf Aire Properties, Inc. d/b/a Gulf Aire Wastewater Treatment Plant for its wastewater system.¹ The certificate was amended pursuant to Order No. 19621, issued July 7, 1988, to include additional territory, and amended a second time pursuant to Order No. 25275, issued October 30, 1991, to correct, add, and delete territory.² The Utility was transferred from Gulf Aire Properties, Inc. to ESAD Enterprises, Inc. by Order No. PSC-02-1299-PAA-SU, issued on September 23, 2002.³

The Utility's last rate case was a staff-assisted rate case (SARC) approved in 1986.⁴ The petition for a SARC in the instant case was filed on July 12, 2016. The test year selected was July 1, 2015 through June 30, 2016. According to the Beaches 2015 annual report, total gross revenues were \$130,792 and total operating expenses were \$137,247.

The Staff Report is a preliminary analysis of the Utility prepared by Commission staff to give customers and the Utility an advance look at what staff may be proposing. The final recommendation to the Commission is currently scheduled to be filed on April 21, 2017 for consideration at the May 4, 2017 Commission Conference. The recommendation will be revised as necessary using any updated information and results of customer quality of service concerns or other relevant information received during the customer meeting. The Commission has jurisdiction in the case pursuant to Sections 367.0812, 367.0814, and 367.091, Florida Statutes (F.S.).

¹Order No. 17638, issued June 2, 1987, in Docket No. 86-1336-SU, *In re: Application of Gulf Aire Properties, Inc. d/b/a Gulf Aire Wastewater treatment Plant for sewer certificate in Gulf County, under grandfather rights.*

²Order No. 19621, issued July 7, 1988, in Docket No. 88-0621-SU, *In re: Application of Gulf Aire Wastewater Treatment Plant for amendment of Certificate No. 422-S in Gulf County*; and Order No. 25275, issued October 30, 1991, in Docket No. 91-0660-SU, *In re: Application for amendment of Certificate No. 422-S for deletion and addition of territory in Gulf County by Gulf Aire Wastewater Treatment Plant (Gulf Aire Properties, Inc.).*

³Order No. PSC-02-1299-PAA-SU, issued September 23, 2002, in Docket No. 01-1379-SU, *In re: Application for transfer of Certificate No. 422-S in Gulf County from Gulf Aire Properties d/b/a Gulf Aire Wastewater Treatment Plant to ESAD Enterprises, Inc. d/b/a Beaches Sewer System*

⁴Order No. 17812, issued July 7, 1987 in Docket No. 86-1569, *In re: Application of Gulf Aire Properties, Inc. d/b/a Gulf Aire Wastewater Treatment Plant for staff-assisted rate case in Gulf County.*

Discussion of Issues

Issue 1: Is the quality of service provided by Beaches Sewer Systems, Inc. satisfactory?

Preliminary Recommendation: Staff's recommendation regarding quality of service will not be finalized until after the March 9, 2017 Customer Meeting. (Matthews)

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 a utility. The determination is made from an evaluation of three separate components of the Utility operations. The components evaluated are (1) the quality of the Utility's product; (2) the operational conditions of the Utility's plant and facilities; and (3) the Utility's attempt to address customer satisfaction. The Rule further states that outstanding citations, violations, and consent orders on file with the Florida Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered. In addition, customer comments or complaints received by the Commission are also reviewed.

Quality of Utility's Product

In evaluation of Beaches' product quality, staff reviewed the Utility's compliance with DEP environmental requirements regarding effluent quality. All testing of effluent quality was within DEP standards.

Operating Condition of the Utility's Plant and Facilities

Beaches is a wastewater service only Utility. The Utility's operation of its wastewater treatment system is subject to various environmental requirements such as permitting, testing, and discharge monitoring under the jurisdiction of the DEP. On August 29, 2016, the DEP conducted an inspection of the Beaches wastewater treatment plant (WWTP) and noted several potential areas of non-compliance. Specifically, the areas of concern were: (1) the clarifier effluent was turbid and had excessive solids; (2) the ponds had excessive vegetation; (3) several effluent quality tests exceeded permit limitations; and (4) the three percolation ponds were not being rotated properly. In a timely response on October 13, 2016, the Utility responded with its explanation of remedial actions on all items, and the DEP closed the inspection with satisfactory results.

The Utility's Attempt to Address Customer Satisfaction

A review of the Commission's complaint tracking system revealed no customer comments or complaints against the Utility in the previous five-year period. Staff will conduct a site visit in conjunction with the customer meeting on March 9, 2017.

Conclusion

Quality of service will be determined at a later date, pending review of comments made at the March 9, 2017 Customer Meeting.

Issue 2: What are the used and useful (U&U) percentages of Beaches' Sewer Systems, Inc. wastewater treatment plant and wastewater collection system?

Preliminary Recommendation: Beaches' WWTP should be considered 54 percent U&U. The wastewater collection system should be considered 86 percent U&U. There appears to be no excessive infiltration and inflow, therefore staff is not recommending an adjustment be made to operating expenses for chemicals and purchased power. (Matthews)

Staff Analysis: Beaches' WWTP is a single treatment plant permitted by the DEP as a 70,000 gallons per day (gpd) annual average daily flow facility. The Utility reports having 52 manholes and three lift stations in its system. In addition the wastewater collection system consists of the following sized components:

16,033 linear feet of 8-inch gravity main
1,650 linear feet of 6-inch gravity main

Infiltration and Inflow

Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider infiltration and inflow (I&I). Every wastewater collection system experiences I&I. Typically, infiltration is a result of groundwater entering the wastewater collection system through broken or defective pipes and joints. Inflow is the result of water entering the collection system through manholes or lift stations.

The maximum allowable amount for infiltration is 500 gallons per day per inch of pipe diameter per mile of pipe length. This amount is calculated from each of the various sizes of pipe in the Utility's wastewater collection system. In addition, ten percent of the total gallons sold to customers is allowed for inflow. The calculated allowance for I&I is 4,879,863 gallons per year.

Next, the amount of wastewater expected to be returned from the system is calculated. This figure is determined by summing 80 percent of water sold to residential users with 90 percent of water sold to non-residential users. Water usage data was acquired from the City of Port St. Joe for the purpose of this calculation. The amount calculated for expected return is 10,013,614 gallons per year. In order to find the total amount of wastewater allowed, the I&I allowance and the expected return are summed, yielding 14,893,478 gallons per year. Finally, this total is compared to the total wastewater actually treated during the test year, which in this case is 13,498,200 gallons. The total wastewater treated does not exceed the total wastewater allowed. Therefore, there is no excessive I&I.

Used and Useful Percentages

Wastewater Treatment Plant

The formula for calculating U&U for the WWTP is calculated as (average daily flow + growth – excessive I&I) / permitted plant capacity. Based on the information provided at this time, the average daily flow for Beaches is 37,161 gpd. The growth is calculated to be 607.2 gpd. There is no excessive I&I. The permitted capacity of the plant is 70,000 gpd. Therefore, the WWTP is 54 percent U&U.

Wastewater Collection System

The formula for calculating U&U for the wastewater collection system is given by (test year connections + growth) / capacity of the system. There was an average of 306 connections in the test year. Growth is calculated to be 2.5 equivalent residential connection (ERCs) over 5 years. The capacity of the system is 359 ERCs. Therefore, the wastewater collection system is 86 percent U&U.

Summary

Beaches' WWTP should be considered 54 percent U&U. The wastewater collection system should be considered 86 percent U&U. There appears to be no excessive infiltration and inflow, therefore staff is not recommending an adjustment be made to operating expenses for chemicals and purchased power.

Issue 3: What is the appropriate average test year rate base for Beaches Sewer Systems, Inc.?

Preliminary Recommendation: The appropriate average test year wastewater rate base for Beaches is \$87,170. (Brown)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service (UPIS), land, Contributions-In-Aid-of-Construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. Rate base was last established as of December 1, 2000, in Docket No. 011379-SU.⁵ Staff selected the test year ended June 30, 2016, for the instant case. Commission audit staff determined that the Utility's books and records are not currently consistent with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). A summary of each component of wastewater rate base and the recommended adjustments are discussed below. Staff's analysis regarding the reasonableness of the pro forma items has not been finalized.

Utility Plant in Service (UPIS)

The Utility recorded \$616,024 in UPIS. Audit staff reconciled the beginning balances from Order No. PSC-02-1299-PAA-SU to the general ledger, and determined that the Utility had not made any of the ordered adjustments. Staff reduced UPIS by \$191,682 to address the prior Commission-ordered adjustments and removed \$83,849 for items that were unsupported by the Utility. The unsupported items included the removal of \$41,697 from Account 391 - Transportation Equipment for purchased vehicles. The Utility does not keep mileage logs in order to calculate how many miles are driven for personal use versus utility use. While there appears to be outstanding loans on at least one of the vehicles, the loans are not currently included in the Utility's capital structure and the Utility does not appear to make the monthly payments.⁶ The individual drivers pay for fuel and maintenance while the Utility has historically been responsible for insurance. Staff removed transportation costs from plant and related expenses (Issue 6) because it was unable to determine the Utility-related use of the vehicles. In addition, the backhoe has not been included because staff has not yet received documentation justifying the purchase of the backhoe, estimated at \$25,000.

Staff increased UPIS by \$199 for a 2012 addition that was not booked and by \$1,864 (net of retirements) for major repairs at the plant originally expensed to Accounts 775. The repairs being capitalized include a new pump, control panel, and a blower. The Utility originally booked these costs as expenses, but staff believes these items will not be recurring and should be capitalized. Staff also reclassified \$939 from Account 351 to Account 390 for the purchase of a copier. For purposes of the staff report, staff included \$62,640 of pro forma plant additions (net of retirements) requested by the Utility. The Utility's requested pro forma plant items are shown in Table 3-1, below:

⁵Order No. PSC-02-1299-PAA-SU, issued September 23, 2002, in Docket No. 011379-SU, *In re: Application for transfer of Certificate No. 422-S in Gulf County from Gulf Aire Properties d/b/a Gulf Aire Wastewater Treatment Plant to ESAD Enterprises, Inc. d/b/a Beaches Sewer System.*

⁶Staff removed a loan of \$2,500 from the capital structure because the vehicle had been sold. Loans on the newly purchased vehicles are not included in the capital structure. The only remaining loan included in the capital structure is related to the original purchase of the Utility.

**Table 3-1
 Requested Pro Forma Plant**

Description ⁷	Requested Amount	Retirement Amount	Recommended Amount
Backhoe	\$25,000	\$0	\$0
Truck 1	50,638	0	0
Truck 2	55,662	0	0
Camera	6,000	0	6,000
Generators	15,000	0	15,000
Pump - LS 98	12,200	9,150	3,050
Landscaping - LS 98	2,500	0	0
Pump w/Rail System - LS Americus	14,000	10,500	3,500
Control Panel - LS Americus	2,581	1,936	645
Blower	2,617	1,963	654
Piping	10,000	7,500	2,500
Fence	5,000	3,750	1,250
Electrical	4,000	3,000	1,000
Sand Removal	19,010	0	19,010
Ponds	5,530	0	5,530
Clarifier	<u>4,500</u>	<u>0</u>	<u>4,500</u>
TOTAL	<u>\$234,238</u>	<u>\$37,799</u>	<u>\$62,640</u>

Source: Utility's audit response, Document No. 08522-16, received October 28, 2016.

Staff's net adjustments decrease UPIS by \$210,808. Staff believes that additional information is needed in order to determine the Utility's appropriate plant in service balance. No averaging adjustment is necessary for ratemaking purposes. Therefore, staff recommends a UPIS balance of \$405,216.

Land & Land Rights

The Utility recorded a test year land balance of \$14,364. Audit staff verified that the land is owned by the Utility and determined that the land where the lift station is located was purchased since Order No. PSC-02-1299-PAA-SU. As a result, staff added \$7,500 for the lift station land. Staff recommends a land and land rights balance of \$21,864.

Non-Used and Useful (non-U&U) Plant

The Utility did not record a test year non-U&U plant balance for wastewater. As discussed in Issue 2, the WWTP should be considered 54 percent U&U. Beaches' wastewater collection systems were calculated as 86 percent U&U.

⁷Four items were not included in staff's recommended pro forma plant additions: backhoe, truck 1, truck 2, and landscaping –LS 98. Staff believes that the landscaping should include in miscellaneous expense and amortized over four years, or \$625 per year.

Application of the U&U percentage to the average plant balances and associated average accumulated depreciation balances results in net increases of \$21,931 for wastewater non-U&U components. Therefore, staff's recommended non-U&U plant balance is \$21,931 for wastewater.

Contributions In Aid of Construction (CIAC)

The Utility recorded CIAC balances of \$247,554. Commission audit staff found that a previous audit adjustment to increase CIAC by \$31,996 had not been made and identified a \$1,500 variance between the general ledger and staff audit calculations that increased CIAC. Finally, staff decreased total CIAC by \$125 to reflect an averaging adjustment. As such, staff recommends a CIAC balance of \$280,925.

Accumulated Depreciation

The Utility recorded \$509,117 in accumulated depreciation. Staff calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff's calculation includes a previously ordered adjustment of \$66,607 that was not made by the Utility and the removal of \$135,915 for the reserve for transportation equipment cost. Staff also increased accumulated depreciation by \$354 for the plant repairs reclassified from Account 775 and increased accumulated depreciation by \$5,223 to reflect pro forma plant adjustments. Finally, staff decreased total accumulated depreciation by \$1,952 to reflect an averaging adjustment. As such, staff recommends an accumulated depreciation balance of \$310,220.

Accumulated Amortization of CIAC

Beaches recorded an amortization of CIAC balance of \$188,335. An adjustment has been made to reflect a previously ordered adjustment increasing accumulated amortization of CIAC by \$34,296. Staff calculated amortization of CIAC using composite depreciation rates, and recommends that it be increased by \$40,006. Finally, staff reduced total accumulated amortization of CIAC by \$1,952 to reflect an averaging adjustment. Staff recommends an accumulated amortization of CIAC balance of \$256,567.

Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$16,598 (based on O&M expense of \$132,787/8).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base for Beaches is \$87,170. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

Issue 4: What is the appropriate return on equity and overall rate of return for Beaches Sewer Systems, Inc.?

Preliminary Recommendation: The appropriate return on equity (ROE) is 11.16 percent with a range of 10.16 percent to 12.16 percent. The appropriate overall rate of return is 5.50 percent. (Brown)

Staff Analysis: According to staff's audit, the Utility's test year capital structure reflected negative common equity of \$55,737, long term debt of \$217,870, and customer deposits of \$2,166. Staff adjusted the negative equity amount to zero consistent with Commission practice and removed a \$2,958 loan for a vehicle that the Utility no longer owns. Staff also increased long term debt by \$1,479 to reflect an averaging adjustment. The resulting long term debt is \$216,391 (\$217,870 - \$2,958 + \$1,479). Staff also removed customer deposits based on the Utility's assertion that no new deposits will be collected (unless the customer is renting their residence) and all deposits will either be refunded for customers that have moved, or issued as a credit memo for current customers.⁸ Staff believes additional information is needed to make a final determination regarding the appropriate customer deposit balance. The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE for the Utility is 11.16 percent based on the Commission-approved leverage formula currently in effect.⁹ Staff recommends an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 5.50 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁸Document No. 00581-17, filed January 18, 2017.

⁹Order 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)(j), F.S.*

Issue 5: What are the appropriate test year revenues for Beaches Sewer Systems, Inc.?

Preliminary Recommendation: The appropriate test year revenues for Beaches are \$126,484. (Friedrich)

Staff Analysis: Beaches recorded total test year revenues of \$131,149. The wastewater revenues included \$124,237 of service revenues, \$2,132 of miscellaneous revenues, and \$4,780 of guaranteed revenues. Based on staff's review of the Utility's billing determinants and the service rates that were in effect during the test year, staff determined test year service revenues should be \$124,324. This results in an increase of \$87 (\$124,324 - \$124,237) to service revenues. In addition, staff made adjustments to miscellaneous revenues. Staff determined miscellaneous revenues should be \$2,160. Staff's audit findings revealed that the Utility was charging a Normal Reconnection charge of \$14.64 when their approved tariff rate is \$15.00 for this charge. This results in an increase of \$28 (\$2,160 - \$2,132) to miscellaneous revenues. Further, test year revenues should be decreased by \$4,780 to remove guaranteed revenues which should be recorded below the line. Based on the above, the appropriate test year revenues for Beaches' wastewater system are \$126,484.

Issue 6: What is the appropriate amount of operating expense for Beaches Sewer Systems, Inc.?

Preliminary Recommendation: The appropriate amount of operating expense for Beaches is \$146,366. (Brown)

Staff Analysis: Beaches recorded operating expense of \$146,044 for the test year ended June 30, 2016. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff made several adjustments to the Utility's operating expenses as summarized below.

Salaries and Wages – Officers, Directors, and Majority Stockholders (703)

Beaches recorded salaries and wages – officers, directors, and majority stockholders expense of \$58,274. In response to staff's audit report, the Utility reflected salaries of \$42,400 for the President and \$19,800 for the Vice-President.¹⁰ In addition, the Utility included \$3,993 for payroll taxes and a total of \$2,000 for director's fees. As such, total salaries and wages according to the Utility are \$58,193 (\$32,400 + \$19,800 + \$3,993 + \$2,000). Staff reduced salaries by \$81 to reflect the difference between the Utility's calculation and what was recorded. Staff also reduced salaries by \$3,993 to move payroll taxes to TOTI. The Utility indicated an additional salary increase for the Vice-President in March 2016 that would increase his pay by \$9,000 per year. Staff has included this salary increase for purposes of the Staff Report, but notes that this increase, and several other proposed increases to officer and director salaries, as well as the number of board members, require additional review. As such, staff believes that additional information is needed in order to determine the Utility's appropriate salaries and wages expense. The net adjustment results in an increase of \$4,926. Therefore, staff's preliminary recommendation for salaries and wages – officers, directors, and majority stockholders expense is \$63,200.

Sludge Removal Expense (711)

Staff increased this account by \$650 to reflect actual supporting documentation. The Utility produced an invoice reflecting \$1,300 for sludge disposal that occurred during the test year and noted that this expense is incurred every other year. As such, staff believes that the expense should be amortized over two years, or \$650 (\$1,300 / 2 years) per year. Therefore, staff is recommending sludge removal expense of \$650.

Purchased Power (715)

The Utility recorded purchased power expense of \$8,335. Based on support documentation provided by the Utility, staff increased this expense by \$260. Therefore, staff recommends purchased power expense of \$8,595.

Chemicals (718)

The Utility recorded chemicals expense of \$2,752. Beaches' actual test year chemicals expenses was \$2,752 therefore, no adjustments are necessary. Staff believes that the amount is appropriate and includes all required testing. Staff recommends chemicals expense for the test year of \$2,752.

¹⁰Document No. 08552-16, received October 28, 2016.

Contractual Services – Billing (730)

The Utility recorded contractual services – billing expense of \$18,545. Staff decreased this account by \$18,545, reallocating \$5,000 to contractual services – accounting (732), \$1,545 to contractual services – testing (735), and \$12,000 to contractual services – other (736).

Contractual Services – Accounting (732)

Staff initially increased this account by \$5,000 to reflect the reclassification from Account 730. Staff reviewed support documentation which included two invoices for \$2,500 each, one in September 2015 and another in May 2016. Each invoice reflected the preparation of Beaches' corporate return. In this case, it appears that the Utility may have late-filed its 2014 return and filed its 2015 return on-time based on the invoice dates. Because staff utilized a test year running from July 1, 2015 through June 30, 2016, the cost associated with both returns were captured in the Utility's test year. While staff believes that the Utility should be able to recover the cost associated with the annual preparation of its corporate tax return, the allowed recovery should include the expense of one return per year, not two. Therefore, staff recommends accounting expense of \$2,500.

Contractual Services – Testing (735)

Staff increased this account by \$1,545 to reflect testing expense supported by actual documentation. This amount was reclassified from Account 730. Therefore, staff recommends testing expense of \$1,545.

Contractual Services - Other (736)

Staff increased this account by \$12,000 to reflect the appropriate amount of contractual services-other expense supported by documentation. This amount was reclassified from Account 730. This amount is for the contractual services for the operator of the wastewater plant. Therefore, staff recommends contractual services-other expense of \$12,000.

Rent Expense (740)

The Utility recorded rent expense of \$7,200. The Utility provided a copy of its lease in response to Staff's First Data Request. The lease calls for \$600 a month in rent, which includes office space, insurance, repairs, utilities, and all furniture, computers, software, etc. This amount has not changed since 2012, based on the Utility's 2012-2015 Annual Reports. As such, staff made no adjustments. Therefore, staff recommends rent expense of \$7,200.

Transportation Expense (750)

Beaches did not record transportation expense for the test year. As discussed in Issue 3, transportation equipment costs were removed from plant and related expenses because staff was unable to determine the Utility-related use of the vehicles. Staff asked for the information during the course of the audit as well as in its first and second data requests,¹¹ but the Utility did not provide any such detailed information. The Utility does not keep mileage logs in order to calculate how many miles are driven for personal use verses utility use. Adding to the confusion, both the President and Vice-President of the Utility own and operate other businesses. As such, it

¹¹Document Nos. 07800-16 (Staff's First Data Request) and 08765-16 (Staff's Second Data Request).

is likely that the vehicles have a personal component, a utility component, and a secondary business component. Staff also notes that according to the Utility, the driver of each vehicle pays for all upkeep including gas, repairs, and maintenance. Absent additional information to determine personal versus business use, staff removed \$5,856 from vehicle insurance expense (Account 755) below, consistent with other vehicle related adjustments. Instead, staff recommends using the Utility's mileage estimates and IRS standard mileage rates to develop an appropriate amount of transportation expense. Staff believes that the Utility's mileage estimate is reasonable based on normal operations. According to the IRS, the standard mileage rate for business includes the fixed and variable costs of operating a vehicle. As a result, staff increased transportation expense by \$10,274.

Vehicle Insurance Expense (755)

The Utility recorded insurance expense of \$5,856 for the test year. The Utility provided updated vehicle insurance expense on November 29, 2016, which totaled \$3,300.¹² As discussed in Issue 3, transportation equipment costs were removed from plant and related expenses because staff was unable to determine the Utility-related use of the vehicles. Absent additional information to determine personal versus business use, staff removed \$5,856. Accordingly, staff recommends vehicle insurance expense for the test year of \$0.

Regulatory Commission Expense (765)

The Utility did not record regulatory commission expense for the test year. The Utility is required by Rule 25-22.0407, F.A.C., to provide notices of the customer meeting and notices of final rates in this case to its customers. For noticing, staff estimated \$300 for postage expense, \$214 for printing expense, and \$31 for envelopes. This results in \$545 for the noticing requirement. The Utility also paid a \$1,000 rate case filing fee. In response to a staff data request, the Utility notified staff that it had spent \$319 to obtain water usage information from the municipal water system.¹³ Staff believes that since the cost was incurred as a result of a staff request, the Utility should be allowed to recover it here. Based on the above, staff recommends total rate case expense of \$1,864 (\$545 + \$1,000 + \$319), which amortized over four years is \$466. Staff increased this account by \$466 to include filing fees, noticing fees, and postage for the instant case. Therefore, staff recommends regulatory commission expense of \$466.

Bad Debt Expense (770)

Beaches recorded bad debt expense of \$2,971 for the test year. This amount reflects the actual bad debt expense per the Utility's records. Staff made no adjustments to bad debt expense. Therefore, staff recommends bad debt expense of \$2,971.

Miscellaneous Expense (775)

The Utility recorded miscellaneous expense of \$27,928. Staff recommends the following adjustments to miscellaneous expense:

¹²Document No. 09065-16 (Response to Staff's Second Data Request).

¹³Document No. 00104-17.

**Table 6-1
 Adjustments Made to Miscellaneous Expense**

	Adjustment Description	Amount
1.	To reflect appropriate test year cell phone expense.	(\$136)
2.	To remove meals with association representative.	(98)
3.	To reflect appropriate test year postage expense.	41
4.	To remove plant items that were incorrectly expensed.	(7,457)
5.	To remove duplicate phone bill.	(48)
6.	To remove water bill late fees.	(20)
7.	To remove gift card purchase.	(200)
8.	To reflect pro forma landscaping expense amortized over 4 years.	625
	Total	<u>(\$7,294)</u>

Source: Utility records, Audit Response, Responses to Staff Data Requests, and Audit Control No. 16-222-1-1.

Staff's total adjustments decrease this account by \$7,294. Therefore, staff recommends miscellaneous expense of \$20,634.

Operation and Maintenance Expenses Summary

Based on the above adjustments, staff recommends that the O&M expense balance is \$132,787. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A through 3-C.

Depreciation Expense (Net of Amortization of CIAC)

The Utility's records reflect test year depreciation of \$7,306 and CIAC amortization of \$6,407, for a net depreciation expense of \$899 ($\$7,306 - \$6,407 = \899). Staff recalculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff decreased depreciation expense by \$3,404 to reflect the appropriate depreciation expense. Staff also calculated depreciation expense for the pro forma plant additions and retirements the Utility has requested. These additions result in an increase of \$5,223. Staff included depreciation expense for the plant repair that is being capitalized; this adjustment results in an increase in depreciation expense of \$354. Also, staff decreased depreciation expense by \$1,692 to reflect the non-U&U portion of the test year depreciation expense. Beaches recorded amortization of CIAC expense as \$6,407 during the test year. Staff also recalculated amortization of CIAC expense and increased this account by \$6,403 to reflect the appropriate amount of this expense during the test year. This results in CIAC amortization of \$12,810 ($\$6,407 + \$6,403 = \$12,810$). Amortization of CIAC has a negative impact on depreciation expense. Therefore, the Utility recorded net depreciation expense of negative \$5,023.

Taxes Other Than Income (TOTI)

Beaches recorded taxes other than income (TOTI) of \$13,284 for the test year. Staff recommends the following adjustments to TOTI:

Table 6-2
Adjustments Made to TOTI

	Adjustment Description	Amount
1.	To reflect appropriate test year RAFs.	(\$100)
2.	To reflect appropriate test year property tax.	(1,902)
3.	To reflect actual test year filing fees.	(150)
4.	To reclassify payroll taxes from Acct. 703.	3,993
5.	To reflect additional payroll taxes from preliminary salary increase.	773
6.	To reflect property tax associated with plant reclassified from Acct. 775.	104
7.	To reflect property tax associated with pro forma plant.	<u>1,256</u>
	Total	<u>\$3,974</u>

Source: Utility records, Audit Response, Responses to Staff Data Requests, and Audit Control No. 6-222-1-1.

Staff's total adjustment to test year TOTI is an increase of \$3,974.

In addition, as discussed in Issue 7, revenues have been increased by \$29,882 to reflect the change in revenue required to cover expenses and allow the recommended rate of return. As a result, TOTI should be increased by \$1,345 to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$18,673.

Operating Expenses Summary

The application of staff's recommended adjustments to Beaches' test year operating expenses results in operating expenses of \$146,366. Operating expenses are shown on Schedule Nos. 3-A. The related adjustments are shown on Schedule Nos. 3-B and 3-C.

Issue 7: Should the Commission utilize the operating ratio methodology as an alternative method of calculating the water revenue requirement for Beaches Sewer Systems, Inc., and, if so, what is the appropriate margin?

Preliminary Recommendation: Yes. The Commission should utilize the operating ratio methodology for calculating the wastewater revenue requirement for Beaches. The margin should be 7.53 percent of O&M expense. (Brown)

Staff Analysis: Section 367.0814(9), F.S., provides that the Commission may, by rule, establish standards and procedures for setting rates and charges of small utilities using criteria other than those set forth in Sections 367.081(1), (2)(a), and (3), F.S. Rule 25-30.456, F.A.C., provides an alternative to a staff-assisted rate case as described in Rule 25-30.455, F.A.C. As an alternative, utilities with total gross annual operating revenue of less than \$275,000 per system may petition the Commission for staff assistance using alternative rate setting.

Beaches did not petition the Commission for alternative rate setting under the aforementioned rule, but staff believes the Commission should employ the operating ratio methodology to set rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the Utility's rate base, the revenue requirement is based Beaches' O&M expenses plus a margin. This methodology has been applied in cases in which the traditional calculation of the revenue requirement would not provide sufficient revenue to protect against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU,¹⁴ the Commission, for the first time, utilized the operating ratio methodology as an alternative means for setting rates. This order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expense. This criterion was applied again in Order No. PSC-97-0130-FOF-SU.¹⁵ Most recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-16-0583-PAA-WS.¹⁶

By Order No. PSC-96-0357-FOF-WU, the Commission established criteria to determine whether to utilize the operating ratio methodology for those utilities with low or non-existent rate base. The qualifying criteria established by Order No. PSC-96-0357-FOF-WU and how they apply to the Utility are discussed below:

- 1) Whether the utility's O&M expense exceeds rate base. The operating ratio method substitutes O&M expense for rate base in calculating the amount of return. A utility generally would not benefit from the operating ratio method if rate base exceeds O&M expense. In the instant case, rate base is less than the level of O&M expense. The utility's

¹⁴Issued March 13, 1996, in Docket No. 950641-WU, *In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.*

¹⁵Issued February 10, 1997, in Docket No. 960561-SU, *In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.*

¹⁶Issued December 29, 2016, in Docket No. 150010-WS, *In re: Application for staff-assisted rate case in Brevard County by Aquarina Utilities, Inc.*

primary risk resides with covering its operating expense. Based on the staff's recommendation, the adjusted wastewater rate base for the test year is \$87,170, while adjusted O&M expenses are \$132,787.

- 2) Whether the utility is expected to become a Class B utility in the foreseeable future. Pursuant to Section 367.0814(9), F.S., the alternative form of regulation being considered in this case only applies to small utilities with gross annual revenue of \$250,000 or less. Beaches is a Class C utility and the recommended revenue requirement of \$156,366 is substantially below the threshold level for Class B status (\$250,000 per system). The utility's service area has not had any significant growth in the last five years. Therefore, it appears the utility will not become a Class B utility in the foreseeable future.
- 3) Quality of service and condition of plant. As discussed in Issue 1, the recommended quality of service will not be finalized until after the March 9, 2017 Customer Meeting.
- 4) Whether the utility is developer-owned. The current utility owner is not a developer.
- 5) Whether the utility operates treatment facilities or is simply a distribution and/or collection system. The issue is whether or not purchased water and/or wastewater costs should be excluded in the computation of the operating margin. Beaches operates a wastewater treatment plant.

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

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, the Commission determined that a margin of 10 percent shall be used unless unique circumstances justify the use of a greater or lesser margin, with a suggested cap of \$10,000. The important question is not what the return percentage should be, but what level of operating margin will allow the utility to provide safe and reliable service and remain a viable entity. The answer to this question requires a great deal of judgment based upon the particular circumstances of the Utility.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenue for the Utility to cover its interest expense. Staff believes that use of the operating ratio would be sufficient for Beaches to cover its interest expense.

Second, the operating ratio method recognizes that a major issue for small utilities is cash flow; therefore, the operating ratio method focuses more on cash flow than on investment. In the instant case, the Utility's primary risk resides with covering its operating expense. A traditional calculation of the revenue requirement may not provide sufficient revenue to protect against potential variances in revenues and expenses. Under the rate base methodology, the return to Beaches would be \$3,393. Staff does not believe this would not provide the necessary financial cushion to successfully operate this Utility.

Third, if the return on rate base method was applied, a normal return would generate such a small level of revenue that in the event revenues or expenses vary from staff's estimates, Beaches

could be left with insufficient funds to cover operating expenses. Therefore, the margin should provide adequate revenue to protect against potential variability in revenues and expenses. If the Utility's operating expenses increase or revenues decrease, Beaches may not have the funds required for day-to-day operations. Using a 10 percent margin in this docket produces an operating margin of \$13,279, which is above the suggested cap of \$10,000. As such, staff determined that a 7.53 percent margin would be sufficient in this case, resulting in a \$10,000 operating margin.

In conclusion, staff believes the above factors show that the Utility needs a higher margin of revenue over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide Beaches with adequate cash flow to provide some assurance of safe and reliable service, staff recommends application of the operating ratio methodology at a margin of 7.53 percent of O&M expense for determining the revenue requirements.

Issue 8: What is the appropriate revenue requirement?

Preliminary Recommendation: The appropriate revenue requirement is \$156,366 resulting in an annual increase of \$29,882 (23.63 percent). (Brown)

Staff Analysis: Beaches should be allowed an annual increase of \$29,882 (23.63 percent). This will allow the Utility the opportunity to recover its expenses as well as a 7.53 percent margin on O&M expenses for its water systems. The calculations are shown below in Table 8-1:

**Table 8-1
Wastewater Revenue Requirement**

Adjusted O&M Expense	\$132,787
Operating Margin (%)	<u>7.53%</u>
Operating Margin (\$10,000 Cap)	10,000
Adjusted O&M Expense	132,787
Depreciation Expense (Net)	(5,023)
Taxes Other Than Income	17,258
Test Year RAFs	<u>1,345</u>
Revenue Requirement	\$156,366
Less Adjusted Test Year Revenues	<u>126,484</u>
Annual Increase	<u>\$29,882</u>
Percent Increase	<u>23.63%</u>

Issue 9: What is the appropriate rate structure and rate for Beaches Sewer Systems, Inc.?

Preliminary Recommendation: The recommended rate structure and monthly wastewater rate is shown on Schedule No. 4. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Friedrich)

Staff Analysis: Beaches is located in Gulf County and provides wastewater service to approximately 316 residential and 4 general service customers. The Utility's current rate structure for residential and general service customers consists of a monthly flat rate of \$32.20.

The customers served by this Utility receive their water from the City of Port St. Joe. Staff asked the Utility for water data in order to evaluate the Utility's current rate structure and possible alternatives. The Utility provided one month of water data of its customers. However, the Utility expressed that there would be additional costs incurred for obtaining water usage data from the city to bill for wastewater. Therefore, staff does not believe it would be cost effective to bill based on the metered water usage. Therefore, staff believes maintaining the Utility's current flat rate structure is appropriate. The recommended increase of 24 percent, excluding miscellaneous revenues, should be applied across the board to the existing flat rate.

Based on the above, the recommended rate structure and monthly wastewater rate is shown on Schedule No. 4. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 10: What is the appropriate amount by which rates should be reduced in four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.081(8), F.S?

Preliminary Recommendation: The wastewater rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.081(8), F.S. Beaches 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)

Staff Analysis: Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates unless a longer period can be justified and is in the public interest. 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. The total reductions are \$491.

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

Issue 11: Should the recommended rates be approved for Beaches Sewer Systems, Inc. on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

Preliminary Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility. Beaches should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Brown)

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

Beaches should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$20,001. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

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

- 1) The letter of credit is irrevocable for the period it is in effect, and,

- 2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

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

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

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

Should the recommended rates be approved by the Commission on a temporary basis, Beaches should maintain a record of the amount of the security, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 12: What are the appropriate miscellaneous service charges for Beaches Sewer Systems, Inc.?

Preliminary Recommendation: The appropriate miscellaneous service charges identified in Table 12-4 should be approved. The charges should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges 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. (Friedrich)

Staff Analysis: The Utility currently has miscellaneous service charges as show below in Table 12-1. The Utility is requesting miscellaneous service charges be updated to reflect current costs. Section 367.091, F.S., authorizes the Commission to approve miscellaneous service charges. Staff’s calculated miscellaneous service charges utilized the hourly salaries of the administrative and field employees. The Utility has provided staff with the annual salaries and average hours worked per week for the administrative and field employees who process and administer miscellaneous service charges as well as the average distance traveled by the field employee to administer miscellaneous service charges during normal and after hours. The after hours transportation cost is less because the residence of the field employee is closer to the Utility’s service territory than the Utility’s office. This is reflected below in Tables 12-1, 12-2, and 12-3 in staff’s transportation calculations. Staff’s recommended miscellaneous service charges are rounded up to the nearest tenth and are summarized below in Table 12-4.

Initial Connection

The initial connection charge is levied for service initiation at a location where service did not exist previously. A Beaches’ representative makes one trip when performing the service of an initial connection. Based on labor and transportation to and from the service territory, staff recommends initial connection charges of \$25.70 for normal hours and \$27.70 for after hours. Staff’s calculation is shown below in Table 12-1.

**Table 12-1
 Initial Connection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$22.66/hr x 1/4hr)	\$5.67	Labor (Administrative) (\$22.66/hr x 1/4hr)	\$5.67
Labor (Field) (\$31.64/hr x 1/3 hr)	\$10.55	Labor (Field) (\$47.46/hr x 1/3 hr)	\$15.82
Transportation (\$0.535/mile x 17.6 miles-to/from)	\$9.42	Transportation (\$0.535/mile x 11.6 miles-to/from)	\$6.21
Total	\$25.64	Total	\$27.70

Source: Utility’s cost justification documentation.

Normal Reconnection Charge

A normal reconnection charge is levied for the transfer of service to a new customer account at a previously served location, or reconnection of service subsequent to a customer requested disconnection. A normal reconnection requires two trips, which includes one to turn service on and the other to turn service off.

Based on labor and transportation to and from the service territory, staff recommends that the normal reconnection charge should be \$40.40 for normal hours and \$41.90 for after hours. Staff's calculations are shown below in Table 12-2.

**Table 12-2
 Normal Reconnection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$22.66/hr x 1/4hr)	\$5.67	Labor (Administrative) (\$22.66/hr x 1/4hr)	\$5.67
Labor (Field) (\$31.64/hr x 1/4 hr x 2)	\$15.82	Labor (Field) (\$47.46/hr x 1/4hr x 2)	\$23.73
Transportation (\$0.535/mile x 17.6 miles-to/from x 2)	\$18.83	Transportation (\$0.535/mile x 11.6 miles-to/from x 2)	\$12.41
Total	\$40.32	Total	\$41.81

Source: Utility's cost justification documentation

Violation Reconnection Charge

Staff recommends this charge should remain at the Utility's actual cost to administer and process a violation reconnection charge pursuant to Rule 25-30.460(1)(c), F.A.C.

Premises Visit

The premises visit charge is levied when a service representative visits premises at the customer's request for complaint resolution and the problem is found to be the customer's responsibility. In addition, the premises visit can be levied when a service representative visits premises for the purpose of discontinuing service for nonpayment of a due and collectible bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. A premises visit requires one trip.

Based on labor and transportation to and from the service territory, staff recommends premises visit charges of \$25.70 for normal hours and \$27.80 for after hours. Staff's calculations are shown below in Table 12-3.

**Table 12-3
 Premises Visit Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$22.66/hr x 1/4hr)	\$5.67	Labor (Administrative) (\$22.66/hr x 1/4hr)	\$5.67
Labor (Field) (\$31.64/hr x 1/3 hr)	\$10.55	Labor (Field) (\$47.46/hr x 1/3 hr)	\$15.82
Transportation (\$0.535/mile x 17.6 miles-to/from)	\$9.42	Transportation (\$0.535/mile x 11.6 miles-to/from)	\$6.21
Total	\$25.64	Total	\$27.70

Source: Utility's cost justification documentation.

Below, in Table 12-4 are the Utility's current and staff's recommended miscellaneous service charges.

**Table 12-4
 Miscellaneous Service Charges**

	Current	Staff Recommended	
	Normal and After Hours	During Hours	After Hours
Initial Connection Charge	\$15.00	\$25.70	\$27.70
Normal Reconnection Charge	\$15.00	\$40.40	\$41.90
Violation Reconnection Charge	Actual Cost	Actual Cost	
Premises Visit Charge (in lieu of Disconnection)	\$10.00	\$25.70	\$27.80

Conclusion

Based on the above, the miscellaneous service charges identified in Table 12-4 should be approved. The charges should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges 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 13: Should Beaches Sewer Systems, Inc. be authorized to collect Non-Sufficient Funds Charges (NSF)?

Preliminary Recommendation: Yes. Beaches should be authorized to collect NSF charges. Staff recommends that Beaches revise its tariffs to reflect the NSF charges currently set forth in Section 68.065, F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. Furthermore, the charges should not be implemented until staff has approved the proposed customer notice. Beaches should provide proof of the date the notice was given within 10 days of the date of the notice. (Friedrich)

Staff Analysis: Section 367.091, F.S., requires rates, charges, and customer service policies to be approved by the Commission. The Commission has authority to establish, increase, or change a rate or charge. Staff believes that Beaches should be authorized to collect NSF charges consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Section 68.065(2), F.S., the following NSF charges may be assessed:

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

Approval of NSF charges is consistent with prior Commission decisions.¹⁷ Furthermore, NSF charges place the cost on the cost-causer, rather than requiring that the costs associated with the return of the NSF checks be spread across the general body of ratepayers. As such, Beaches should be authorized to collect NSF charges for its water system. Staff recommends that Beaches revise its tariff sheet to reflect the NSF charges currently set forth in Section 68.065, F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. Furthermore, the NSF charges should not be implemented until staff has approved the proposed customer notice. Beaches should provide proof of the date the notice was given within 10 days of the date of the notice.

¹⁷Order Nos. PSC-14-0198-TRF-SU, issued May 2, 2014, in Docket No. 140030-SU, *In re: Request for approval to amend Miscellaneous Service charges to include all NSF charges by Environmental Protection Systems of Pine Island, Inc.*; and PSC-13-0646-PAA-WU, issued December 5, 2013, in Docket No. 130025-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*

Issue 14: Should the Utility be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision?

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

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

Issue 15: What is the appropriate late payment charge to be implemented by Beaches Sewer Systems, Inc.?

Preliminary Recommendation: The appropriate late payment charge to be implemented by Beaches is \$5.43. The Utility should be required to file a proposed customer notice and tariff to reflect the Commission-approved charge. The approved charge should be effective on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Friedrich)

Staff Analysis: The Utility requested a \$5.41 late payment charge to recover the cost of supplies and labor associated with processing late payment notices. The Utility's request for a late payment charge was accompanied by its reason for requesting the charge, as well as the cost justification required by Section 367.091, F.S. Beaches' labor cost of \$4.83 accounts for the office personnel time to review and process a delinquent account. The provided justification by Beaches also included costs for supplies and postage for printing and sending out late payment notices. The Utility requested to recover \$0.47 for postage but staff recommends the Utility recover the full cost of a postage stamp, which is \$0.49. Beaches' cost basis for the late payment charge is shown below in Table 15-1.

**Table 15-1
Late Payment Charge Cost Justification**

Activity	Cost
Labor	\$4.83
Supplies	0.11
Postage	0.49
Total Cost	<u>\$5.43</u>

Source: Utility's cost justification documentation

Since the 1990s, the Commission has approved late payment charges ranging from \$2.00 to \$7.00.¹⁸ The purpose of this charge is to provide an incentive for customers to make timely

¹⁸Order Nos. PSC-01-2101-TRF-WS, in Docket No. 011122-WS, issued October 22, 2001, *In re: Tariff filing to establish a late payment charge in Highlands County by Damon Utilities, Inc.*; PSC-08-0255-PAA-WS, in Docket No. 070391-WS, issued April 24, 2008, *In re: Application for certificates to provide water and wastewater service in Sumter County by Orange Blossom Utilities, Inc.*; PSC-09-0752-PAA-WU, in Docket No. 090185-WU, issued November 16, 2009, *In re: Application for grandfather certificate to operate water utility in St. Johns County by Camachee Island Company, Inc. d/b/a Camachee Cove Yacht Harbor Utility.*; PSC-10-0257-TRF-WU, in Docket No. 090429-WU, issued April 26, 2010, *In re: Request for approval of imposition of miscellaneous service charges, delinquent payment charge and meter tampering charge in Lake County, by Pine Harbour Water Utilities, LLC.*; and PSC-11-0204-TRF-SU, in Docket No. 100413-SU, issued April 25, 2011, *In re: Request for approval of tariff amendment to include a late fee of \$14.00 in Polk County by West Lakeland Wastewater.* PSC-14-0105-TRF-WS, in

payments and to place the cost burden of processing delinquent accounts solely upon those who are cost causers.

Based on the above, the appropriate late payment charge to be implemented by Beaches is \$5.43. The Utility should be required to file a proposed customer notice and tariff to reflect the Commission-approved charge. The approved charge should be effective on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 06/30/16		DOCKET NO. 160165-SU	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$616,024	(\$210,808)	\$405,216
LAND & LAND RIGHTS	14,364	7,500	21,864
NON-USED AND USEFUL COMPONENTS	0	(21,931)	(21,931)
CIAC	(247,554)	(33,371)	(280,925)
ACCUMULATED DEPRECIATION	(509,117)	198,897	(310,220)
AMORTIZATION OF CIAC	188,335	68,232	256,567
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>16,598</u>	<u>16,598</u>
WASTEWATER RATE BASE	<u>\$62,052</u>	<u>\$25,118</u>	<u>\$87,170</u>

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc. TEST YEAR ENDED 06/30/16 ADJUSTMENTS TO RATE BASE	SCHEDULE NO. 1-B DOCKET NO. 160165-SU
	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
1. To reflect previously ordered Commission adjustment.	(\$275,312)
2. To reflect major plant repairs previously placed in Acct. 775.	1,864
3. To reflect appropriate pro forma plant adjustments.	<u>62,640</u>
Total	<u>(\$210,808)</u>
<u>LAND & LAND RIGHTS</u>	
To reflect the utility's purchase of land.	<u>\$7,500</u>
<u>NON-USED AND USEFUL PLANT</u>	
1. To reflect non-used and useful plant.	(\$110,700)
2. To reflect non-used and useful accumulated depreciation.	<u>88,769</u>
Total	<u>(\$21,931)</u>
<u>CIAC</u>	
1. To reflect previously ordered Commission adjustment.	(\$31,996)
2. To reflect appropriate CIAC.	(\$1,500)
3. To reflect an averaging adjustment.	<u>125</u>
Total	<u>(\$33,371)</u>
<u>ACCUMULATED DEPRECIATION</u>	
1. To reflect previously ordered Commission adjustment.	\$66,607
2. To reflect removal of the reserve for transportation costs.	\$135,915
3. To reflect an averaging adjustment.	1,952
4. To reflect major plant repairs previously placed in Acct. 775.	(354)
5. To reflect appropriate pro forma plant adjustments.	<u>(5,223)</u>
Total	<u>\$198,897</u>
<u>AMORTIZATION OF CIAC</u>	
1. To reflect previously ordered Commission adjustment.	\$34,296
2. To reflect appropriate amortization of CIAC.	40,006
3. To reflect an averaging adjustment.	<u>(6,070)</u>
Total	<u>\$68,232</u>
<u>WORKING CAPITAL ALLOWANCE</u>	
To reflect 1/8 of test year O & M expenses.	<u>\$16,598</u>

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.							SCHEDULE NO. 2		
TEST YEAR ENDED 06/30/16							DOCKET NO. 160165-SU		
SCHEDULE OF CAPITAL STRUCTURE									
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON STOCK	(\$55,737)	\$55,737	\$0						
2. RETAINED EARNINGS	0	0	0						
3. PAID IN CAPITAL	0	0	0						
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>						
TOTAL COMMON EQUITY	(\$55,737)	\$55,737	\$0	\$0	\$0	0.00%	11.16%	0.00%	
5. LONG TERM DEBT	\$217,870	(\$1,479)	\$216,391	(\$129,221)	\$87,170	100.00%	5.50%	5.50%	
6. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%	
7. PREFERRED STOCK	<u>0</u>	<u>0</u>	0	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%	
TOTAL LONG TERM DEBT	\$217,870	(\$1,479)	\$216,391	(\$129,221)	\$87,170	100.00%			
8. CUSTOMER DEPOSITS	<u>\$2,166</u>	<u>(\$2,166)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	2.00%	<u>0.00%</u>	
9. TOTAL	<u>\$164,299</u>	<u>\$52,092</u>	<u>\$216,391</u>	<u>(\$129,221)</u>	<u>\$87,170</u>	<u>100.00%</u>		<u>5.50%</u>	
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>		
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>		
OVERALL RATE OF RETURN						<u>5.50%</u>	<u>5.50%</u>		

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.		SCHEDULE NO. 3-A			
TEST YEAR ENDED 06/30/16		DOCKET NO. 160165-SU			
SCHEDULE OF WASTEWATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$131,149</u>	<u>(\$4,665)</u>	<u>\$126,484</u>	<u>\$29,882</u> 23.63%	<u>\$156,366</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$131,861	\$926	\$132,787	\$0	\$132,787
3. DEPRECIATION	7,306	481	7,787	0	7,787
4. AMORTIZATION	(6,407)	(6,403)	(12,810)	0	(12,810)
5. TAXES OTHER THAN INCOME	13,284	3,974	17,258	1,345	18,603
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$146,044</u>	<u>(\$1,022)</u>	<u>\$145,022</u>	<u>\$1,345</u>	<u>\$146,366</u>
8. OPERATING INCOME/(LOSS)	<u>(\$14,895)</u>		<u>(\$18,538)</u>		<u>\$10,000</u>
9. WASTEWATER O&M EXPENSE	<u>\$131,861</u>		<u>\$132,787</u>		<u>\$132,787</u>
10. OPERATING RATIO					<u>10.00%</u>

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.		SCHEDULE NO. 3-B
TEST YEAR ENDED 06/30/16		DOCKET NO. 160165-SU
ADJUSTMENTS TO OPERATING INCOME		Page 1 of 2
		<u>WASTEWATER</u>
OPERATING REVENUES		
1.	To reflect the appropriate test year services revenues.	<u>\$92</u>
OPERATION AND MAINTENANCE EXPENSES		
2.	Salaries and Wages - Officers (703)	
	a. To reflect appropriate salaries and wages.	(\$81)
	b. To reclassify payroll taxes.	(3,993)
	c. To reflect pro forma salaries and wages.	<u>9,000</u>
	Subtotal	<u>\$4,926</u>
3.	Sludge Removal Expense (711)	
	To reflect amortized portion of sludge hauling expense from test year.	<u>\$650</u>
4.	Purchased Power (715)	
	To reflect appropriate purchased power incurred during test year.	<u>\$260</u>
5.	Contractual Services - Billing (730)	
	To reclassify expenses to appropriate accounts (731,735, and 736).	<u>(\$18,545)</u>
6.	Contractual Services - Professional (731)	
	a. To reflect appropriate contractual service expense reclassified from Acct. 730.	\$5,000
	a. To reflect appropriate contractual service expense.	<u>(2,500)</u>
	Subtotal	<u>\$2,500</u>
7.	Contractual Services - Testing (735)	
	To reflect appropriate contractual service expense reclassified from Acct. 730.	<u>\$1,545</u>
8.	Contractual Services - Other (736)	
	To reflect appropriate contractual service expense reclassified from Acct. 730.	<u>\$12,000</u>
9.	Transportation Expense (750)	
	To reflect appropriate transportation expense.	<u>\$10,274</u>
10.	Insurance Expenses (755)	
	To remove unsupported insurance expense.	<u>(\$5,856)</u>

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.		SCHEDULE NO. 3-B
TEST YEAR ENDED 06/30/16		DOCKET NO. 160165-SU
ADJUSTMENTS TO OPERATING INCOME		Page 2 of 2
Regulatory Commission Expense (765)		
To reflect 4-year amortization of rate case expense (\$1,864/4).		<u>\$466</u>
12.	Miscellaneous Expense (775)	
a.	To reflect appropriate cell phone expense.	(\$136)
b.	To remove meals with association representative.	(98)
c.	To reflect appropriate postage.	41
d.	To remove plant items that were incorrectly expensed.	(7,457)
e.	To remove duplicate office phone bill.	(48)
f.	To remove water bill late fees.	(20)
g.	To remove gift card purchase.	(200)
h.	To reflect pro forma landscaping expense amortized over four years.	<u>625</u>
	Subtotal	<u>(\$7,294)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS		<u>\$926</u>
DEPRECIATION EXPENSE		
1.	To reflect appropriate depreciation expense.	(\$3,404)
2.	To reflect major plant repairs previously placed in Acct. 775.	354
3.	Reflect appropriate pro forma plant adjustments.	5,223
4.	To reflect non-used & useful depreciation expense.	<u>(1,692)</u>
	Total	<u>\$481</u>
AMORTIZATION		
	To reflect appropriate amortization expense.	<u>(\$6,403)</u>
TAXES OTHER THAN INCOME		
1.	To reflect the appropriate test year RAFs.	(\$100)
2.	To reflect appropriate test year utility property taxes.	(1,902)
3.	To reflect appropriate allocation of payroll taxes.	3,993
4.	To reflect appropriate allocation of pro forma payroll taxes.	773
5.	To reflect appropriate state filing fees.	(150)
6.	To reflect major plant repairs previously placed in Acct. 775.	104
7.	To reflect appropriate pro forma plant adjustments.	<u>1,256</u>
	Total	<u>\$3,974</u>

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 06/30/16		DOCKET NO. 160165-SU	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(703) SALARIES AND WAGES - OFFICERS	58,274	4,926	63,200
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED WASTEWATER	0	0	0
(711) SLUDGE REMOVAL EXPENSE	0	650	650
(715) PURCHASED POWER	8,335	260	8,595
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	2,752	0	2,752
(720) MATERIALS AND SUPPLIES	0	0	0
(730) CONTRACTUAL SERVICES - BILLING	18,545	(18,545)	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	0	2,500	2,500
(735) CONTRACTUAL SERVICES - TESTING	0	1,545	1,545
(736) CONTRACTUAL SERVICES - OTHER	0	12,000	12,000
(740) RENTS	7,200	0	7,200
(750) TRANSPORTATION EXPENSE	0	10,274	10,274
(755) INSURANCE EXPENSE	5,856	(5,856)	0
(765) REGULATORY COMMISSION EXPENSE	0	466	466
(770) BAD DEBT EXPENSE	2,971	0	2,971
(775) MISCELLANEOUS EXPENSE	<u>27,928</u>	<u>(7,294)</u>	<u>20,634</u>
	<u>\$131,861</u>	<u>\$926</u>	<u>\$132,787</u>

ESAD Enterprises d/b/a Beaches Sewer Systems, Inc.			
TEST YEAR ENDED 06/30/16			SCHEDULE NO. 4
MONTHLY WASTEWATER RATES			DOCKET NO. 160165-SU
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential & General Service</u>			
Flat Rate	\$32.20	\$39.81	\$0.12