

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-**

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**DATE:** June 26, 2019

**TO:** Office of Commission Clerk (Teitzman)

**FROM:** Division of Engineering (Wright, Ellis) *POE SW*  
Division of Accounting and Finance (T. Brown) *TS*  
Division of Economics (Ramos) *MR* *SAH* *EAD* *90H* *MC* *ALM*  
Office of the General Counsel (Murphy) *TH*

**RE:** Docket No. 20160165-SU – Application for staff-assisted rate case in Gulf County by ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.

**AGENDA:** 07/09/19 – Proposed Agency Action – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Polmann

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

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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 providing service to approximately 255 customers in Gulf County. Additionally, the Utility bills 43 customers the standby charge and 36 property owners the guaranteed revenue charge. Water service is provided by the City of Port St. Joe.

Beaches filed its application for a staff-assisted rate case on July 12, 2016. By Order No. PSC-2017-0383-PAA-SU (PAA Order) issued October 4, 2017, the Florida Public Service Commission (Commission) approved a Phase I revenue requirement and rates.<sup>1</sup> The PAA Order further provided that consideration of Phase II rates is conditioned upon Beaches completing

<sup>1</sup>Order No. PSC-2017-0383-PAA-SU, issued October 4, 2017, in Docket No. 20160165-SU, *In re: Application for staff-assisted rate case in Gulf County by ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.*

certain pro forma operation and maintenance (O&M) expense and plant items within 12 months of the issuance of a consummating order in this docket and submitting a copy of the final invoices and cancelled checks for all of these projects within 60 days after this period. Order No. PSC-2017-0417-CO-SU (Consummating Order) was issued on October 27, 2017.<sup>2</sup> Therefore, the pro forma O&M expense and plant items were to be completed by October 27, 2018, with their associated documentation to be submitted by December 27, 2018.

The PAA Order provided that if Beaches encountered any unforeseen events that would impede the completion of the pro forma O&M expense and plant items, it should immediately notify the Commission in writing. On October 31, 2018, Beaches notified staff that it would not be able to meet the deadline for completing the Phase II pro forma O&M expense and plant items due to impacts from Hurricane Michael. The Utility requested that it be granted an extension until December 26, 2018, to complete the projects, and that it be granted an extension until January 26, 2019, to submit the associated documentation. By Order No. PSC-2018-0584-FOF-SU (Extensions Order) issued December 17, 2018, the Commission granted Beaches' request for deadline extensions.<sup>3</sup> On February 6, 2019, Beaches provided documentation for consideration in determining Phase II rates.

Beaches, through the Florida Rural Water Association (FRWA), has recently received disaster assistance for Hurricane Michael repairs from the Florida Department of Environmental Protection (DEP). Staff has identified several of Beaches' pro forma plant items whose costs were mitigated by disaster assistance grant funding. Accordingly, staff has made adjustments to pro forma costs to prevent double recovery.

This recommendation addresses the appropriate Phase II revenue requirements and rates. The Commission has jurisdiction pursuant to Sections 367.081, 367.0814, and 367.121, Florida Statutes.

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<sup>2</sup>Order No. PSC-2017-0417-CO-SU, issued October 27, 2017, in Docket No. 20160165-SU, *In re: Application for staff-assisted rate case in Gulf County by ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.*

<sup>3</sup>Order No. PSC-2018-0584-FOF-SU, issued December 17, 2018, in Docket No. 20160165-SU, *In re: Application for staff-assisted rate case in Gulf County by ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.*

## Discussion of Issues

**Issue 1:** What is the appropriate Phase II revenue requirement for Beaches?

**Recommendation:** The appropriate Phase II revenue requirement is \$185,819. This represents an increase of \$33,095, which equates to an increase of 21.67 percent. The increase includes staff's recommended pro forma plant and O&M expense additions, as well as the billing determinant change and corresponding adjustment to test year revenues discussed in Issues 2 and 3. Phase II rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B. The operating income for Phase II is shown on Schedule No. 2-A. The related adjustments are shown on Schedule No. 2-B. (Wright, T. Brown)

**Staff Analysis:** In the PAA Order, the Commission identified several pro forma O&M expense and plant items to be included in the consideration of Beaches' Phase II revenue requirement and rates. Due to concerns with the age of some project bids, a final decision on the amount of the Phase II revenue requirement and rates was conditioned on completion of the pro forma items and evaluation of their actual costs. On February 6, 2019, Beaches provided actual cost documentation for those pro forma items completed on or before the project completion deadline, December 26, 2018.<sup>4</sup> Staff recommends that the documentation provided by Beaches should be considered for establishing Phase II rates.

With the assistance of the FRWA, the Utility recently received disaster assistance for Hurricane Michael repairs from the DEP. Staff has identified several of Beaches' pro forma plant items whose costs were mitigated by disaster assistance grant funding. Staff recommends the grant funding received by the Utility should be used to reduce costs associated with their respective pro forma plant items. Table 1-1 lists the pro forma O&M expense and plant items identified in the PAA Order, their estimated costs, their actual costs, and staff's recommended costs as modified by DEP grant funding.

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<sup>4</sup>Document No. 00644-2019 (Redacted).

**Table 1-1  
Phase II Pro Forma Costs**

Pro Forma O&M	Estimated	Actual*	Less: DEP Grant*	Staff Rec.*	Notes
Landscaping	\$0	\$0	\$0	\$0	No invoice(s) provided.
Clear Ponds of Vegetation	4,152	3,792	0	3,792	
Sand and Grit Removal	19,010	23,500	0	23,500	
<b>Total Pro Forma O&amp;M</b>	<b>\$23,162</b>	<b>\$27,292</b>	<b>\$0</b>	<b>\$27,292</b>	
<b>Pro Forma Plant</b>					
Purchase of Portable Generator	\$23,756	\$1,477	\$1,477	\$0	Purchased smaller generators.
Install Electrical Hookup for Generator	4,000	0	0	0	No invoice(s) provided.
Replace Lift Station Pumps (Hwy 98)	12,200	17,846	0	17,846	
Replace Lift Station Pumps (Americus)	14,000	15,090	14,425	665	
Replace Control Panel (Americus)	2,581	0	0	0	Included with lift station pump.
Replace Rail System (Americus)	0	0	0	0	Included with lift station pump.
Purchase Second Blower	2,617	2,733	0	2,733	
Replace Piping at WWTP/Ponds	0	3,045	0	3,045	Only pond piping replaced.
Repair Fencing at WWTP	7,864	10,911	10,037	875	
Repair Clarifier at WWTP	0	0	0	0	No invoice(s) provided.
<b>Total Pro Forma Plant</b>	<b>\$67,018</b>	<b>\$51,103</b>	<b>\$25,939</b>	<b>\$25,164</b>	
<b>Total Pro Forma</b>	<b>\$90,180</b>	<b>\$78,395</b>	<b>\$25,939</b>	<b>\$52,456</b>	

\*Values may differ slightly due to rounding.  
Source: PAA Order and Document No. 00644-2019.

### Phase II Pro Forma O&M

Beaches requested three pro forma O&M items, with estimated costs totaling \$23,162. Based on documentation provided by Beaches, actual project costs totaled \$27,292. DEP grant funding does not offset any of the actual pro forma O&M project costs. Accordingly, staff recommends pro forma O&M costs totaling \$27,292.

#### **Landscaping**

Due to a lack of bids describing the nature of the work, or a cost breakdown of materials and labor to justify the expense, Beaches' request to install landscaping at the wastewater treatment plant (WWTP) and lift stations was not assigned an estimated cost in the PAA Order.<sup>5</sup> No additional information related to this project has been provided by the Utility to date.

<sup>5</sup>PAA Order, p. 26.

Accordingly, staff does not recommend inclusion of this project in the Phase II revenue requirement.

### ***Clear Ponds of Vegetation***

Beaches' DEP permit requires it to rotate the use of its retention ponds weekly. According to the Utility, that had become increasingly difficult due to the growth of vegetation in and around its retention ponds. To address this, Beaches requested for inclusion a project to clear its retention ponds of vegetation, add sand, and apply a growth inhibitor to prevent unwanted vegetation in the future. This project was estimated to cost \$4,152 in the PAA Order.<sup>6</sup>

A review of the invoices associated with this project shows an actual cost of \$3,792. Beaches contracted with various firms for the completion of this project, with labor rates having varied from \$25 per hour to \$42 per hour. With one exception, the invoices appear to describe work within the scope of the project and at costs reasonable for the work performed. The Utility identified a line item in one of the invoices that was outside the scope of the project, and staff has modified project costs accordingly. Staff recommends that this project be included in the Phase II revenue requirement. Staff believes it is appropriate to amortize this expense over five years, or \$758 per year ( $\$3,792/5$ ), as discussed in the PAA Order.<sup>7</sup> The adjustment is reflected on Schedule No. 2-B.

### ***Sand and Grit Removal***

Beaches requested for inclusion a project to remove sand and grit that had been clogging the air lines of its WWTP. Such maintenance had not been performed since the current owner took over approximately 19 years ago. Based on a project proposal that included onsite disposal of removed sand and grit, dated February 20, 2015, this project was estimated to cost \$19,010 in the PAA Order.<sup>8</sup>

A review of an updated project proposal, provided to the Utility by U.S. Submergent Technologies on May 24, 2018, and the associated invoice shows an actual cost of \$23,500, or \$4,490 over the estimated cost. According to Beaches, the actual work performed deviated from the work outlined in the updated project proposal. The proposal provided for offsite disposal of removed sand and grit and, according to Beaches, contemplated a project duration of two days. Beaches has reported that the removed sand and grit was, in fact, disposed of onsite and the project required a full week to complete. Actual work on the project also incurred additional expenses from the purchase of water from the City of Port St. Joe. Despite changes in the scope and costs of the project, Beaches and U.S. Submergent Technologies agreed to a final cost of \$23,500. Staff believes that the scope of this project and its cost are appropriate as Phase II pro forma and, as such, recommends that this project be included in the Phase II revenue requirement. Staff believes it is appropriate to amortize this expense over five years, or \$4,700 per year ( $\$23,500/5$ ), as discussed in the PAA Order.<sup>9</sup> The adjustment is reflected on Schedule No. 2-B.

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<sup>6</sup>PAA Order, p. 26.

<sup>7</sup>PAA Order, p. 28.

<sup>8</sup>PAA Order, p. 26.

<sup>9</sup>PAA Order, p. 28.

### ***Additional Part-Time Employee***

As part of the discussion of Phase I O&M expenses at the September 7, 2017 Commission Conference, the Commission asked about the potential of adding an “as-needed” contractor or maintenance person as part of Phase II pro forma O&M. Prior to the Commission Conference, the Utility had not expressed a desire or need to add an additional part-time contractor, nor had any support documentation been provided to staff. Before filing this recommendation, staff contacted the Utility to determine whether the Utility had added an additional employee as a result of the discussion at the Commission Conference, or whether it had plans to add a part-time employee in the near future. Based on staff’s discussion with the Utility, the president, the vice president, and the contract operator remain Beaches’ only employees. An additional employee has not been added, nor is planned, and no cost support has been provided by the Utility. As such, staff did not include an additional part-time employee in its Phase II pro forma O&M calculations.

### **Phase II Pro Forma Plant**

Beaches requested 10 pro forma plant items, with estimated costs totaling \$67,018. Based on documentation provided by Beaches, actual project costs total \$51,103. DEP grant funding offsets actual project costs by \$25,939. Accordingly, staff recommends pro forma plant costs totaling \$25,164 (\$51,103 - \$25,939).

### ***Purchase of Portable Generator***

Beaches requested for inclusion the purchase of generators to provide power to its WWTP or lift station pumps in the event of a power outage. Based on the lowest bid provided by the Utility at the time, the purchase of a single generator was estimated to cost \$23,756 in the PAA Order.<sup>10</sup>

A review of the invoices associated with this project shows an actual cost of \$1,477. According to Beaches, instead of purchasing the 28 kilowatt (kW) generator associated with the \$23,756 bid, the Utility decided to purchase two, identical 5.5 kW generators, priced at \$738 each. The Utility has reported that it uses these generators to power its Highway 98 and Americus lift station pumps during power outages. Staff believes that the purchase of these generators and the invoiced cost are appropriate as Phase II pro forma. Beaches received \$1,477 of DEP grant funding to offset the cost of this pro forma plant item. Accordingly, staff recommends a pro forma plant cost of \$0 (\$1,477 - \$1,477) for this project.

### ***Install Electrical Hookup for Generator***

Beaches requested for inclusion a project to upgrade the electrical equipment at its WWTP to accommodate the installation of a portable generator. This project was estimated to cost \$4,000 in the PAA Order.<sup>11</sup>

Beaches has not provided documentation identifying whether the project has been completed nor, if completed, at what cost. Accordingly, staff recommends that this project not be included in the Phase II revenue requirement.

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<sup>10</sup>PAA Order, p. 26.

<sup>11</sup>PAA Order, p. 27.

### ***Replace Lift Station Pumps (Highway 98)***

According to Beaches, the pumps at its Highway 98 lift station were in need of replacement due to their excessive age and poor condition. To address this, Beaches requested for inclusion a project to replace the lift station's pumps, which was estimated to cost \$12,200 in the PAA Order.<sup>12</sup> The bid on which the estimated cost was based was provided to the Utility on October 15, 2014, and included the supply and installation of one pump, its rail system, and supporting electrical equipment.

A review of the invoices associated with this project shows an actual cost of \$17,846, or \$5,646 over the estimated cost. While a portion of the additional cost can be attributed to the age of the bid used as a basis for this project, the actual work performed also differs from what was outlined in the original bid. The invoices show that both pumps at the Highway 98 lift station were replaced, and ancillary electrical and piping hardware was installed. Beaches has also confirmed that the rail systems for both pumps at the lift station were replaced. Unskilled labor for this project, provided by Gulf Coast Property Services, varied in cost from \$25 per hour to \$33 per hour, while skilled labor, provided by Roto-Rooter Plumbers, varied from \$88 per hour to \$125 per hour. Staff believes that the scope of this project and its invoiced cost are appropriate as Phase II pro forma. Beaches did not receive DEP grant funding to offset the cost of this pro forma plant item. Accordingly, staff recommends a pro forma plant cost of \$17,846 for this project.

### ***Replace Lift Station Pumps, Control Panel, and Rail System (Americus)***

Beaches reported that the pumps and control panel at its Americus lift station were in need of replacement due to their excessive age and poor condition. Additionally, the rail system used for servicing the pumps had completely rusted away, rendering it non-functional. To address these issues, Beaches requested for inclusion projects to replace the lift station's pumps, control panel, and rail system. Based on bids provided by the Utility, the PAA Order estimated costs for two projects: (1) a project which combined the replacement of the lift station's pumps and its rail system was estimated to cost \$14,000; and (2) a project to replace the lift station's control panel was estimated to cost \$2,581, for a combined estimated cost of \$16,581.<sup>13</sup>

A review of the invoices associated with these projects shows combined actual costs totaling \$15,090. Beaches primarily engaged M&L Plumbing Inc. under a flat-rate contract for the replacement of the Americus lift station's pumps, control panel, and rail system. Through a separate contract, M&L Plumbing Inc. provided pump truck service at a combined rent and labor rate of \$250 per hour. Ancillary support was provided by Gulf Coast Property Services at a labor rate of \$35 per hour. Staff believes that the scope of these projects and their invoiced costs are appropriate as Phase II pro forma. Beaches received \$14,425 of DEP grant funding to offset the costs of these pro forma plant items. Accordingly, staff recommends a combined pro forma plant cost of \$665 (\$15,090 - \$14,425) for these projects.

### ***Purchase Second Blower***

DEP regulations require Beaches to acquire a backup blower for its WWTP in case of failure of its primary blower. Beaches, however, only had a single blower at its WWTP. To remedy this,

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<sup>12</sup>PAA Order, p. 26.

<sup>13</sup>Id.

Beaches requested for inclusion the purchase of a second blower. This project was estimated to cost \$2,617 in the PAA Order.<sup>14</sup>

A review of the invoice associated with this project shows an actual cost of \$2,733. Beaches contracted with AAG Electric Motors & Pumps, Inc. for the completion of this project, with a labor rate of \$45 per hour. Staff believes that the scope of this project and its invoiced cost are appropriate as Phase II pro forma. Beaches did not receive DEP grant funding to offset the cost of this pro forma plant item. Accordingly, staff recommends a pro forma plant cost of \$2,733 for this project.

### ***Replace Piping at WWTP/Ponds***

Beaches requested for inclusion a project to replace and/or repair piping at its WWTP and in its retention ponds in order to meet DEP requirements for weekly rotation of the use of its retention ponds. However, due to a lack of bids describing the nature of the work to be performed or a cost breakdown of materials and labor to justify the expense, Beaches' request was not assigned an estimated cost in the PAA Order.<sup>15</sup>

While Beaches has not provided documentation identifying whether or at what cost piping at its WWTP was replaced and/or repaired, the Utility did provide, in its February 6, 2019, filing, invoices associated with the replacement and/or repair of piping in its retention ponds. A review of the invoices shows an actual cost of \$3,045. Gulf Coast Property Services provided labor at costs varying from \$25 per hour to \$33 per hour. The invoices appear to describe work within the scope of the project and at costs reasonable for the work performed. Given the necessity of this project in meeting DEP requirements, staff recommends that it be included in the Phase II revenue requirement. Beaches did not receive DEP grant funding to offset the cost of this pro forma plant item. Accordingly, staff recommends a pro forma plant cost of \$3,045 for this project.

### ***Repair Fencing at WWTP***

Beaches requested for inclusion a project to replace and/or repair a 300-foot section of fencing surrounding its WWTP. This project was estimated to cost \$7,864 in the PAA Order.<sup>16</sup>

In October 2018, Beaches' WWTP suffered damages due to Hurricane Michael, including the complete destruction of its perimeter fencing. In response, Beaches underwent a project to demolish its existing fencing and construct a new 1,540-foot fence surrounding its WWTP. A review of the invoices associated with this project shows an actual cost of \$10,911. Beaches contracted with Breakaway Demo for the demolition portion of this project with labor rates varying from \$38 per hour to \$57 per hour. For the construction portion, Beaches contracted with Gulf Coast Property Services at a labor rate of approximately \$11 per hour. To minimize costs of the project, Beaches installed chain-link fencing only on the section facing the road and field fencing for the remainder of the fence's perimeter. Beaches has informed staff that the DEP does not have any concerns over this fencing strategy. Staff believes that the scope of this project and its invoiced cost are appropriate as Phase II pro forma. Beaches received \$10,037 of DEP grant

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<sup>14</sup>PAA Order, p. 26

<sup>15</sup>Id.

<sup>16</sup>Id.



funding to offset the cost of this pro forma plant item. Accordingly, staff recommends a pro forma plant cost of \$875 (\$10,911 - \$10,037) for this project.

**Repair Clarifier at WWTP**

Due to a lack of bids describing the nature of the work, or a cost breakdown of materials and labor to justify the expense, Beaches' request to repair the clarifier at its WWTP was not assigned an estimated cost in the PAA Order.<sup>17</sup> No additional information related to this project has been provided by the Utility to date. Accordingly, staff does not recommend inclusion of this project in the Phase II revenue requirement.

**Phase II Pro Forma Adjustments**

Staff's recommended pro forma plant additions are shown in Table 1-2, as are staff's adjustments to UPIS, accumulated depreciation, and depreciation expense. There is also a corresponding increase to property taxes of \$117 associated with staff's recommended pro forma plant. Adjustments to UPIS and accumulated depreciation are reflected in Schedule No. 1-B, while adjustments to depreciation expense and property taxes are reflected on Schedule No. 2-B.

**Table 1-2  
 Pro Forma Adjustments**

Description	UPIS <sup>18</sup>	Accum. Depr.	Depr. Exp.
Replace Lift Station Pumps (Hwy 98)	\$17,846	(\$446)	\$446
Retirement	(13,385)	13,385	(335)
Replace Lift Station Pumps (Americus)	665	(17)	17
Retirement	(499)	499	(12)
Purchase Second Blower	2,733	(182)	182
Retirement	0	0	0
Replace Piping at WWTP/Ponds	3,045	(203)	203
Retirement	(2,284)	2,284	(152)
Repair Fencing at WWTP	875	(32)	32
Retirement	(656)	656	(24)
<b>Total</b>	<b>\$8,341</b>	<b>(\$15,943)</b>	<b>\$357</b>

Source: Utility responses to staff data requests, staff calculations.

In the PAA Order, the Commission found that the Utility's wastewater treatment plant should be considered 64.3 percent used and useful (U&U). Beaches' wastewater collection systems were determined to be 90.5 percent U&U.<sup>19</sup> As such, the Commission made an adjustment for non-U&U plant in Phase I. Staff believes that a similar adjustment is necessary in Phase II.

<sup>17</sup>PAA Order, p. 27.

<sup>18</sup>It is Commission practice to use 75 percent of the cost of the replacement as the retirement value when the original cost is not known.

<sup>19</sup>PAA Order, pp. 4-5, 7.

Application of the U&U percentages to plant balances and associated accumulated depreciation balances results in a net increase of \$304 for wastewater non-U&U components. Corresponding adjustments should also be made to remove the non-U&U portion from depreciation expense and property taxes. Accordingly, staff decreased depreciation expense by \$95 and property taxes by \$24 to reflect the non-U&U portion of each expense.

**Additional O&M Adjustments**

In Phase I, the Commission approved O&M expense of \$138,009. As discussed earlier in this issue, staff recommended pro forma O&M of \$27,292 amortized over five years, or \$5,458 per year, be included in Phase II O&M expense. In addition, staff also believes that adjustments to several O&M expense accounts should be made to reflect the 20.31 percent reduction in customers the Utility has experienced since Hurricane Michael.<sup>20</sup> Staff believes that the reduction in customers will likely impact Sludge Removal (Acct. No. 711), Purchased Power (Acct. No. 715), and Chemicals (Acct. No. 718). These expenses are variable in nature, and staff expects that the lower number of customers would represent reduced wastewater flows being sent through the Utility’s lift stations and plant. As a result, less power would be used, fewer chemicals would be needed for treatment, and sludge removal intervals might be prolonged. Staff’s recommended adjustments to these O&M expense accounts are reflected in Table 1-3.

**Table 1-3  
 Additional O&M Adjustments**

Expense Account	Approved – Phase I	20.31% Reduction	Recommended – Phase II
Sludge Removal (711)	\$2,600	(\$528)	\$2,072
Purchased Power (715)	\$8,595	(\$1,746)	\$6,849
Chemicals (718)	\$2,752	(\$559)	\$2,193

Source: PAA Order and staff calculations.

Staff recommends a decrease of \$2,833 (\$528 + \$1,746 + \$559) in Phase II to reflect adjustments related to the loss of customers. This results in a net addition to O&M in Phase II of \$2,625 (\$5,458 - \$2,833). Staff’s adjustments are reflected on Schedule No. 2-B. With the additional adjustments, staff recommends Phase II O&M expense of \$140,634 (\$138,009 + \$2,625).

**Operating Ratio Methodology**

In the PAA Order, the Commission approved an operating margin of 7.25 percent for Beaches. Using a 10 percent margin in Phase I produced an operating margin of \$13,801, which was above the suggested cap of \$10,000. The Commission found that a 7.25 percent margin was appropriate in Phase I because it resulted in a \$10,000 operating margin. As noted above, staff is recommending Phase II O&M expense of \$140,634.

<sup>20</sup>Staff notes that the reduced number of customers is also addressed in Issues 2 and 3, where impacts to billing determinants and adjusted test year revenues are discussed.

Since the PAA Order in this docket, the operating ratio methodology has transitioned from “Commission practice” to a formalized rule, which now includes a 12 percent margin and a \$15,000 cap.<sup>21</sup> This rule went into effect on March 28, 2019. As outlined in the rule, staff verified that the Utility’s rate base is not greater than 125 percent of O&M expenses, and that the use of the operating ratio methodology does not change the Utility’s qualification for a staff-assisted rate case. Accordingly, staff applied the methodology established in the rule to calculate the Utility’s Phase II revenue requirement. A margin of 12 percent of the Utility’s O&M expenses is \$16,876 ( $\$140,634 \times 12$  percent), which is above the \$15,000 cap. As such, staff recommends that a 10.67 percent margin is appropriate in Phase II because it results in a \$15,000 operating margin.

### **Conclusion**

Based on staff’s review of documentation provided by Beaches, the appropriate Phase II revenue requirement is \$185,819. This represents an increase of \$33,095, which equates to an increase of 21.67 percent. The increase includes staff’s recommended pro forma plant and O&M expense additions discussed above, as well as the billing determinant change and corresponding adjustment to test year revenues discussed in Issues 2 and 3. Phase II rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B. The operating income for Phase II is shown on Schedule No. 2-A. The related adjustments are shown on Schedule No. 2-B.

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<sup>21</sup>Rule 25-30.4575, F.A.C.

**Issue 2:** What are the appropriate test year revenues for Phase II?

**Recommendation:** The appropriate test year revenues for Beaches' Phase II rates are \$152,724. (Ramos)

**Staff Analysis:** In Phase I of the instant docket, the Commission approved a Phase I revenue requirement of \$176,348.<sup>22</sup> The Utility's Phase I test year revenues and Phase I rates were calculated based on the Utility's billing determinants at the time: 320 wastewater customers and 45 prepaid connections. However, as discussed in Issue 3, the Utility is currently under earning due to the impact of Hurricane Michael on Beaches' service territory, which significantly reduced the Utility's customer base.

As discussed in Issue 3, staff is recommending the rates be redesigned due to the significant reduction in the Utility's customer base. In order to reflect the appropriate percentage increase as a result of the Phase II increase and the impact from redesigning rates, staff believes it is appropriate to adjust test year revenues by utilizing the Utility's 2018/2019 index rates<sup>23</sup> and the Utility's current customer count. This results in test year revenues of \$152,724. Therefore, test year revenues should be decreased by \$23,624 ( $\$176,348 - \$152,724 = \$23,624$ ). Based on the above, the appropriate test year revenues for Beaches' Phase II rates are \$152,724, which consists of \$148,877 of service revenues and \$3,847 of miscellaneous revenues.

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<sup>22</sup>Order No. PSC-2017-0383-PAA-SU, in Docket No. 20160165-SU, dated October 4, 2017, *In re: Application for staff-assisted rate case in Gulf County by ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.*

<sup>23</sup>Beaches' applied for a 2018 and 2019 price index increase on May 6, 2019, and the resulting rates have an anticipated effective date of July 5, 2019.

**Issue 3:** What are the appropriate rates for Phase II?

**Recommendation:** The recommended rates and charges are shown on Schedule No. 3. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates and charges. The approved rates and charges should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code (F.A.C.). In addition, the approved rates and 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. (Ramos)

**Staff Analysis:** Pursuant to Order No. PSC-2017-0383-PAA-SU, issued October 4, 2017, in the instant docket, Beaches was granted a Phase I rate increase. The PAA order also indicated that the Commission would consider a Phase II rate increase once the Phase II projects were completed and project costs were evaluated. As discussed in Issue 1, the Utility completed the Phase II projects. Typically, the Phase II rate increase would be an incremental increase to the Phase I revenue requirement, resulting in an across-the-board increase to the Phase I rates. However, subsequent to the implementation of Phase I rates, Beaches was substantially impacted by Hurricane Michael in October 2018, resulting in a significant decrease to the Utility's customer base. In order to maintain a stable revenue stream and sustain the system at a safe and reliable level, the Commission approved the Utility's requested standby charge, which is a monthly reoccurring charge intended specifically for customers unable to receive wastewater service due to extensive storm damage.<sup>24</sup> The standby charge is similar to the Utility's guaranteed revenue charge<sup>25</sup> because both charges represent an approximation of the fixed costs the Utility incurs to have service ready and available upon demand.

When the Utility's Phase I rates were designed, Beaches was serving approximately 320 wastewater customers and billing 45 property owners its monthly guaranteed revenue charge. However, due to the impacts of Hurricane Michael, the Utility currently serves 255 wastewater customers. In addition, the Utility bills 43 customers the standby charge and 36 property owners the guaranteed revenue charge. Although the standby charge was approved after Phase I rates were set, the existing Phase I rates, standby charge, and guaranteed revenue charge along with the post Hurricane Michael billing determinants would generate approximately \$30,000 less than the Utility's Commission-approved Phase I revenue requirement of \$176,348. Due to the significant reduction to Beaches' customer base and in order to prevent the Utility from significantly under earning, staff believes it is appropriate to restructure the Utility's rates, standby charge and guaranteed revenue charge based on the existing billing determinants in order for the Utility to achieve its authorized revenues from Phase I, incremental Phase II, and the index adjustments. In the past, the Commission has approved the restructuring of rates to

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<sup>24</sup>Order No. PSC-2018-0595-TRF-SU, issued December 20, 2018, in Docket No. 20180219-SU, *In re: Request for approval of amendment to tariff to charge a standby charge to customers significantly impacted by Hurricane Michael in Gulf County, by ESAD Enterprises, Inc. d/b/a Beaches Sewer System.*

<sup>25</sup>The guaranteed revenue charge is designed to allow a utility to recover costs from the time capacity is reserved until a customer begins to pay the Utility's rates.

recover a previously authorized revenue requirement and index increases due to a significant decrease in billing determinants.<sup>26</sup>

To determine the appropriate revenues for designing Phase II rates and charges, miscellaneous revenues of \$3,847 should be removed from the Phase II revenue requirement of \$185,819 resulting in \$181,972 for designing Phase II rates and charges. The Phase II rates and charges are shown on Schedule No. 3.

Staff notes that the Commission ordered staff to reevaluate the continuance of the Utility's standby charge in January 2020, at which time staff intends to analyze the Utility's customer base and the corresponding revenues. As customers that are currently billed the standby charge rebuild and re-establish service with the Utility, the customers would transition from paying the standby charge to the flat rate for service, which could potentially increase the Utility's earnings. In January 2020, staff will review the continuance of the standby charge; the Utility's revenues will also be reviewed to ensure the Utility is within range of its overall rate of return. At which time, staff will determine if the Utility's rates need further restructuring.

Staff's recommended rates and charges are shown on Schedule No. 3. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates and charges. The approved rates and charges should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates and 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.

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<sup>26</sup>Order No. PSC-13-0647-PAA-WU, issued December 5, 2013, in Docket No. 20130155-WU, *In re: Application for limited proceeding increase in rates in Escambia County by Peoples Water Service Company of Florida, Inc.*

**Issue 4:** 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 will be issued. The docket should remain open for staff's verification that the revised tariff sheets and the customer notice have been filed by the Utility and approved by staff. When the tariff and notice actions are complete, this docket may be closed administratively. (Murphy)

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

<b>ESAD ENTERPRISES, INC. d/b/a BEACHES SEWER SYSTEMS, INC. SCHEDULE NO. 1-A</b> <b>TEST YEAR ENDED 06/30/16 DOCKET NO. 20160165-SU</b> <b>WASTEWATER RATE BASE (PHASE II)</b>			
<b>DESCRIPTION</b>	<b>PHASE I</b>	<b>STAFF ADJUSTMENTS TO UTIL. BAL.</b>	<b>BALANCE PER STAFF</b>
UTILITY PLANT IN SERVICE	\$365,162	\$8,341	\$373,503
LAND & LAND RIGHTS	21,864	0	21,864
NON-USED AND USEFUL COMPONENTS	(2,021)	304	(1,717)
CIAC	(281,050)	0	(281,050)
ACCUMULATED DEPRECIATION	(307,348)	15,943	(291,405)
AMORTIZATION OF CIAC	281,050	0	281,050
WORKING CAPITAL ALLOWANCE	<u>17,186</u>	<u>328</u>	<u>17,514</u>
WASTEWATER RATE BASE	<u>\$94,842</u>	<u>\$24,916</u>	<u>\$119,758</u>



<b>ESAD ENTERPRISES, INC. d/b/a BEACHES SEWER SYSTEMS, INC.</b>		<b>SCHEDULE NO. 1-B</b>
<b>TEST YEAR ENDED 06/30/16</b>		<b>DOCKET NO. 20160165-SU</b>
<b>ADJUSTMENTS TO RATE BASE (PHASE II)</b>		
		<b><u>WASTEWATER</u></b>
<b><u>UTILITY PLANT IN SERVICE</u></b>		
1.	To reflect appropriate pro forma plant additions.	\$25,164
2.	To reflect appropriate pro forma plant retirements.	<u>(16,823)</u>
	Total	<u>\$8,341</u>
<b><u>NON-USED AND USEFUL PLANT</u></b>		
1.	To reflect non-used and useful UPIS.	(\$1,708)
2.	To reflect non-used and useful accumulated depreciation.	<u>2,012</u>
	Total	<u>\$304</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>		
1.	To reflect appropriate pro forma plant additions.	(\$880)
2.	To reflect appropriate pro forma plant retirements.	<u>16,823</u>
	Total	<u>\$15,943</u>
<b><u>WORKING CAPITAL ALLOWANCE</u></b>		
	To reflect 1/8 of test year O & M expenses.	<u>\$328</u>

ESAD ENTERPRISES, INC. d/b/a BEACHES SEWER SYSTEMS, INC.			SCHEDULE NO. 2-A		
TEST YEAR ENDED 06/30/16			DOCKET NO. 20160165-SU		
WASTEWATER OPERATING INCOME (PHASE II)					
	PHASE I	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$176,348</u>	<u>(\$23,624)</u>	<u>\$152,724</u>	<u>\$33,095</u> 21.67%	<u>\$185,819</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	\$138,009	\$2,625	\$140,634	\$0	\$140,634
3. DEPRECIATION (NET)	10,616	262	10,878	0	10,878
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	17,724	93	17,817	1,489	19,306
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$166,348</u>	<u>\$2,981</u>	<u>\$169,329</u>	<u>\$1,489</u>	<u>\$170,819</u>
8. OPERATING INCOME/(LOSS)	<u>\$10,000</u>		<u>(\$16,605)</u>		<u>\$15,000</u>
9. WASTEWATER O&M EXPENSE	<u>\$138,009</u>		<u>\$140,634</u>		<u>\$140,634</u>
10. OPERATING RATIO	<u>7.25%</u>				<u>10.67%</u>

<b>ESAD ENTERPRISES, INC. d/b/a BEACHES SEWER SYSTEMS, INC.</b>		<b>SCHEDULE NO. 2-B</b>
<b>TEST YEAR ENDED 06/30/16</b>		<b>DOCKET NO. 20160165-SU</b>
<b>ADJUSTMENTS TO OPERATING INCOME (PHASE II)</b>		
		<u>WASTEWATER</u>
<b>OPERATING REVENUES</b>		
To reflect appropriate test year revenues.		<u>(\$23,624)</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>		
Sludge Removal Expense (711)		
To reflect reduced post-hurricane customer count.		<u>(\$528)</u>
Purchased Power (715)		
To reflect reduced post-hurricane customer count.		<u>(\$1,746)</u>
Chemicals (718)		
To reflect reduced post-hurricane customer count.		<u>(\$559)</u>
Miscellaneous Expense (775)		
a. To reflect 5-year amortization of pro forma for sand and grit removal expense.		\$4,700
b. To reflect 5-year amortization of pro forma pond maintenance expense.		<u>758</u>
Total		<u>\$5,458</u>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>		<u>\$2,625</u>
<b>DEPRECIATION EXPENSE</b>		
1. To reflect pro forma depreciation expense.		\$357
2. To reflect non-used & useful pro forma depreciation expense.		<u>(95)</u>
Total		<u>\$262</u>
<b>TAXES OTHER THAN INCOME</b>		
1. To reflect pro forma property taxes.		\$117
2. To reflect non-used & useful pro forma property tax.		<u>(24)</u>
Total		<u>\$93</u>

<b>ESAD ENTERPRISES, INC. d/b/a BEACHES SEWER SYSTEMS, INC.</b>			<b>SCHEDULE NO. 3</b>
<b>TEST YEAR ENDED 06/30/16</b>			<b>DOCKET NO. 20160165-SU</b>
<b>MONTHLY WASTEWATER RATES (PHASE II)</b>			
	<b>UTILITY CURRENT RATES</b>	<b>UTILITY INDEXED RATES<sup>27</sup></b>	<b>STAFF RECOMMENDED PHASE II RATES</b>
<b><u>Residential and General Service</u></b>			
Flat Rate	\$43.03	\$45.00	\$54.82
Standby Charge	\$11.79	\$11.79	\$15.02
Guaranteed Revenue Charge	\$11.79	\$11.79	\$15.02
<b><u>Residential and General Service Bill Comparison</u></b>			
3,000 Gallons	\$43.03	\$45.00	\$54.82
6,000 Gallons	\$43.03	\$45.00	\$54.82
8,000 Gallons	\$43.03	\$45.00	\$54.82

<sup>27</sup>The Utility applied for a 2018 and 2019 price index increase on May 6, 2019, and the resulting indexed rates have an anticipated effective date of July 5, 2019.