

STATE OF FLORIDA

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OFFICE OF THE GENERAL COUNSEL  
KEITH C. HETRICK  
GENERAL COUNSEL  
(850)413-6199

# Public Service Commission

October 14, 2019

VIA EMAIL

Mr. Gary A. Deremer, President  
Merritt Island Utility Company  
4939 Cross Bayou Blvd.  
New Port Richey, Florida 34652  
gderemer@uswatercorp.net

**Re: Docket No. 20190116-SU, Application for staff-assisted rate case in Brevard County, and request for interim rate increase by Merritt Island Utility Company.**

Dear Mr. Deremer:

This letter will confirm that Commission staff will hold a customer meeting on Monday, November 4, 2019. If at all possible, we ask that you or another knowledgeable representative of the Utility attend the meeting in order to answer customer questions. The location of the general meeting will be as follows:

Monday, November 4, 2019  
6:00 p.m.  
Merritt Island Public Library  
1195 N. Courtenay Parkway  
Merritt Island, Florida 32953

As required by Rule 25-22.0407(9)(b), Florida Administrative Code (F.A.C.), the Utility shall provide, in writing, a customer meeting notice to all customers within its service area no less than 14 days and no more than 30 days prior to the date of a customer meeting. A draft customer meeting notice is enclosed. Please note the date has been left blank so you can fill in the date that the notice is sent to the customers. Please furnish me with a copy of the notice that is distributed to your customers, together with a cover letter indicating the exact date(s) the notice was mailed or otherwise delivered to the customers.

In addition, a copy of the staff report is enclosed. Please ensure that a copy of the completed Application for Staff Assistance and the staff report are available for review, pursuant to Rule 25-22.0407(9)(a), F.A.C., by all interested persons at the following location:

Merritt Island Public Library  
1195 N. Courtenay Parkway  
Merritt Island, Florida 32953

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COMMISSION  
CLERK

Mr. Gary Deremer  
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For your convenience, I have also enclosed a copy of Rule 25-22.0407(9), F.A.C. Should you have any questions about the matters contained herein, please do not hesitate to contact me at (850) 413-6212. In addition, you may contact Kordell Wilson at (850) 413-6447 with any questions.

Sincerely,

/s/Rachael Dziechciarz

Rachael Dziechciarz  
Senior Attorney

Enclosures

RD/tb

cc: Office of Commission Clerk (Docket No. 20190116-SU)  
Mr. Troy Rendell, Manager of Regulated Utilities (trendell@uswatercorp.net)

**Rule 25-22.0407(9), Florida Administrative Code**

(9) When a utility applies for a staff-assisted rate case in accordance with Section 367.0814, Florida Statutes, and Rule 25-30.455, F.A.C., and staff-assistance is granted, the requirements of subsections (2), (3), (4), and (5) of this rule shall not apply.

(a) Upon receipt of the staff reports, the utility shall place two copies of its application for staff-assistance and the staff reports at any business offices it has in its service area. Such copies shall be available for public inspection during the utility's regular business hours. If the utility does not have a business office in its service area, the utility shall place two copies of its application and the staff reports at the main county library, the local community center or other appropriate location that is within or most convenient to the service area and that is willing to accept and provide public access to the copies.

(b) No less than 14 days and no more than 30 days prior to the date of a customer meeting conducted by the Commission staff, the utility shall provide, in writing, a customer meeting notice to all customers within its service area and to all persons in the same service areas who have filed a written request for service or who have been provided a written estimate for service within the 12 calendar months prior to the month the petition is filed.

(c) The customer meeting notice shall be approved by the Commission staff prior to distribution and shall include the following:

1. The date the notice was issued;
2. The time, date, location, and purpose of the customer meeting;
3. A statement that the utility has applied for a staff-assisted rate case and the general reasons for doing so;
4. A statement of the location where copies of the application and the staff reports are available for public inspection and the times during which inspection may be made;
5. A comparison of current rates and charges and the proposed new rates and charges;
6. The utility's address, telephone number, and business hours;
7. A statement that written comments regarding utility service or the proposed rates and charges should be addressed to the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0870, and that such comments should identify the docket number assigned to the proceeding;
8. A statement that complaints regarding service may be made to the Commission's Division of Consumer Affairs at the following toll-free number: 1(800)342-3552.
9. A statement that the Commission will be reviewing the utility's service availability charges in the pending case and that the Commission may adjust those charges.
10. The docket number assigned by the Commission's Division of the Commission Clerk and Administrative Services.

(d) The customer meeting notice shall be mailed to the out-of-town address of all customers who have provided the utility with an out-of-town address.

(e) If the proposed agency action order issued in the case is protested and any hearings are subsequently held, the utility shall give notice in accordance with subsections (6) and (7) above.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

NOTICE OF CUSTOMER MEETING

TO THE CUSTOMERS OF MERRITT ISLAND UTILITY COMPANY.

AND

ALL OTHER INTERESTED PERSONS

DOCKET NO. 20190116-SU

APPLICATION FOR STAFF-ASSISTED RATE CASE IN BREVARD COUNTY,

AND REQUEST FOR INTERIM RATE INCREASE

BY MERRITT ISLAND UTILITY COMPANY.

Issued: \_\_\_\_\_

Notice is hereby given that the staff of the Florida Public Service Commission (Commission or PSC) will conduct a customer meeting to discuss the application for a staff-assisted rate case by Merritt Island Utility Company. (Merritt Island or Utility) in Brevard County. The meeting will be held at the following time and place:

Monday, November 4, 2019

6:00 p.m.

Merritt Island Public Library

1195 N. Courtenay Parkway

Merritt Island, Florida 32953

All persons who wish to comment are urged to be present at the beginning of the meeting, since the meeting may be adjourned early if no customers are present. One or more of the Commissioners of the Commission may attend and participate in this meeting. The meeting will begin as scheduled and will continue until all the customers have been heard.

If a named storm or other disaster requires cancellation of the meeting, Commission staff will attempt to give timely direct notice to the parties. Notice of the cancellation of the meeting will also be provided on the Commission's website (<http://www.floridapsc.com/>) under the Hot Topics link found on the home page. Cancellation can also be confirmed by calling the Commission's Office of the General Counsel at (850) 413-6199.

Any person requiring some accommodation at the customer meeting because of a physical impairment should call the Office of Commission Clerk at (850) 413-6770 at least five calendar days prior to the meeting. Any person who is hearing or speech impaired should contact the Commission by using the Florida Relay Service, which can be reached at 1-800-955-8771 (TDD).

## PURPOSE

The purpose of this meeting is to give customers and other interested persons an opportunity to offer comments to Commission staff regarding the quality of service the Utility provides, the proposed rate increase, and to ask questions and comment on staff's preliminary rates included in this notice as well as other issues. Staff members will summarize Merritt Island's proposed filing, the preliminary work accomplished, and answer questions to the extent possible. A representative from the Utility has also been invited to respond to questions.

At the beginning of the meeting, procedures will be established for the order of comments. Commission staff will have sign-up sheets, and customers will be called to speak in the order that they sign up. Staff will be available to coordinate customers' comments and to assist members of the public.

Any person who wishes to comment or provide information to staff may do so at the meetings, orally or in writing. Written comments may also be sent to the Commission at the address given at the end of this notice. Your letter will be placed in the correspondence file of this docket. You may also submit comments through the Commission's toll-free facsimile line at 1-800-511-0809 or online at <https://secure.floridapsc.com/ClerkOffice/EfilingPublic>.

## BACKGROUND

Merritt Island is a Class C utility serving approximately 141 residential and 1 general service wastewater customers in Brevard County. Water service is provided by the City of Cocoa. The Utility is located in the St. Johns River Water Management District, all of which is considered a water use caution area. According to Merritt Island's 2018 Annual Report, the Utility had the following gross operating revenues, operating expenses, and net operating loss.

### Revenues, Expenses and Net Operating Loss

	Wastewater
Operating Revenues	\$65,442
Operating Expenses	<u>\$73,250</u>
Net Operating Loss	<u>(\$7,808)</u>

Mobile Home Investors, Inc. was initially granted a certificate to operate a wastewater system in existence in 1974.<sup>1</sup> The wastewater system was subsequently transferred several times. The most recent transfer to Merritt Island was approved in 2017.<sup>2</sup> During the pendency of the transfer docket, it was discovered that the Utility was serving customers outside of its certificated territory. Consequently, Merritt Island filed an application with the Commission to amend its

<sup>1</sup>Order No. 6365, issued December 2, 1974, in Docket No. 730391-S, *In re: Application of Mobile Home Investors, Inc., for a certificate to operate an existing sewer utility in Brevard County, Florida*.

<sup>2</sup>Order No. PSC-2017-0366-PAA-SU, issued September 27, 2017, in Docket No. 20170018-SU, *In re: Application to transfer wastewater system and Certificate No. 137-S in Brevard County from Colony Park Development Utilities, LLC to Merritt Island Utility Company, Inc.*

certificate to add territory in Brevard County, which was approved in Order No. PSC-2018-0243-FOF-SU.<sup>3</sup>

Rate base was last established for the Utility in a 2008 staff-assisted rate case (SARC).<sup>4</sup> In addition, net book value for transfer purposes was updated to reflect balances as of December 22, 2016, when the system was transferred to Merritt Island. The Utility's test year rates became effective on June 13, 2018, following approval of a 2018 price index rate adjustment.

On May 16, 2019, Merritt Island filed an application for a SARC. The Utility requested the 12-month period ended March 31, 2019, as the test year for interim and final rate purposes. The Commission approved a 5.34 percent interim increase in Order No. PSC-2019-0309-PCO-SU, issued on July 29, 2019.

### CURRENT AND PRELIMINARY RATES AND CHARGES

Staff has compiled the following rates and charges for the purpose of discussion at the customer meeting. These rates are preliminary and subject to change based on information gathered at the customer meeting, further staff review, and the final decision by the Commission. The Utility's current, and staff's preliminary rates and charges, are as follows:

	RATES AT TIME OF FILING	COMMISSION APPROVED INTERIM RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<b><u>Residential and General Service</u></b>				
Base Facility Charge by Meter Size				
5/8"X3/4"	\$10.91	\$11.50	\$16.66	\$0.08
3/4"	\$16.37	\$17.25	\$24.99	\$0.13
1"	\$27.28	\$28.75	\$41.65	\$0.21
1-1/2"	\$54.55	\$57.50	\$83.30	\$0.42
2"	\$87.28	\$92.00	\$133.28	\$0.68
3"	\$174.56	\$184.00	\$266.56	\$1.35
4"	\$272.75	\$287.50	\$416.50	\$2.11
6"	\$545.50	\$575.00	\$833.00	\$4.23
Charge per 1,000 gallons - Residential				
All Meter Sizes	\$2.91	\$3.07	\$4.83	\$0.02
6,000 gallon cap				
Charge per 1,000 gallons - General Service				
	\$3.49	\$3.68	\$5.80	\$0.03
<b><u>Bulk Service</u></b>				
Base Facility Charge - All Meter Sizes (120 ERCs)	\$1,309.20	\$1,380.00	\$1,999.20	\$10.15
Charge per 1,000 gallons - Bulk Service	\$3.49	\$3.68	\$5.80	\$0.03
720,000 gallon cap				
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>				
3,000 Gallons	\$19.64	\$20.71	\$31.15	
6,000 Gallons	\$28.37	\$29.92	\$45.64	
10,000 Gallons	\$28.37	\$29.92	\$45.64	

<sup>3</sup>Order No. PSC-2018-0243-FOF-SU, issued May 10, 2018, in Docket No. 20170142-SU, *In re: Application for amendment of Certificate No. 137-S for extension of wastewater service territory in Brevard County, by Merritt Island Utility Company, Inc.*

<sup>4</sup>Order No. PSC-08-0760-PAA-SU, issued November 17, 2008, in Docket No. 080104-SU, *In re: Application for staff-assisted rate case in Brevard County by Colony Park Utilities, Inc.*

## STAFF REPORTS AND UTILITY APPLICATION

The results of staff's preliminary investigation are contained in a staff report dated October 14, 2019. Copies of the report may be examined by interested members of the public at the following location:

Merritt Island Public Library  
1195 N. Courtenay Parkway  
Merritt Island, Florida 32953

## PROCEDURES AFTER CUSTOMER MEETING

After the customer meeting, Commission staff will prepare a recommendation which is tentatively scheduled to be submitted to the Commission on February 20, 2020. The Commission is tentatively scheduled to vote on staff's recommendation at its March 3, 2020 Commission Conference. The Commission will thereafter issue a proposed agency action (PAA) order containing rates which may be different from those contained in staff's recommendation. Substantially affected persons have 21 days from the date that the PAA order is issued to protest the Commission's PAA order. Customers may obtain all documents in this docket, including staff's recommendation and the PAA order at the Clerk's Office "Dockets" page at the Commission's website: (<http://www.floridapsc.com/ClerkOffice/Docket>). Enter the docket number (20190116) and select "Search" then select "Document Filings Index" to bring up all documents in the docket.

## HOW TO CONTACT THE COMMISSION

Written comments regarding the Utility and the proposed rates, and requests to be placed on the mailing list for this case, may be directed to this address:

Director, Office of Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

All correspondence should refer to "**Docket No. 20190116-SU, Merritt Island Utility Company**" Your letter will be placed in the correspondence file of this docket. You may also submit comments through the Florida Public Service Commission's email at [clerk@psc.state.fl.us](mailto:clerk@psc.state.fl.us), or the Commission's website available at <https://secure.floridapsc.com/ClerkOffice/EfilingPublic>.

If you wish to contact the Commission regarding complaints about service, you may call the Commission's Office of Consumer Assistance and Outreach at the following toll-free number: 1-800-342-3552 or submit a complaint form online at <http://www.floridapsc.com/ConsumerAssistance/ComplaintForm>.

This notice was prepared by Commission staff for distribution by the Utility to its customers.

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:** October 14, 2019

**TO:** Mark A. Cicchetti, Chief of Finance, Tax & Cost Recovery, Division of Accounting & Finance

**FROM:** Division of Accounting and Finance (Wilson, T. Brown)  
Division of Economics (Sibley, Hudson)  
Division of Engineering (Doehling, M. Watts)  
Office of the General Counsel (Dziechciarz)

**RE:** Docket No. 20190116-SU – Application for staff-assisted rate case in Brevard County, and request for interim rate increase by Merritt Island Utility Company.

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**--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

Merritt Island Utility Company, Inc. (Merritt Island or Utility) is a Class C wastewater system serving approximately 141 residential customers and 1 general service bulk customer. Water service is provided by the City of Cocoa. According to the Utility's 2018 Annual Report, total gross revenues were \$65,442 and total operating expenses were \$73,250, resulting in a net operating loss of \$7,808.

Mobile Home Investors, Inc. was initially granted a certificate to operate a wastewater system in existence in 1974.<sup>1</sup> The wastewater system was subsequently transferred several times.<sup>2</sup> The most recent transfer to Merritt Island was approved in 2017.<sup>3</sup> During the pendency of the transfer docket, it was discovered that the Utility was serving customers outside of its certificated territory. Consequently, Merritt Island filed an application with the Commission to amend its certificate to add territory in Brevard County, which was approved in Order No. PSC-2018-0243-FOF-SU.<sup>4</sup>

Rate base was last established for the Utility in a 2008 staff-assisted rate case (SARC).<sup>5</sup> In addition, net book value for transfer purposes was updated to reflect balances as of December 22, 2016, when the system was transferred to Merritt Island. The Utility's test year rates became effective on June 13, 2018, following approval of a 2018 price index rate adjustment.

On May 16, 2019, Merritt Island filed an application for a SARC. The Utility requested the 12-month period ended March 31, 2019, as the test year for interim and final rate purposes. The Commission approved a 5.34 percent interim increase in Order No. PSC-2019-0309-PCO-SU.

This staff report is a **preliminary** analysis of the Utility, prepared by Commission staff, to give the Utility's customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed February 20, 2020, for

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<sup>1</sup>Order No. 6365, issued December 2, 1974, in Docket No. 730391-S, *In re: Application of Mobile Home Investors, Inc., for a certificate to operate an existing sewer utility in Brevard County, Florida.*

<sup>2</sup>Order No. 7296, issued June 28, 1976, in Docket No. 750664-S, *In re: Application of Mobile Home Investors, Inc., and Colony Park Utilities, Inc. for approval of the transfer of assets and Certificate No. 137-S from the former to the latter. (Section 367.071, Florida Statutes);* Order No. PSC-03-0320-FOF-SU, issued March 6, 2003, in Docket No. 020930-SU, *In re: Application for transfer of majority organizational control of Colony Park Utilities, Inc. holder of Certificate No. 137-S in Brevard County, from Robert Warren, Lenore Warren, William Warren, and Carol Kendall to Eileen Rogow, Arthur Rogow, and Philip Young;* Order No. PSC-07-0420-FOF-SU, issued May 14, 2007, in Docket No. 060636-SU, *In re: Application for transfer of majority organizational control of Colony Park Utilities, Inc., holder of Certificate No. 137-S in Brevard County from Eileen Rogow to Michael Abramowitz;* Order No. PSC-14-0673-PAA-SU, issued December 5, 2014, in Docket No. 120285-SU, *In re: Application to transfer wastewater facilities and Certificate No. 137-S in Brevard County from Colony Park Utilities, Inc. to Colony Park Development Utilities, LLC.*

<sup>3</sup>Order No. PSC-2017-0366-PAA-SU, issued September 27, 2017, in Docket No. 20170018-SU, *In re: Application to transfer wastewater system and Certificate No. 137-S in Brevard County from Colony Park Development Utilities, LLC to Merritt Island Utility Company, Inc.*

<sup>4</sup>Order No. PSC-2018-0243-FOF-SU, issued May 10, 2018, in Docket No. 20170142-SU, *In re: Application for amendment of Certificate No. 137-S for extension of wastewater service territory in Brevard County, by Merritt Island Utility Company, Inc.*

<sup>5</sup>Order No. PSC-08-0760-PAA-SU, issued November 17, 2008, in Docket No. 080104-SU, *In re: Application for staff-assisted rate case in Brevard County by Colony Park Utilities, Inc.*

Docket No. 20190116-SU

Date: October 14, 2019

the March 3, 2020 Commission Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting which will be held on November 4, 2019. The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, and 367.121, Florida Statutes (F.S.).

## Discussion of Issues

**Issue 1:** Is the quality of service provided by Merritt Island satisfactory?

**Preliminary Recommendation:** Staff's recommendation regarding quality of service will not be finalized until after the November 4, 2019 Customer Meeting. (Doehling, M. Watts)

**Staff Analysis:** Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission, in every rate case, shall make a determination of the quality of service provided by the utility by evaluating the quality of the utility's product (water) and the utility's attempt to address customer satisfaction (water and wastewater). The Rule states that the most recent chemical analyses, outstanding citations, violations, and consent orders on file with the Florida Department of Environmental Protection (DEP) and the county health department, along with any DEP and county health department officials' testimony concerning quality of service shall be considered. In addition, any customer testimony, comments, or complaints shall also be considered.

### **The Utility's Attempt to Address Customer Satisfaction**

A review of the Commission's complaint tracking system revealed two customer complaints against the Utility during the previous five-year period. Both complaints were filed by the same customer and both concerned the condition of a road and potential issues with the collection system. In response to the first complaint, dated June 6, 2017, the Utility had an employee evaluate the situation, apply a patch to the road, and explain to the customer what further repairs may be needed. The customer raised the same concern approximately 11 months after the initial complaint. The Utility responded to the customer and explained that it is continuing to evaluate a long-term solution to the issue. Merritt Island did note that it examined the patch and it appears to be stable. The Utility has not received any customer complaints aside from the two discussed above. No complaints were received by the DEP.

### **Conclusion**

Quality of service will be determined at a later date, pending review of comments made at the November 4, 2019 Customer Meeting.

**Issue 2:** Are the infrastructure and operating conditions of Merritt Island's wastewater system in compliance with DEP regulations?

**Recommendation:** Merritt Island's wastewater system is not currently in compliance with the DEP, but the Utility is working to address the issues noted by the DEP. (M. Watts)

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

### **Wastewater System Operating Condition**

Merritt Island's WWTP is a 0.070 million gallon per day (MGD) annual average daily flow (AADF) extended aeration domestic wastewater treatment plant (WWTP) consisting of aeration, secondary clarification, chlorination, and aerobic digestion of biosolids. Since acquiring the wastewater treatment system, the Utility has made several improvements to bring the system into compliance with the DEP requirements. In response to a warning letter issued by the DEP, Merritt Island is currently working to address vegetation growth in the three rapid infiltration basins (RIB). The Utility's actions in response to the warning letter are discussed in greater detail in Issue 4. The Utility is otherwise in compliance with the DEP requirements.

### **Conclusion**

Merritt Island's wastewater system is not currently in compliance with the DEP, but the Utility is working to address the issues noted by the DEP.

**Issue 3:** What are the used and useful percentages (U&U) of Merritt Island's wastewater treatment plant (WWTP) and collection system?

**Preliminary Recommendation:** Staff recommends that the WWTP and collection system be considered 100 percent U&U. Also, no adjustment to operating expenses is necessary at this time. (M. Watts)

**Staff Analysis:** Pursuant to Rule 25-30.432, F.A.C., the U&U percentage of a WWTP is based on the plant flows, growth allowance, infiltration and inflow (I&I) and the plant permitted capacity. Other factors, such as whether the service area is built out and whether the plant flows have decreased due to conservation may also be considered. The DEP permitted capacity is currently 70,000 gallons per day (gpd) based on the annual average daily flow. The collection system is composed of clay and polyvinyl chloride pipes, and two lift stations.

### **WWTP and Collection System U&U**

The Utility indicated in its application that it has 162 mobile home connections in its service area, with two vacant lots. The Utility has one bulk customer that serves 120 equivalent residential connections. During the analysis period of the previous SARC, staff conducted a field inspection and confirmed that the service area is built out.<sup>6</sup> In that same rate case, the Commission found the WWTP and collection system to be 100 percent U&U. Since that time, there have been no changes to the collection system and there are no plans for expansion. Because the service area is built out and there are no plans for expansion, staff recommends that the WWTP and collection system should be considered 100 percent U&U.

### **Infiltration and Inflow**

Typically infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas, inflow results from water entering a wastewater collection system through manholes or lift stations. For the first seven months of the test-year, the amount of wastewater was not accurately measured because of an inoperable flow meter. The situation was rectified in November 2018. Staff is in the process of collecting additional information to further evaluate I&I. Therefore, staff recommends no adjustment to operating expenses at this time.

### **Conclusion**

Staff recommends that Merritt Island's WWTP and collection system be considered 100 percent U&U. Also, staff recommends no adjustment to operating expenses at this time.

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<sup>6</sup>Order No. PSC-08-0760-PAA-SU, issued November 17, 2008, in Docket No. 20080104-SU, *In re: Application for staff-assisted rate case in Brevard County by Colony Park Utilities, Inc.*

**Issue 4:** Should the Commission approve a year-end rate base for Merritt Island Utility Company, Inc., and if so, what is the appropriate year-end wastewater test year rate base?

**Preliminary Recommendation:** Yes. The Commission should approve a year-end rate base for Merritt Island. The appropriate year-end wastewater test year rate base is \$180,953. (Wilson, T. Brown, Doehling, M. Watts)

**Staff Analysis:** The appropriate components of a Utility's rate base include utility plant in service, contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. The Utility's rates and charges were approved in a 2008 SARC.<sup>7</sup> The rates were subsequently amended through two price index increases. This utility has historically operated at an operating loss. The Utility requested the test year ended March 31, 2019, for the instant case. Commission audit staff determined that the Utility's books and records are in compliance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). A summary of each component of rate base and staff's recommended adjustments are discussed below.

### **Year-End Rate Base**

In its application, the Utility requested a year-end rate base for its wastewater system in order to have an opportunity to recover its allowed rate of return on the significant capital improvements that were made after the acquisition. These improvements represent a significant portion of the wastewater plant in service. In the transfer order, the Commission approved a net book value for wastewater plant in service of \$166,766. During the requested test year, Merritt Island made more than \$95,000 of plant investments. If an average rate base is used, the Utility will not be afforded the opportunity to recover its allowed rate of return on the new investment and will be put in the position of needing to request a subsequent SARC at a later date.

The Commission has the authority to apply a year-end rate base, but should only apply a year-end rate base in extraordinary circumstances.<sup>8</sup> Staff believes extraordinary circumstances exist in the instant case. Subsequent to the acquisition, the Utility made significant improvements to the wastewater system, which were required by the DEP. The year-end rate base will provide the Utility with an opportunity to recover the investment made to improve service quality and to provide for compensatory rates for this Utility in this rate case. The Commission has previously authorized the use of a year-end rate base in other cases involving significant test year improvements.<sup>9</sup> Therefore, staff recommends that the Commission approve a year-end wastewater rate base for Merritt Island.

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<sup>7</sup>Order No. PSC-08-0760-PAA-SU, issued November 17, 2008, in Docket No. 080104-SU, *In re: Application for staff-assisted rate case in Brevard County by Colony Park Utility, Inc.*

<sup>8</sup>*See, Citizens of Florida v. Hawkins*, (FLA.1978), 356 So. 2d 254.

<sup>9</sup>Order No. PSC-98-0763-FOF-SU, issued June 3, 1998, in Docket No. 19971182-SU, *In re: Application for staff-assisted rate case in Marion County by BFF Corp.*; Order No. PSC-00-1774-PAA-WU, issued September 27, 2000, in Docket No. 19991627-WU, *In re: Application for rate increase in Polk County by Park Water Company Inc.*; Order No. PSC-01-0323-PAA-WU, issued February 5, 2001, in Docket No. 20000580-WU, *In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Alturas Water Works)*; and Order No. PSC-02-1449-PAA-WS, issued October 21, 2002, in Docket No. 20011451-WS, *In re: Investigation of water and wastewater rates for possible overearnings by Plantation Bay Utility Co. in Volusia County*; Order No. PSC-

### **Utility Plant in Service (UPIS)**

The Utility recorded a test year UPIS balance of \$296,849. In addition to numerous plant additions that have been made by the Utility since the transfer, Merritt Island also requested pro forma consideration of an emergency pump replacement and the installation of piping to divert effluent between its rapid infiltration basins. Based on support documentation, the pump replacement was included as part of test year plant. As such, staff did not include the pump replacement in its pro forma plant calculations to avoid inclusion of duplicative costs.

The Utility is currently working with the DEP to address vegetation growth in its three rapid RIBs. Two of the three RIBs have been cleared of vegetation. The third RIB has dense growth that needs to be cleared.<sup>10</sup> Prior to bringing in the heavy equipment required to clear the vegetation, the soil in the RIB must first be dried out. Therefore, new piping was installed to divert flows from this RIB to the other two, and is included in the Utility's pro forma request. As this work is being done pursuant to a warning letter issued by the DEP, staff believes this pro forma request is prudent. As such, staff increased UPIS by \$5,813 to reflect the pro forma piping. There were no retirements associated with the piping since it did not previously exist at the ponds. Staff also made corresponding adjustments to accumulated depreciation (elsewhere in this issue), while depreciation expense and TOTI adjustments for taxes related to pro forma plant are discussed in Issue 6. Consistent with Commission practice, no averaging adjustments are applied to pro forma additions. Therefore, staff recommends that the appropriate UPIS balance is \$302,662 (\$296,849 + \$5,813).

### **Land & Land Rights**

The Utility recorded a test year land balance of \$30,479. The Commission approved a land balance of \$30,479 in the Utility's 2017 transfer docket.<sup>11</sup> There have been no additions to land since the transfer; therefore, no adjustments are necessary. Staff recommends a land and land rights balance of \$30,479.

### **Used & Useful**

As discussed in Issue 3, Merritt Island's WWTP and collection system are considered 100 percent U&U. Therefore, no U&U adjustments are necessary.

### **Accumulated Depreciation**

Merritt Island recorded a test year accumulated depreciation balance of \$161,473. Staff decreased accumulated depreciation by \$460 to reflect appropriate test year depreciation balances pursuant to Rule 25-30.140, F.A.C. In addition, staff recommends an adjustment associated with the pro forma plant project discussed above. Staff's adjustment to accumulated depreciation for pro forma plant results in an increase of \$182. Staff's adjustments to this account result in a decrease of \$278 (\$460 - \$182). Therefore, staff recommends an accumulated depreciation balance of \$161,195 (\$161,473 - \$278).

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2017-0428-PAA-WS, issued November 7, 2017, in Docket No. 20160195-WS, *In re: Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.*, and Order No. PSC-2018-0553-PAA-WS, issued November 19, 2018, in Docket No. 20180021-WU, *In re: Application for staff-assisted rate case in Highlands County by Country Walk Utilities, Inc.*

<sup>10</sup>The vegetation clearing costs are discussed in Issue 6. Two of the ponds have been completed and one is being considered as part of pro forma O&M. All three projects will be amortized over a five-year period.

<sup>11</sup>Order No. PSC-2017-0366-PAA-SU, p.6.

### **Contributions in Aid of Construction (CIAC)**

The Utility recorded a test year CIAC balance of \$23,500. Based on staff's review, no adjustment is necessary. Based on Order No. PSC-2017-0366-PAA-SU, CIAC is fully amortized. Therefore, staff recommends that the appropriate balance is \$23,500.

### **Accumulated Amortization of CIAC**

The Utility recorded a test year accumulated amortization of CIAC balance of \$23,500. Based on staff's review, no adjustment is necessary since CIAC is fully amortized. Therefore, staff recommends that the appropriate balance is \$23,500.

### **Acquisition Adjustment and Accumulated Amortization of Acquisition Adjustment**

The Utility recorded test year balances of \$175 and \$40 for an acquisition adjustment and the associated accumulated amortization, respectively. An acquisition adjustment results when the purchase price differs from the original cost of the assets (net book value) adjusted to the time of the acquisition. Pursuant to Rule 25-30.0371(3), F.A.C., the Commission determined in Docket No. 20170018-SU that a negative acquisition adjustment of \$175 shall be recognized for ratemaking purposes.<sup>12</sup> Based on the Commission's decision in that docket, the negative acquisition adjustment shall be amortized over a seven-year period from the date of issuance of the Commission order approving the transfer of assets. Therefore, staff recommends appropriate balances of \$175 and \$40 for an acquisition adjustment and the associated accumulated amortization, respectively.

### **Working Capital Allowance**

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(3), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Section 367.081(9), F.S., prohibits a utility from earning a return on the unamortized balance of rate case expense. As such, staff removed the rate case expense balance of \$496 for this calculation resulting in an adjusted O&M expense balance of \$73,139 (\$73,635 - \$496). Applying this formula approach to the adjusted O&M expense balance, staff recommends a working capital allowance of \$9,142 (\$73,139/8).

### **Rate Base Summary**

Based on the forgoing, staff recommends that the appropriate test year average rate base is \$180,953. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

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<sup>12</sup>Order No. PSC-2017-0366-PAA-SU, issued September 27, 2017, in Docket No. 20170018-SU, *In re: Application to transfer wastewater system and Certificate No. 137-S in Brevard County from Colony Park Development Utilities, LLC to Merritt Island Utility Company, Inc.*

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

**Preliminary Recommendation:** The appropriate return on equity (ROE) is 7.85 percent with a range of 6.85 percent to 8.85 percent. The appropriate overall rate of return is 7.85 percent. (Wilson, T. Brown)

**Staff Analysis:** Merritt Island's capital structure consists of \$150,000 in common equity. The Utility has no customer deposits. Audit staff determined that no test year adjustments were necessary. The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE is 7.85 percent based upon the Commission-approved leverage formula currently in effect.<sup>13</sup> Staff recommends an ROE of 7.85 percent, with a range of 6.85 percent to 8.85 percent, and an overall rate of return of 7.85 percent. The ROE and overall rate of return are shown on Schedule No. 2.

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<sup>13</sup>Order No. PSC-2019-0267-PAA-WS, issued July 1, 2019, in Docket No. 20190006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

**Issue 6:** What are the appropriate test year revenues for Merritt Island?

**Preliminary Recommendation:** The appropriate test year revenues are \$64,247. (Sibley)

**Staff Analysis:** Merritt Island recorded \$66,595 in test year revenues, which consists of \$66,595 in service revenues and no miscellaneous revenues. Based on the test year billing determinants and the service rates, staff determined service revenues should be \$64,247, which is a \$2,348 (\$66,595-\$64,247) decrease to test year service revenues. This adjustment to service revenues is due to a timing difference between the billing register and the general ledger. Staff has no adjustment to miscellaneous revenues. Staff recommends that the appropriate test year revenues are \$64,247.

**Issue 7:** What is the appropriate amount of operating expenses for Merritt Island?

**Preliminary Recommendation:** The appropriate amount of operating expense for Merritt Island is \$88,007. (Wilson, T. Brown, Doehling, M. Watts)

**Staff Analysis:** Merritt Island recorded operating expense of \$80,735 for the test year ended March 31, 2019. The test year operation & maintenance (O&M) expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made a few adjustments to the Utility's operating expenses as summarized below.

### **Operation & Maintenance Expense**

#### ***Salaries and Wages – Officers (703)***

The Utility recorded salaries and wages – officers expense of \$5,000 in the test year to reflect the president's monthly salary of \$417. According to the Utility's 2018 Annual Report, Merritt Island's officers also include an accounting manager who does not receive a salary. In addition, the Utility indicated in audit work papers that the president only receives compensation through distribution of retained earnings if there are any net operating profits from operations that are not used for continuing operations or capital improvements. As such, staff's preliminary recommendation for salaries and wages - officers expense for the test year is \$5,000.

#### ***Sludge Removal Expense (711)***

The Utility recorded sludge removal expense of \$4,000 in the test year. Supporting documentation confirming the sludge removal expense was provided. Staff made no adjustments to this account for purposes of the staff report. As such, staff's preliminary recommendation for sludge removal for the test year is \$4,000.

#### ***Purchased Power (715)***

The Utility recorded purchased power expense of \$5,764 in the test year. Supporting documentation confirming the purchased power expense was provided. Staff made no adjustments to this account. As such, staff's preliminary recommendation for purchased power for the test year is \$5,764.

#### ***Chemicals Expense (718)***

The Utility recorded chemicals expense of \$2,425 in the test year. Supporting documentation confirming the chemicals expense was provided. Staff made no adjustments to this account. As such, staff's preliminary recommendation for chemicals expense for the test year is \$2,425.

#### ***Contractual Services – Engineering (731)***

The Utility recorded contractual services – engineering expense of \$1,200. Supporting documentation confirming the expense was related to engineering work associated with the permit transfer was provided. As such, staff believes that the one-time expense should be amortized over five years, or \$240 ( $\$1,200/5$  years) per year. Staff removed \$960 ( $\$240 \times 4$ ) from this account to reflect the expense being amortized over a five-year period and included only one year's amortization in the test year.

The Utility incurred two non-recurring expense items during the test year that were not included in O&M expenses. The first expense was a non-recurring expense of \$6,221 for engineering

work on service territory maps and legal description for the new service area which was required as part of the Utility's certificate amendment in Docket No. 20170142-SU.<sup>14</sup> The expense was incurred in July 2018. Staff believes the expense should be included in O&M and amortized over five years, or \$1,244 (\$6,221/5) per year. The second expense, for DEP required pond clearing, is discussed in "Miscellaneous Expense" below. This represents an increase of \$284 (-\$960 + \$1,244) over the amount included in the test year. Therefore, staff's preliminary recommendation for contractual services - engineering expense for the test year is \$1,484 (\$1,200 + \$284).

#### ***Contractual Services – Accounting (732)***

The Utility recorded contractual services – accounting expense of \$400. Supporting documentation confirming the accounting expense was used for preparing and filing the corporate tax preparation was provided. Staff made no adjustments to accounting expense. Therefore, staff's preliminary recommendation for contractual services - accounting expense for the test year is \$400.

#### ***Contractual Services – Legal (733)***

The Utility recorded contractual services – legal expense of \$366 in the test year. Supporting documentation confirming the legal expense was provided. Staff made no adjustments to this account. As such, staff's preliminary recommendation for contractual services – legal expense for the test year is \$366.

#### ***Contractual Services – Other Expense (736)***

The Utility recorded contractual services – other expense of \$46,123 in the test year. Merritt Island receives all of its operational and administrative services under a contract with an affiliated company, U.S. Water Services Corporation (USWSC). Pursuant to the contract, Merritt Island employed the services of USWSC in distinct functions; administrative management, operation, maintenance and billing/collection of the utility. This includes management and financial oversight, wastewater system operations, maintenance, and customer service. The USWSC contract dated October 1, 2017 was originally in the amount of \$45,277. According to the Utility, this contract amount has since increased to \$47,211 as a result of annual index increases.<sup>15</sup> Staff has included the increased amount for purposes of the Staff Report since it is known, measurable, and already in effect. This represents an increase of \$1,088 (\$47,211 - \$46,123) over the amount included in the test year. Additionally, the Utility has provided substantial information related to outside contractual services which staff will analyze before making its final recommendation.<sup>16</sup> Therefore, staff's preliminary recommendation for contractual services – other expense for the test year is \$47,211.

#### ***Insurance Expense (755)***

The Utility recorded insurance expense of \$1,528 in the test year. Staff decreased this amount by \$204 based on supporting documentation provided by Merritt Island. Therefore, staff's preliminary recommendation for insurance expense for the test year is \$1,324 (\$1,528 - \$204).

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<sup>14</sup>Docket No. 20170142-SU, *In re: Application for amendment of Certificate No. 137-S for extension of wastewater service territory in Brevard County, by Merritt Island Utility Company, Inc.*

<sup>15</sup>Document No. 07318-2019, filed on August 9, 2019.

<sup>16</sup>Document No. 07318-2019.

### **Regulatory Commission Expense (765)**

The Utility did not record any regulatory commission expense in this account. Rule 25-30.433(8), F.A.C., requires that non-recurring expenses be amortized over a five-year period unless a shorter or longer period of time can be justified. Accordingly, staff increased this account by \$150 (\$750/5) to reflect the five-year amortization of the 2017 certificate transfer application filing fee.<sup>17</sup> The remaining unamortized portion of the filing fee should be recorded in Account No. 186-Miscellaneous Deferred Debits.

Regarding the instant case, 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 \$312 for postage expense, \$142 for printing expense, and \$28 for envelopes. This results in \$483 for the noticing requirement. The Utility paid a \$1,000 rate case filing fee. The Utility requested travel and lodging expense of \$250 to attend the customer meeting and \$250 to attend the Commission Conference. Based on staff's initial review, the requested travel expense appears reasonable. Based on the above, staff recommends total rate case expense of \$1,983 (\$483 + \$1,000 + \$250 + \$250), which amortized over four years is \$496. Based on the above, staff's total adjustment to this account is an increase of \$646 (\$150 + \$496). As such, staff's preliminary recommendation for regulatory commission expense is \$646.

### **Miscellaneous Expense (775)**

The Utility recorded miscellaneous expense of \$3,595. This account consists of billing fees, services performed on road repairs, transfer and permit fees, and Annual Report fees. Staff increased this account by \$46, to correct City of Cocoa (Cocoa) billing charges which were originally recorded incorrectly. The Utility also requested that staff consider an increase in the monthly charges Merritt Island incurs for the billing and collection of account receivables by Cocoa. According to support documentation, the 1.79 percent increase went into effect on October 1, 2019.<sup>18</sup> Staff believes it is appropriate to include the increase, which equates to \$88 on a yearly basis, in the current proceeding since it is known, measurable, and already in effect.

The road repairs were related to pothole repairs resulting from a cracked sewer line on LaFitte Court. The repair totaled \$943, and was a one-time occurrence. The appropriate annual amortization amount and adjustment is shown in Table 7-1.

In addition, staff believes that several adjustments need to be made to several other transfer related expenses. The \$562 expense related to the legal ad for the certificate transfer, as well as a \$100 expense for a DEP fee related to the wastewater permit transfer, should be amortized over a five-year period since they are one-time occurrences. The appropriate annual amortization amounts and adjustments are shown in Table 7-1.

A second non-recurring expense item was incurred during the test year that was not included in O&M expenses. This \$7,800 expense was incurred in February 2019 for DEP-required pond cleaning for two of the Utility's three RIBs. The Utility classified the expense as Amortization Expense – Other, but staff believes the amount should be included in O&M expense and

<sup>17</sup>Docket No. 20170018-SU, *In re: Application to transfer wastewater system and Certificate No. 137-S in Brevard County from Colony Park Development Utilities, LLC to Merritt Island Utility Company, Inc.*

<sup>18</sup>Document No. 04960-2019, filed on June 17, 2019.

amortized over five years. The Utility also indicated that an additional \$5,050 will be needed to remove vegetation from the remaining RIB.<sup>19</sup> The RIB clearing is a DEP requirement as well. Staff has included the pro forma RIB cleaning expense for purposes of the Staff Report, but notes that the expense requires additional review. The amount should be amortized over five years. The appropriate annual amortization amounts for pond cleaning are shown in Table 7-1.

**Table 7-1  
 Amortization of Misc. Expenses**

Description	Invoiced Amount	Annual Amortization*	Staff Adjustment
<u>Included in TY Misc. Expense:</u>			
Pothole Repair	\$943	\$189	(\$754)
Cert. Transfer Legal Ad	562	112	(450)
DEP Permit Transfer Fee	100	20	(80)
Total	<u>\$1,605</u>	<u>\$321</u>	<u>(\$1,284)</u>
<u>New Misc. Expense:</u>			
Completed RIB Clearing	\$7,800	\$1,560	\$1,560
Pro Forma RIB Clearing	<u>5,050</u>	<u>1,010</u>	<u>1,010</u>
Total	<u>\$12,850</u>	<u>\$2,570</u>	<u>\$2,570</u>
*Per Rule 25-30.433(8), F.A.C.			

Source: Audit Report, Utility filings, and staff calculations.

Based on the information above, staff is recommending an increase of \$1,420 (\$46 + \$88 - \$1,284 + \$2,570) to miscellaneous expense. As such, staff's preliminary recommendation for miscellaneous expense is \$5,015 (\$3,595 + \$1,420).

**Operation & Maintenance Expense Summary**

Based on the above adjustments, staff recommends that O&M expense be increased by \$3,234, resulting in total O&M expense of \$73,634. Staff's recommended adjustments to O&M expense are shown on Schedule No. 3-C.

**Depreciation Expense (Net of Amortization of CIAC and AA)**

Merritt Island recorded depreciation expense of \$6,274 during the test year. Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined test year depreciation expense to be \$7,000, resulting in an increase to this account of \$722. Staff also increased this account by \$182 to reflect the incremental increase in depreciation expense for the pro forma plant item previously discussed in Issue 3. Staff's total adjustment to depreciation expense is an increase of \$904 (\$722 + \$182). In addition, staff notes that CIAC is fully amortized and there is no amortization of CIAC.

<sup>19</sup>Document No. 05392-2019, filed on July 9, 2019.

The Utility recorded amortization of an acquisition adjustment of negative \$25. In Docket No. 20170018-SU, the Commission determined that a negative acquisition adjustment of \$175 shall be recognized for ratemaking purposes.<sup>20</sup> Based on the Commission's decision in that docket, the negative acquisition adjustment shall be amortized over a seven-year period from the date of issuance of the Commission order approving the transfer of assets. As such, the annual amortization of the negative acquisition adjustment is correctly reflected as negative \$25. Therefore, staff recommends depreciation expense of \$7,178 (\$6,274 + \$904).

### **Amortization Expense – Other**

The Utility recorded test year amortization expense – other of \$1,089 which included expense for engineering services related to service territory maps and DEP-required pond cleaning during the test year. Staff believes that both items should be included in the Utility's O&M expense based on Commission practice. The engineering expense should be reclassified to contractual services – engineering (Account No. 731) and the pond clearing reclassified to miscellaneous expense (Account No. 775). Both expenses should be amortized over a five-year period. These adjustments were discussed in O&M expenses elsewhere in this issue. As such, staff decreased this account by \$1,089.

### **Taxes Other Than Income (TOTI)**

Merritt Island recorded a TOTI balance of \$2,997 during the test year. Staff decreased the Regulatory Assessment Fees (RAFs) by \$106 to reflect the adjusted test year revenues. Staff increased this account by \$75 to reflect the incremental increase in property taxes associated with the pro forma project discussed in Issue 3. The Utility also requested consideration of pro forma taxes of \$2,652.<sup>21</sup> Prior to this year, Merritt Island had no property taxes due. Staff increased tax expense by \$2,546 to reflect the appropriate amount of property tax going forward, based on the highest amount reflected on the Utility's 2019 TRIM Notice less a four percent discount for early payment. Staff has included this increase for purposes of the Staff Report, but notes that the amount is still subject change depending on whether Brevard County makes changes to its budget or not. Staff will verify with the Brevard County Taxing Authorities prior to making its final recommendation. This results in a net increase of \$2,515 (-\$106 + \$75 + \$2,546).

In addition, as discussed in Issue 8, revenues have been increased by \$37,965 to reflect the change in revenue required to cover expenses and allow the recommended operating margin. As a result, TOTI should be increased by \$1,708 to reflect RAFs of 4.5 percent on the change in revenues. Therefore, staff recommends TOTI of \$7,221.

### **Income Tax**

The Utility is a Subchapter S Corporation and therefore did not record any income tax expense for the test year. Staff recommends no adjustment to income tax expense.

### **Operating Expenses Summary**

The application of staff's recommended adjustments to Merritt Island's test year operating expenses results in operating expenses of \$88,007. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

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<sup>20</sup>Order No. PSC-2017-0366-PAA-SU.

<sup>21</sup>Document No. 08301-2019, filed on August 21, 2019 (2019 Brevard County Trim Notice).

**Issue 8:** What is the appropriate revenue requirement for Merritt Island?

**Preliminary Recommendation:** The appropriate revenue requirement is \$102,212 resulting in an annual increase of \$37,965 (59.09 percent). (Wilson, T. Brown)

**Staff Analysis:** Merritt Island should be allowed an annual increase of \$37,965 (59.09 percent). This should allow the Utility the opportunity to recover its expenses and earn an 7.85 percent return on its investment. The calculations are shown in Table 8-1:

**Table 8-1  
Revenue Requirement**

Adjusted Rate Base	\$180,953
Rate of Return (%)	x 7.85%
Return on Rate Base	\$14,205
Adjusted O&M Expense	73,634
Depreciation Expense (Net)	7,153
Taxes Other Than Income	7,221
Revenue Requirement	\$102,212
Less Adjusted Test Year Revenues	64,247
Annual Increase	<u>\$37,965</u>
Percent Increase	<u>59.09%</u>

**Issue 9:** What are the appropriate rate structure and rates for Merritt Island's wastewater system?

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

**Staff Analysis:** Merritt Island is located in Brevard County. The Utility provides wastewater service to approximately 141 residential customers and one general service bulk customer. The general service customer is a mobile home park classified as a bulk customer. Currently, the residential wastewater rate structure consists of a uniform base facility charge (BFC) for all meter sizes and a gallonage charge with a 6,000 gallon cap per month. General service customers are billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge. The bulk service customer is billed a BFC based on the number of ERCs behind the meter and a gallonage charge with a 6,000 gallon cap per connection.

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

Consistent with Commission practice, staff allocated 50 percent of the wastewater revenue to the BFC due to the capital intensive nature of wastewater plants. In addition, it is also Commission practice to set the wastewater cap at approximately 80 percent of residential water gallons sold. The wastewater gallonage cap recognizes that not all water is returned to the wastewater system. Based on staff's review of the billing analysis, 87 percent of the gallons are captured at the 6,000 gallon consumption level. For this reason, staff recommends that the gallonage cap for residential customers remain at 6,000 gallons. Staff also recommends that the general service gallonage charge be 1.2 times greater than the residential gallonage charge, which is consistent with Commission practice. The bulk service customer's rate structure should remain a BFC based on the number of ERCs behind the meter and a gallonage charge with a 6,000 gallon cap per ERC.

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

**Issue 10:** What is the appropriate amount by which rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense?

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

**Staff Analysis:** Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the recovery period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense and the gross-up for RAFs. The total reduction is \$519.

Staff recommends that the rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period, pursuant to Section 367.081(8), F.S. Merritt Island 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 published effective date to reflect the removal of the amortized rate case expense.

**Issue 11:** Should the recommended rates be approved for Merritt Island on a temporary basis, subject to refund, 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. Merritt Island 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. (Wilson)

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

The Utility should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$25,660. 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.
2. The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

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

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

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

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

**Issue 12:** Should Merritt Island be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision?

**Preliminary Recommendation:** Yes. Merritt Island should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Merritt Island should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all applicable National Association of Regulatory Commissioners (NARUC) Uniform System of Accounts (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 providing good cause should be filed within seven days prior to the deadline. Staff should be given administrative authority to grant such an extension for up to 60 days (Wilson).

**Staff Analysis:** Merritt Island should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Merritt Island 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 providing good cause should be filed within seven days prior to the deadline. Staff should be given administrative authority to grant such an extension for up to 60 days.

**Issue 13:** Should this docket be closed?

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

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

MERRITT ISLAND UTILITY COMPANY, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 3/31/2019		DOCKET NO. 20190116-SU	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$296,849	\$5,813	\$302,662
LAND & LAND RIGHTS	30,479	0	30,479
NON-USED AND USEFUL COMPONENTS	0	0	0
CIAC	(23,500)	0	(23,500)
ACCUMULATED DEPRECIATION	(161,473)	278	(161,195)
AMORTIZATION OF CIAC	23,500	0	23,500
ACQUISITION ADJUSTMENT (AA)	(175)	0	(175)
AMORTIZATION OF AA	40	0	40
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>9,142</u>	<u>9,142</u>
WASTEWATER RATE BASE	<u>\$165,720</u>	<u>\$15,233</u>	<u>\$180,953</u>

<b>MERRITT ISLAND UTILITY COMPANY, INC.</b>		<b>SCHEDULE NO. 1-B</b>
<b>TEST YEAR ENDED 3/31/2019</b>		<b>DOCKET NO. 20190116-SU</b>
<b>ADJUSTMENTS TO RATE BASE</b>		
		<u><b>WASTEWATER</b></u>
<u><b>UTILITY PLANT IN SERVICE</b></u>		
	To reflect pro forma plant addition (No retirement).	<u>\$5,813</u>
<u><b>ACCUMULATED DEPRECIATION</b></u>		
1.	To reflect accumulated depreciation per Rule 25-30.140, F.A.C.	\$460
2.	To reflect pro forma plant depreciation.	<u>(182)</u>
	Total	<u>\$278</u>
<u><b>WORKING CAPITAL ALLOWANCE</b></u>		
	To reflect 1/8 of test year O&M expenses.	<u>\$9,142</u>

MERRITT ISLAND UTILITY COMPANY, INC.							SCHEDULE NO. 2		
TEST YEAR ENDED 3/31/2019							DOCKET NO. 20190116-SU		
SCHEDULE OF CAPITAL STRUCTURE (YEAR END)									
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	TEST YEAR BALANCE PER STAFF	ADJUSTMENTS TO RECONCILE TO RATE BASE	RECONCILED CAPITAL STRUCTURE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON STOCK	\$0	\$0	\$0						
2. RETAINED EARNINGS	0	0	0						
3. OTHER PAID IN CAPITAL	150,000	0	150,000						
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>						
TOTAL COMMON EQUITY	\$150,000	\$0	\$150,000	\$30,953	\$180,953	100.00%	7.85%	7.85%	
5. LONG-TERM DEBT	\$0	\$0	\$0	\$0	0	0.00%	0.00%	0.00%	
6. SHORT-TERM DEBT	0	0	0	<u>0</u>	0	0.00%	0.00%	0.00%	
7. PREFERRED STOCK	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
TOTAL DEBT	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
8. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	2.00%	<u>0.00%</u>	
9. TOTAL	<u>\$150,000</u>	<u>\$0</u>	<u>\$150,000</u>	<u>\$30,953</u>	<u>\$180,953</u>	<u>100.00%</u>		<u>7.85%</u>	
<b>RANGE OF REASONABLENESS</b>						<b><u>LOW</u></b>	<b><u>HIGH</u></b>		
RETURN ON EQUITY						<u>6.85%</u>	<u>8.85%</u>		
OVERALL RATE OF RETURN						<u>6.85%</u>	<u>8.85%</u>		

MERRITT ISLAND UTILITY COMPANY, INC.		SCHEDULE NO. 3-A			
TEST YEAR ENDED 3/31/2019		DOCKET NO. 20190116-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>\$66,595</u>	<u>(\$2,348)</u>	<u>\$64,247</u>	<u>\$37,965</u> 59.09%	<u>\$102,212</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	<u>\$70,400</u>	<u>\$3,234</u>	<u>\$73,634</u>	\$0	<u>\$73,634</u>
3. DEPRECIATION	<u>\$6,274</u>	<u>\$904</u>	<u>\$7,178</u>	0	<u>7,178</u>
4. AMORTIZATION - OTHER	<u>\$1,064</u>	<u>(\$1,089)</u>	<u>(\$25)</u>	0	<u>-25</u>
5. TAXES OTHER THAN INCOME	<u>\$2,997</u>	<u>\$2,515</u>	<u>\$5,512</u>	1,708	<u>7,221</u>
6. INCOME TAXES	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$80,735</u>	<u>\$3,216</u>	<u>\$83,951</u>	<u>\$4,056</u>	<u>\$88,007</u>
8. OPERATING INCOME/(LOSS)	<u>(\$14,140)</u>		<u>(\$19,704)</u>		<u>\$14,205</u>
9. WASTEWATER RATE BASE	<u>\$165,720</u>		<u>\$180,953</u>		<u>\$180,953</u>
10. RATE OF RETURN	<u>-8.53%</u>		<u>-10.89%</u>		<u>7.85%</u>

<b>MERRITT ISLAND UTILTY COMPANY, INC.</b>	<b>SCHEDULE NO. 3-B</b>
<b>TEST YEAR ENDED 3/31/2019</b>	<b>DOCKET NO. 20190116-SU</b>
<b>ADJUSTMENTS TO OPERATING INCOME</b>	
	<b><u>WASTEWATER</u></b>
<b>OPERATING REVENUES</b>	
To reflect the appropriate test year services revenues.	(\$2,348)
<b>OPERATION AND MAINTENANCE EXPENSES</b>	
1. Contractual Services – Engineering (731)	
a. To reflect appropriate 5-year amortization of permit transfer work.	(\$960)
b. To reflect appropriate 5-year amortization of service territory maps.	<u>1,244</u>
Subtotal	<u>\$284</u>
2. Contractual Services – Other (736)	
To reflect the new US Water contract amount.	<u>\$1,088</u>
3. Insurance Expenses (755)	
To reflect actual insurance expense.	<u>(\$204)</u>
4. Regulator Commission Expense (765)	
a. To reflect 5-year amortization of filing fee from transfer docket ( $\$750 \div 5$ ).	\$150
b. Allowance for rate case expense amortized over 4 years ( $\$1,983 \div 4$ ).	<u>496</u>
Subtotal	<u>\$646</u>
5. Miscellaneous Expense (775)	
a. To reflect appropriate test year billing fees.	\$46
b. To reflect pro forma adjustment to billing fees.	88
c. To reflect expense that should be amortized over 5 years.	(1,284)
d. To reflect appropriate amortization of FDEP-required pond clearing.	<u>2,570</u>
Subtotal	<u>\$1,420</u>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>	<b><u>\$3,234</u></b>
<b>DEPRECIATION EXPENSE</b>	
1. To reflect appropriate test year depreciation expense.	\$722
2. To reflect pro forma plant addition.	<u>182</u>
Total	<u>\$904</u>
<b>TAXES OTHER THAN INCOME</b>	
1. To reflect appropriate test year RAFs.	(\$106)
2. To reflect property taxes associated with pro forma plant addition.	75
3. To reflect pro forma Brevard County tax increase.	<u>2,546</u>
Total	<u>\$2,515</u>
<b>TOTAL ADJUSTMENTS TO OPERATING EXPENSES</b>	<b><u>\$5,564</u></b>

<b>MERRITT ISLAND UTILITY COMPANY, INC.</b>		<b>SCHEDULE NO. 3-C</b>	
<b>TEST YEAR ENDED 3/31/2019</b>		<b>DOCKET NO. 20190116-SU</b>	
<b>ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE</b>			
	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUST- MENT</b>	<b>TOTAL PER STAFF</b>
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(703) SALARIES AND WAGES - OFFICERS	5,000	0	5,000
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(711) SLUDGE REMOVAL	4,000	0	4,000
(715) PURCHASED POWER	5,764	0	5,764
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	2,425	0	2,425
(720) MATERIALS AND SUPPLIES	0	0	0
(731) CONTRACTUAL SERVICES - ENGINEERING	1,200	284	1,484
(732) CONTRACTUAL SERVICES - ACCOUNTING	400	0	400
(733) CONTRACTUAL SERVICES - LEGAL	366	0	366
(736) CONTRACTUAL SERVICES - OTHER	46,123	1,088	47,211
(740) RENTS	0	0	0
(750) TRANSPORTATION EXPENSE	0	0	0
(755) INSURANCE EXPENSE	1,528	(204)	1,324
(765) REGULATORY COMMISSION EXPENSE	0	646	646
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSE	<u>3,595</u>	<u>1,420</u>	<u>5,015</u>
	<u>\$70,400</u>	<u>\$3,234</u>	<u>\$73,634</u>

<b>MERRITT ISLAND UTILITY COMPANY, INC.</b>		<b>SCHEDULE NO. 4</b>		
<b>TEST YEAR ENDED MARCH 31, 2019</b>		<b>DOCKET NO. 20190116-SU</b>		
<b>MONTHLY WASTEWATER RATES</b>				
	<b>RATES AT TIME OF FILING</b>	<b>COMMISSION APPROVED INTERIM RATES</b>	<b>STAFF REC. RATES</b>	<b>4-YEAR RATE REDUC.</b>
<b><u>Residential and General Service</u></b>				
Base Facility Charge by Meter Size				
5/8" X 3/4"	\$10.91	\$11.50	\$16.66	\$0.08
3/4"	\$16.37	\$17.25	\$24.99	\$0.13
1"	\$27.28	\$28.75	\$41.65	\$0.21
1-1/2"	\$54.55	\$57.50	\$83.30	\$0.42
2"	\$87.28	\$92.00	\$133.28	\$0.68
3"	\$174.56	\$184.00	\$266.56	\$1.35
4"	\$272.75	\$287.50	\$416.50	\$2.11
6"	\$545.50	\$575.00	\$833.00	\$4.23
Charge per 1,000 Gallons – Residential				
All Meter Sizes	\$2.91	\$3.07	\$4.83	\$0.02
6,000 Gallon Cap				
Charge per 1,000 Gallons – General Service				
	\$3.49	\$3.68	\$5.80	\$0.03
<b><u>Bulk Service</u></b>				
Base Facility Charge – All Meter Sizes (120 ERCs)				
	\$1,309.20	\$1,380.00	\$1,999.20	\$10.15
Charge per 1,000 Gallons – Bulk Service				
720,000 Gallon Cap	\$3.49	\$3.68	\$5.80	\$0.03
<b><u>Typical Residential 5/8" X 3/4" Meter Bill Comparison</u></b>				
3,000 Gallons	\$19.64	\$20.71	\$31.15	
6,000 Gallons	\$28.37	\$29.92	\$45.64	
10,000 Gallons	\$28.37	\$29.92	\$45.64	