

State of Florida



Public Service Commission

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

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

DATE: October 24, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Ramos, Hudson) *SH ELD MR DB WRB*
Division of Accounting and Finance (D. Brown, T. Brown) *ALM JPH*
Division of Engineering (Doehling, Graves, Knoblauch) *JDE EK TB*
Office of the General Counsel (Murphy) *CM TH GP*

RE: Docket No. 20190121-WS – Application for limited proceeding rate increase in Polk County, by CHC VII, Ltd.

AGENDA: 11/05/19 –Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Clark

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

CHC VII, Ltd. (CHC or utility) is a Class C water and wastewater utility serving approximately 891 customers in Polk County. The service territory is located in the Southwest Florida Water Management District. According to the utility's 2018 annual report, operating revenues were \$107,213 for water and \$172,851 for wastewater. Operating expenses were \$131,124 for water and \$158,915 for wastewater.

On May 29, 2019, CHC filed a request for a limited proceeding increase in water rates. In its application, CHC requested recovery of costs associated with installing automatic meter reading

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(AMR) water meters. The utility requested a final revenue increase of \$27,355 (24.37 percent) for its water system. Additionally, the utility's last rate case was in 2014.¹

A customer meeting was held on September 11, 2019, in Haines City, Florida. Three customers attended and one customer spoke at the meeting. The customer's comments inquired about the nature and costs of the utility's requested meter replacement program.

This recommendation addresses CHC's requested final water rates. The Commission has jurisdiction pursuant to Sections 367.081 and 367.0822, Florida Statutes (F.S.).

¹Order No. PSC-2014-0196-PAA-WS, issued May 1, 2014, in Docket No. 20130210-WS, In re: Application for staff-assisted rate case in Polk County by CHC VII, Ltd.

Discussion of Issues

Issue 1: Should the Commission approve the utility's request for a limited proceeding?

Recommendation: The Commission should approve the utility's request for a limited proceeding rate increase as modified by staff. CHC should be allowed an annual increase of \$23,368 (20.82 percent) for water. The adjusted revenue requirement is reflected on Schedule No. 1. (Doehling, Knoblauch, D. Brown, T. Brown)

Staff Analysis: Limited proceedings generally address specific or significant changes that would adversely affect the normal operating income of the utility and are usually narrow in scope. Staff believes that CHC's case as filed is sufficiently narrow in scope to qualify for a limited proceeding. Staff also believes that CHC has met all the minimum filing requirements as set forth in Rule 25-30.445, Florida Administrative Code (F.A.C.).

Secondary Water Quality Standards

Pursuant to Rule 25-30.445(4)(o), F.A.C., utilities are required to provide a copy of all customer complaints received regarding Florida Department of Environmental Protection (DEP) secondary water quality standards during the past five years as well as a copy of the utility's most recent secondary water quality standards test results. The utility asserted it did not receive any customer complaints regarding DEP secondary water quality standards during the past five years. Also, test results provided by CHC indicated that the utility is currently passing secondary standards.

A customer meeting was held September 11, 2019, in Haines City, Florida. One customer spoke and had no concerns with the quality of CHC's product. Staff also reviewed complaints received by the Commission and DEP for the previous five years. In August 2019, the Commission received two complaints addressing concerns of foul odor. The utility responded to both complaints and was able to resolve one of the complaints by visiting the customer in person and flushing her lines of stagnant water. The other customer was not receptive and denied further assistance from the utility. The Commission received one additional consumer correspondence filed in the docket addressing concerns of four odor and gray water. Staff responded to the consumer correspondence and provided information on the Commission's practice and rate case process.

DEP received one complaint on September 14, 2014, for foul odor and black particles. DEP investigated and found that there was no chlorine residual at the customer's house and chlorine was low at the treatment plant. The operator made a repair to the chlorine injection pumps and the system was flushed to restore residual and help with any sediment in the mains. DEP conducted a sanitary survey on August 14, 2018, and determined the system to be substantially in compliance with DEP's rules and regulations.

As previously discussed, CHC has provided the necessary information to comply with Rule 25-30.445(4)(o), F.A.C. Based on review of the information provided by the utility, as well as supplemental information gathered throughout the course of this docket, staff does not believe any actions need to be taken with respect to secondary standards. In addition, staff further notes the overall quality of service for CHC's water system was considered satisfactory in the utility's last rate case in 2014.

Incremental Rate Base

The utility requested that costs related to replacing water meters across its system be included in rate base as part of this proceeding. CHC requested a rate base increase of \$232,600 to recover the cost associated with the plant additions. The appropriate plant additions and retirements, as well as corresponding adjustments to accumulated depreciation, depreciation expense, and taxes other than income (TOTI) are discussed below. Staff's recommended additions to plant are supported by invoices for the completed work. In addition, as a result of recommended changes to operating expense, the utility's working capital allowance should also be updated.

Plant Additions and Retirements

In its application, CHC stated that the existing meters are original to the system, which was constructed in the 1980s, and are likely not capturing all water usage. The utility stated that it planned to replace all of the existing meters with automatic meter reading (AMR) meters. The utility affirmed that AMR meters have been installed at Four Lakes Golf Club, Ltd. and S.V. Utilities, Ltd., which are under the same ownership as CHC.² In order to utilize existing meter reading equipment, the utility sought to purchase the same meters for the CHC system that were installed at the other two systems. The utility was unable to locate multiple vendors in the area that offered the same meters; therefore, only one quote was obtained for the project.

A quote for 894 AMR meters at a cost of \$185 per residential meter with a higher cost for larger general service meters was provided. The total cost for all AMR meters was \$209,131, which also included the costs for installation and replacement parts. As of October 17, 2019, 700 meters have been installed, and all meters are expected to be installed by the end of October. The utility proposed \$16,535 in retirements related to the meters and meter installations based on the cost reflected in the utility's books. Staff verified the amount in the utility's 2018 Annual Report and agrees with the adjustment.

The utility provided an invoice for the existing meter reading equipment that will be utilized for all of the systems under the same ownership as CHC that use AMR meters. The total cost of the meter reading equipment was allocated to each system based on the total number of lots being read by the equipment. For CHC, an amount of \$8,341 or 36 percent was allocated to the system. There were no retirements associated with the meter reading equipment system since those are new additions to the system and not replacements.

Additionally, the utility provided a quote for 225 shut-off valves totaling \$18,429, which will be installed on an as needed basis. Therefore, the total cost for the meter replacement project is \$235,901. This includes the costs of the meters, meter installations, allocation of the meter reading equipment, and shut-off valves. There were no retirements related to the curb stops (shut-off valves) were made because the Commission previously disallowed the inclusion of the cost due to lack of support. Therefore, costs associated with the curb stops are not reflected in the utility's books.

Based on Commission approval of a similar meter replacement project for Four Lakes Golf Club, Ltd., staff believes the costs presented by CHC are reasonable and recommends approval of the utility's meter replacement project. Staff's recommended plant additions and retirements are summarized in Table 1-1.

²Order No. PSC-2017-0459-PAA-WS, issued November 30, 2017, in Docket No. 20160176-WS, *In re: Application for staff-assisted rate case in Polk County by Four Lakes Golf Club, Ltd.*

Table 1-1
Summary of Requested Plant Additions

Project	Plant Additions	Retirements
Water Meter Replacement	\$209,131	(\$16,535)
Meter Reading Equipment	8,341	0
Shut-Off Valves	<u>18,429</u>	<u>0</u>
Total	<u>\$235,901</u>	<u>(\$16,535)</u>

Source: Utility's Filing and staff calculations.

Based on the plant additions described above, staff believes corresponding adjustments should also be made to accumulated depreciation, depreciation expense, and TOTI. These adjustments are discussed elsewhere in this issue.

Accumulated Depreciation

CHC requested accumulated depreciation of \$12,882 for plant additions. Staff calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, staff increased accumulated depreciation by \$2,677 to account for the plant additions and retirements recommended above. Accordingly, staff recommends an increase to accumulated depreciation of \$15,559 (\$12,882 + \$2,677).

Working Capital Allowance

Working capital is defined as the short-term, investor-supplied funds that are necessary to meet operating expenses of the utility. 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. Staff is recommending an adjustment to O&M expense resulting in a decrease to O&M expenses of \$6,624. This adjustment is discussed in the "Operating Expense" section of this recommendation. Staff also removed the unamortized balance of rate case expense pursuant to Section 367.081(9), F.S.³ Applying this formula, staff recommends a decrease to the working capital allowance of \$828.

Rate Base Summary

Based on the foregoing, staff recommends a rate base increase of \$234,097. Staff's rate base calculations are shown on Schedule No. 1.

Rate of Return

CHC consists of two mobile home parks, a golf course, and the utility. The utility does not have a separate capital structure. Rule 25-30.445(4)(e), F.A.C., requires that the weighted average cost of capital be calculated based on the most recent 12-month period and include all of the appropriate capital structure components. In its filing, CHC provided a weighted average cost of capital (rate of return) of 4.18 percent, based on a capital structure consisting of 100 percent debt using the most recent 12-month period ended December 31, 2018.

³Section 367.081(9), F.S., states, "A utility may not earn a return on the unamortized balance of the rate case expense. Any unamortized balance of rate case expense shall be excluded in calculating the utility's rate base." Therefore, staff excluded rate case expense from the working capital calculations.

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CHC's capital structure consists of long-term debt of \$41,562,940 and negative common equity of \$15,443,740. The utility does not have customer deposits. Consistent with prior Commission orders and the utility's last rate case, staff set the common equity balance at zero.⁴ Staff used the Commission-approved 11.16 percent return on equity from the utility's last rate case, with a range of 10.16 percent to 12.16 percent.⁵ Based on a capital structure of 100 percent debt, the appropriate overall rate of return is 4.18 percent.

Operating Expenses

In its petition, CHC requested an increase to operating expenses of \$17,632. The components for the operating expenses were Depreciation Expense, Regulatory Commission Expense, Meter Reading Expense, and Regulatory Assessment Fees (RAF). While TOTI was not part of the utility's calculation, staff has included a TOTI adjustment in its calculation of operating expenses to reflect the increase in property taxes based on staff's recommended plant additions.

Depreciation Expense

In its filing, the utility requested an increase in Depreciation Expense of \$13,640, which impacted three accounts (331, 334, and 340). The utility originally listed the meter reading equipment in Account 340 – Office Furniture and Equipment, but staff believes it is more appropriate to include it in Account 334 – Meters and Meter Installations. This results in a change in the depreciation rate from 16.67 percent to 5.88 percent. Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Based on staff's recommended increase in rate base, staff recommends depreciation expense of \$12,305. This results in a reduction of \$1,335 (\$13,640 - \$12,305).

Regulatory Commission Expense

In its filing, the utility initially requested \$37,750 in rate case expense, with an annual amortization expense of \$9,438.⁶ This included \$35,200 for legal fees and costs associated with legal services, \$1,000 for the filing fee, \$800 for noticing, and \$750 for travel. In response to a staff data request, the utility provided updated rate case expense showing actual rate case expense and an estimate of expenses through completion of the docket.⁷ The update reflected actual expenses of \$4,128 for legal fees, associated costs, and filing fees through August 15, 2019, with an additional \$12,068 in estimated rate case expense.

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current case. Based on its review, staff believes several adjustments to the utility's proposed rate case expense are necessary.

⁴Order No. PSC-14-0196-PAA-WS, issued May 1, 2014, in Docket No. 20130201-WS, *In re: Application for staff-assisted rate case in Polk County by CHC VII, Inc.*; Order No. PSC-2018-0591-PAA-WS, issued December 19, 2018, in Docket No. 20180063-WS, *In re: Application for limited proceeding rate increase in Polk County by Orchid Springs Development Corporation*; and Order No. PSC-08-0652-PAA-WS, issued October 6, 2008, in Docket No. 20070722-WS, *In re: Application for staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.*

⁵Order No. PSC-14-0196-PAA-WS, p.8.

⁶Document No. 04606-2019.

⁷Document No. 08865-2019, filed on September 18, 2019.

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The first adjustment relates to the utility's legal fees. CHC included \$14,408 in legal fees and associated costs to complete this limited proceeding. The utility provided invoices from Dean Mead Attorneys at Law (Dean Mead) through August 15, 2019, showing actual expenses associated with the rate case totaling \$4,128, and estimated an additional \$10,260 to complete the case. These amounts included 6.2 hours of actual time and 27 hours of time to complete the limited proceeding.

Staff reduced actual expense by \$152 (0.4 hrs. x \$380/hr.) to remove the attorney's time related to work on a deficiency, per Commission practice. Staff made no additional adjustments to actual expense. Staff notes the actual amount included the appropriate \$1,750 filing fee.⁸ Staff also made an adjustment to Dean Mead's estimate to complete the case, which included 7 hours to "Travel to and from Haines City for Customer Meeting and meet with staff, and with client." Staff notes that the Dean Mead offices are located in downtown Orlando and the customer meeting was held in Haines City, approximately 40 miles away. In addition, the customer meeting only lasted 20 minutes. As such, staff believes that 3.5 hours is appropriate for the customer meeting. This represents an hour of travel time each way, half an hour for the customer meeting, and an hour to meet with the client. Accordingly, staff believes that 3.5 hours, or \$1,330 (3.5 hrs. x \$380/hr.) should be removed from the estimate to complete the case. As such, staff recommends 23.5 hours (27 hours – 3.5 hours) total for the attorney's estimate to complete the case. Accordingly, staff believes that the appropriate amount of legal fees is \$12,926, for a total reduction of \$1,482 (\$152 + \$1,330).

The next adjustment relates to the utility's noticing costs. The utility requested \$800 for costs associated with copying and mailing the required notices. The utility is required by Rule 25-30.446, F.A.C., to provide notices of the customer meeting and notices of final rates in this case to its customers. Staff is also recommending that the utility be required to provide notice of the four-year rate reduction to its customers when the rates are reduced to remove the amortized rate case expense. For noticing, staff calculated \$1,470 for postage expense, \$624 for printing expense, and \$134 for envelopes. This results in \$2,228 (\$1,470 + \$624 + \$134) for the noticing requirement.

Staff's final adjustment relates to travel expense. The utility requested \$750 for travel expense for one utility employee to attend the customer meeting and the Commission Conference. This amount included \$200 for hotel, \$400 for auto related expense, and \$150 for meals. In response to a staff data request, travel expense was estimated at \$658, but no supporting documentation was provided. Absent support documentation, staff estimated hotel cost of \$125 for one night for one utility representative to attend the Commission Conference. Staff estimated auto expense of \$306 based on the IRS 2019 standard mileage rate and the Florida Department of Transportation's mileage calculator for travel from the utility's offices in Lakeland to Haines City to attend the customer meeting, and from the utility's offices in Lakeland to Tallahassee to attend the Commission Conference.⁹ For utility travel to the Commission Conference, staff used the \$36 per day meal allowance that State of Florida employees receive when traveling. As such,

⁸The utility's initial filing reflected a \$1,000 filing fee. Later, staff notified the utility that the actual filing was \$1,750. The utility paid the additional \$750 on June 27, 2019. The total filing fee of \$1,750 is reflected in staff's rate case expense calculation.

⁹Round-trip mileage from Lakeland to Haines City totaled 42 miles, and Lakeland to Tallahassee totaled 486 miles. The IRS standard mileage rate is \$0.58 per mile for 2019.

staff believes that \$72 (\$36/day x 2 days) for meals is appropriate. Consistent with the discussion above, staff recommends travel expense of \$503 (\$125 + \$306 + \$72).

Based on the above, staff recommends that the total rate case expense is \$15,657, which amortized over four years results in regulatory commission expense of \$3,914 ($\$15,657 \div 4$) for water. These costs and staff's adjustments are summarized below in Table 1-2.

**Table 1-2
 Appropriate Rate Case Expense**

Expense	Utility (As filed)	Adjustments	Staff Rec. RCE
Legal Services & Fees (Dean Mead)	\$36,200	(\$23,274)	\$12,926
Noticing Costs	800	1,428	2,228
Travel	<u>750</u>	<u>(247)</u>	<u>503</u>
Total	<u>\$37,750</u>	<u>(\$22,093)</u>	<u>\$15,657</u>
Four-year amortization of Rate Case Expense:	<u>\$9,438</u>	<u>(\$5,524)</u>	<u>\$3,914</u>

Source: Utility's filing and response to staff data request, and staff calculations.

Meter Reading Expense

In its filing, the utility reflected a reduction in Salary Expense of \$6,624. This is a result of the elimination of the meter reader position previously used by the utility. The calculation of this amount is shown below in Table 1-3.

**Table 1-3
 Reduction to Meter Reading Expense**

Hours reading meters annualized (42 hrs. per month)	480
Employee cost per hour (gross pay plus payroll taxes, benefits, fees)	<u>\$13.80</u>
Total salary & benefits for meter reading	<u>\$6,624</u>

Source: Document No. 04606-2019.

Taxes Other Than Income

Staff calculated the increase in property taxes based on the recommended plant additions. Because the 2019 millage rates for Polk County have not been finalized at this time, staff used the 2018 millage rate. Consistent with Commission practice, staff used the four percent discount that is available to the utility for early payment of its property taxes. Staff recommends an increase in property taxes of \$2,981.

Based on staff's recommendations above, staff is recommending an increase to expenses before RAFs of \$12,576. These calculations are shown below in Table 1-4.

Table 1-4
Expenses Before RAFs

	Per Utility	Adjustments	Staff Recommended
Depreciation Expense	\$13,640	(\$1,335)	\$12,305
Rate Case Expense	9,438	(5,524)	3,914
Meter Reading Expense	(6,624)	0	(6,624)
TOTI	<u>0</u>	<u>2,981</u>	<u>2,981</u>
Total Increase in Operating Expense	<u>\$16,454</u>	<u>(\$3,878)</u>	<u>\$12,576</u>

Source: Utility's application, staff calculations.

Regulatory Assessment Fees

Based on the above, staff is recommending a revenue increase before RAFs of \$22,361. Therefore, staff recommends that RAFs should be increased by \$1,006 (\$22,361 x 4.5 percent).

Operating Expenses Summary

Based on the above, staff is recommending an incremental increase to Operating Expenses of \$13,582 (\$12,576 + \$1,006). Staff's calculations are shown on Schedule No. 1.

Conclusion

Based on the above, staff recommends a revenue requirement increase of \$23,368. This represents an increase of 20.82 percent. The utility requested a revenue requirement increase of \$27,355, or 24.37 percent. Staff's revenue requirement calculations are shown on Schedule No. 1.

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Issue 2: What are the appropriate water rates for CHC?

Recommendation: The recommended monthly water rates are shown on Schedule No. 2. The recommended rates should be designed to produce additional revenues of \$23,368 (20.82 percent increase). The percent increase should be applied as an across-the-board increase to the existing 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 sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice. (Ramos)

Staff Analysis: Staff recommends that service rates for CHC be designed to allow the utility the opportunity to generate annual service revenues of \$135,631 for water. The annualized service revenues before the rate increase are \$112,263. This results in a 20.82 percent increase for the utility's water service revenues. The corresponding percentage increase should be applied as an across-the-board increase to the existing water rates.

Based on the above, the recommended monthly water rates are shown on Schedule No. 2. The recommended rates should be designed to produce additional revenues of \$23,368 (20.82 percent increase). The percent increase should be applied as an across-the-board increase to the existing 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 sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice

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Issue 3: What is the appropriate amount by which rates should be reduced in four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.081(8), F.S.?

Recommendation: The water rates should be reduced, as shown on Schedule No. 2, to remove rate case expense grossed-up for RAFs and amortized over a 4-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.081(8), F.S. CHC 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. (D. Brown, T. Brown, Ramos)

Staff Analysis: Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the 4-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense and the gross-up for RAFs. This results in a reduction of \$4,099.

The water rates should be reduced, as shown on Schedule No. 2, to remove rate case expense grossed-up for RAFs and amortized over a 4-year period. The decrease in rates should become effective immediately following the expiration of the 4-year rate case expense recovery period, pursuant to Section 367.081(8), F.S. CHC 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.

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Issue 4: Should the recommended rates be approved for CHC on a temporary basis, subject to refund, in the event of a protest filed by a substantially affected person or party?

Recommendation: Yes. The recommended rates should be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a substantially affected person or party. 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. 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 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. (D. Brown, T. Brown)

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 \$15,797. 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.

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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 Office of Commission Clerk 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 5: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, 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. (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 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.

CHC VII, LTD.	SCHEDULE NO. 1		
	DOCKET NO. 20190121-WS		
Water Revenue Requirement			
	<u>Per Utility</u>	<u>Adjustment</u>	<u>Staff Recommended</u>
UPIS	\$235,901	\$0	\$235,901
Retirements	(16,535)	0	(16,535)
Less: Accumulated Depreciation	12,882	2,677	15,559
Working Capital	<u>352</u>	<u>(1,180)</u>	<u>(828)</u>
Total Increase in Rate Base	<u>\$232,600</u>	<u>\$1,497</u>	<u>\$234,097</u>
Weighted Cost of Capital	4.18%		4.18%
Return on Rate Base	<u>\$9,723</u>		<u>\$9,785</u>
Depreciation Expense	\$13,640	(\$1,335)	\$12,305
Rate Case Expense	9,438	(5,524)	3,914
Meter Reading Expense	(6,624)	0	(6,624)
TOTI	0	2,981	2,981
State Income Tax	0	0	0
Federal Income Tax	0	0	0
Regulatory Assessment Fees	<u>1,178</u>	<u>(172)</u>	<u>1,006</u>
Total Operating Expenses	<u>\$17,632</u>	<u>(\$4,050)</u>	<u>\$13,582</u>
Total Revenue Increase Requested/Recommended	<u>\$27,355</u>		<u>\$23,368</u>
Annualized Revenue	\$112,263		\$112,263
Percentage Increase	24.37%		20.82%
Note (1): Limited Partnership is not subject to State Income Tax.			
Note (2): Limited partnership not taxed directly by IRS; passed through to partners.			

CHC VII, Ltd.	SCHEDULE NO. 2		
MONTHLY WATER RATES	DOCKET NO. 20190121-WS		
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" X 3/4"	\$4.55	\$5.50	\$0.17
3/4"	\$6.83	\$8.25	\$0.26
1"	\$11.38	\$13.75	\$0.43
1-1/4"	\$18.20	\$22.00	\$0.68
1-1/2"	\$22.75	\$27.50	\$0.85
2"	\$36.40	\$44.00	\$1.36
3"	\$72.80	\$88.00	\$2.72
4"	\$113.75	\$137.50	\$4.25
6"	\$227.50	\$275.00	\$8.50
8"	\$364.00	\$440.00	\$13.60
<u>Irrigation Service</u>			
All Meter Sizes	\$4.55	\$5.50	\$0.17
Charge per 1,000 gallons- Residential Service			
0-5,000 gallons	\$1.14	\$1.38	\$0.04
Over 5,000 gallons	\$1.51	\$1.82	\$0.05
Charge per 1,000 gallons- General and Irrigation Service	\$1.24	\$1.50	\$0.05
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$7.97	\$9.64	
5,000 Gallons	\$10.25	\$12.40	
8,000 Gallons	\$14.78	\$17.86	