

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 (Bethea, Hudson) <sup>SH</sup>  
Division of Accounting and Finance (D. Andrews, Norris) <sup>EJD</sup>  
Division of Engineering (Ellis, Wooten) <sup>TB</sup>  
Office of the General Counsel (Dziechciarz, Weisenfeld) <sup>OR</sup>

**RE:** Docket No. 20180202-SU – Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC.

**AGENDA:** 11/05/19 – Regular Agenda – Proposed Agency Action – Except for Issue Nos. 11, 13, and 14 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Polmann

**CRITICAL DATES:** 03/31/20 (15-Month Effective Date (SARC))

**SPECIAL INSTRUCTIONS:** None

*Handwritten notes and signatures:*  
BS  
EJD  
TB  
OR  
DAD  
ALM  
TH

## Table of Contents

<b>Issue</b>	<b>Description</b>	<b>Page</b>
	Case Background.....	3
1	Quality of Service (Wooten) .....	4
2	Operating Conditions (Wooten) .....	6
3	Used and Useful (Wooten) .....	7
4	Average Test Year Rate Base (D. Andrews, Wooten) .....	9
5	Rate of Return (D. Andrews).....	13
6	Test Year Revenues (Bethea) .....	14
7	Operating Expense (D. Andrews, Wooten) .....	15
8	Operating Ratio Methodology (D. Andrews).....	20
9	Revenue Requirement (D. Andrews) .....	21
10	Rate Structure (Bethea) .....	22
11	Rate Case Expense Rate Reduction (Bethea, D. Andrews).....	23
12	Initial Customer Deposit (Bethea).....	24
13	Temporary Rates (D. Andrews) .....	25
14	Proof of Adjustments (D. Andrews).....	27
15	Docket Closure (Dziechciarz, Weisenfeld) .....	28
	Schedule No. 1-A Wastewater Rate Base .....	29
	Schedule No. 1-B Adjustments to Rate Base .....	30
	Schedule No. 2 Schedule of Capital Structure .....	31
	Schedule No. 3-A Wastewater Operating Income .....	32
	Schedule No. 3-B Adjustments to Operating Income .....	33
	Schedule No. 3-B Adjustments to Operating Income .....	34
	Schedule No. 3-C Wastewater Operation and Maintenance Expense.....	35
	Schedule No. 4 Monthly Wastewater Rates .....	36

### **Case Background**

West Lakeland Wastewater, LLC (West Lakeland or utility) is a Class C wastewater only utility providing service to approximately 315 residential customers and one general service customer in Polk County. The City of Lakeland provides the water service to the customers and monthly billing data to the utility. Effective June 6, 2001, West Lakeland Wastewater Inc. was granted the approval of transfer for Certificate No. 515-S from ABCA, Inc.<sup>1</sup> In 2009, the utility was abandoned and appointed to Michael Smallridge as receiver of the wastewater system.<sup>2</sup> On December 9, 2014, the utility was approved for a limited proceeding rate increase.<sup>3</sup> Subsequently, those rates were amended through three price index rate adjustments and a four year rate reduction for fully amortized rate case expense. On July 30, 2018, the Commission approved the transfer of West Lakeland Wastewater Inc. to West Lakeland Wastewater LLC.<sup>4</sup> According to West Lakeland's 2018 annual report, total gross revenues were \$133,665 and total operating expenses were \$113,159.

On October 30, 2018, West Lakeland filed an application for a staff-assisted rate case (SARC). Pursuant to Section 367.0814(2), Florida Statutes (F.S.), the official filing date of the SARC has been determined to be December 31, 2018. The 12-month period ended October 31, 2018, was selected as the test year for the instant docket. West Lakeland is seeking recovery of legal expenses associated with prior dockets as well as pro forma items. The Florida Department of Environmental Protection (DEP) conducted a compliance evaluation inspection which noted three deficiencies to which the utility responded and addressed all noted deficiencies. The plant is therefore in compliance with DEP rules and regulations pursuant to Rule 25-30.433(2), Florida Administrative Code (F.A.C).

This recommendation addresses West Lakeland's proposed rates. This Commission has jurisdiction pursuant to Sections 367.081, 367.0814, and 367.091, F.S.

---

<sup>1</sup> Order No. PSC-2001-1271-PAA-SU, issued June 6, 2001, in Docket No. 010382-SU, *In re: Application for transfer of Certificate No. 515-S in Polk County from ABCA, Inc. to West Lakeland Wastewater Inc.*

<sup>2</sup> Order No. PSC-2009-0607-FOF-SU, as amended by PSC-09-0607A-FOF-SU, issued February 16, 2010, in Docket No. 20090154-SU, *In re: Notice of abandonment of wastewater system for The Village of Lakeland Mobile Home Park in Polk County, by West Lakeland Wastewater, Inc.*

<sup>3</sup> Order No. PSC-2014-0679-PAA-SU issued December 9, 2014, in Docket No. 140106-SU, *In re: Application for limited proceeding rate increase in Polk County by West Lakeland Wastewater, Inc..*

<sup>4</sup> Order No. PSC-2018-0377-PAA-SU, as amended by PSC-2018-0377-PAA-SU, issued on September 6, 2019, in Docket No. 170246-SU, *In re: Application for authority to transfer facilities and Certificate No. 515-S in Polk County from West Lakeland Wastewater, Inc. to West Lakeland Wastewater, LLC.*

## Discussion of Issues

**Issue 1:** Is the quality of service provided by West Lakeland Wastewater, LLC satisfactory?

**Recommendation:** Yes. West Lakeland has been responsive to customer complaints and is currently in compliance with the DEP; therefore, staff recommends that the quality of service be considered satisfactory. (Wooten)

**Staff Analysis:** Pursuant to Section 367.081(2)(a)1, F.S., and Rule 25-30.433(1), F.A.C., in wastewater rate cases, the Commission shall determine the overall quality of service provided by the utility. For a wastewater only utility, the determination is made from an evaluation of the utility's attempt to address customer satisfaction. The Rule further states that outstanding citations, violations, and consent orders on file with the 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 received by the Commission are also reviewed.

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

Staff reviewed the complaints filed in the Commission's Consumer Activity Tracking System (CATS), filed with the DEP, and received by the utility from September 1, 2013, through October 31, 2018. Staff performed a supplemental review of complaints filed in CATS within the period following the May 22, 2019 customer meeting. Table 1-1 below shows the number of complaints categorized by complaint type and source.

**Table 1-1  
Number of Complaints by Type and Source**

Complaint Type	CATS Record	DEP Records	Utility Records	Total
Billing Issues	7	0	8	15
Odor Issues	3	2	2	7
Equipment/Facility Condition	1	0	1	2
Total*	11	2	11	24

\*A single customer complaint may be counted multiple times if it fits into multiple categories.

The CATS recorded 11 complaints during the five years prior to the test year, the most recent from 2015. Seven complaints were related to improper billing and four were related to quality of service, all of which were resolved in a timely manner. The DEP received two complaints, in 2015 and 2016, regarding odor from the wastewater treatment plant (WWTP). The utility addressed the 2015 odor complaint to the DEP's satisfaction and the complaint was closed.<sup>5</sup> The second odor complaint was substantiated after a DEP inspection and will be more thoroughly discussed in Issue 2. The utility received 11 complaints during the past five years, one related to equipment condition concerns, two related to odor issues and eight related to billing credit inquiries, which were resolved by the utility.

---

<sup>5</sup> This complaint was a letter signed by 28 individuals complaining about an odor from the wastewater treatment plant. These signatures are comprised of both residents and non residents.

A customer meeting was held on May 22, 2019. Approximately 20 customers were in attendance and seven customers provided oral comments. At the meeting, a majority of customers cited facility odor issues, and a few customers were concerned with the condition of the facility. When West Lakeland was asked what would be done to address the concerns from the customer meeting, the utility denied a current odor issue, but proposed an odor control program. Staff notes that as the utility is currently in compliance with DEP, the proposed odor control program should only be implemented, if necessary, for future odor complaints.

**Conclusion**

West Lakeland has been responsive to customer complaints and is currently in compliance with the DEP, therefore staff recommends that the quality of service be considered satisfactory.

Date: October 24, 2019

**Issue 2:** Are the infrastructure and operating conditions of West Lakeland Wastewater, LLC wastewater system in compliance with DEP regulations?

**Recommendation:** Yes. The West Lakeland wastewater system is currently in compliance with the DEP. (Wooten)

**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**

West Lakeland's wastewater system is a Type III contact stabilization domestic wastewater treatment facility with a permitted plant capacity of 70,000 gallons per day (gpd) based on a Three-Month Rolling Average Daily Flow (3MRADF). This facility is operated to provide secondary treatment with basic disinfection. On July 17, 2019, DEP conducted a compliance evaluation inspection (CEI) designed to verify the utility's compliance with applicable requirements and schedules for chemical and biological self-monitoring programs. During the inspection, the DEP noted minor deficiencies with effluent quality, effluent disposal and the Sanitary Sewer Overflow Survey. All deficiencies were corrected, and the DEP states that as of August 26, 2019, the utility is in compliance.

As discussed in Issue 1, the DEP received two odor complaints. On March 1, 2016, the DEP noted an odor complaint regarding the wastewater facility that when investigated, was deemed accurate by the inspector. This odor complaint and confirmation was referenced during the DEP's March 4, 2016 CEI. Because of the odor emanating from the facility, the DEP determined that the utility was in violation of Rule 62-600.400(2)(a), F.A.C., and therefore out of compliance. There was no odor detected during the DEP's most recent inspection of the facility, conducted on July 19, 2019.

### **Conclusion**

The West Lakeland wastewater system is currently in compliance with the DEP.

Date: October 24, 2019

**Issue 3:** What are the used and useful percentages (U&U) of West Lakeland Wastewater, LLC WWTP and collection systems?

**Recommendation:** West Lakeland's WWTP and wastewater collection system should both be considered 100 percent U&U. Also, staff recommends that a 20.7 percent adjustment to purchased power and chemicals should be made for excessive infiltration and inflow (I&I). (Wooten)

**Staff Analysis:** The West Lakeland wastewater system was constructed in 1972. The utility's last SARC was in 2012.<sup>6</sup> The collection system is composed of polyvinyl chloride (PVC) pipes and there are three lift stations in the service area. West Lakeland's WWTP is permitted by the DEP as a 70,000 gpd facility. According to the utility, its wastewater collection system is comprised of 1,835 feet of 4-inch PVC force mains and 13,376 feet of 6-inch PVC collecting mains. There are 12 manholes present throughout the service area. Liquid chlorine disinfection is applied prior to wastewater effluent flowing into the percolation ponds and spray field.

## Used and Useful

### **Wastewater Treatment Plant**

In the utility's last SARC in 2012, the WWTP was found to be 100 percent U&U. There has been no change in service area or plant additions in the past five years and there are no plans for expansion; therefore, consistent with the Commission's decision in 2012, the WWTP should be considered 100 percent U&U.

### **Wastewater Collection**

During the previous rate case, the wastewater collection system was found to be 100 percent U&U. The service area has had no growth in the past five years or change in capacity; therefore, consistent with the Commission's decision in 2012, the collection system should be considered 100 percent U&U.

### **Infiltration and Inflow**

Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider I&I. Staff calculates the allowable infiltration based on system parameters, and calculates the allowable inflow based on water sold to customers. The sum of these amounts is the allowable I&I. Staff next calculates the estimated amount of wastewater returned from customers. The estimated return is determined by summing 80 percent of the water sold to residential customers with 90 percent of the water sold to non-residential customers. Adding the estimated return to the allowable I&I yields the maximum amount of wastewater that should be treated by the wastewater system without incurring adjustments to operating expenses. If this amount exceeds the actual amount treated, no adjustment is made. If it is less than the gallons treated, then the difference is the excessive amount of I&I. There was no adjustment made for I&I in the utility's previous rate case.

Using the pipe lengths of the utility's collection system, the infiltration allowance is calculated to be 3,027,703 gallons per year. Ten percent of the total gallons sold to customers is allowed for

---

<sup>6</sup> Order No. PSC-13-0327-PAA-SU, issued July 16, 2013, in Docket No. 120270-SU, *In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC.*

Date: October 24, 2019

inflow, which totals 2,106,070 gallons. The sum of these amounts is the total allowable I&I which is 5,133,773 gallons per year. The amount calculated for estimated return is 11,563,096 gallons per year. In order to find the total amount of wastewater allowed, the total allowable I&I and the estimated return are summed, yielding 16,696,869 gallons per year. Finally, this total is compared to the total wastewater actually treated during the test year, which is 21,060,700 gallons. The actual amount exceeds the allowable amount with an excess I&I of 4,363,831 gallons and therefore there is 20.7 percent excessive I&I. Therefore staff recommends that a 20.7 percent adjustment to purchased power and chemicals should be made for excessive I&I.

**Conclusion**

West Lakeland's WWTP and wastewater collection system should both be considered 100 percent U&U. Also, staff recommends that a 20.7 percent adjustment to purchased power and chemicals should be made for excessive infiltration and inflow.



**Issue 4:** What is the appropriate average test year rate base for West Lakeland Wastewater, LLC?

**Recommendation:** The appropriate average test year rate base for West Lakeland for ratemaking purposes is zero. (D. Andrews, Wooten)

**Staff Analysis:** The appropriate components of the utility’s rate base include utility plant in service (UPIS), land, accumulated depreciation, contributions-in-aid-of-construction (CIAC), accumulated amortization of CIAC, and working capital. The last proceeding that established balances for rate base was Docket No. 20120270-SU.<sup>7</sup> Staff selected the test year ended October 31, 2018, for the instant rate case. A summary of each component and the recommended adjustments follows.

**Utility Plant in Service (UPIS)**

The utility recorded \$274,694 for UPIS. Based on the staff audit and supporting documentation, staff recommends several adjustments to UPIS resulting in a net increase of \$492. In addition, staff decreased UPIS by \$6,470 to include an averaging adjustment. The utility also requested several pro forma plant projects, as discussed by staff below.

**Table 4-1  
 Pro Forma Plant Items**

<b>Project</b>	<b>Acct. No.</b>	<b>Description</b>	<b>Amount</b>
Rebuild Electrical and Blower Housing Building	354	Self-build, Materials List quote	\$1,176
		Retirement	(\$882)
Shut Off Valves (3 inch and 4 inch)	363	3 inch and 4 inch shut off valves (22)	\$672
Replace Pump #1	371	Replace Pump #1 at lift station	\$5,900
		Retirement	(\$4,425)
Replace Pump #2	371	Replace Pump #2 at lift station	\$5,900
		Retirement	(\$4,425)
Replace Effluent Lift Station existing Electrical Panel	380	Install new DEP rated electrical panel	\$5,591
		Retirement	(\$4,194)
New Computer	390	Purchased additional Computer	\$65
		Retirement	(\$0)
Utility Truck	391	Replacement 2018 Ford F-250 for totaled 2003 Ford Ranger	\$3,124
		Retirement	(\$250)

Source: Responses to staff data requests

The utility’s requested pro forma includes rebuilding the electrical and blower housing building, that is in a state of disrepair and must be rebuilt. The utility received two verbal estimates for replacing the electrical and blower housing building, both in excess of \$10,000. In order to

<sup>7</sup> Order No. PSC-2013-0327-PAA-SU, issued July 16, 2013, in Docket No. 20120270-SU, *In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC.*

Date: October 24, 2019

reduce utility costs, the utility has opted to self-build the electrical and blower housing building using utility staff. The materials are estimated to cost \$1,176. Staff recommends that these pro forma project costs are appropriate.

According to the utility, untimely payments by some ratepayers is a recurring problem. When a late payment occurs and after multiple warnings, the utility would cap the wastewater lines of the customer to discontinue service. Capping a customer's wastewater line involves the utility renting equipment to access the wastewater line and upon receiving a customer's payment would require an equipment rental to access the line again and restore service. In an effort to efficiently address these concerns, the utility has begun installing shut off valves on customers' wastewater lines to avoid the interruption of service revenues and the continual cost of capping and uncapping. In response to staff's data request, the utility stated that 4 shut off valves were installed between 2017 and 2018, with the intention to install the remaining 311 by the end of 2019. In a later response, the utility stated that approximately 18 shut off valves had been installed as of June 30, 2019, for a total of 22. The utility further stated no additional valves were planned to be installed between July 1, 2019, and September 1, 2019. The utility indicated that the shut off valve installation program would be a continuous process throughout 2019, but has shown little action towards completing installation of the remaining 293 shut off valves. Staff recommends that the costs for the currently installed 22 shut off valves are appropriate.

The utility recently replaced a malfunctioned pump, that required immediate replacement; and therefore, there were no bids. In an effort to accommodate future replacement needs and redundancy, a second similar pump was purchased simultaneously. The utility installed the pumps which required a new effluent lift station electrical panel also be installed. The utility received two quotes for the electrical panel, constructed with either stainless steel or fiberglass, and chose the less expensive fiberglass material for the replacement. Staff recommends that these pro forma project costs are appropriate.

The utility is requesting an additional computer for office use. The utility provided an invoice to install. The total purchase price of the computer was \$650, and it will be allocated across all of the sister utilities. Staff recommends that these pro forma project costs are appropriate.

The utility is requesting a replacement truck in this rate case, as the previous Commission-approved truck was totaled in an accident.<sup>8</sup> The utility received three quotes and chose the lowest of the 3 quotes. The total purchase price of the replacement truck is \$37,436, and it will be allocated across all of the sister utilities. The utility received an insurance payout of \$6,204 to offset the cost of the new truck. Staff netted the insurance payout and cost of the new vehicle before allocating \$3,124 ( $\$37,436 - \$6,204 * 0.10$ ) to West Lakeland.

West Lakeland requested four additional pro forma projects: a replacement lawnmower; a wastewater plant cleaning; a new van; and, a program to address the excessive infiltration and inflow. The utility withdrew its request for the wastewater plant cleaning project, and failed to provide a response to staff's data request seeking information regarding the additional projects. Without sufficient information, staff is unable to determine the appropriateness of the three

---

<sup>8</sup> Order No. PSC-13-0327-PAA-SU, issued July 16, 2013, in Docket No. 20120270-SU, *In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC*

additional pro forma projects; therefore, these projects are not included within staff's pro forma recommendation.

**Table 4-2  
 Pro Forma Plant**

<b>Acct.</b>	<b>Addition</b>	<b>Retirement</b>	<b>Dep Exp.</b>	<b>Net Plant</b>	<b>Net A/D Adj.</b>
354	\$1,176	(\$882)	\$11	\$294	(\$871)
363	672	0	19	672	19
371	5,900	(4,425)	99	1,475	(898)
371	5,900	(4,425)	99	1,475	(898)
380	5,591	(4,194)	93	1,397	(4,100)
390	65	0	4	65	4
391	<u>3,124</u>	<u>(250)</u>	<u>479</u>	<u>2,874</u>	<u>229</u>
	<u>\$22,428</u>	<u>(\$14,176)</u>	<u>\$804</u>	<u>\$8,252</u>	<u>(\$6,515)</u>

Source: Utility response to staff data requests

Staff made an adjustment increasing UPIS by \$22,428 to reflect pro forma plant additions which were offset by a decrease of \$14,176 to reflect pro forma plant retirements. Staff recommends an average UPIS balance of \$276,968 (\$274,694 + \$492 - \$6,470 + \$22,428 - \$14,176).

### **Land & Land Rights**

The utility recorded a test year land balance of \$356. Based on staff's review, no adjustments are necessary. Therefore, staff recommends that the land and land rights balance remain \$356.

### **Accumulated Depreciation**

West Lakeland recorded a test year accumulated depreciation balance of \$249,723. Staff recalculated the accumulated depreciation balance using the prescribed depreciation rates set forth in Rule 25-30.140, F.A.C., and included depreciation associated with plant additions and retirements. As a result, staff increased accumulated depreciation by \$943. Staff also made an averaging adjustment to accumulated depreciation that resulted in a decrease of \$1,538. Further, staff made corresponding adjustments to accumulated depreciation based on the pro forma plant additions and retirements resulting in an additional decrease of \$6,515. Staff's adjustments result in a net decrease to accumulated depreciation of \$7,110 (\$6,515 + \$1,538 - \$943). Staff recommends an accumulated depreciation balance of \$242,613 (\$249,723 - \$7,110).

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

The utility recorded a CIAC balance of \$221,480. Based on staff's review, no adjustment is necessary. Therefore, staff recommends that the appropriate balance is \$221,480.

### **Accumulated Amortization of CIAC**

The utility recorded a test year accumulated amortization of CIAC balance of \$132,041. Staff reduced accumulated amortization of CIAC by \$667 to make an adjustment based on composite depreciation rates. Staff also made an averaging adjustment to accumulated amortization of CIAC that resulted in a decrease of \$1,228. As such, staff recommends an accumulated amortization of CIAC balance of \$130,146 (\$132,041 - \$667 - \$1,228).

Date: October 24, 2019

**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 has removed the rate case expense balance of \$390 for this calculation resulting in an adjusted O&M expense balance of \$114,295 (\$114,685 - \$390). Applying this formula approach to the adjusted O&M expense balance, staff recommends a working capital allowance of \$14,287 ( $\$114,295 / 8$ ).

**Rate Base Summary**

Applying all of the above adjustments results in a negative rate base of \$42,335. In accordance with Commission practice, staff has adjusted the rate base to zero for ratemaking purposes.<sup>9</sup> Based on the forgoing, staff recommends that the appropriate test year average rate base is zero. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

---

<sup>9</sup> Order No. PSC-97-0540-FOF-WS, issued May 12, 1997, in Docket No. 960799-WS, *In re: Application for staff-assisted rate case in DeSoto County by Lake Suzy Utilities, Inc.*; Order No. PSC-13-0327-PAA-SU, issued July 16, 2013, in Docket No. 120270-SU, *In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC*.

**Issue 5:** What is the appropriate return on equity and overall rate of return for West Lakeland Wastewater, LLC?

**Recommendation:** The appropriate return on equity (ROE) is 10.55 percent with a range of 9.55 percent to 11.55 percent. (D. Andrews)

**Staff Analysis:** West Lakeland has negative equity and negative rate base. As discussed in Issue 8, staff is recommending the operating ratio methodology be used in this case. Although the traditional rate of return does not apply in this case due to the negative rate base, staff recommends that an ROE still be established for this utility. The appropriate ROE for the utility is 10.55 percent based upon the Commission-approved leverage formula currently in effect.<sup>10</sup> Staff recommends an ROE of 10.55 percent, with a range of 9.55 percent to 11.55 percent.

---

<sup>10</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 the wastewater system of West Lakeland Wastewater, LLC?

**Recommendation:** The appropriate test year revenues for West Lakeland are \$136,394. (Betha)

**Staff Analysis:** West Lakeland recorded total test year revenues of \$131,916, which included \$126,092 of service revenues and \$5,823 of miscellaneous revenues. Based on staff's review of the utility's billing determinants and the rates that were in effect during the test year, staff determined service revenues should be increased by \$3,924 to reflect annualized test year service revenues of \$130,016.<sup>11</sup> In addition, staff increased miscellaneous revenues by \$555 to reflect revenues collected as a result of miscellaneous services occurrences during the test year. Therefore, staff increased miscellaneous revenues by \$555 to reflect total miscellaneous revenues of \$6,378 (\$5,823 + \$555). Based on the above, the appropriate test year revenues for West Lakeland are \$136,394 (\$130,016 + \$6,378).

---

<sup>11</sup> The utility filed a 2018 Index that became effective on October 5, 2018.

Date: October 24, 2019

**Issue 7:** What is the appropriate amount of operating expense for West Lakeland Wastewater, LLC?

**Recommendation:** The appropriate amount of operating expense for West Lakeland is \$125,951. (D. Andrews, Wooten)

**Staff Analysis:** West Lakeland recorded operating expense of \$113,723 for the test year ended October 31, 2018. The test year O&M expenses have been reviewed, including invoices and other supporting documentation. Staff has made the following adjustments to the utility's operating expenses as discussed below.

### **Operation & Maintenance Expense**

#### **Salaries and Wages – Employees (701)**

Florida Utility Services 1 (FUS1) is a service company that owns and operates Commission regulated utilities, including West Lakeland. The current staffing level and salaries for FUS1 employees were last evaluated by the Commission in Order No. PSC-2018-0439-PAA-WU.<sup>12</sup> As of September 30, 2018, FUS1 now manages 14 utilities with a total of 3,114 customers. West Lakeland recorded salaries and wages – employees expense of \$21,934. Staff increased this expense by \$623 to reflect the appropriate allocations for current employees' annualized salaries. West Lakeland's allocation is 10 percent unless otherwise noted.

In addition, the utility requested the allocation of two new maintenance technicians to West Lakeland. A sister company made a similar request for two new Maintenance Technicians in Docket No. 20170230-WU; however, the Commission determined that the two Maintenance Technicians should not be allocated to Orange Land Utilities, LLC as the utility utilized contractors for the system's operations. Furthermore, staff cited the ability of the President and Operations Supervisor to provide sufficient additional field support. In the present case, West Lakeland indicated that the services provided by contractors are limited to water and wastewater operations and governmental reporting requirements. Additionally, the President has increased administrative work duties due to the increase in customers, utility systems and employees. Similarly, the Operations Supervisor has increased supervisory responsibilities that were once performed by the President.

FUS1 has changed operations from employees being assigned to a specific utility system to the Operations Supervisor assigning employees based upon work load for each of the 14 utility systems. Maintenance Technicians will be working on all of FUS1's systems, meaning all maintenance and repairs of FUS1 utility systems will be performed by FUS1 employees and other contract vendors as needed. Staff believes that the change in FUS1's operations and increased duties of both the President and Operations Supervisor necessitates additional employees to provide service to the utility systems. Staff further believes that the two additional Maintenance Technicians are needed and should be allocated to all of the FUS1's systems, including West Lakeland. Based on the requested salary of \$37,900 and the ten-percent allocation for West Lakeland, staff increased salary and wages – employees expense by \$7,580

---

<sup>12</sup> Order No. PSC-2018-0439-PAA-WU, issued August 28, 2018, in Docket No. 20170230-WU, *In re: Application for staff-assisted rate case in Pasco County by Orange Land Utilities, LLC*.

Date: October 24, 2019

(\$37,900 x 2 x 0.10) As such, staff recommends salaries and wages – employees expense of \$30,137 (\$21,934 + \$623 + \$7,580).

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

West Lakeland recorded salaries and wages – officers expense of \$7,670. In Order No. PSC-2018-0439-PAA-WU, the President was approved a salary of \$80,000.<sup>13</sup> As such, staff annualized the approved salary which results in a salaries and wages – officers expense of \$8,000 (\$80,000 x 0.10). West Lakeland's allocation is 10 percent unless otherwise noted. Therefore, staff recommends an increase of \$330 (\$8,000 - \$7,670).

### **Pensions and Benefits (704)**

West Lakeland recorded pensions and benefits expense of \$1,034. In its response to staff's second data request, the utility indicated that it incurred pensions and benefits expense in the amount of \$500 per month, allocated across all systems. The utility also indicated that the requested two new maintenance technicians would receive benefit expense at \$500 per month per person. These expenses would result in an annual pensions and benefits expense of \$1,800 (\$500 x 3 x 12 x 0.10). Therefore, staff recommends an increase of \$766 (\$1,800 - \$1,034).

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

West Lakeland recorded sludge removal expense of \$8,732. Staff decreased sludge removal expense by \$92 to remove the payment of late fees. Therefore, staff recommends sludge removal expense of \$8,640 (\$8,732 - \$92).

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

The utility recorded purchased power expense of \$10,930. Staff increased this account by \$1,108 to reflect the proper test year period and to account for provided bills not yet booked during the test year. As discussed in Issue 2, staff made an adjustment to decrease purchased power and chemical expenses by 20.7 percent for excessive I&I. This results in a decrease of \$2,492 to purchased power expense. As such, staff recommends purchased power expense of \$9,546 (\$10,930 + \$1,108 - \$2,492).

### **Fuel for Power Production Expense (716)**

West Lakeland recorded fuel for power production expense of \$105 for the test year. Staff decreased this expense by \$13 to remove power production purchases that were not substantiated with invoices. As such, staff recommends a fuel for power production expense of \$92 (\$105 - \$13).

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

The utility recorded chemicals expense of \$1,721. Staff decreased chemicals expense by \$843 to reallocate professional testing services provided by a vendor to contractual services – other expense. As discussed above and in Issue 2, staff made an adjustment to decrease purchased power and chemical expense by 20.7 percent for excessive I&I. This results in a decrease of \$182 to chemicals expense. As such, staff recommends chemicals expense of \$696 (\$1,721 - \$843 - \$182).

---

<sup>13</sup> Order No. PSC-2018-0439-PAA-WU, issued in Docket No. 20170230-WU, *In re: Application for staff-assisted rate case in Pasco County by Orange Land Utilities, LLC*.



Date: October 24, 2019

***Materials and Supplies Expense (720)***

West Lakeland recorded materials and supplies expense of \$5,025. Staff reduced materials and supplies expense by \$153 to reflect actual invoices and proper allocations for West Lakeland. Therefore, staff recommends materials and supplies expense of \$4,872 (\$5,025 - \$153).

***Contractual Services – Professional (731)***

The utility recorded contractual services - professional expense of \$504. In a letter dated September 3, 2019, the utility requested pro forma contractual services expense for accounting services. Through correspondence with the utility, staff determined that the contract accounting services would be used primarily for work related to filing the Owner's personal tax returns. The contract accounting services would also be used for reviewing annual reports. However, the utility already has contractual services included in the test year for preparing annual reports. As such, staff recommends disallowing this pro forma expense. Therefore, staff recommends contractual services – professional expense of \$504.

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

The utility recorded contractual services - other expense of \$25,007. Staff increased contractual services – other expense by \$912 to reflect the provided invoices and to reallocate the invoices mistakenly charged to chemicals expense. In its response to staff's first data request, the utility indicated that it had made an agreement with the water provider (City of Lakeland) to receive meter readings each month. The utility had contractual services expense of \$3,693 during the test year to manually read all meters. Staff reduced contractual services – other expense by \$3,693 as this expense is no longer incurred. As such, staff recommends contractual services – other expense of \$22,226 (\$25,007 + \$912 - \$3,693).

***Rent Expense (740)***

The utility recorded rent expense of \$2,087. In response to staff's third data request, the utility provided a lease for a new office beginning on February 1, 2019. The new office lease indicates \$2,700 a month for rent. After allocation, this results in an annual rent expense of \$3,240 (\$2,700 x 12 x 0.10) for West Lakeland. Therefore, staff recommends an increase of \$1,153 (\$3,240 - \$2,087).

***Transportation Expense (750)***

The utility recorded transportation expense of \$3,855. Based on staff's review, no adjustment is necessary. Therefore, staff recommends transportation expense of \$3,855.

***Insurance Expense (755)***

West Lakeland recorded insurance expense of \$5,153 for the test year. In a letter dated June 24, 2019, the utility requested pro forma expense to recover an increase in workman's comp expense. The new workman's comp policy that the utility provided indicated an annual expense of \$8,149. West Lakeland's allocation of this expense is \$815 (\$8,149 x 0.10). The utility's letter also indicated that there was \$644 in the test year for workman's comp. Staff recommends an increase to insurance expense of \$171 (\$815 – \$644) to make up the difference. Therefore, staff recommends that the appropriate insurance expense is \$5,324 (\$5,153 + \$171).

Date: October 24, 2019

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

West Lakeland recorded regulatory commission expense of \$1,500 for the filing fee for the current docket. The filing fee for the current docket is only \$1,000. Therefore, West Lakeland has applied for a refund of \$500.<sup>14</sup> Staff has calculated a total of \$1,558 in regulatory commission expense for the current docket. This amount includes the \$1,000 filing fee and \$558 in noticing costs for the instant case. On February 21, 2019, West Lakeland requested the recovery of \$190 of rate case expense for attorney fees associated with the review of staff's first data request. According to Section 367.0814(3), F.S., the Commission may not award rate case expense for the recovery of attorney fees before the initial staff report is made available to the customers. Therefore, the utility's request for the recovery of \$190 in legal fees should be denied. Pursuant to Section 367.081(8), F.S., the recommended total rate case expense of \$1,558 should be amortized over four years, as the utility did not request a different amortization period be used. This represents an annual expense of \$390 ( $\$1,558 / 4$ ). As such, staff recommends regulatory commission expense of \$390, which results in a decrease of \$1,110 ( $\$1,500 - \$390$ ).

***Bad Debt Expense (770)***

The utility recorded bad debt expense of \$1,531. Based on the utility's annual reports, bad debt expense decreased significantly after the test year. The utility reported bad debt expense of \$1,485 in 2016, \$1,531 in 2017, and \$159 in 2018. Staff recommends using a three year average to adjust for the decrease in bad debt expense. This results in bad debt expense of \$1,058 ( $\$1,485 + \$1,531 + \$159 / 3$ ), which is a decrease of \$473. Therefore, staff recommends bad debt expense of \$1,058.

***Miscellaneous Expense (775)***

The utility recorded miscellaneous expense of \$7,633. Staff decreased this account by \$462 to properly reflect the amount from provided invoices and the appropriate allocation to West Lakeland. In addition, West Lakeland has requested the recovery of deferred legal fees approved in Order No. PSC-16-0030-PAA-SU. The utility's initial request was based on legal invoices totaling \$6,250, with the last invoice dated July 31, 2015. Rule 25-30.433, F.A.C, states that nonrecurring expenses shall be amortized over a five-year period unless a shorter or longer period can be justified. West Lakeland requested an amortization period of three years because of the length of time that has passed since the fees were incurred. Upon discovery of additional invoices, the legal fees totaled \$29,017 with the last invoice dated November 30, 2017. Staff recommends a 4-year amortization period because the legal expenses were incurred over the course of four years. Additionally, these legal expenses are analogous to rate case expense, which are amortized over four years unless a longer or shorter period can be justified. Therefore, staff increased miscellaneous expense by \$7,254 ( $\$29,017 / 4$ ). In the utility's response to staff's third data request, the utility requested pro forma expense to recover repairs to a computer. The invoice provided indicated that \$128 was expensed for computer consulting. After allocation, West Lakeland's miscellaneous expense was increased by \$13 ( $\$128 \times 0.10$ ). Additionally, in reviewing pro forma plant for installation of shut off valves, staff determined that \$134 was included in expenses during the test year for West Lakeland. Therefore, staff reduced miscellaneous expense by \$134. As such, staff recommends miscellaneous expense of \$14,304 ( $\$7,633 - \$462 + \$7,254 + \$13 - \$134$ ).

---

<sup>14</sup> Document No. 00641-2019.

Date: October 24, 2019

### **Operation and Maintenance Expense Summary**

Based on the above adjustments, staff recommends that O&M expense should be increased by \$10,264, resulting in total O&M expense of \$114,685. Staff's recommended adjustments to O&M expense are shown on Schedule No. 3-C.

### **Depreciation Expense (Net of Amortization of CIAC)**

West Lakeland recorded depreciation expense of \$4,484 during the test year. Staff recalculated depreciation expense for the test year and as such, decreased the expense by \$1,408. Staff further calculated depreciation expense for the pro forma plant additions and retirements that the utility requested. These additions result in an increase of \$804. This results in a depreciation expense of \$3,880 ( $\$4,484 - \$1,408 + \$804$ ).

In addition, West Lakeland recorded amortization expense of \$3,672. Staff decreased amortization of CIAC by \$1,187 to reflect appropriate amortization expense based on composite rates. This results in an amortization expense of \$2,485 ( $\$3,672 - \$1,187$ ). Therefore, staff recommends net depreciation expense of \$1,395 ( $\$3,880 - \$2,485$ ).

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

West Lakeland recorded a TOTI balance of \$8,490 during the test year. Staff increased TOTI by \$73 to reflect the increase to annualize the director's salary, and by \$580 to reflect the increase to salaries and wages expense for the new technicians. Staff increased the Regulatory Assessment Fees (RAFs) by \$273 to reflect the adjusted test year revenues. Staff decreased property tax expense by \$65 to reflect the appropriate amount of property tax. In addition, staff increased TOTI by \$58 to reflect the appropriate business tax receipts. Staff also increased TOTI by \$73 as a corresponding adjustment to the annualized salary expense. Staff increased TOTI by \$580 to correspond to the addition of two maintenance technicians. Staff increased TOTI by \$312 corresponding to property tax for pro forma projects. This results in a net increase of \$1,231 ( $\$273 - \$65 + \$58 + \$73 + \$580 + \$312$ ).

In addition, as discussed in Issue 9, revenues have been increased by \$3,318 to reflect the change in revenue required to cover expenses and allow the recommended operating margin. As a result, TOTI should be increased by \$149 to reflect RAFs of 4.5 percent on the change in revenues. Staff's adjustments result in a net increase of \$1,380 ( $\$1,231 + \$149$ ). Therefore, staff recommends TOTI of \$9,870 ( $\$8,490 + \$1,380$ ).

### **Operating Expenses Summary**

The application of staff's recommended adjustments to West Lakeland's test year operating expenses results in operating expenses of \$125,951. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule Nos. 3-B and 3-C.

**Issue 8:** Should the Commission utilize the operating ratio methodology as an alternative method of calculating the wastewater revenue requirement for West Lakeland Wastewater, LLC and, if so, what is the appropriate margin?

**Recommendation:** Yes. The Commission should utilize the operating ratio methodology for calculating the revenue requirement for West Lakeland. The margin should be 12 percent of O&M expense. (D. Andrews)

**Staff Analysis:** Rule 25-30.4575(2), F.A.C., requires that the Commission use the operating ratio methodology if the utility's rate base is below 125 percent of O&M expenses. The rule states that the Commission will apply a margin of 12 percent when determining the revenue requirement, up to \$15,000. The operating ratio methodology will be applied when the utility's rate base is no greater than 125 percent of O&M expenses and use of the operating ratio methodology does not change the utility's qualification for a staff assisted rate case under Rule 25-30.455(1), F.A.C.

The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the utility's rate base, the revenue requirement is based on West Lakeland's operating expenses plus a margin of 12 percent. This methodology has been applied in cases in which the traditional calculation of the revenue requirement would not provide sufficient revenue to protect against potential variances in revenues and expenses. As discussed in Issues 4 and 7, staff has recommended a rate base of zero. Furthermore, the application of the operating ratio methodology does not change the utility's qualification for a staff assisted rate case. As such, West Lakeland meets the criteria for the operating ratio methodology established in Rule 25-30.4575(2), F.A.C. Therefore, staff recommends the application of the operating ratio methodology at a margin of 12 percent of O&M expense for determining the revenue requirement.

**Issue 9:** What is the appropriate revenue requirement for West Lakeland Wastewater, LLC?

**Recommendation:** The appropriate revenue requirement is \$139,713 resulting in an annual increase of \$3,318 (2.43 percent). (D. Andrews)

**Staff Analysis:** West Lakeland should be allowed an annual increase of \$3,318 (2.43 percent). The calculations are shown in Table 9-1:

**Table 9-1  
Revenue Requirement**

Adjusted O&M	\$114,685
Operating Margin (%)	x 12.00%
Operating Margin (\$15,000 Cap)	\$13,762
Adjusted O&M Expense	114,685
Depreciation Expense (Net)	1,395
Taxes Other Than Income	9,870
Income Tax	0
Revenue Requirement	\$139,713
Less Adjusted Test Year Revenues	136,395
Annual Increase	<u>\$3,318</u>
Percent Increase	<u>2.43%</u>

Date: October 24, 2019

**Issue 10:** What are the appropriate rate structure and rates for West Lakeland Wastewater, LLC system?

**Recommendation:** Staff recommends that the rate increase of 2.55 percent for wastewater should be applied as an across-the-board increase monthly to service rates. The rates, as shown on Schedule No. 4, 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 utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. 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 that notice was given within 10 days of the date of the notice. (Bethea)

**Staff Analysis:** The utility provides service to 315 residential customers and 1 general service customer. Currently, the residential wastewater rate structure consists of a uniform BFC for all meter sizes and a gallonage charge with an 6,000 gallon cap per month. The general service rate structure consists of a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge. Due to the relatively low revenue requirement increase (2.55 percent) staff recommends a continuation of the existing rate structure and the percentage increase be applied as an across-the-board increase to existing service rates. To determine the appropriate percentage increase to apply to the service rates, miscellaneous revenues should be removed from the test year revenues. The calculation is as follows:

**Table 10-1  
Service Rate Increase**

	<u>Wastewater</u>
Total Test Year Revenues	\$136,395
Less: Miscellaneous Revenues	\$6,378
Test Year Revenues from Service Rates	\$130,016
Revenues Increase	\$3,318
% Service Rate Increase (Line4 / Line 3)	2.55%

Based on the above, staff recommends that the rate increase of 2.55 percent for wastewater should be applied as an across-the-board increase to monthly service rates. The rates, as shown on Schedule No. 4, 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 utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. 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 that notice was given within 10 days of the date of the notice.

Date: October 24, 2019

**Issue 11:** 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?

**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 four-year rate case expense recovery period, pursuant to Section 367.081(8), F.S. West Lakeland 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. (Bethea, D. Andrews)

**Staff Analysis:** Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. 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 \$408.

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 four-year rate case expense recovery period, pursuant to Section 367.081(8), F.S. West Lakeland should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

**Issue 12:** What are the appropriate initial customer deposits for West Lakeland Wastewater, LLC?

**Recommendation:** The appropriate initial customer deposit is \$78 for all residential meter sizes. The initial customer deposits for all general service meter sizes should be two times the average estimated monthly bill. The approved initial customer deposits should be effective for service rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The utility should be required to collect the approved initial customer deposits until authorized to change them by the Commission in a subsequent proceeding. (Bethea)

**Staff Analysis:** Rule 25-30.311, F.A.C., provides the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the utility and, ultimately, the general body of ratepayers. An initial customer deposit ensures that the cost of providing service is recovered from the cost causer. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.<sup>15</sup> Currently, the utility has an initial customer deposit of \$40. However, this amount does not cover two months' average bills based on staff's recommended rates. The utility indicated that the average monthly residential water usage is 3,765 gallons per customer. Therefore, the average residential monthly bill based on staff's recommended rates is approximately \$39.

Staff recommends the appropriate initial customer deposit is \$78 for all residential meter sizes. The initial customer deposits for all general service meter sizes should be two times the average estimated monthly bill. The approved initial customer deposits should be effective for service rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The utility should be required to collect the approved initial customer deposits until authorized to change them by the Commission in a subsequent proceeding.

---

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



Date: October 24, 2019

**Issue 13:** Should the recommended rates be approved for West Lakeland Wastewater, LLC on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the utility?

**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. West Lakeland 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. (D. Andrews)

**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. West Lakeland 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.

West Lakeland 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 \$2,242. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

Date: October 24, 2019

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 express approval of the Commission;
- 3) The escrow account shall be an interest bearing account;
- 4) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 5) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility;
- 6) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 7) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 8) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to *Cosentino v. Elson*, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;
- 9) The account must specify by whom and on whose behalf such monies were paid.

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

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

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

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

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

**Issue 15:** Should this docket be closed?

**Recommendation:** No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the Proposed Agency Action 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, Weisenfeld)

**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 Proposed Agency Action 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.

<b>WEST LAKELAND UTILITIES, LLC.</b>		<b>SCHEDULE NO. 1-A</b>	
<b>TEST YEAR ENDED 10/31/2018</b>		<b>DOCKET NO. 20180202-SU</b>	
<b>SCHEDULE OF WASTEWATER RATE BASE</b>			
<b>DESCRIPTION</b>	<b>BALANCE PER UTILITY</b>	<b>STAFF ADJUSTMENTS TO UTIL. BAL.</b>	<b>BALANCE PER STAFF</b>
UTILITY PLANT IN SERVICE	\$274,694	\$2,274	\$276,968
LAND & LAND RIGHTS	356	0	356
ACCUMULATED DEPRECIATION	(249,723)	7,110	(242,613)
CIAC	(221,480)	0	(221,480)
AMORTIZATION OF CIAC	132,041	(1,895)	130,146
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>14,287</u>	<u>14,287</u>
RATE BASE	<u>(\$64,112)</u>	<u>\$21,777</u>	<u>(\$42,335)</u>

<b>WEST LAKELAND UTILITIES, LLC.</b>	<b>SCHEDULE NO. 1-B</b>
<b>TEST YEAR ENDED 10/31/2018</b>	<b>DOCKET NO. 20180202-SU</b>
<b>ADJUSTMENTS TO RATE BASE</b>	
<b>UTILITY PLANT IN SERVICE</b>	
1. To reduce Structures and Improvements for lack of documentation.	(\$4,798)
2. To reduce Acct. No. 360 for lack of documentation.	(830)
3. To reduce Acct. No. 361 for lack of documentation.	(2,600)
4. To increase Pumping Equipment for the unrecorded purchase of 3 pumps.	8,333
5. To increase Transportation Equipment for recalculation of plant accounts.	387
6. To reflect pro forma plant addition for electrical and blower housing rebuild to Acct. No. 354.	1,176
7. To reflect pro forma retirement of electrical and blower housing to Acct. No. 354.	(882)
8. To reflect pro forma plant addition for shut off valve installations to Acct. No. 363.	672
9. To reflect pro forma plant addition for replacement of existing pump to Acct. No. 371.	5,900
10. To reflect pro forma retirement of pumping equipment to Acct. No. 371.	(4,425)
11. To reflect pro forma plant addition for replacement of existing pump to Acct. No. 371.	5,900
12. To reflect pro forma retirement of pumping equipment to Acct. No. 371.	(4,425)
13. To reflect pro forma plant addition for replacement of existing electrical panel to Acct. No. 380.	5,591
14. To reflect pro forma retirement of electrical panel to Acct. No. 380.	(4,194)
15. To reflect pro forma addition for West Lakeland's allocation of new computer to Acct. No. 390	65
16. To reflect pro forma plant addition for West Lakeland's allocation of new truck to Acct. No. 391.	3,124
17. To reflect pro forma retirement of transportation equipment to Acct. No. 391.	(250)
18. To reflect an averaging adjustment.	<u>(6,470)</u>
Total	<u>\$2,274</u>
<b>ACCUMULATED DEPRECIATION</b>	
1. To reflect accumulated depreciation per Rule 25-30.140, F.A.C.	(\$943)
2. To reflect pro forma accumulated depreciation for pro forma plant additions and retirements.	6,515
3. To reflect an averaging adjustment.	<u>1,538</u>
Total	<u>\$7,110</u>
<b>ACCUMULATED AMORTIZATION OF CIAC</b>	
1. To adjust amortization of CIAC based on composite rates.	(\$667)
2. To reflect an averaging adjustment.	<u>(1,228)</u>
Total	<u>(\$1,895)</u>
<b>WORKING CAPITAL ALLOWANCE</b>	
To reflect 1/8 of test year O & M expenses.	<u>\$14,287</u>

WEST LAKELAND WASTEWATER, LLC. TEST YEAR ENDED 10/31/2018 SCHEDULE OF CAPITAL STRUCTURE							SCHEDULE NO. 2 DOCKET NO. 20180202-SU		
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATE ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST RATE	WEIGHTED COST	
1. LONG-TERM DEBT	\$8,921	(\$156)	\$8,765	(\$8,946)	(\$181)	0.00%	6.62%	0.00%	
2. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%	
3. PREFERRED STOCK	0	(21,854)	0	0	0	0.00%	0.00%	0.00%	
4. COMMON EQUITY	137,436	(1,088)	115,582	(117,975)	(2,393)	0.00%	10.55%	0.00%	
5. CUSTOMER DEPOSITS	3,662	0	2,574	0	2,574	100.00%	2.00%	2.00%	
6. DEFERRED INCOME TAXES	<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>	
7. TOTAL CAPITAL	<u>\$150,019</u>	<u>(\$23,098)</u>	<u>\$126,921</u>	<u>(\$126,921)</u>	<u>\$0</u>	<u>100.00%</u>		<u>2.00%</u>	
<b>RANGE OF REASONABLENESS</b>						<b><u>LOW</u></b>	<b><u>HIGH</u></b>		
RETURN ON EQUITY						<u>9.55%</u>	<u>11.55%</u>		
OVERALL RATE OF RETURN						<u>2.00%</u>	<u>2.00%</u>		

<b>WEST LAKELAND UTILITIES, LLC.</b>						<b>SCHEDULE NO. 3-A</b>
<b>TEST YEAR ENDED 10/31/2018</b>						<b>DOCKET NO. 20180202-SU</b>
<b>SCHEDULE OF WASTEWATER OPERATING INCOME</b>						
	<b>TEST YEAR PER UTILITY</b>	<b>STAFF ADJUSTMENTS</b>	<b>STAFF ADJUSTED TEST YEAR</b>	<b>ADJUSTMENT FOR INCREASE</b>	<b>REVENUE REQUIREMENT</b>	
1.	<b>OPERATING REVENUES</b>	\$131,916	\$4,479	\$136,395	\$3,318 2.43%	\$139,713
	<b>OPERATING EXPENSES:</b>					
2.	OPERATION & MAINTENANCE	\$104,421	\$10,264	\$114,685	\$0	\$114,685
3.	DEPRECIATION (NET)	812	583	1,395	0	1,395
4.	TAXES OTHER THAN INCOME	<u>8,490</u>	<u>1,231</u>	<u>9,721</u>	<u>149</u>	<u>9,870</u>
5.	<b>TOTAL OPERATING EXPENSES</b>	<u>\$113,723</u>	<u>\$12,079</u>	<u>\$125,802</u>	<u>\$149</u>	<u>\$125,951</u>
6.	<b>OPERATING INCOME/(LOSS)</b>	<u>\$18,193</u>		<u>\$10,593</u>		<u>\$13,762</u>
7.	<b>RATE BASE</b>	<u>(\$64,112)</u>		<u>(\$42,335)</u>		<u>\$0</u>
8.	<b>OPERATING RATIO</b>					<u>12.00%</u>



<b>WEST LAKELAND UTILITIES, LLC.</b>		<b>SCHEDULE NO. 3-B</b>
<b>TEST YEAR ENDED 10/31/2018</b>		<b>DOCKET NO. 20180202-SU</b>
<b>ADJUSTMENTS TO OPERATING INCOME</b>		<b>PAGE 1 OF 2</b>
<b>OPERATING REVENUES</b>		
1.	To reflect the appropriate test year services revenues.	\$3,924
2.	To reflect the appropriate test year miscellaneous service revenues.	<u>555</u>
	Total	<u>\$4,479</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>		
1.	Salaries and Wages - Employees (701)	
	a. To reflect appropriate allocation of current annualized employee salaries.	\$623
	b. To reflect the allocation of two additional maintenance technicians.	<u>7,580</u>
	Subtotal	<u>\$8,203</u>
2.	Salaries and Wages - Officers (703)	
	To reflect appropriate allocation of annualized salary and wages – officers.	<u>\$330</u>
3.	Employee Pensions and Benefits (704)	
	To reflect appropriate allocation of current annualized and pro forma employee benefits.	<u>\$766</u>
4.	Purchased Water/Purchased Sewage Treatment (710)	
	To remove late fees.	<u>(\$92)</u>
6.	Purchased Power (715)	
	To adjust for previous credits and debits to reflect proper period.	\$1,108
	To adjust for excessive I&I.	<u>(2,492)</u>
	Subtotal	<u>(\$1,384)</u>
7.	Fuel for Power Production (716)	
	To remove power production purchases that were not substantiated with invoices.	<u>(\$13)</u>
8.	Chemicals (718)	
	To remove professional testing services provided by a vendor (recorded in Acct. No. 736).	(\$843)
	To adjust for excessive I&I.	<u>(182)</u>
	Subtotal	<u>(\$1,025)</u>
9.	Materials and Supplies (720)	
	To reflect actual invoices and allocation details provided.	<u>(\$153)</u>
10.	Contractual Services - Other (736)	
	To reflect provided invoices and reallocate \$750 mistakenly charged to Acct. No. 718.	\$912
	To remove meter reading expense no longer incurred.	<u>(3,693)</u>
	Subtotal	<u>(\$2,781)</u>
11.	Rent (740)	
	To reflect new lease agreement.	<u>\$1,153</u>
12.	Insurance Expense (755)	
	To reflect new workman’s comp contract.	<u>\$171</u>
13.	Regulatory Commission Expense (765)	
	To reflect four-year amortization of rate case expense (\$1,560 / 4).	<u>(\$1,110)</u>

<b>WEST LAKELAND UTILITIES, LLC.</b>		<b>SCHEDULE NO. 3-B</b>
<b>TEST YEAR ENDED 10/31/2018</b>		<b>DOCKET NO. 20180202-SU</b>
<b>ADJUSTMENTS TO OPERATING INCOME</b>		<b>PAGE 2 OF 2</b>
14.	Bad Debt Expense (770) To reflect three year average adjustment.	<u>(\$473)</u>
15.	Miscellaneous Expense (775)	
	a. To reflect the amount from provided invoices and allocation schedules.	(\$462)
	b. To reflect the recovery of deferred legal fees amortized over four years.	7,254
	c. To reflect West Lakeland's allocation for computer consulting expense.	13
	d. To remove test year expense that is capitalized for shut off valves.	<u>(134)</u>
	Subtotal	<u>\$6,671</u>
	<b>TOTAL OPERATION AND MAINTENANCE ADJUSTMENTS</b>	<u>\$10,264</u>
	<b>DEPRECIATION EXPENSE</b>	
1.	To reflect appropriate depreciation expense.	(\$1,408)
2.	To reflect pro forma depreciation.	804
	Total	<u>(\$604)</u>
	<b>AMORTIZATION EXPENSE</b>	
	To reflect appropriate amortization expense.	<u>\$1,187</u>
	<b>TAXES OTHER THAN INCOME</b>	
1.	To reflect the appropriate test year RAFs.	\$273
2.	To reflect appropriate property taxes.	(65)
3.	To reflect appropriate business tax receipts.	58
4.	To reflect corresponding adjustment to payroll tax for annualized salaries and wages.	73
5.	To reflect corresponding adjustment to payroll tax for pro forma addition of two employees.	580
6.	To reflect corresponding adjustments for pro forma property taxes	<u>312</u>
	Total	<u>\$1,231</u>

<b>WEST LAKELAND UTILITIES, LLC.</b>		<b>SCHEDULE NO. 3-C</b>	
<b>TEST YEAR ENDED 10/31/2018</b>		<b>DOCKET NO. 20180202-SU</b>	
<b>ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE</b>			
	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUSTMENT</b>	<b>TOTAL PER STAFF</b>
(701) SALARIES AND WAGES - EMPLOYEES	\$21,934	\$8,203	\$30,137
(703) SALARIES AND WAGES - OFFICERS	7,670	330	8,000
(704) EMPLOYEE PENSIONS AND BENEFITS	1,034	766	1,800
(711) SLUDGE REMOVAL	8,732	(92)	8,640
(715) PURCHASED POWER	10,930	(1,384)	9,546
(716) FUEL FOR POWER PRODUCTION	105	(13)	92
(718) CHEMICALS	1,721	(1,025)	696
(720) MATERIALS AND SUPPLIES	5,025	(153)	4,872
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	504	0	504
(735) CONTRACTUAL SERVICES - TESTING	0	0	0
(736) CONTRACTUAL SERVICES - OTHER	25,007	(2,781)	22,226
(740) RENT	2,087	1,153	3,240
(750) TRANSPORTATION EXPENSE	3,855	0	3,855
(755) INSURANCE EXPENSE	5,153	171	5,324
(765) REGULATORY COMMISSION EXPENSE	1,500	(1,110)	390
(770) BAD DEBT EXPENSE	1,531	(473)	1,058
(775) MISCELLANEOUS EXPENSE	<u>7,633</u>	<u>6,671</u>	<u>14,304</u>
<b>TOTAL</b>	<b><u>\$104,421</u></b>	<b><u>\$10,264</u></b>	<b><u>\$114,685</u></b>

<b>WEST LAKELAND WASTEWATER, LLC.</b>		<b>SCHEDULE NO. 4</b>		
<b>TEST YEAR ENDED 10/ 31/2018</b>		<b>DOCKET NO. 20180202-SU</b>		
<b>MONTHLY WASTEWATER RATES</b>				
	<b>RATES AT TIME OF FILING</b>	<b>STAFF RECOMMENDED RATES</b>	<b>4 YEAR RATE REDUCTION</b>	
<b><u>Residential</u></b>				
Base Facility Charge - All Meter Sizes	\$15.82	\$16.22		\$0.05
Charge Per 1,000 gallons				
6,000 gallon cap	\$5.88	\$6.03		\$0.02
<b><u>General Service</u></b>				
Base Facility Charge by Meter Size				
5/8" x 3/4"	\$15.82	\$16.22		\$0.05
3/4"	N/A	\$24.33		\$0.07
1"	\$39.55	\$40.55		\$0.12
1-1/2"	\$79.08	\$81.10		\$0.25
2"	\$126.53	\$129.76		\$0.40
3"	\$253.06	\$259.52		\$0.79
4"	\$395.41	\$405.50		\$1.24
6"	\$790.83	\$811.00		\$2.48
8"	\$1,265.32	\$1,297.60		\$3.97
Charge per 1,000 gallons	\$7.05	\$7.23		\$0.02
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>				
2,000 Gallons	\$27.58	\$28.28		
4,000 Gallons	\$39.34	\$40.34		
6,000 Gallons	\$51.10	\$52.40		