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: December 29, 2021

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Hudson) JGH
Office of the General Counsel (Osborn) JSC

RE: Docket No. 20210119-SU – Application for establishment of wastewater allowance for funds prudently invested (AFPI) charges in Lake County, by Utilities, Inc. of Florida.

AGENDA: 01/11/22 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 03/19/22 (8-Month Effective Date)

SPECIAL INSTRUCTIONS: None

Case Background

Utilities, Inc. of Florida (UIF or utility) is a Class A utility providing water and wastewater services to 27 systems in the following counties: Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole. In its 2020 Annual Report, the utility reported $16,100,458 for wastewater operating revenues.

On June 24, 2021, the utility filed an application to revise its existing allowance for funds prudently invested (AFPI) charges for its system formerly known as Lake Utility Services, Inc. (LUSI), along with a tariff sheet reflecting the proposed AFPI charges. The utility is requesting to revise its existing AFPI charges for the LUSI wastewater system based on the Commission's decision in UIF's recent rate case proceeding in which the wastewater system was deemed less than 100 percent used and useful.[1] The utility's proposed AFPI tariffs were suspended by Order No. PSC-2021-0319-PCO-SU, issued August 23, 2021, in the instant docket, pending further investigation.[2] Staff sent out its first data request on July 22, 2021, and the utility provided its response on August 10, 2021. On November 15, 2021, the utility filed revised schedules to correct an error in the calculation of cost of the qualifying assets.

This recommendation addresses UIF's request to establish revised AFPI charges for its LUSI wastewater system. The Commission has jurisdiction pursuant to Sections 367.081 and 367.091, Florida Statutes (F.S.).

[1] Order No. PSC-2021-0206-FOF-WS, issued June 4, 2021, in Docket No. 20200139-WS, *In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties, by Utilities, Inc. of Florida.*

[2] Order No. PSC-2019-0546-PCO-WS, issued December 23, 2019, in Docket No. 20190189-WS, *In re: Application for establishment of wastewater allowance for funds prudently invested (AFPI) charges in Lake County.*

Discussion of Issues

Issue 1: Should UIF's request to revise its existing AFPI charges for LUSI's wastewater system be approved, and, if so, what are the appropriate AFPI charges?

Recommendation: No, UIF's request to revise its existing AFPI charges for LUSI's wastewater system should be denied. The existing tariff should be revised to reflect that the utility has no remaining equivalent residential connections (ERCs) upon which to collect AFPI charges. The tariff should remain in effect only to allow the utility to true-up any prepaid AFPI charges to coincide with the connection to the system. (Hudson)

Staff Analysis: Pursuant to Rule 25-30.434, Florida Administrative Code (F.A.C.), an AFPI charge is a mechanism which allows a utility the opportunity to earn a fair rate of return on prudently constructed plant held for future use from the future customers to be served by that plant in the form of a charge paid by those customers. The AFPI charge is calculated for one ERC on a monthly basis up to the time the utility reaches the designed capacity of the plant for which the charge applies. The charges cease when the plant has reached its designed capacity. The utility's request for revised wastewater AFPI charges is a result of its wastewater system being deemed as less than 100 percent used and useful in its last rate proceeding.

The utility's existing AFPI charges were set in March of 2020 and were based on the test year ended December 31, 2015.[3] At that time, the utility had 1,658 ERCs to reach design capacity with the utility having already collected AFPI charges for 1,542 ERCs through developer agreements. Therefore, as reflected in the order approving the current AFPI charges, the utility had 116 remaining ERCs (1,658 - 1,542) that were subject to the collection of AFPI charges.

Based on information provided in response to a staff data request, staff has determined that the utility has collected AFPI charges for the remaining 116 ERCs. While the utility has collected AFPI charges for all ERCs, some ERCs were prepaid and are not connected to the system yet. The appropriate AFPI charge is the charge in effect at the time of connection to the system.[4] For those ERCs that were prepaid and remain unconnected to date, the utility can true-up the AFPI charge to coincide with the actual date of connection. As a result, staff believes it is appropriate to leave the current tariff in effect only for purposes of a true-up. Pursuant to the current tariff, the constant maximum charge of $1,171.57 would apply until all 1,658 ERCs are connected.

In addition to the utility having collected APFI charges for all 1,658 ERCs included in the calculation, staff does not believe that the rule contemplates reestablishing AFPI for the same plant upon which AFPI has previously been set. Recalculating AFPI on the same plant is counterintuitive to the intent of AFPI. It resets the charges which are significantly lower at the beginning of the accrual period which results in the utility forgoing carrying cost that it was otherwise entitled to pursuant to the rule. Staff believes that only a plant expansion would warrant a recalculation of AFPI. UIF has not undertaken a plant expansion.

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[3] Order No. PSC-2020-0072-TRF-WS, issued March 11, 2020, *In re: Application for establishment of wastewater allowance for funds prudently (AFPI) charges in Lake County, by Utilities, Inc. of Florida*.

[4] Pursuant to Rule 25-30.434, F.A.C., a five year period is reasonable for a utility to have an investment in future use plant. An AFPI charge escalates on a monthly basis up to the end of the five year accrual period; after the five-year period the charge remains constant until all ERCs have connected.

Staff recognizes that the utility is not at design capacity based on the determination in its last rate proceeding. However, if the utility is not at design capacity, it could be a result of the demographics of the customer base such as seasonality or low average consumption. UIF’s ERC was defined as 280 gallons per day (gpd). Seasonality and/or low average consumption could result in an ERC being less gpd in actuality. This could result in the utility having remaining capacity even after all ERCs contemplated have connected to the system. Nonetheless, the calculation of UIF’s existing AFPI charges were designed to collect the cost associated with plant held for future use from 1,658 ERCs. The utility has collected AFPI for all 1,658 ERCs except for any prepaid connections that are subject to a true-up as a result of the date of connection and thus, the cost associated with the plant held for future use will be recovered as prescribed by rule. There are no additional qualifying assets that correspond to any remaining capacity even if the utility has the potential to serve. Granting AFPI based on the non-used and useful in its last rate proceeding would result in double recovery.

Based on the above, UIF’s request to revise its existing AFPI charges for LUSI’s wastewater system should be denied. The existing tariff should be revised to reflect that the utility has no remaining ERCs upon which to collect AFPI charges at this time. The tariff should remain in effect only to allow the utility to true-up any prepaid AFPI charges to coincide with the connection to the system.

Issue 2: Should this docket be closed?

Recommendation: If Issue 1 is approved and a protest is filed within 21 days of the issuance of the order, the proposed tariff should be placed into effect, subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Osborn)

Staff Analysis: If Issue 1 is approved and a protest is filed within 21 days of the issuance of the order, the proposed tariff should be placed into effect, subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.