

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: September 24, 2021

TO: Elisabeth Draper, Bureau Chief, Economic Impact and Rate Design

FROM: Division of Economics (Bethea) [JGH](#)
Division of Accounting and Finance (D. Brown, Casper, Richards) [ALM](#)
Division of Engineering (Lewis) [TB](#)

RE: Docket No. 20210055-WU – Application for staff-assisted rate case in Lake County by Brendenwood Waterworks, Inc.

– STAFF REPORT –

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting scheduled for October 20, 2021.

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Case Background

Brendenwood Waterworks Inc. (Brendenwood or utility) is a Class C utility which is currently providing water service to approximately 59 customers. Brendenwood is located in the St. Johns River Water Management District (SJRWMD). According to the utility's 2020 Annual Report, Brendenwood's operating revenues were \$28,510 and operating expenses were \$27,370.

Certificate No. 339-W was originally granted in 1981.¹ In 1990, the Commission approved a transfer of majority organizational control² and an amendment to include additional territory.³ In 2003, the Commission approved a name change from Brendenwood Water System to Brendenwood Water Systems, Inc.⁴ In 2004, the Commission approved a transfer of majority organizational control.⁵ In 2005, the Commission approved an amendment to include additional territory.⁶ In 2011, the Commission approved an application to transfer the utility from Brendenwood Water Systems, Inc. to Brendenwood Utilities, LLC.⁷ In 2015, the Commission approved an application to transfer the utility from Brendenwood Utilities, LLC. to Brendenwood Waterworks, Inc. In 2017, the utility's rates were reduced as a result of an overearnings investigation.⁸ Subsequent to the reduction in rates, Brendenwood's rates have been increased by two price index rate adjustments in 2018 and 2019. On March 16, 2021, Brendenwood filed an application for a staff-assisted rate case (SARC) and paid the appropriate filing fee on April 26, 2021.⁹ The test year is established as the year ended December 31, 2020.

This Staff Report is a preliminary analysis of the utility prepared by the Commission staff to give utility customers and the utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed December 22, 2021, for the

¹ Order No. 10184, issued August 5, 1981, in Docket No. 810079-W, *In re: Application of Brendenwood Water System for a certificate to operate a water utility in Lake County, Florida, pursuant to Section 367.041, Florida Statutes.*

² Order No. 22425, issued January 17, 1990, in Docket No. 891121-WU, *In re: Application for transfer of ownership of Brendenwood Water System in Lake County from Robert S. Hanks, Jerry L. Rogers and Daniel H. Judy to Paul E. Day.*

³ Order No. 22398, issued January 19, 1990, in Docket No. 891122-WU, *In re: Application of Brendenwood Water System for amendment of Certificate No. 339-W in Lake County.*

⁴ Order No. PSC-03-0118-FOF-WU, issued January 21, 2003, in Docket No. 020996-WU, *In re: Application for name change on Certificate No. 339-W in Lake County from Brendenwood Water System to Brendenwood Water Systems, Inc.*

⁵ Order No. PSC-04-1054-PAA-WU, issued October 27, 2004, in Docket No. 040276-WU, *In re: Application for transfer of majority organizational control of Brendenwood Water System, Inc., holder of Certificate No. 339-W in Lake County, from Paul E. Day to Deborah J. Miller.*

⁶ Order No. PSC-05-0678-FOF-WU, issued June 20, 2005, in Docket No. 050255-WU, *In re: Application for "quick take" amendment of Certificate No. 339-W in Lake County by Brendenwood Water System, Inc.*

⁷ Order No. PSC-11-0552-FOF-WU, issued December 7, 2011, in Docket No. 110255-WU, *In re: Application for approval of transfer of Brendenwood Water System, Inc., and application for certificate to operate water utility in Lake County, by Brendenwood Utilities, LLC.*

⁸ Order No. PSC-2017-0481-PAA-WU, issued December 21, 2017, in Docket No. 20170247-WU, *In re: Joint motion requesting Commission approval of settlement agreement by the Office of Public Counsel, Black Bear Waterworks, Inc., Brendenwood Waterworks, Inc., Brevard Waterworks, Inc., Country Walk Utilities, Inc., Harbor Waterworks, Inc., Lake Idlewild Utility Company, Raintree Waterworks, Inc., and Sunny Hills Utility Company.*

⁹ Order No. PSC-14-0691-PAA-WU, issued December 15, 2014, in Docket No. 140120-WU, *In re: Application for approval of transfer of Certificate No. 339-W from Brendenwood Utilities, LLC. to Brendenwood Waterworks, Inc. in Lake County.*

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January 4, 2022 Commission Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting. The Commission has jurisdiction pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, 366.091 and 367.121, Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Is the quality of service provided by Brendenwood satisfactory?

Preliminary Recommendation: Staff's recommendation regarding quality of service will not be finalized until after the October 20, 2021 customer meeting. (Lewis)

Staff Analysis: Pursuant to Section 367.081(2)(a), F.S., and Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission, in every rate case, shall make a determination of the quality of service provided by the utility by evaluating the quality of the utility's product (water) and the utility's attempt to address customer satisfaction (water and wastewater). The Rule states that the most recent chemical analyses, outstanding citations, violations, and consent orders on file with the state's Department of Environmental Protection (DEP) and the county health departments, along with any DEP and county health department officials' testimony concerning quality of service shall be considered. In addition, any customer testimony, comments, or complaints shall also be considered. The operating condition of the water system is addressed in Issue 2.

Quality of Product

In evaluating Brendenwood's product quality, staff reviewed the utility's compliance with the DEP primary and secondary drinking water standards. Primary standards protect public health, while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water. The most recent chemical analyses were performed on February 24, 2021, and the results were in compliance with the DEP's standards. These chemical analyses are performed every three years; therefore, the next scheduled analysis should be completed in 2024.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the complaints filed in the Commission's Consumer Activity Tracking System for the test year and four years prior. The Commission received one complaint in August 2016, regarding a higher than expected bill. The utility responded to the customer, conducted a meter test, which indicated the meter was working properly, and offered to adjust the customer's bill, which the customer accepted. As a result, this complaint was closed. The DEP received one customer inquiry during the same five-year period in February 2020, regarding the utility's compliance with drinking water standards. The customer was provided instructions on how to search the DEP's website in order to review the utility's compliance history and the inquiry was subsequently closed.

The utility reported receiving fifty-one complaints directly from its customers during the five-year period. The complaints concerned issues with: meter readings (7), condition of the meter (3), low water pressure or no water (19), water main breaks (2), leaks at the meter or on the customer's side (15), and water quality (5). The complaints were investigated and closed by the utility.

Conclusion

Staff's recommendation regarding quality of service will not be finalized until after the October 20, 2021 customer meeting.

Issue 2: Are the infrastructure and operating condition of Brendenwood's water system in compliance with the DEP regulations?

Preliminary Recommendation: Staff's recommendation regarding the DEP compliance will not be finalized until after the October 20, 2021 customer meeting. (Lewis)

Staff Analysis: Rule 25-30.225(2), F.A.C., requires each water and 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, sanitary surveys for water systems and compliance evaluation inspections for wastewater systems, citations, violations, and consent orders issued to the utility, customer testimony, comments, and complaints, and utility testimony and responses to the aforementioned items.

Water System Operating Conditions

Brendenwood's water system has a permitted design capacity of 108,000 gallons per day (gpd). The utility's water system is supplied by one well with a rated pumping capacity of 150 gallons per minute (gpm). The treated water is pumped into a 3,000 gallon hydropneumatic storage tank before entering the distribution system. Staff reviewed the Sanitary Survey conducted by the DEP on January 30, 2019. The water treatment plant (WTP) was in compliance with no deficiencies indicated. A review of DEP's records did not show any warning letters or consent orders issued to the utility.

Conclusion

Staff's recommendation regarding the DEP compliance will not be finalized until after the October 20, 2021 customer meeting.

Issue 3: What are the used and useful (U&U) percentages for Brendenwood's WTP and water distribution system?

Preliminary Recommendation: Brendenwood's WTP and water distribution system should be considered 100 percent U&U. Additionally, there appears to be no excessive unaccounted for water (EUW); therefore, staff recommends that no adjustment be made to operating expenses for chemicals and purchased power at this time. These are preliminary determinations and are subject to change. (Lewis)

Staff Analysis: Brendenwood's WTP consists of one well at a rated pumping capacity of 150 gpm. The utility's water system does not have a storage tank, but has one hydropneumatic tank totaling 3,000 gallons in capacity. The distribution system is composed of approximately 3,550 feet of 2 inch and 3,350 feet of 4 inch polyvinyl chloride pipes.

Water Treatment Plant Used & Useful

Rule 25-30.4325(4), F.A.C., states that a water treatment system is considered 100 percent used and useful if the service territory the system is designed to serve is built out and there is no apparent potential for expansion of the service territory or the system is served by a single well. The utility has shown no growth in customers and appears to be built out. Brendenwood is also served by a single well. Further, in the utility's previous rate case, the Commission deemed the water treatment plant 100 percent U&U.

Water Distribution System Used and Useful

The water distribution system is evaluated based on equivalent residential connections (ERCs) consisting of growth, customer demand, and system capacity. During the test year, 59 customers were being served. The utility provided system maps that indicated there are only 59 lots in the development/service territory. Therefore, the service territory should be considered built out. The Commission previously deemed the U&U of the distribution system as 100 percent. Considering all of the water mains are required to adequately serve the existing customers, and consistent with prior Commission practice, staff recommends the distribution system be considered 100 percent U&U.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., additionally provides factors to be considered in determining whether adjustments to operating expenses are necessary for EUW. EUW is defined as "unaccounted for water in excess of 10 percent of the amount produced." Unaccounted for water is all water produced that is not sold, metered, or accounted for in the records of the utility. A review of the utility's Monthly Operating Reports, 2020 Annual Report, and audited billing data indicate that Brendenwood treated 7,596,497 gallons and sold 6,895,000 gallons with 353,000 gallons used for flushing during the test year. The resulting calculation $([7,596,497 - 6,895,000 - 353,000] / 7,596,497)$ for unaccounted for water is approximately 4.6 percent; therefore, there is no EUW. Staff's preliminary recommendation is that no adjustments should be made to purchased power and chemicals at this time.

Conclusion

Brendenwood's WTP and water distribution system should both be considered 100 percent U&U. Additionally, there appears to be no EUW; therefore, staff recommends that no adjustment

be made to operating expenses for chemicals and purchased power at this time. These are preliminary determinations and are subject to change.

Issue 4: What is the appropriate average test year rate base for Brendenwood?

Preliminary Recommendation: The appropriate average test year rate base for Brendenwood is \$38,515. (D. Brown, Richards, Casper)

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 utility's rate base was established as part of its transfer proceeding, in Docket No. 20140120-WU.¹⁰ Staff selected the test year ended December 31, 2020, for the instant rate case. Commission audit staff determined that the utility's books and records are in compliance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). A summary of each component and staff's recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

The utility recorded \$48,200 for UPIS. Staff decreased UPIS by \$28 to reflect an averaging adjustment. Therefore, staff recommends a UPIS balance of \$48,172 (\$48,200 - \$28).

Land & Land Rights

The utility recorded a test year land value of \$1,100. The Commission approved a land balance of \$1,100 in the utility's 2014 transfer docket.¹¹ There have been no additions to land since the transfer; therefore, no adjustments are necessary. Staff recommends a land and land rights balance of \$1,100.

Used & Useful

As discussed in Issue 3, Brendenwood's WTP and distribution system are considered 100 percent U&U. Therefore, no U&U adjustments are necessary.

Accumulated Depreciation

Brendenwood recorded an accumulated depreciation balance of \$14,563. As a result of the staff audit, staff increased accumulated depreciation by \$1,414. Staff decreased accumulated depreciation by \$1,335 to reflect an adjustment to remove over depreciation of Account 320 – Water Treatment Equipment. Additionally, staff decreased accumulated depreciation by \$365 to reflect an averaging adjustment. Staff's adjustments to this account result in a net decrease of \$286 (\$1,414 - \$1,335 - \$365). Therefore, staff recommends an accumulated depreciation balance of \$14,277 (\$14,563 - \$286).

Contributions in Aid of Construction (CIAC)

The utility recorded a test year CIAC balance of \$1,577. The Commission approved a CIAC balance of \$1,577 in the utility's 2014 transfer docket.¹² There have been no additions to CIAC

¹⁰Order No. PSC-2014-0691-PAA-WU, issued December 15, 2014, in Docket No. 20140120-WU, *In re: Application for approval of transfer of Certificate No. 339-W from Brendenwood Utilities, LLC., to Brendenwood Waterworks, Inc. in Lake County.*

¹¹Order No. PSC-2014-0691-PAA-WU.

¹²Order No. PSC-2014-0691-PAA-WU.

since the transfer; therefore no adjustments are necessary. Staff recommends a CIAC balance of \$1,577.

Accumulated Amortization of CIAC

Brendenwood recorded accumulated amortization of CIAC as \$1,577. The Commission approved an accumulated amortization of CIAC balance of \$1,577 in the utility's 2014 transfer docket.¹³ There have been no additions to accumulated amortization of CIAC since the transfer; therefore, no adjustments are necessary. Staff recommends an accumulated amortization CIAC balance of \$1,577.

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 one-eighth of the operation and maintenance expense (less rate case expense) formula for calculating the working capital allowance. Section 367.081(9), F.S., prohibits a utility from earning a return on the unamortized balance of rate case expense. As such, staff removed the rate case expense balance of \$313 for this calculation resulting in an adjusted O&M expense balance of \$28,156 (\$28,469 - \$313). Applying this formula, staff recommends a working capital allowance of \$3,520 ($\$28,156 \div 8$).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$38,515. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

¹³Order No. PSC-2014-0691-PAA-WU.

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

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

Staff Analysis: Brendenwood's reported capital structure consists of \$25,000 in common equity. The utility has no customer deposits. Audit staff determined that no test year adjustments were necessary. The utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE is 7.85 percent based upon the Commission-approved leverage formula currently in effect.¹⁴ Staff recommends a ROE of 7.85 percent, with a range of 6.85 percent to 8.85 percent, and an overall rate of return of 7.85 percent. The ROE and overall rate of return are shown on Schedule No. 2.

¹⁴Order No. PSC-2021-0244-PAA-WS, issued July 6, 2021, in Docket No. 20210006-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 amount of test year revenues for Brendenwood's water system?

Preliminary Recommendation: The appropriate test year revenues for Brendenwood's water system are \$29,939. (Bethea)

Staff Analysis: Brendenwood recorded test year revenues of \$28,510. The water revenues included \$27,951 of service revenues and \$559 of miscellaneous revenues. Staff annualized service revenues by applying the number of billing determinants to the rates in effect as of June 9, 2019. As a result, staff determined that service revenues should be \$29,380, which is an increase of \$1,429. Staff determined that miscellaneous revenues should be \$559. Based on the above, the appropriate test year revenues for Brendenwood water system, including miscellaneous revenues are \$29,939 (\$29,380 +\$559).

Issue 7: What is the appropriate test year operating expense for Brendenwood?

Preliminary Recommendation: The appropriate amount of operating expense for Brendenwood is \$32,689. (D. Brown, Richards, Casper)

Staff Analysis: The utility recorded operating expense of \$31,679. The test year operation and maintenance (O&M) expenses have been reviewed by staff, including invoices and other supporting documentation. Staff has made several adjustments to the utility's operating expenses as discussed below.

Operation and Maintenance Expenses

Insurance Expense (657)

The utility recorded insurance expense of \$1,184 for the test year. As a result of the staff audit, staff increased insurance expense by \$75. This adjustment reflects the increase of the commercial liability premium for the policy period October 2020 through October 2021. Staff believes including the adjustment is appropriate because the policy with the increased premium is already in place and the utility provided support documentation. As such, staff's preliminary recommendation for insurance expense for the test year is \$1,259 (\$1,184 + \$75).

Regulatory Commission Expense (665)

The utility recorded regulatory expense of \$280 for the test year to reflect the amortized amount of regulatory commission expense projected for the instant case. Regarding the instant case, the utility is required by Rule 25-22.0407, F.A.C., to provide notices of the customer meeting, final rates, and four-year rate reduction. Staff calculated noticing costs to be \$165. Additionally, the utility paid a \$500 filing fee.¹⁵ Staff included \$584 for travel expenses. These travel expenses consisted of mileage to the customer meeting of \$104, mileage and lodging costs of \$240. The mileage was calculated using the IRS mileage rate multiplied by the number of miles obtained from the Florida Highway Mileage Calculator.^{16,17} Lodging costs were determined by using the average hotel costs in Tallahassee. Staff recommends noticing costs, filing fee, and traveling expenses of \$1,249 (\$165 + \$500 + \$584), which amortized over four years is \$313 (\$1,249 ÷ 4 years) per year. This represents a \$33 increase to the utility's recorded expense of \$280. Therefore, staff recommends a preliminary regulatory commission expense of \$313 (\$280 + \$33).

Bad Debt Expense (670)

The utility recorded bad debt expense of \$89 for the test year. Staff notes that it is Commission practice to calculate bad debt expense using a three-year average when the information is available. Based on the utility's Annual Reports, Brendenwood recorded bad debt expense of \$89, \$280, and \$2,027 for the years 2018, 2019, and 2020, respectively. Using the three-year average methodology, staff calculated bad debt expense of \$799 for purposes of the staff report. Staff increased this account by \$710 to reflect the appropriate bad debt expense, but notes that

¹⁵Document No. 03705-2021, filed on April 26, 2021.

¹⁶<https://www.irs.gov/newsroom/irs-issues-standard-mileage-rates-for-2021>

¹⁷FDOT Official Highway Mileage Viewer (state.fl.us)

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the recommended increase requires additional review. Therefore, staff's preliminary recommendation for bad debt expense for the test year is \$799 ($\$89 + \710).

Operation and Maintenance Expense Summary

The utility recorded O&M expenses of \$27,651 for the test year. Based on the above adjustments, staff recommends that the O&M expense balance be increased by \$818, resulting in a total O&M expense of \$28,469 ($\$27,651 + \818). Staff's recommended adjustments to O&M expense are shown on Schedule No. 3-C.

Depreciation Expense

The utility's records reflect test year depreciation expense of \$2,095. As a result of the staff audit, an adjustment was made to increase depreciation expense by \$133. This increase to depreciation expense impacted Acct. 320 – Water Treatment Equipment, which as discussed in Issue 4, was already over-depreciated. Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and removed the auditor's adjustment. Therefore, staff recommends net depreciation expense of \$2,095.

Taxes Other Than Income (TOTI)

Brendenwood recorded TOTI of \$1,933 for the test year. As a result of the staff audit, an adjustment was made to decrease this amount by \$131. Staff increased TOTI by \$64 to reflect the appropriate Regulatory Assessment Fees (RAFTs) based on corrected utility test year revenues. As discussed in Issue 6, water revenues have been increased by \$5,774 to reflect the change in revenue required to cover expenses and allow an opportunity to earn the recommended rate of return. As a result, TOTI should be increased by \$260 to reflect RAFTs of 4.5 percent of the change in revenues. Therefore, staff is recommending TOTI of \$2,126 ($\$1,933 - \$131 + \$64 + \260).

Operating Expenses Summary

The application of staff's recommended adjustments to the utility's test year operating expenses result in a total operating expense of \$32,689. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B. These are staff's preliminary recommendations and are subject to change.

Issue 8: What is the appropriate revenue requirement for Brendenwood?

Preliminary Recommendation: The appropriate revenue requirement is \$35,713 resulting in an annual increase of \$5,774 (19.29 percent). (D. Brown, Casper, Richards)

Staff Analysis: Brendenwood should be allowed an annual increase of \$5,774 (19.29 percent). This should allow the utility the opportunity to recover its expenses and a 7.85 percent rate of return on its investment. The calculations are shown in Table 9-1:

Table 9-1
Revenue Requirement

| | |
|----------------------------------|-----------------|
| Rate Base | \$38,515 |
| Rate of Return (%) | <u>x 7.85%</u> |
| Return on Rate Base | \$3,023 |
| O&M Expense | 28,469 |
| Depreciation Expense (Net) | 2,095 |
| Taxes Other Than Income | <u>2,126</u> |
| Revenue Requirement | <u>\$35,713</u> |
| Less Adjusted Test Year Revenues | <u>29,939</u> |
| Annual Increase | <u>\$5,774</u> |
| Percent Increase | <u>19.29%</u> |

Issue 9: What are the appropriate rate structure and rates for Brendenwood's water system?

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

Staff Analysis: Brendenwood is located in Lake County within the SJRWMD. This area has been designated as a water use caution area. The utility provides water service to 58 residential customers and one general service customer. Approximately 7 percent of the residential customer bills during the test year had zero gallons, indicating a non-seasonal customer base. The average residential water demand is 10,001 gallons per month. The average water demand excluding zero gallon bills is 10,703 gallons per month. Currently, the utility's water rate structure consists of a monthly base facility charge (BFC) and a three-tier inclining block rate structure, which includes separate gallonage charges for discretionary and non-discretionary usage for residential water customers. The rate blocks are: (1) 0-5,000 gallons; (2) 5,001-10,000 gallons; (3) all usage in excess of 10,000 gallons per month. General service rate structure consists of a monthly BFC and a gallonage charge.

Staff performed an analysis of the utility's billing in order to evaluate the appropriate rate structure for the residential water customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the utility's customers; (3) establish the appropriate non-discretionary usage threshold for restricting repression; and (4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

In this case, staff recommends that 30 percent of the water revenues be generated from the BFC, which will provide sufficient revenues to design gallonage charges that send pricing signals to customers using above the non-discretionary level. The average people per household served by the water system is 2.5; therefore, based on the number of people per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 4,000 gallons per month.¹⁸ Staff's review of the billing analysis indicates that the discretionary usage above 4,000 gallons represents 58 percent of the bills, which account for approximately 68 percent of the water demand. This is considered high discretionary usage for this customer base.

In addition to the BFC allocation, staff also recommends a BFC and a three-tier inclining block rate structure, which includes separate gallonage charges for discretionary and non-discretionary usage for residential water customers. The rate blocks are: (1) 0-4,000 gallons; (2) 4,001-10,000 gallons; (3) all usage in excess of 10,000 gallons per month. This rate structure sends the

¹⁸ Average person per household was obtained from www.census.gov/quickfacts/lakecountyflorida.

appropriate pricing signals because it targets customers with high consumption levels and minimizes price increases for customers at non-discretionary levels. In addition, the third tier provides an additional pricing signal to customers using in excess of 10,000 gallons of water per month, which represents approximately 42 percent of the usage. General service customers should be billed a BFC and a gallonage charge.

Based on staff's recommended revenue increase of 19.7 percent, which excludes miscellaneous revenues, the residential consumption can be expected to decline by 500,000 gallons resulting in anticipated average residential demand of 9,273 gallons per month. Staff recommends a 7.3 percent reduction in test year residential gallons for ratesetting purposes. As a result, the corresponding reductions for purchased power expense is \$136, \$13 for chemicals expense, and \$7 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$34,998.

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

Issue 10: Should the requested initial customer deposits for Brendenwood be approved?

Preliminary Recommendation: The appropriate initial customer deposit should be \$82 for the single family residential 5/8 inch x 3/4 inch meter size for water. The initial customer deposit for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water. The approved initial customer deposits should be effective for 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 deposits until authorized to change them by the Commission in a subsequent proceeding. (Bethea)

Staff Analysis: Rule 25-30.311, F.A.C., contains 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. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.¹⁹ Currently, the utility does not have initial customer deposits. Based on the staff recommended water rates and the post repression average residential demand of 9,273, the appropriate initial customer deposit should be \$82 for water to reflect an average residential customer bill for two months.

Staff recommends that the appropriate initial customer deposit should be \$82 for the single family residential 5/8 inch x 3/4 inch meter size for water. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water. The approved initial customer deposits should be effective for 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 deposits until authorized to change them by the Commission in a subsequent proceeding.

¹⁹Order Nos. PSC-13-0611-PAA-WS, issued November 19, 2013, in Docket No. 130010-WS, *In re: Application for increase in water rates in Lee County and wastewater rates in Pasco County by Ni Florida, LLC.* and PSC-14-0016-TRF-WU, issued January 6, 2014, in Docket No. 130251-WU, *In re: Application for approval of miscellaneous service charges in Pasco County, by Crestridge Utility Corporation.*

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 as required by Section 367.081(8).F.S.?

Preliminary Recommendation: The rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. Pursuant to Section 367.081(8), F.S., the decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. Brendenwood should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and rationale no later than one month prior to the effective date of the new rates. If the utility files revised tariffs reflecting 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, Casper) (Procedural Agency Action)

Staff Analysis: Section 367.081(8), F.S., requires that the rates be reduced by the amount of the rate case expense previously included in rates immediately following the expiration of the recovery period. With respect to Brendenwood, 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 \$327.

Staff recommends that the rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. Pursuant to Section 367.081(8), F.S., the decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. Brendenwood should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and rationale no later than one month prior to the effective date of the new rates. If the utility files revised tariffs reflecting 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: Should the recommended rates be approved for Brendenwood on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the utility?

Preliminary Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the utility. Brendenwood should file revised tariff sheets and a proposed customer notice reflecting the Commission-approved rates. The approved rates should be effective for services 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. Further, prior to implementing any temporary rates, the utility should provide appropriate financial 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 both the current monthly and total amount 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. (Casper) (Procedural Agency Action)

Staff Analysis: This recommendation proposes an increase in rates. A timely protest might delay a 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 proposed rates be approved on a temporary basis. Brendenwood should file revised tariff sheets and a proposed customer notice reflecting 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 it has been received by the customers. The additional revenue produced by staff's recommended rates and collected by the utility should be subject to the refund provisions discussed below.

Brendenwood should be authorized to initiate the temporary rates upon staff's approval of an appropriate security for the potential refund and cost of the proposed customer notice. Security should be in the form of either a bond or letter of credit in the amount of \$4,046. Alternatively, the utility may establish an escrow agreement with an independent financial institution.

If the utility chooses a bond for securing the potential refund, 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 for securing the potential refund, the letter of credit should contain the following conditions:

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

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

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

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

The utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the Commission Clerk's office no later than the 20th of every month indicating the monthly and total amount of money subject to refund at

the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 13: Should Brendenwood be required to notify the Commission within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory utility Commissioners (NARUC) Uniform System of Accounts (USOA) associated with the Commission approved adjustments?

Preliminary Recommendation: Yes. Brendenwood should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Brendenwood should submit a letter within 90 days of the Commission's 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, a notice providing good cause should be filed not less than seven days prior to the deadline. Upon providing a notice of good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Casper) (Procedural Agency Action)

Staff Analysis: Brendenwood should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Brendenwood should submit a letter within 90 days of the Commission's 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, a notice providing good cause should be filed not less than seven days prior to the deadline. Upon providing a notice of good cause, staff should be given administrative authority to grant an extension of up to 60 days.

| BRENDENWOOD WATERWORKS, INC. | | SCHEDULE NO. 1-A | |
|-------------------------------------|------------------------------------|-------------------------------|----------------------------------|
| TEST YEAR ENDED 12/31/2020 | | DOCKET NO. 20210055-WU | |
| SCHEDULE OF WATER RATE BASE | | | |
| DESCRIPTION | BALANCE PER UTILITY | STAFF ADJUST. | BALANCE PER STAFF |
| 1. UTILITY PLANT IN SERVICE | \$48,200 | (\$28) | \$48,172 |
| 2. LAND & LAND RIGHTS | 1,100 | 0 | 1,100 |
| 3. ACCUMULATED DEPRECIATION | (14,563) | 286 | (14,277) |
| 4. CIAC | (1,577) | 0 | (1,577) |
| 5. ACCUMULATED AMORTIZATION OF CIAC | 1,577 | 0 | 1,577 |
| 6. WORKING CAPITAL ALLOWANCE | <u>0</u> | <u>3,520</u> | <u>3,520</u> |
| 7. WATER RATE BASE | <u>\$34,737</u> | <u>\$3,778</u> | <u>\$38,515</u> |

| BRENDENWOOD WATERWORKS, INC. | | SCHEDULE NO. 1-B |
|---|---|-------------------------------|
| TEST YEAR ENDED 12/31/2019 | | DOCKET NO. 20210055-WU |
| ADJUSTMENTS TO RATE BASE | | |
| | | <u>WATER</u> |
| <u>UTILITY PLANT IN SERVICE</u> | | |
| | To reflect an averaging adjustment. | <u>(\$28)</u> |
| <u>ACCUMULATED DEPRECIATION</u> | | |
| 1. | To reflect an auditing adjustment. | (\$1,414) |
| 2. | To reflect a staff adjustment. | 1,335 |
| 3. | To reflect an averaging adjustment. | <u>365</u> |
| | Total | <u>\$286</u> |
| <u>WORKING CAPITAL ALLOWANCE</u> | | |
| | To reflect 1/8 of test year O&M expenses. | <u>\$3,520</u> |

| BRENDENWOOD WATERWORKS, INC. | | SCHEDULE NO. 3-A | | | |
|---|------------------------|-----------------------------------|-------------------------------------|------------------------------------|----------------------|
| TEST YEAR ENDED 12/31/2020 | | DOCKET NO. 20210055-WU | | | |
| SCHEDULE OF WATER OPERATING INCOME | | | | | |
| | PER UTILITY | STAFF ADJUST MENTS | STAFF ADJ. TEST YEAR | ADJUST FOR INCREASE | REV. REQ. |
| 1. TOTAL OPERATING REVENUE | <u>\$28,510</u> | <u>\$1,429</u> | <u>\$29,939</u> | <u>\$5,774</u> 19.29% | <u>\$35,713</u> |
| OPERATING EXPENSES | | | | | |
| 2. OPERATION & MAINTENANCE | \$27,651 | \$818 | \$28,469 | \$0 | \$28,469 |
| 3. DEPRECIATION (NET) | 2,095 | 0 | 2,095 | 0 | 2,095 |
| 4. AMORTIZATION (NET) | 0 | 0 | 0 | 0 | 0 |
| 5. TAXES OTHER THAN INCOME | 1,933 | (67) | 1,866 | 260 | 2,126 |
| 6. INCOME TAXES | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| TOTAL OPERATING EXPENSE | <u>\$31,679</u> | <u>\$751</u> | <u>\$32,430</u> | <u>\$260</u> | <u>\$32,689</u> |
| 7. OPERATING INCOME / LOSS | <u>(\$3,169)</u> | | <u>(\$2,491)</u> | | <u>\$3,023</u> |
| 8. WATER RATE BASE | <u>\$34,737</u> | | <u>\$3,778</u> | | <u>\$38,515</u> |
| 9. RATE OF RETURN | | | | | 7.85% |

| BRENDENWOOD WATERWORKS, INC. | | SCHEDULE NO. 3-B |
|--|---|-------------------------------|
| TEST YEAR ENDED 12/31/2020 | | DOCKET NO. 20210055-WU |
| ADJUSTMENTS TO OPERATING INCOME | | <u>WATER</u> |
| OPERATING REVENUES | | |
| | To reflect an auditing adjustment to Service Revenues. | <u>\$1,429</u> |
| OPERATION AND MAINTENANCE EXPENSE | | |
| 1. | Insurance Expense (657) To reflect audit adjustment. | <u>\$75</u> |
| 2. | Rate Case Expense (665) To reflect ¼ rate case expense. | <u>\$33</u> |
| 3. | Bad Debt Expense (670) To reflect three years of Bad Debt expense average. | <u>\$710</u> |
| TOTAL OPERATION AND MAINTENANCE ADJUSTMENTS | | <u>\$818</u> |
| DEPRECIATION EXPENSE | | |
| 1. | To reflect an auditing adjustment. | \$133 |
| 2. | To reflect staff adjustment to remove over depreciation from Acct. 320. | <u>(133)</u> |
| | Total | <u>\$0</u> |
| TAXES OTHER THAN INCOME | | |
| 1. | To reflect an auditing adjustment. | (\$131) |
| 2. | To reflect appropriate test year RAFs. | <u>64</u> |
| | Total | <u>\$67</u> |
| TOTAL OPERATING EXPENSE | | <u>\$751</u> |

| BRENDENWOOD WATERWORKS, INC. | | SCHEDULE NO. 3-C | | |
|--|-----------------------------------|----------------------------------|-----------------------------------|--------------------------------|
| TEST YEAR ENDED 12/31/2020 | | DOCKET NO. 20210055-WU | | |
| ANALYSIS OF WATER O&M EXPENSE | | | | |
| ACCT. # | DESCRIPTION | TOTAL PER UTILITY | STAFF ADJUST- MENT | TOTAL PER STAFF |
| 603 | Salaries and Wages – Officers | \$2,650 | \$0 | \$2,650 |
| 615 | Purchased Power | 1,878 | 0 | 1,878 |
| 618 | Chemicals | 182 | 0 | 182 |
| 632 | Contractual Services – Accounting | 400 | 0 | 400 |
| 633 | Contractual Services – Legal | 300 | 0 | 300 |
| 635 | Contractual Services – Testing | 31 | 0 | 31 |
| 636 | Contractual Services – Other | 19,965 | 0 | 19,965 |
| 657 | Insurance Expense | 1,184 | 75 | 1,259 |
| 665 | Regulatory Commission Expense | 280 | 33 | 313 |
| 670 | Bad Debt Expense | 89 | 710 | 799 |
| 675 | Miscellaneous Expenses | <u>692</u> | <u>0</u> | <u>692</u> |
| | Total O&M Expense | <u>\$27,651</u> | <u>\$818</u> | <u>\$28,469</u> |
| | Working Capital | | | \$3,520 |

| BRENDENWOOD WATERWORKS INC. | | SCHEDULE NO. 4 | |
|---|--------------------------------------|--|--------------------------------------|
| TEST YEAR ENDED DECEMBER 31, 2020 | | DOCKET NO. 20210055-WU | |
| MONTHLY WATER RATES | | | |
| | UTILITY CURRENT RATES | STAFF RECOMMENDED RATES | 4 YEAR RATE REDUCTION |
| <u>Residential and General Service</u> | | | |
| Base Facility Charge by Meter Size | | | |
| 5/8"X3/4" | \$13.71 | \$15.04 | \$0.14 |
| 3/4" | \$20.57 | \$22.56 | \$0.21 |
| 1" | \$34.28 | \$37.60 | \$0.35 |
| 1-1/2" | \$68.55 | \$75.20 | \$0.70 |
| 2" | \$109.68 | \$120.32 | \$1.12 |
| 3" | \$219.36 | \$240.64 | \$2.24 |
| 4" | \$342.75 | \$376.00 | \$3.50 |
| 6" | \$685.50 | \$752.00 | \$6.99 |
| Charge per 1,000 gallons - Residential | | | |
| 0 - 5,000 gallons | \$1.87 | N/A | N/A |
| 5,001 - 10,000 gallons | \$2.08 | N/A | N/A |
| Over 10,000 gallons | \$4.16 | N/A | N/A |
| Charge per 1,000 gallons - Residential | | | |
| 0 - 4,000 gallons | N/A | \$2.45 | \$0.02 |
| 4,001 - 10,000 gallons | N/A | \$3.06 | \$0.03 |
| Over 10,000 gallons | N/A | \$5.51 | \$0.05 |
| Charge per 1,000 gallons - General Service | \$2.83 | \$3.83 | \$0.04 |
| <u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u> | | | |
| 4,000 Gallons | \$21.19 | \$24.84 | |
| 10,000 Gallons | \$33.46 | \$43.20 | |
| 14,000 Gallons | \$50.10 | \$65.24 | |