

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: August 31, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Hudson, Daniel, Johnson)
Division of Accounting and Finance (Bulecza-Banks, Mouring, L. Smith II)
Division of Engineering (P. Buys, King)
Office of the General Counsel (Corbari)

M CAT *CS* *CS* *BS*
KFC *REG* *JSF* *ALM*

RE: Docket No. 150181-WU – Application for staff-assisted rate case in Duval County by Neighborhood Utilities, Inc.

AGENDA: 09/13/2016 – Proposed Agency Action – Except for Issue Nos. 9, 10, and 18 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: 01/12/17 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

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Case Background

Neighborhood Utilities, Inc. (Neighborhood or utility) is a Class C utility providing service to approximately 441 water customers in Duval County, and is located within the St. Johns River Water Management District (SJRWMD). Neighborhood was granted Certificate No. 430-W in 1984.¹ The utility's rates and charges were last approved in a staff-assisted rate case (SARC) in 2010.² In 2014, the utility's index application was approved and the rates were reduced to reflect the expiration of rate case expense approved in 2010.

On August 10, 2015, Neighborhood filed its application for a SARC, in accordance with a payment plan negotiated with staff for the payment of delinquent regulatory assessment fees (RAFs) owed by the utility. Staff selected the test year ended June 30, 2015, for the instant docket. According to Neighborhood's 2015 annual report, its total gross revenues were \$138,830 and total operating expenses were \$137,980. The Commission has jurisdiction in this case pursuant to Sections 367.0812, 367.0814, and 367.091, Florida Statutes, (F.S.).

¹ Order No. 13723, issued September 28, 1984, in Docket No. 840063-WU, *In re: Application of Neighborhood Utilities, Inc. for a certificate to operate a water utility in Duval County, Florida.*

² Order No. PSC-10-0024-PAA-WU, issued January 11, 2010, in Docket No. 090060-WU, *In re: Application for staff-assisted rate case in Duval County by Neighborhood Utilities.*

Discussion of Issues

Issue 1: Is the quality of service provided by Neighborhood Utilities, Inc. satisfactory?

Recommendation: Yes. The overall quality of service provided by Neighborhood should be considered satisfactory. (P. Buys)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water and wastewater rate cases, the Commission shall determine the overall quality of service provided by the utility, which is derived from evaluating three separate components of the utility operations. These components are: (1) the quality of the utility's product; (2) the operating conditions of the utility's plant and facilities; and (3) the utility's attempt to address customer satisfaction. The Rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered. Additionally, Section 367.0812(1)(c), F.S., requires the Commission to consider the extent to which the utility provides water service that meets secondary water quality standards as established by the DEP.

In its previous rate case, Neighborhood's quality of service was deemed marginal due to its failure to provide routine maintenance on plant facilities, problems related to maintaining chlorine residuals, and customers not receiving boil water notices. On May 27, 2016, the Office of Public Counsel (OPC) submitted a letter³ outlining specific concerns regarding information in staff's preliminary review of Neighborhood's requested increase (Staff Report). In its letter, OPC stated that it believes that the utility continues to provide marginal quality of service due to the deferral of maintenance on the plant and poor customer service. Staff's analysis outlined below gives consideration to the Commission's decision in Neighborhood's previous rate case as well as the concerns expressed by OPC.

Quality of the Utility's Product

Staff's evaluation of Neighborhood's product quality consisted of a review of the utility's compliance with the DEP primary and secondary drinking water standards as well as a review of customer complaints. Primary standards protect public health while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water.

Staff reviewed chemical analyses of samples dated June 4, 2012, and June 17, 2015. All results comply with the DEP primary and secondary water quality standards. These chemical analyses are performed every three years, with the next scheduled analysis to be completed in 2018.

At the time of the Commission's order in Neighborhood's previous rate case, the utility was in compliance with DEP rules and regulations. The Commission did note however, that the utility was experiencing sporadic compliance problems related to maintaining chlorine residuals at points furthest from the water treatment plant. Staff reviewed DEP records to determine if the compliance problems described in the utility's last rate case remained an issue, and staff did not find any issues of non-compliance since its last rate case in 2010. Therefore, staff believes

³ Document No. 03247-16

Neighborhood has taken steps to address the issues identified in the last rate case such as replacing the chlorine pump and supply feed lines.

Staff's analysis also considered input from customers regarding the quality of the utility's product. Staff reviewed the Commission's complaint records since January 1, 2010, and found no quality of service complaints filed against Neighborhood.

Staff also requested complaints against the utility filed with the DEP since January 1, 2010. DEP responded with two complaints, one in 2015 and one in 2016. Both DEP complaints were made by the same individual, and expressed concern regarding hydrogen sulfide odor due to low chlorine residual. Neighborhood claimed that it had chlorine feed equipment problems at the time of the customer's complaint. Neighborhood's chlorine levels did not fall below DEP's minimum requirements; however, they did fall to a level that customers noticed a sulfur odor. In both instances, the utility resolved/repared the issues with the chlorine feed equipment within two days. After each repair, the utility flushed the water lines to eliminate the sulfur smell.

Last, staff reviewed customer complaints filed with the utility since January 1, 2010. Staff identified 16 complaints made with the utility concerning quality of service. The complaints addressed low pressure, water quality, and the water smelling like sulfur. There were two complaints in 2011, three in 2012, four in 2013, two in 2014, one in 2015, and four in 2016. Neighborhood responded to the complaints by testing water pressure, which was at normal levels, and flushing and repairing the chlorine feed equipment.

Based on staff's review, giving consideration to the utility's current compliance with DEP standards, improvement since its last rate case, as well as the low number of complaints over a period greater than 5 years, the quality of Neighborhood's product should be considered satisfactory.

Operating Condition of the Utility's Plant and Facilities

Neighborhood's water treatment system has one well rated at 350 gallons per minute (gpm). The raw water is treated with liquid chlorine for disinfection purposes. The utility's water system has three storage tanks totaling 62,000 gallons. The distribution system is a composite mix of PVC pipes of varying sizes. Staff's evaluation of Neighborhood's facilities included a review of the utility's compliance standards of operation, as well as a site visit.

Neighborhood's last two DEP Sanitary Survey Reports, dated September 29, 2011, and January 24, 2014, each identified multiple deficiencies. The most recent report identified the following deficiencies, three of which are repeat deficiencies:

- Well casings corroded (repeat);
- Aerator screens not cleaned;
- Tank inspections not performed by licensed engineer;
- Ground storage tank corroded (repeat); and
- No Operation & Maintenance manual (repeat).

Neighborhood corrected four of the five deficiencies by August 2014. The one deficiency that has not yet been corrected is the tank inspection. The utility noted that it had not corrected this

deficiency due to insufficient funds from declining revenues. Neighborhood requested that the tank inspection be included in the instant rate case as a pro forma project. In the utility's last rate case, the Commission stated that the utility's deferred maintenance to its water treatment plant and distribution system had caused sporadic substandard service to its customers.⁴ The Commission further stated that the quality of the utility's product and the operating condition of the utility's water plant were marginal based on the utility's failure to perform routine maintenance of its facilities.⁵

In its May 27, 2016 letter, OPC stated that the utility is still deferring maintenance, which is impacting the utility's quality of service. In its letter, OPC expressed its belief that the uncured deficiency, the tank inspection identified by DEP, is an important deficiency. OPC additionally stated that the numerous pro forma plant (Issue 3) and expense (Issue 6) items requested appear to reflect neglected maintenance items. OPC's concerns regarding these items will be discussed in the respective issues below.

Staff agrees with OPC that the deferral of maintenance can ultimately affect the quality of a utility's service and can result in additional costs. However, the utility corrected the majority of deficiencies identified by DEP, and requested funds to cure the remaining deficiency. Once the utility performs its tank inspection, it should be in compliance with DEP requirements. Staff notes that DEP has neither issued a Consent Order against the utility nor assessed any fines for failing to correct the outstanding deficiency. For the reasons outlined above, staff recommends that no financial adjustments be made to the utility's return on equity (ROE) or officer's salaries to reflect the operating condition of Neighborhood's water treatment plant and facilities.

The Utility's Attempt to Address Customer Satisfaction

As part of staff's evaluation of customer satisfaction, staff held a customer meeting on May 18, 2016, to receive customer comments concerning Neighborhood's quality of service. Six customers attended the meeting with three customers speaking. The concerns raised during the customer meeting addressed customers not receiving boil water notices, estimated bills, customer service, water quality, and broken equipment.

In Neighborhood's previous rate case, several customers expressed concern regarding how the utility delivered boil water notices. As a result, the Commission Ordered the utility to provide the Commission with boil water notices for a year after the Order was issued.⁶ During that time, the utility did not have any boil water notices. Staff found that the utility had a boil water notice in 2012, which was after the Commission-ordered reporting period.

The Commission's order also stated that hand delivered notices often fall off mail boxes onto the ground, that some customers may never become aware of the situation, and that follow-up notifications, rescinding the boil water notices, rarely occurred. One customer, at the customer meeting, in this case, had an issue with not being promptly informed of service interruptions. To this point, the utility responded that field personnel hand deliver boil water notices to customers' front door rather than their mailbox when service interruptions are being investigated and

⁴ Order No. PSC-10-0024-PAA-WU.

⁵ *Id.*

⁶ *Id.*

repaired, which complies with DEP requirements. The utility also made changes to its website to address these customer concerns. Specifically, the utility now posts messages regarding boil water notices and rescission notices, as well as messages when a service interruption occurs and when it is fixed. Based on the utility's response, it appears the utility is actively taking steps to address concerns regarding boil water notifications. Staff also notes that only one customer, in contrast to six in the prior case, voiced concern on this issue.

In Neighborhood's prior rate case, the Commission also stated that customers shall have reasonable access to contact the utility during normal business hours, as well as an emergency, after-hours contact.⁷ In its letter to the Commission, OPC recommended that the utility should be required to establish an emergency contact number for emergency situations. However, the utility provided staff with a copy of a customer bill, which contained the utility's office and emergency contact numbers where customers could easily locate the numbers. Staff believes this is a reasonable means of providing the utility's contact information.

One customer questioned if the utility's service personnel were qualified to perform the requisite utility services. Neighborhood contracts with an outside company, U.S. Water, whose employees are qualified and properly licensed to manage and operate the water systems and treatment facilities.

Another customer had concerns with broken meters. The utility acknowledged the broken meters, noted its plans to replace the meters, and confirmed that some usage for locations with broken meters was estimated. The same customer addressed issues with broken and leaking service connections. The utility believes that one reason for this issue is that customers drive over and/or park on the meters and boxes. Neighborhood has requested to replace the plastic meter boxes and lids in this customer's subdivision with fiberglass concrete boxes and lids. The request to replace meters is discussed more fully in Issue 6.

The same customer also stated that customers "get a run around" when calling the utility's office. Neighborhood explained that when a problem is reported to its office, the appropriate person investigates the issue and determines the solution. The utility calls the customer back with a report of its findings and repair plans. Neighborhood assures that emergency problems are handled immediately and confirmed the emergency telephone number, as well as the office telephone number, are shown on every bill.

Neighborhood provided customer contacts from January 1, 2010, through May 20, 2016. As shown in Table 1-1, there were 163 customer contacts; 121 were related to billing issues (high bills, payment arrangement, questioned meter readings, and receiving no bills); 16 were quality of service related complaints; and 26 were other issues (equipment repair, leaks, and property damage). The utility investigated and followed up with the customers in each instance, usually within one day.

Staff also requested complaints against the utility with the DEP for the period of January 1, 2010, through June 13, 2016. DEP responded with two complaints, one in 2015 and one in 2016. Both complaints were made by the same individual, and expressed concern regarding hydrogen sulfide

⁷*Id.*

odor due to low chlorine residual. These complaints were discussed in the Quality of Utility Product section above.

Finally, staff reviewed the Commission’s complaint records from January 1, 2010, through June 1, 2016, and found seven complaints. All complaints concerned improper bills and were resolved. Staff additionally adds that no customer correspondence has been filed in the docket.

**Table 1-1
 Customer Contacts**

| Subject of Complaint | PSC's Records (CATS) (01/01/2010 - 06/01/2016) | Utility's Records (01/01/2010 - 05/20/2016) | DEP (01/01/2010 - 06/13/2016) | Customer Meeting* |
|------------------------|--|---|-------------------------------|-------------------|
| Billing Related | 7 | 121 | | 2 |
| Opposing Rate Increase | | | | |
| Quality of Service | | 16 | 2 | 2 |
| Other** | | 26 | | |
| Total | 7 | 163 | 2 | 4 |

*Note: Customers spoke on multiple issues.

**Note: Other Includes: Equipment Repair, Leaks, Property Damage, Illegal Usage

Source: Responses to staff data requests

Based on the utility’s responses to customer concerns expressed at the customer meeting, complaints filed with the Commission, and complaints filed with the DEP, staff believes the utility’s attempt to address customer satisfaction should be considered satisfactory. Additionally, staff believes the utility addressed the concerns outlined in the Commission’s prior order.

Conclusion

Based on the discussion and review above, staff recommends that the quality of the utility’s product, the condition of utility’s facilities, and the utility’s attempt to address customer satisfaction be considered satisfactory. Therefore, staff recommends the overall quality of service be considered satisfactory.

Issue 2: What is the used and useful percentage (U&U) of Neighborhood Utilities, Inc.'s water treatment plant and distribution system?

Recommendation: Neighborhood's water treatment plant (WTP) and distribution system should be considered 100 percent U&U. Additionally, there appears to be no excessive unaccounted for water. Therefore, staff does recommend an adjustment be made to operating expenses for chemicals and purchased power. (P. Buys)

Staff Analysis: Neighborhood's water treatment system has one well rated at 350 gpm. The raw water is treated with liquid chlorine for disinfection purposes. The utility's water system has three storage tanks totaling 62,000 gallons. Neighborhood is also interconnected with JEA for emergency situations. There are 24 fire hydrants located throughout the utility's service area and its distribution system is a composite mix of PVC pipes of varying sizes. In the utility's last rate case, the Commission determined that both the WTP and distribution system were 100 percent U&U.⁸

Water Treatment Plant and Distribution System Used & Useful

As noted above, both Neighborhood's WTP and distribution system were deemed 100 percent U&U during its previous rate case.⁹ Since the utility's last rate case, there has been no change in circumstances. Therefore, consistent with the Commission's prior decision, staff recommends that Neighborhood's WTP and distribution system should be considered 100 percent U&U.

Excessive Unaccounted for Water (EUW)

Pursuant to Rule 25-30.4325, F.A.C., the calculation of U&U for a water treatment plant must consider EUW. Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. When establishing the Rule, the Commission recognized that some uses of water are readily measurable and others are not.¹⁰ Unaccounted for water is all water that is produced that is not sold, metered, or accounted for in the records of the utility. The unaccounted for water is calculated by subtracting both the gallons used for other purposes, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year. The Rule additionally provides that to determine whether adjustments to plant and operating expenses, such as purchased electrical power and chemicals cost, are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible.

The Monthly Operating Reports that the utility files with the DEP indicate that the utility treated 28,132,000 gallons during the test year. The utility's annual reports indicate that it purchased 361,000 gallons of water and used 180,000 gallons for other uses during the test year. According

⁸ Order No. PSC-10-0024-PAA-WU

⁹ Id.

¹⁰ Order No. PSC-93-0455-NOR-WS, issued on March 24, 1993, in Docket No. 911082-WS, *In re: Proposed revisions to Rules 25-22.0406, 25-30.020, 25-30.025, 25-30.030, 25-30.032 through 25-30.037, 25-30.060, 25-30.110, 25-30.111, 25-30.135, 25-30.255, 25-30.320, 25-30.335, 25-30.360, 25-30.430, 25-30.436, 25-30.437, 25-30.443, 25-30.455, 25-30.515, 25-30.565; adoption of Rules 25-22.0407, 25-22.0408, 25-22.0371, 25-30.038, 25-30.039, 25-30.090, 25-30.117, 25-30.432 through 25-30.435, 25-30.4385, 25-30.4415, 25-30.456, 25-30.460, 25-30.465, 25-30.470, 25-30.475; and repeal of Rule 25-30.441, F.A.C., pertaining to water and wastewater regulation*, at p. 102

to the staff audit report, the utility sold 27,167,355 gallons of water for the test year. Based on the values above, unaccounted for water is only 4 percent. Therefore, staff recommends no adjustment be made to operating expenses for chemicals and purchase power due to EUW.

Conclusion

Consistent with its prior rate case, Neighborhood's WTP and distribution system should be considered 100 percent U&U. Additionally, since the utility's unaccounted for water is only 4 percent, no adjustment should be made to operating expenses for chemicals and purchased power.

Issue 3: What is the appropriate average test year water rate base for Neighborhood?

Recommendation: The appropriate average test year water rate base is \$160,840. (L.Smith, P. Buys)

Staff Analysis: Neighborhood’s water rate base was last established in its 2009 SARC by Order No. PSC-10-0024-PAA-WU.¹¹ The test year ended June 30, 2015, was used for the instant case. A summary of each rate base component and recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

The utility recorded UPIS of \$646,773. The staff audit identified several adjustments, resulting in a net increase to UPIS of \$21,591, to reflect the appropriate balances, prior Commission-ordered adjustments, and additions that were not booked. These adjustments are shown on Table 3-1. Staff also made an averaging adjustment to decrease UPIS by \$188.

**Table 3-1
 Audit Adjustments**

| Acct. | Description | Adjustments |
|-------|------------------------------|------------------------|
| 302 | Franchise | (\$243) |
| 304 | Structures & Improvements | 7,447 |
| 307 | Wells & Springs | 7,695 |
| 309 | Supply Mains | 1,680 |
| 311 | Pumping Equip. | 674 |
| 320 | Water Treatment Equip. | 1,242 |
| 330 | Distribution Reservoirs | 2,522 |
| 331 | T&D Mains | (2,570) |
| 333 | Services | 3,880 |
| 334 | Meters & Meter Installations | (1,036) |
| 335 | Tools, Shop, & Garage Equip. | 300 |
| | Total Adjustments | <u>\$21,591</u> |

Source: Audit

Pro Forma Plant

As shown in Table 3-2, staff made a net adjustment increasing UPIS by \$3,640 for pro forma plant addition items. Staff believes these pro forma plant additions are prudent and reasonable based on the analysis of each item below. Therefore, staff recommends an average UPIS balance of \$671,816 (\$646,773 + \$21,591 - \$188 + \$3,640).

Electric Panel Repairs, including Water Level Controls Replacement

The utility requested \$14,250 to rewire and replace the electric panel. According to Neighborhood, the electric panel does not work consistently. A 2016 U.S. Water proposal

¹¹ Order No. PSC-10-0024-PAA-WU

reflects that the existing electrical panel should be replaced. This installation would require special disposal as the existing electric panel contains mercury. The retirement associated with this project is \$5,209.

High Service Pump #1

The utility requested \$3,977 to replace and upgrade a high service pump. Neighborhood stated the pump upgrade to 450 gallons per minute will increase fire flow capacity. U.S. Water provided a proposal to perform work associated with this project. The proposal stated the utility will supply the motor, seals, and gaskets. The retirement associated with this project is \$2,271.

Pump House Roof

Neighborhood stated that the leaky roof could cause problems with the electric control panel. The proposal by Florida Residential to replace the pump house roof is \$945. The retirement associated with this project is \$347.

Check Valve

The utility requested \$4,111 to replace a check valve at the water treatment plant. Neighborhood explained that the check valve will not shut after use which results in water flowing back through the pump. This action could cause damage to the pump and motor. The check valve has been temporarily isolated, and service has been switched to another pump. The utility received a 2016 proposal from U.S. Water to replace the valve. The retirement associated with this project is \$3,083.

Flushing Valve

The utility requested \$4,700 to install a two-inch flushing valve at the corner of Rothbury Drive South and Blair Road. A customer at this location complained about odors and installing a flushing valve could help resolve this complaint. Neighborhood reported that the nearest flushing source is a fire hydrant 450 feet away. U.S. Water provided a proposal to complete this work. There is no retirement associated with this project.

Meters and Meter Box Retirements

As discussed in Issue 6, staff is recommending a meter replacement program. Staff is also recommending replacing 50 meter boxes. The appropriate retirement associated with this project is \$13,433.

**Table 3-2
 Pro Forma Plant Items**

| Project | Description | Amount |
|------------------------|---|----------------|
| Electric Panel Repairs | Rewire and replace the electric panel | \$14,250 |
| | Associated Retirement | (5,209) |
| High Service Pump #1 | Replace and upgrade a high service pump | 3,977 |
| | Associated Retirement | (2,271) |
| Pump House Roof | Replace the pump house roof | 945 |
| | Associated Retirement | (347) |
| Check Valve | Install new check valve | 4,111 |
| | Associated Retirement | (3,083) |
| Flushing Valve | Install a two-inch flushing valve | 4,700 |
| Meter and Meter Boxes | Reflect meter and meter box retirements | (13,433) |
| | Net Adjustment | <u>\$3,640</u> |

Source: Responses to staff data requests

Land & Land Rights

The utility recorded a test year land value of \$1,000 consistent with the utility's last rate case. Staff did not make any adjustments to this account.

Accumulated Depreciation

Neighborhood recorded an Accumulated Depreciation balance of \$462,169 on its 2014 Annual Report. The staff auditor calculated Accumulated Depreciation to be \$459,458, as of June 30, 2015, resulting in a decrease of \$2,711 and included Commission Ordered adjustments that the utility did not make. Staff also made an averaging adjustment to Accumulated Depreciation that resulted in a decrease of \$10,320. Further, staff made adjustments based on pro forma plant additions and retirements resulting in a net decrease of \$22,986. Staff's recommended adjustments result in an Accumulated Depreciation balance of \$426,771 (\$462,169 - \$2,711 - \$10,320 - \$22,367).

Contributions In Aid of Construction (CIAC)

Neighborhood recorded a CIAC balance of \$786,998 as of June 30, 2015. In analyzing this case, staff discovered that CIAC was not imputed correctly in the Utility's prior rate case. The Utility was unable to provide sufficient documentation to support this CIAC amount. As such, staff believes it is necessary to impute CIAC pursuant to Rule 25-30.570, F.A.C., which states:

If the amount of CIAC has not been recorded on the utility's books and the utility does not submit competent substantial evidence as to the amount of CIAC, the amount of CIAC shall be imputed to be the amount of plant costs charged to the cost of land sales for tax purposes if available, or the proportion of the cost of the facilities and plant attributable to the water transmission and distribution system and the sewage collection system.

Pursuant to this Rule, staff included \$243,607 which is the balance in Account 331 T&D Mains. Staff also recalculated the appropriate amount of meter installation fees and plant capacity charges based on the utility's tariff. This resulted in an increase to CIAC of \$39,402 for the meter installation fees and \$421,465 for plant capacity charges. Further, staff reduced CIAC by \$13,433 to reflect meter retirements associated with pro forma meter replacements. Additionally, staff reduced CIAC by \$421,465 to retire the plant capacity fees that were fully amortized. Therefore, staff recommends that the appropriate CIAC balance is \$269,576 ($\$243,607 + \$39,402 + \$421,465 - \$13,433 - \$421,465$). This results in a net decrease of \$517,422 ($\$786,998 - \$269,576$).

Accumulated Amortization of CIAC

The utility recorded Accumulated Amortization of CIAC of \$567,803 on its 2014 Annual Report. Staff recalculated this amount based on the imputed balances for CIAC. Based on staff's calculations, the appropriate components of Accumulated Amortization of CIAC are \$145,438 for the T&D Mains, \$33,357 for the Meter Installation Charges, and \$421,465 for the Plant Capacity Fees. Staff also reduced Accumulated Amortization of CIAC by \$13,118 associated with pro forma meter retirements and \$421,465 to retire the fully amortized plant capacity fees. Therefore, staff recommends an Accumulated Amortization of CIAC balance of \$165,362 ($\$145,438 + \$33,357 + \$421,465 - \$13,118 - \$421,465$). This results in a net increase of \$405,900 ($\$567,803 - \$405,900$).

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(2), F.A.C., staff used the one-eighth of the operation and maintenance expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$18,390.

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$160,840. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

Issue 4: What is the appropriate return on equity and overall rate of return for Neighborhood?

Recommendation: The appropriate return on equity (ROE) is 11.16 percent with a range of 10.16 percent to 12.16 percent. The appropriate overall rate of return is 6.62 percent. (L. Smith)

Staff Analysis: Neighborhood's test year capital structure reflected negative common equity of \$622,743, customer deposits of \$7,995, and a long-term debt balance of \$178,919. In accordance with Commission practice, staff set the negative common equity to zero.¹² Staff increased customer deposits by \$1,338 to reflect the amount on the utility's deposit log and decreased customer deposits by \$1,783 to reflect an averaging adjustment. This results in a net decrease of \$445 in customer deposits. Thus, staff recommends a customer deposit balance of \$7,550 (\$7,995 - \$445).

Staff reduced long-term debt by \$89,769 to remove two amounts on the utility's books that Neighborhood stated were already paid. Staff also reduced long-term debt by \$82,078 to remove two debts that were on the utility's books. Mr. O'Steen, the Utility President, informed the audit staff that these debts were unenforceable. Further, staff increased long-term debt by \$95,068 to include two promissory notes that were not on the utility's books. Additionally, staff increased long-term debt by \$1,307 to reflect an averaging adjustment. Thus, staff recommends a long-term debt balance of \$103,447 (\$178,919 - \$89,769 - \$82,078 + \$95,068 + \$1,307).

Neighborhood's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE for the utility is 11.16 percent based upon the Commission-approved leverage formula currently in effect.¹³ Staff recommends an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 6.62 percent. The ROE and overall rate of return are shown on Schedule No. 2.

¹² Order Nos. PSC-15-0535-PAA-WU, issued November 19, 2015, p. 6, in Docket No. 140217-WU, *In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.*; and PSC-13-0140-PAA-WU, issued March 25, 2013, p. 6, in Docket No. 120183-WU, *In re: Application for staff-assisted rate case in Lake County by TLP Water, Inc.*

¹³ Order No. PSC-16-0254-PAA-WS, issued June 29, 2016, in Docket No. 160006-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 5: What are the appropriate test year revenues for Neighborhood's water system?

Recommendation: The appropriate test year revenues for Neighborhood's water system are \$141,920. (Johnson, Hudson)

Staff Analysis: Neighborhood recorded total test year revenues of \$135,972. The water revenues included \$134,866 of service revenues and \$1,106 of miscellaneous revenues. Based on staff's review of the utility's billing determinants and the service rates that were in effect during the test year, staff determined test year service revenues should be \$132,143. This results in a decrease of \$2,723 (\$134,866-\$132,143) to service revenues for water.

On a contractual basis, U.S. Water provides disconnect and reconnection services to Neighborhood on a contractual basis. In order to recover its cost, the utility charged customers \$20, which is more than its tariff and not in compliance with Commission Rules and Statutes.¹⁴ As discussed in Issue 12, staff is recommending an increase to the utility's existing miscellaneous service charges, as well as adding a late payment charge. As a result, miscellaneous revenues should be increased to reflect the incremental increase of the miscellaneous service charges and the addition of a late payment charge. Based on staff's review of the number of miscellaneous service occurrences during the test year and the utility's recommended miscellaneous service charges, staff determined miscellaneous revenues should be \$9,777 on a going forward basis. This results in an increase of \$8,761 (\$9,777-\$1,106) to miscellaneous revenues for water. Based on the above, staff recommends that the appropriate test year revenues for Neighborhood's water system are \$141,920 (\$132,143+\$9,777).

Although the utility charged more than its approved violation reconnection charge, staff does not believe the utility "willfully" disregarded Commission rules or statutes.¹⁵ As outlined above, the disconnection service is provided on a contractual basis and the utility was attempting to pass the cost to the cost causer. As discussed in Issue 12, staff is recommending violation reconnection charges of \$30 and \$32, for normal and after hours, respectively, which are more than the utility's tariff charges (\$10 normal hours and \$15 after hours), and an unauthorized charge of \$20. The purpose of these miscellaneous service charges is to place the cost burden on the cost causers and not by the general body of ratepayers. The utility's existing violation reconnection charge results in subsidization from the general body of ratepayers because it does not cover the costs associated with service disconnections. Based on the above, staff believes no enforcement action is warranted at this time. However, Neighborhood should be put on notice that, in the future, it may be subject to a show cause proceeding by the Commission, including penalties, if the utility charges amounts other than those approved by the Commission.

¹⁴ 367.081(1), F.S. (Utilities may only charge rates and charges approved by the Commission).

¹⁵ See, Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, *In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc.* (willful implies an intent to do an act which is distinct from an intent to violate a statute or rule); and *Fugate v. Fla. Elections Comm'n*, 924 So. 2d 74, 76 (Fla. 1st DCA 2006) (willful conduct is an act or omission that is done "voluntarily and intentionally" with specific intent and "purpose to violate or disregard the requirements of the law").

Issue 6: What are the appropriate test year operating expenses for Neighborhood?

Recommendation: The appropriate amount of operating expenses for the utility is \$176,221. (L. Smith, P. Buys, Johnson)

Staff Analysis: Neighborhood recorded operating expenses of \$157,952. Staff reviewed Neighborhood's test year O&M expenses, including invoices, canceled checks, and other supporting documentation, and made several adjustments to the utility's operating expenses as summarized below.

Operation and Maintenance Expenses

Salaries and Wages - Employees (601)

Neighborhood recorded Salaries and Wages - Employees expense of \$17,777. Staff increased this account by \$223, to reflect the actual Salaries and Wages expense paid by the utility for one full-time employee. Therefore, staff recommends Salaries and Wages expenses of \$18,000 ($\$17,777 + \223).

Purchased Power (615)

Neighborhood recorded Purchased Power expense of \$5,261. Staff increased Purchased Power expense by \$187 to reflect the actual amount incurred. The utility did not record any Purchased Power expense related to Neighborhood's office. Staff used a Commission-approved amount for a similarly sized utility and indexed that amount to 2015.¹⁶ This results in an increase to Purchased Power expense of \$1,705. Therefore, staff recommends Purchased Power expense of \$7,153 ($\$5,261 + \$187 + \$1,705$).

Chemicals (618)

The utility recorded Chemicals expense of \$5,339. Staff decreased Chemicals expense by \$635 to remove a transaction that was outside the test year. Therefore, staff recommends Chemicals expense of \$4,704 ($\$5,339 - \635).

Contractual Services - Billing (630)

Neighborhood recorded Contractual Services - Billing expense of \$4,912. Staff reduced Contractual Services - Billing expense by \$1,123, to remove several bills that were outside the test year. Therefore, staff recommends Contractual Services - Billing expense of \$3,789 ($\$4,912 - \$1,123$).

Contractual Services - Testing (635)

The utility recorded Contractual Services - Testing expense of \$2,632. Staff reduced Contractual Services - Testing expense by \$39 to remove unsupported expenses. Further, staff increased Contractual Services - Testing expense by \$485 to reflect an annualized amount for DEP required tri-annual contaminants testing that Neighborhood did not perform during the test year. Therefore, staff recommends Contractual Services - Testing expense of \$3,078 ($\$2,632 - \$39 + \485).

¹⁶ Order No. PSC-11-0436-PAA-WS, issued September 29, 2011, p. 8, in Docket No. 100472-WS, *In re: Application for staff-assisted rate case in Manatee County by Heather Hills Estates Utilities LLC*.

Contractual Services - Other (636)

Neighborhood recorded Contractual Services - Other expense of \$19,774. Staff has increased Contractual Services - Other expense by \$1,560 to reflect the cost of lawn maintenance. Consistent with Rule 25-30.433(8), F.A.C., staff reduced this account by \$2,685 to remove and amortize various non-recurring repair expenses in this account. Further, staff increased Contractual Services - Other expense by \$25,027 to reflect pro forma expenses as shown in Table 6-1. Therefore, staff recommends Contractual Services – Other expense of \$43,676 ($\$19,774 + \$1,560 - \$2,685 + \$25,027$).

Pro Forma Expenses

Neighborhood has requested several pro forma expense items, which are summarized in Table 6-1. Staff believes these pro forma plant additions are prudent and reasonable based on the analysis of each item below. Pursuant to Rule 25-30.433(8), F.A.C., non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified.

Meter Reading

As part of the pro forma adjustments, staff increased this account by \$6,092 to reflect the going-forward expense associated with meter reading services through U.S. Water. The utility submitted a quote from U.S. Water on June 1, 2016, that reflected meter reading services for up to 500 meters for an annual amount of \$16,200, or \$3.06 per meter per month. Since Neighborhood currently has 441 meters, and within a year should have installed 60 touch read meters, staff reduced this amount to reflect 381 meters. This reduction results in an annual amount of \$12,344 ($381 \times \3.06×12), which represents an increase of \$6,092 over the current contract. The utility is currently seeking to negotiate a lower contract amount with U.S. Water, as well as exploring alternatives.

Tank Inspection

Neighborhood is requesting \$3,850 for a tank inspection. The estimated cost is based on a 2016 proposal from American Tank Maintenance, LLC. The proposal includes tank cleaning, inspections, and disinfection. The proposed inspection is a five-year inspection required by DEP and is currently overdue by 18 months. DEP did note this as a deficiency on the utility's last sanitary survey. The utility has indicated that the tank inspection has not been completed due to insufficient revenues. The adjustment to O&M Expenses would be \$770 ($\$3,850$ over five years). There is no retirement associated with this project.

Fire Hydrant Service

Neighborhood is requesting \$5,400 for fire hydrant service. The 2016 proposal from Bob's Backflow and Plumbing Services states that the annual testing of the hydrants would include inspecting, operating, flushing, and greasing the ports of each hydrant. The proposal quoted \$225 per hydrant. There are 24 hydrants in the distribution system. The adjustment to O&M Expenses would be \$2,700 ($\225 per fire hydrant over two years). There is no retirement associated with this project.

Valves

The utility is requesting \$3,650 to clean and exercise valves. Neighborhood received a 2016 proposal from U.S. Water to locate, exercise, and cleanout all the valves. The adjustment to O&M Expenses would be \$730 (\$3,650 over five years). There is no retirement associated with this project.

Generator Switch Gear

The utility is requesting \$2,181 to diagnosis and repair the generator switch gear. The utility reports that currently the switch gear works intermittently and needs troubleshooting and repair. The adjustment to O&M Expenses would be \$435 (\$2,181 over five years). There is no retirement associated with this project.

Line Break

On January 12, 2016, U.S. Water repaired a line break. The utility provided an invoice from U.S. Water, dated February 15, 2016. The cost for location, labor, and materials is \$4,147. The adjustment to O&M Expenses would be \$829 (\$4,147 over five years). There is no retirement associated with this project.

Meter Replacements

Neighborhood is requesting \$90,280 to replace approximately 441 meters. The estimated cost for the meter replacement project is based on a 2016 U.S. Water proposal. During the last rate case, the Commission approved pro forma expense to replace 40 meters per year at \$5,255. Since then, Neighborhood has only replaced 57 meters. Neighborhood stated that water use and revenues have declined since the last rate case; therefore, there were not sufficient funds to pay for new meters. Neighborhood stated that all the meters would be replaced; even the 57 meters previously replaced due to the fact those meters are not touch read meters. Staff recommends that funds for the meter replacement program need to be collected in an escrow account at the rate of \$12,360 (\$206 per meter for 60 meters per year, as discussed in Issue 11). Staff believes the implementation of such an escrow program will provide extra protections to the customers and ensure the completion of the meter replacement program by the utility. The retirement associated with this project is \$9,270.

Meter Boxes and Lids Replacement

The utility is requesting \$5,550 to replace 50 meter boxes and lids at an estimated \$111 per meter. Based upon a 2015 proposal submitted by Neighborhood, the cost breakdown is: meter boxes \$47, lids \$34, and installation \$30. Neighborhood would like to replace the plastic boxes and lids with fiberglass concrete boxes and lids. This replacement would take place in the Cherokee Cove subdivision only. Accordingly, this cost should be amortized over five years which equates to \$1,110.

**Table 6-1
 Pro-Forma Expenses Items**

| Project | Description | Amount |
|-------------------------|--|-----------------|
| Meter Reading | To reflect going-forward meter reading expense | \$6,092 |
| Tank Inspection | To inspect storage tank per DEP requirements | 770 |
| Fire Hydrant Service | To annually test and service fire hydrants | 2,700 |
| Valves | To clean and exercise the valves | 730 |
| Generator Switch Repair | To replace switch in generator | 435 |
| Line Break Repair | To repair line break | 829 |
| Meter Replacement | To replace 60 meters per year | 12,360 |
| Meter Boxes | To replace 50 meter boxes | <u>1,110</u> |
| | Total | <u>\$25,027</u> |

Source: Responses to staff data requests

Rental of Building/Property (640)

Neighborhood did not record any Rental of Building/Property expense. The utility is currently using an office free of charge; however, the utility has since submitted a quote to lease 800 square foot office at \$13.50 for square foot. Based on staff's analysis of available office rentals in the Jacksonville area, staff believes this amount is reasonable. Therefore, staff recommends Rental of Building expense of \$10,800 (800 x \$13.50).

Transportation Expense (650)

Neighborhood recorded Transportation expense of \$6,746. The main vehicle used by Neighborhood is a 1998 Honda Accord. The title to this vehicle is in the name of the spouse of the Utility's President. There are no lease payments associated with this vehicle. The utility pays for all gas and maintenance on the vehicle. In addition to the Honda Accord, the utility occasionally uses a 2001 Lexus that is also the personal vehicle of the Utility President. There are no lease payments associated with this vehicle either, however the utility pays for the gasoline in exchange for the use of that vehicle. Staff increased Transportation expense by \$632 to reflect supported expenses. Staff also reduced this account by \$2,411 to remove a non-utility payment. Therefore, staff recommends Transportation expense of \$4,967 (\$6,746 + \$632 - \$2,411).

Insurance Expense (655)

The utility recorded Insurance expense of \$4,164. Staff increased this expense by \$1,344 to reflect actual expenses that are supported by documentation. Staff also reduced this account by \$3,346 to remove payments for a life insurance policy on Neighborhood's President. According to the NARUC Uniform System of Accounts, these payments should be recorded below the line. Therefore, staff recommends Insurance expense of \$4,967 (\$4,164 + \$1,344 - \$3,346).

Regulatory Commission Expense (665)

The utility did not record any Regulatory Commission expense. By Rule 25-22.0407, F.A.C., Neighborhood is required to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, staff has estimated \$431 for postage, \$308 for

printing, and \$44 for envelopes. Additionally, the utility paid a \$1,000 rate case filing fee. Based on the above, staff recommends that the total rate case expense is \$1,783, which amortized over four years results in a Regulatory Commission expense of \$446 (\$1,783/4).

Bad Debt (670)

Neighborhood recorded Bad Debt expense of \$387; however, audit staff did not include this amount due to the lack of documentary support. To establish an appropriate amount of Bad Debt expense for the test year, staff calculated a three-year average using annual reports filed for the years 2013, 2014, and 2015.¹⁷ Using the three-year average, staff recommends a decrease of \$71. Therefore, staff recommends Bad Debt expense of \$316 (\$387 - \$71).

Miscellaneous Expense (675)

The utility recorded Miscellaneous expense of \$32,085. Staff decreased Miscellaneous expense by \$11,795 to remove expenses that were outside the test year. Staff also decreased Miscellaneous expense by \$7,895 to remove expenses that had no supporting documentation. Staff increased Miscellaneous expense by \$5,032 to include expenses that were not recorded on Neighborhood's books. Further, staff decreased this account by \$128 to reclassify and capitalize expenses to UPIS. Further, staff reduced this account by \$897 to reflect the going-forward cost of telephone service. Staff also reduced this account by \$2,307 to remove non-utility expenses. Therefore, staff recommends Miscellaneous expense of \$14,095 (\$32,085 - \$11,795 - \$7,895 + \$5,032 - \$128 - \$897 - \$2,307).

Operation and Maintenance Expenses Summary

Based on the above, staff recommends that the O&M expense is \$147,120. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-B and 3-C.

Depreciation Expense

The utility recorded Depreciation expense of \$13,390 for the test year. Staff auditors recalculated Depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined that Depreciation expense was understated by \$9,422. Staff also increased Depreciation expense by \$849 associated with pro forma plant additions. Based on the above, staff recommends a test year Depreciation expense of \$23,661 (\$13,390 + \$9,422 + \$849).

CIAC Amortization Expense

Neighborhood did not record any CIAC Amortization expense for the test year. Staff calculated CIAC Amortization expense for the test year to be \$9,118. Staff decreased this expense by \$1,179 to reflect retirements related to pro forma meter installations. Based on staff's calculations, the utility's CIAC Amortization expense of \$7,938 (\$9,118 - \$1,179).

Taxes Other Than Income (TOTI)

Neighborhood recorded TOTI of \$11,550. Staff reduced this amount by \$195 to reflect the appropriate test year property taxes. Staff increased TOTI by \$2,023 to reflect RAFs associated with the revenue increase. It should be also noted that although it is not included in the revenue

¹⁷ Order No. PSC-15-0335-PAA-WS, issued August 20, 2015, in Docket No. 140147-WS, *In re: Application for staff-assisted rate case in Sumter County by Jumper Creek Utility Company.*

requirement, the utility adds surcharges of ten percent and five percent to its customer's bills for a public service tax and a right of way tax for Duval County, respectively. The public service tax and right of way tax are self-reporting, which means it is the utility's responsibility to report and pay the county tax collector. Staff is therefore recommending TOTI of \$13,378 (\$11,550 - \$195 + \$2,023).

Income Tax

The utility did not record any income tax expense for the test year and shows a net loss for the last several years in its annual reports and income tax returns. This tax loss carry forward is in excess of the income tax provision on a going-forward basis, and is expected to continue to be so for at least the next 10 years. In this instance, it is Commission practice to allow no provision for income tax expense.¹⁸ Therefore, staff recommends no income tax provision for the utility.

Operating Expenses Summary

The application of staff's recommended adjustments to Neighborhood's test year operating expenses result in operating expenses of \$176,221. Operating expenses are shown on Schedule Nos. 3-A. The related adjustments are shown on Schedule No. 3-B.

¹⁸ Order Nos. PSC-15-0535-PAA-WU, issued November 19, 2015, p. 11, in Docket No. 140217-WU, *In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.*; and PSC-10-0124-PAA-WU, issued March 1, 2010, p. 9, in Docket No. 090244-WU, *In re: Application for staff-assisted rate case in Lake County by TLP Water, Inc.*

Issue 7: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$186,869, resulting in an annual increase of \$44,949 (or 31.67 percent). (L. Smith)

Staff Analysis: Neighborhood should be allowed an annual increase of \$44,949 (or 31.67 percent). This will allow the utility the opportunity to recover its expenses and earn a 6.62 percent return on its water system. The calculations are shown in Table 7-1.

**Table 7-1
Revenue Requirement**

| | |
|----------------------------------|------------------|
| Adjusted Rate Base | \$160,840 |
| Rate of Return | <u>6.62%</u> |
| Return on Rate Base | \$10,648 |
| Adjusted O&M Expense | 147,120 |
| Depreciation Expense (Net) | 15,723 |
| Taxes Other Than Income | 13,378 |
| Income Taxes | <u>0</u> |
| Revenue Requirement | \$186,869 |
| Less Adjusted Test Year Revenues | <u>(141,920)</u> |
| Annual Increase | <u>\$44,949</u> |
| Percent Increase | <u>31.67%</u> |

Issue 8: What are the appropriate rate structure and rates for Neighborhood's water system?

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 sheet 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. (Johnson, Hudson)

Staff Analysis: Neighborhood is located in Duval County within the SJRWMD and provides water service to approximately 437 residential and 4 general service customers. Approximately one 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 5,065 gallons per month. The utility's current water system rate structure for residential customers consists of a base facility charge (BFC) and a three-tier inclining block rate structure. The rate blocks are: (1) 0-6,000 gallons; (2) 6,001-12,000 gallons; and (3) all usage in excess of 12,000 gallons per month. The general service rate structure includes a BFC based on meter size and a uniform gallonage charge.

Staff performed an analysis of the utility's billing data 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.

Currently, the utility's BFC generates approximately 43 percent of the test year revenues. In order to design gallonage charges that will send the appropriate pricing signals to target non-discretionary usage, staff believes 30 percent of the revenue requirement should be recovered through the BFC. At the 30 percent BFC allocation, the percentage price increases as consumption increases, which is one of the rate design goals. In addition, the average number of people per household served by the water system is three; therefore, based on the number of persons per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 5,000 gallons per month instead of 6,000 gallons. Staff recommends shifting the third tier to 10,000 gallons and over, rather than 12,000 gallons and over, to provide a greater pricing signal for usage in excess of 10,000 gallons per month. Staff recommends a BFC and a three-tier gallonage charge rate structure, which includes a gallonage charge for non-discretionary usage for residential water customers. The rate tiers should be: (1) 0-5,000 gallons (non-discretionary); (2) 5,001-10,000 gallons; and (3) all usage in excess of 10,000 gallons per month. Staff recommends a BFC and uniform gallonage charge rate structure for general service water customers.

Further, based on the recommended revenue increase of approximately 31.7 percent, the residential consumption can be expected to decline by 1,537,000 gallons resulting in anticipated

average residential demand of 4,771 gallons per month. Staff recommends a 5.8 percent reduction in total test year residential gallons for rate setting purposes and corresponding reductions of \$405 for purchased power, \$266 for chemical expense, and \$32 for RAFs to reflect the anticipated repression. These adjustments result in a post repression revenue requirement of \$176,390. Table 8-1 contains staff's recommended rate structure and rates and alternative rate structure, which includes varying BFC allocations and rate blocks.

Table 8-1
Staff's Recommended and Alternative Water Rate Structures and Rates

| | RATES AT TIME OF FILING | STAFF RECOMMENDED RATES (30% BFC) | ALTERNATIVE I (40% BFC) | ALTERNATIVE II (Across-the-board to existing rates) (43% BFC) |
|--------------------------|--|--|--|--|
| Residential | | | | |
| 5/8" x 3/4" Meter Size | \$9.17 | \$8.46 | \$11.29 | \$12.29 |
| | | | | |
| Charge per 1,000 gallons | | | | |
| 0-6,000 gallons | \$2.40 | | | \$3.22 |
| 6,001 – 12,000 gallons | \$3.60 | | | \$4.82 |
| Over 12,000 gallons | \$4.80 | | | \$6.43 |
| | | | | |
| 0 – 5,000 gallons | | \$4.35 | \$3.73 | |
| 5,001 – 10,000 gallons | | \$5.35 | \$4.36 | |
| Over 10,000 gallons | | \$8.02 | \$6.54 | |
| | | | | |
| | | | | |
| 5,000 Gallons | \$21.17 | \$30.21 | \$29.94 | \$28.39 |
| 12,000 Gallons | \$45.17 | \$73.00 | \$64.82 | \$60.53 |
| 15,000 Gallons | \$59.57 | \$97.06 | \$84.44 | \$79.82 |
| | | | | |

Source: Current tariff and staff's calculations

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 sheet 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 9: What is the appropriate amount by which rates should be reduced in four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816 F.S.?

Recommendation: The water rates should be reduced to remove rate case expense grossed-up for RAFs and amortized over a four-year period, as shown on Schedule No. 4-A. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Neighborhood 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. (Johnson, Hudson, L. Smith)

Staff Analysis: Section 367.0816, 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, the associated return in working capital, and the gross-up for RAFs. This results in a reduction of \$471.

Neighborhood's water rates should be reduced to remove rate case expense grossed-up for RAFs and amortized over a four-year period, as shown on Schedule No. 4-A. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Neighborhood 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 10: Should the recommended rates 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?

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. Neighborhood 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. (L. Smith)

Staff Analysis: This recommendation proposes an increase in water 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. Neighborhood should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by the utility should be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$29,966. 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.

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; and,
- 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 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 11: What are the appropriate amount, terms, and conditions for the escrow account established for the meter replacement program?

Recommendation: The utility should be required to escrow \$1,030 every month. The appropriate terms and conditions of the escrow account are set forth below in the Staff Analysis Section. (L. Smith, P. Buys)

Staff Analysis: As discussed in Issue 6, staff is recommending a meter replacement program for the utility. The meter replacement program includes replacing 60 meters per year, resulting in a total annual cost of \$12,360. Staff believes that in order to assure that the meters are replaced and the customers are protected, Neighborhood should escrow \$1,030 monthly, based on the utility's billing cycle, for a total of \$12,360 annually (\$1,030x12). Neighborhood should begin escrowing the funds no later than 60 days after implementing the rates approved by the Commission herein. Further, in order for approval of funds to be released, the utility must submit support documentation of installation of meters and associated costs. The meter replacement program is expected to be completed within eight years.

The security provided through an escrow agreement should include the following terms and conditions as part of the agreement:

- (1) No monies in the escrow account may be withdrawn by the utility without the express approval of the Commission;
- (2) The escrow account shall be an interest bearing account;
- (3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- (4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to Neighborhood;
- (5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- (6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- (7) 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;
- (8) The Commission Clerk must be a signatory to the escrow agreement; and
- (9) The account must specify by whom and on whose behalf such monies were paid.

Neighborhood should maintain a record of the amount escrowed, and the amount of revenues that are subject to refund.

Issue 12: Should Neighborhood's miscellaneous service charges be revised?

Recommendation: Yes. Neighborhood's miscellaneous service charges should be revised. The charges should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges 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. (Johnson, Hudson)

Staff Analysis: Neighborhood's current initial connection, normal reconnection, premises visit, and violation reconnection charges were last established on September 28, 1984.¹⁹ Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. The utility's request to revise its miscellaneous charges was accompanied by its reason for requesting the charge, as well as the cost justification required by Section 367.091(6), F.S.

Initial Connection Charge

Currently, the utility's initial connection charges are \$10 and \$15 for normal and after hours, respectively. The initial connection charge is levied for service initiation at a location where service did not exist previously. The utility representative makes one trip when performing the service of an initial connection. Based on labor and transportation to and from the service territory, staff recommends initial connection charges of \$19 and \$21 for normal and after hours, respectively. Staff's calculation is shown below.

**Table 11-1
 Initial Connection Charge Calculation**

| Activity | Normal Hours Cost | Activity | After Hours Cost |
|---|-------------------|---|------------------|
| Labor (Administrative) (\$8.65/hr x 1/4 hr) | \$2.16 | Labor (Administrative) (\$8.65/hr x 1/4 hr) | \$2.16 |
| Labor (Field) (\$12.69/hr x 1/3 hr) | \$4.23 | Labor (Field) (\$19.03/hr x 1/3hr) | \$6.34 |
| Transportation (\$.54/mile x 24 miles-to/from) | \$12.96 | Transportation (\$.54/mile x 24 miles-to/from) | \$12.96 |
| Total | \$19.35 | Total | \$21.46 |

Source: Utility's cost justification documentation

Normal Reconnection Charge

The utility's normal reconnection charges are \$10 and \$15 for normal and after hours, respectively. The normal reconnection charge is levied for the transfer of service to a new customer account at a previously served location or reconnection of service subsequent to a customer requested disconnection. A normal reconnection requires two trips, which includes one to turn service on and the other to turn service off at a later date.

¹⁹Order No. 13723, issued September 28, 1984, in Docket No. 84003, *Application of Neighborhood Utilities, Inc., for a certificate to operate a water utility in Duval County.*

Based on labor and transportation to and from the service territory, staff recommends that the normal reconnection charges should be \$34 and \$38 for normal and after hours, respectively for water service. Staff's calculations are shown below.

**Table 11-2
 Normal Reconnection Charge Calculation**

| Activity | Normal Hours Cost | Activity | After Hours Cost |
|---|-------------------|---|------------------|
| Labor (Administrative) (\$8.65/hr x 1/4 hr) | \$2.16 | Labor (Administrative) (\$8.65/hr x 1/4 hr) | \$2.16 |
| Labor (Field) (\$12.69/hr x 1/4 hr x 2) | \$6.35 | Labor (Field) (\$12.69/hr x 1/4 hr x 2) | \$9.52 |
| Transportation (\$.54/mile x 24 miles-to/from x 2) | <u>\$25.92</u> | Transportation (\$.54/mile x 24 miles-to/from x 2) | <u>\$25.92</u> |
| Total | \$34.43 | Total | \$37.60 |

Source: Utility's cost justification documentation

Violation Reconnection Charge

The utility's existing violation reconnection charges are \$10 and \$15 for normal and after hours, respectively. The violation reconnection charge is levied prior to reconnection of an existing customer after discontinuance of service for cause. The service performed for violation reconnection requires two trips, which includes one trip to turn off service and a subsequent trip to turn on service once the violation has been remedied. Neighborhood has contracted with U.S. Water for turn-offs when there is a violation. U.S. Water's first billed hour is for one to five turn-offs and an additional charge for fuel. The same billing methodology would apply for turn-ons, as well. The utility averages approximately 20 turn-offs per request made for turn-offs. However, the utility may not be able to avoid having only one turn-on at any given time. In order to minimize the cost of turn-ons, the utility has opted to perform this service when a violation has been remedied. Based on labor and transportation to and from the service territory, staff recommends water violation reconnection charges of \$30 and \$32 for normal and after hours, respectively. Staff's calculations for the water violation reconnection charges are shown below.

**Table 11-3
 Violation Reconnection Charge Calculation – Turn Off**

| Activity | Normal and After Hours Cost |
|---|-----------------------------|
| Labor – (Administrative - utility) (\$8.65/hr x 1/4hr) | \$2.16 |
| Labor – (outside contractor) | \$11.58 |
| Transportation (outside contractor) | <u>\$.62</u> |
| Total | \$14.36 |

Source: Utility's cost justification documentation

**Table 11-4
 Violation Reconnection Charge Calculation – Turn On**

| Activity | Normal Hours Cost | Activity | After Hours Cost |
|---|-------------------|---|------------------|
| Labor (Field) (\$12.69/hr x 1/4 hr) | \$3.17 | Labor (Field) (\$19.03/hr x 1/4 hr) | \$4.76 |
| Transportation (\$.54/mile x 24 miles-to/from) | <u>\$12.96</u> | Transportation (\$.54/mile x 24 miles-to/from) | <u>\$12.96</u> |
| Total | \$16.13 | Total | \$17.72 |

Source: Utility’s cost justification documentation

Premises Visit Charge

The utility’s existing premises visit charge is \$8 during regular business hours. The premises visit charge is levied when a service representative visits a premises at the customer’s request for complaint resolution and the problem is found to be the customer’s responsibility. In addition, the premises visit can be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. A premises visit requires one trip. Based on labor and transportation to and from the service territory, staff recommends premises visit charges of \$19 and \$21 for normal and after hours. Staff’s calculations are shown below.

**Table 11-5
 Premises Visit Charge Calculation**

| Activity | Normal Hours Cost | Activity | After Hours Cost |
|---|-------------------|---|------------------|
| Labor (Administrative) (\$8.65/hr x 1/4hr) | \$2.16 | Labor (Administrative) (\$8.65/hr x 1/4hr) | \$2.16 |
| Labor (Field) (\$12.69/hr x 1/3 hr) | \$4.23 | Labor (Field) (\$19.03/hr x 1/3 hr) | \$6.34 |
| Transportation (\$.54/mile x 24 miles-to/from) | <u>\$12.96</u> | Transportation (\$.54/mile x 24 miles-to/from) | <u>\$12.96</u> |
| Total | \$19.35 | Total | \$21.46 |

Source: Utility’s cost justification documentation

**Table 11-6
 Summary of Staff’s Recommended Miscellaneous Service Charges**

| Miscellaneous Service Charges | During Hours | After Hours |
|--|--------------|-------------|
| Initial Connection Charge | \$19 | \$21 |
| Normal Reconnection Charge | \$34 | \$38 |
| Violation Reconnection Charge | \$30 | \$32 |
| Premises Visit Charge (in lieu of Disconnection) | \$19 | \$21 |

Source: Staff’s recommended charges

Summary

Neighborhood's miscellaneous service charges should be revised. The charges should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges 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 13: Should Neighborhood's request to implement a late payment charge be approved?

Recommendation: Yes. Neighborhood's request to implement a late payment charge should be approved. Neighborhood should be allowed to implement a late payment charge of \$4.30. Neighborhood should be required to file a proposed customer notice to reflect the Commission-approved charge. The approved charge 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 approved charge should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than ten days after the date of the notice. (Johnson)

Staff Analysis: Section 367.091(6), F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. The utility is requesting a \$5.00 late payment charge to recover the cost of supplies and labor associated with processing late payment notices. The utility's request for a late payment charge was accompanied by its reason for requesting the charge, as well as the cost justification required by Section 367.091(6), F.S.

The utility indicated that approximately 35 percent or 150 (35% x 430) of Neighborhood's bills are delinquent on a monthly basis. The utility indicated that it processes six late payment charges an hour. Neighborhood's cost justification included labor cost of \$4.17, which was based on salary of \$25 per hour. However, staff determined that the appropriate combine labor for the clerical and administrative employees is \$21 per hour. Based on the labor and six late payment notices per hour, staff determined labor cost of \$3.50 (\$21/6). Neighborhood provided a cost justification for a late payment charge of \$4.93. The cost basis for the utility's requested and staff's recommended late payment charge, including labor, is shown below. Staff's recommended charge has been rounded to the nearest tenth.

**Table 12-1
Late Payment Charge Calculation**

| | Utility's Proposed | Staff Recommended |
|----------|-----------------------|----------------------|
| Labor | \$4.17 | \$3.50 |
| Printing | 0.20 | 0.20 |
| Postage | <u>0.56</u> | <u>0.56</u> |
| Total | \$4.93 | \$4.26 |

Source: Utility cost justification and staff's calculation

Based on staff's research, since the late 1990s, the Commission has approved late payment charges ranging from \$2.00 to \$7.00.²⁰ The purpose of this charge is not only to provide an

²⁰ See Order Nos. PSC-14-0335-PAA-WS, in Docket No. 130243-WS, issued June 30, 2014, *In re: Application for staff-assisted rate case in Highlands County by Lake Placid Utilities Inc.*; PSC-14-0105-TRF-WS, in Docket No. 130288-WS, issued February 20, 2014, *In re: Request for approval of late payment charge in Brevard County by Aquarina Utilities, Inc.*; PSC-13-0177-PAA-WU, in Docket No. 130052-WU, issued April 29, 2013, *In re:*

incentive for customers to make timely payment, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing delinquent accounts solely upon those who are cost causers. Based on the above, staff recommends that Neighborhood's request to implement a late payment charge should be approved. Neighborhood should be allowed to implement a late payment charge of \$4.30. Neighborhood should be required to file a proposed customer notice to reflect the Commission-approved charge. The approved charge 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 approved charge should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than ten days after the date of the notice.

Application for grandfather certificate to operate water utility in Charlotte County by Little Gasparilla Water Utility, Inc.; PSC-10-0257-TRF-WU, in Docket No. 090429-WU, issued April 26, 2010, In re: Request for approval of imposition of miscellaneous service charges, delinquent payment charge and meter tampering charge in Lake County, by Pine Harbour Water Utilities, LLC.; and PSC-11-0204-TRF-SU, in Docket No. 100413-SU, issued April 25, 2011, In re: Request for approval of tariff amendment to include a late fee of \$14.00 in Polk County by West Lakeland Wastewater.

Issue 14: Should Neighborhood be authorized to collect Non-Sufficient Funds Charges (NSF)?

Recommendation: Yes. Neighborhood should be authorized to collect NSF charges. Staff recommends that Neighborhood revise its tariffs to reflect the NSF charges currently set forth in Section 68.065, F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. Furthermore, the charges should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given within 10 days of the date of the notice. (Johnson, Hudson)

Staff Analysis: Section 367.091, F.S., requires rates, charges, and customer service policies to be approved by the Commission. The Commission has authority to establish, increase, or change a rate or charge. Staff believes that Neighborhood should be authorized to collect NSF charges consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Section 68.065(2), F.S., the following NSF charges may be assessed:

- (1) \$25, if the face value does not exceed \$50,
- (2) \$30, if the face value exceeds \$50 but does not exceed \$300,
- (3) \$40, if the face value exceeds \$300,
- (4) or five percent of the face amount of the check, whichever is greater.

Approval of NSF charges is consistent with prior Commission decisions.²¹ Furthermore, NSF charges place the cost on the cost-causer, rather than requiring that the costs associated with the return of the NSF checks be spread across the general body of ratepayers. As such, Neighborhood should be authorized to collect NSF charges for its water system. Staff recommends that Neighborhood revise its tariff sheet to reflect the NSF charges currently set forth in Section 68.065, F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. Furthermore, the NSF charges should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given within 10 days of the date of the notice.

²¹Order Nos. PSC-14-0198-TRF-SU, issued May 2, 2014, in Docket No. 140030-SU, *In re: Request for approval to amend Miscellaneous Service charges to include all NSF charges by Environmental Protection Systems of Pine Island, Inc.*; and PSC-13-0646-PAA-WU, issued December 5, 2013, in Docket No. 130025-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*

Issue 15: What are the appropriate initial customer deposits for Neighborhood's water service?

Recommendation: The appropriate water initial customer deposit should be \$58 for the residential 5/8" x 3/4" meter size based on staff's recommended rates. 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 service. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C. In addition, the utility should refund those deposits that have met the refund requirements of Rule 25-30.311(5), F.A.C., within 60 days of the issuance of a consummating order in this matter. The utility should file a refund report within in 30 days of the completion of the customer deposit refunds. Neighborhood should be on notice that it may be subject to a show cause proceeding by the Commission, including penalties, if customer deposits are not refunded pursuant to Commission rules. (Johnson, Hudson)

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.²² Currently, the utility's initial customer deposits for residential and general service are \$39 for 5/8" x 3/4", \$54 for one inch, \$78 for the one and one half inch, and \$108 for two inch and over meter sizes. Based on the staff recommended water rates and post repression average residential demand, the appropriate initial customer deposit should be \$58 for water to reflect an average residential customer bill for two months.

Pursuant to Rule 25-30.311(5), F.A.C., after a customer has established a satisfactory payment record and has had continuous service for a period of 23 months, the utility shall refund the residential customer's deposit. The utility applies interest and refunds deposits in January of each year if the rule requirement has been met in the prior year. The utility is currently holding 35 deposits of customers who have met the requirement of the Rule. However, based the utility's existing policy, the deposit will not be refunded until January of 2017.

Rule 25-30.311(4)(b), F.A.C., requires that deposit interest shall be simple interest in all cases and settlement shall be made annually. Staff does not believe it is appropriate to only refund customer deposits annually when the rule requirement has been met prior utility's to January of each year. Neighborhood should refund the customer deposits consistent with the rule requirement. The refund should be made within 60 days of a consummating order being issued in this matter. It should be noted that Neighborhood should be on notice that it may be subject to a show cause proceeding by the Commission, including penalties, if customers deposits are not refunded pursuant to Commission rules.

Staff recommends that the appropriate water initial customer deposit should be \$58 for the residential 5/8" x 3/4" meter size based on staff's recommended rates. The initial customer

²²Order 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.*

deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water service. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C. The utility should refund those deposits that have met the requirement pursuant to Rule 25-30.311(5), F.A.C., within 60 days of the issuance of a consummating order in this matter. The utility should file a refund report within in 30 days of the completion of the customer deposit refunds.

Issue 16: What are the appropriate meter installation charges?

Recommendation: The appropriate meter installation charges of \$206 for the 5/8" x 3/4 meters and all other meter sizes should be at actual cost. The meter installation charge may only be collected from new connections to the utility's water system. The approved meter installation charges should be effective for service rendered on or after the stamped approval date of the tariff pursuant to Rule 25-30.475, F.A.C. (Hudson)

Staff Analysis: A meter installation charge is designed to recover the cost of the meter and the installation. Neighborhood's current meter installation charges were approved on September 28, 1984.²³ The meter installation charges are \$90 for the 5/8" x 3/4" meter, \$110.00 for the 1" meter, \$202 for the 1 1/2" meter, \$338 for the 2" meter, and actual cost for meter sizes over 2". As discussed in Issue 3, staff is recommending approval of a meter replacement program to replace existing meters with remote read meters. Based on the cost justification provided for the meter replacement program, staff believes it appropriate to update the utility's existing meter installation charges. Staff believes the requested meter installation charge is reasonable.

Based on the above, the appropriate meter installation charges of \$206 for the 5/8" x 3/4 meters and all other meter sizes should be at actual cost. The meter installation charge may only be collected from new connections to the utility's water system. The approved meter installation charges should be effective for service rendered on or after the stamped approval date of the tariff pursuant to Rule 25-30.475, F.A.C.

²³ *Id.*

Issue 17: What is the appropriate manner in which the utility should handle estimated bills?

Recommendation: The utility should handle estimated bills in the manner prescribed in Rule 25-30.335, F.A.C. The utility should submit a sample bill displaying the appropriate designation for estimated bills within 30 days of the consummating order. In addition, Neighborhood should be put on notice that, in the future, it may be subject to a show cause proceeding by the Commission, including penalties. (Hudson)

Staff Analysis: As discussed previously, in the utility's last rate case, the Commission approved pro forma for the replacement of meters. However, according to the utility, due to declining revenues the utility was unable to maintain its meter replacement program. As a result, the utility estimates demand for those meters which are inoperable or unreadable. Staff received copies of a customer's bills, which a designation of "E" when the bill was estimated. Pursuant to Rule 25-30.335(2), F.A.C., if the utility estimates a bill, the bill statement shall prominently show the word "Estimated" on the face of the bill. In addition, the utility is obligated to timely correct any problems within the utility's control causing the need to estimate bills. Further, in no event shall a utility provide an estimated bill to any one customer more than four times in any 12-month period due to circumstances that are within the utility's control and service obligations.

Although the utility had a designation of "E" and not "Estimated" on the customer bill, staff does not believe the utility "willfully" disregarded Commission rules or statutes.²⁴ The utility estimates approximately 20 percent of its bills of which 5 percent is due to inoperable or unreadable meters. Until the inoperable or unreadable meters are replaced, the utility will continue to have estimated bills. When undertaking the meter replacement program, the utility should prioritize the replacement such that those meters that are inoperable or unreadable are replaced first in order to avoid noncompliance with the Rule. Staff believes the utility is proactive in its efforts to resolve the estimated bill issue because of its request for the meter replacements. Based on the above, staff believes no enforcement action is warranted at this time. However, Neighborhood should be put on notice that, in the future, it may be subject to a show cause proceeding by the Commission, including penalties, if the utility fails to comply with Rule 25-30.335, F.A.C.

Based on the above, the utility should handle estimated bills in the manner prescribed in Rule 25-30.335, F.A.C. The utility should submit a sample bill displaying the appropriate designation for estimated bills within 30 days of the consummating order. In addition, Neighborhood should be put on notice that, in the future, it may be subject to a show cause proceeding by the Commission, including penalties.

²⁴ See, Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, *In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc.* (willful implies an intent to do an act which is distinct from an intent to violate a statute or rule); and *Fugate v. Fla. Elections Comm'n*, 924 So. 2d 74, 76 (Fla. 1st DCA 2006) (willful conduct is an act or omission that is done "voluntarily and intentionally" with specific intent and "purpose to violate or disregard the requirements of the law").

Issue 18: Should the Utility 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?

Recommendation: Yes. The Utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Neighborhood should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA 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 deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (L. Smith)

Staff Analysis: The Utility should be required to notify the Commission, in writing that it has adjusted its books in accordance with the Commission's decision. Neighborhood should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA 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 deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Issue 19: Should this docket be closed?

Recommendation: No. Except for the granting of temporary rates in the event of protest, the four year rate reduction, and proof of adjustments of books and records, which are final actions, if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will 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, and the Utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Also, the docket should remain open to allow staff to verify that the customer deposits have been properly refunded. Once the above actions are completed this docket will be closed administratively. (Corbari)

Staff Analysis: Except for the granting of temporary rates in the event of protest, the four year rate reduction, and proof of adjustments of books and records, which are final actions if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will be issued if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will 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, and the Utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Also, the docket should remain open to allow staff to verify that the customer deposits have been properly refunded. Once the above actions are completed this docket will be closed administratively.

| NEIGHBORHOOD UTILITIES, LLC | | SCHEDULE NO. 1-A | |
|----------------------------------|---------------------------|---------------------------------------|-------------------------|
| TEST YEAR ENDED 06/30/15 | | DOCKET NO. 150181-WU | |
| SCHEDULE OF WATER RATE BASE | | | |
| DESCRIPTION | BALANCE PER UTILITY | STAFF ADJUSTMENTS TO UTIL. BAL. | BALANCE PER STAFF |
| UTILITY PLANT IN SERVICE | \$646,773 | \$25,043 | \$671,816 |
| LAND & LAND RIGHTS | 1,000 | 0 | 1,000 |
| ACCUMULATED DEPRECIATION | (462,169) | 36,017 | (426,152) |
| CIAC | (786,998) | 517,422 | (269,577) |
| ACCUMULATED AMORTIZATION OF CIAC | 567,803 | (402,441) | 165,362 |
| WORKING CAPITAL ALLOWANCE | <u>0</u> | <u>18,390</u> | <u>18,390</u> |
| WATER RATE BASE | <u>(\$33,591)</u> | <u>\$194,431</u> | <u>\$160,840</u> |

| NEIGHBORHOOD UTILITIES, LLC | SCHEDULE NO. 1-B |
|---|-----------------------------|
| TEST YEAR ENDED 06/30/15 | DOCKET NO. 150181-WU |
| ADJUSTMENTS TO RATE BASE | |
| | <u>WATER</u> |
| <u>UTILITY PLANT IN SERVICE</u> | |
| 1. To reflect prior COAs and additions that were not booked. | \$21,591 |
| 2. To reflect an averaging adjustment. | (188) |
| 3. To reflect pro forma plant additions. | <u>3,640</u> |
| Total | <u>\$25,043</u> |
| <u>ACCUMULATED DEPRECIATION</u> | |
| 1. To reflect the appropriate balance. | \$2,711 |
| 2. To reflect an averaging adjustment. | 10,320 |
| 3. To reflect pro forma plant additions. | <u>22,986</u> |
| Total | <u>\$36,017</u> |
| <u>CIAC</u> | |
| 1. To remove CIAC on the Utilities books. | \$786,998 |
| 2. To reflect CIAC associated with T&D mains. | (243,607) |
| 3. To reflect CIAC associated with Meter Installation Fees. | (39,402) |
| 4. To reflect CIAC associated with Plant Capacity Fees. | (421,465) |
| 5. To reflect retirement of Plant Capacity Fees. | 421,465 |
| 6. To reflect retirements associated with Pro Forma Meters. | <u>13,433</u> |
| Total | <u>\$517,422</u> |
| <u>ACCUMULATED AMORTIZATION OF CIAC (AA of CIAC)</u> | |
| 1. To remove AA of CIAC on the Utilities books. | (567,803) |
| 2. To reflect AA of CIAC associated with T&D mains. | 145,438 |
| 3. To reflect AA of CIAC associated with Meter Installation Fees. | 33357 |
| 4. To reflect AA of CIAC associated with Plant Capacity Fees. | 421,465 |
| 5. To reflect retirement of Plant Capacity Fees. | (421,465) |
| 6. To reflect retirements associated with Pro Forma Meters. | <u>(13,433)</u> |
| Total | <u>(\$402,441)</u> |
| <u>WORKING CAPITAL ALLOWANCE</u> | |
| To reflect 1/8 of test year O & M expenses. | <u>\$18,390</u> |

| NEIGHBORHOOD UTILITIES, LLC | | | SCHEDULE NO. 2 | | | | | |
|-------------------------------|-------------|----------------------|-------------------------------------|----------------------|-------------------|------------------|---------------|---------------|
| TEST YEAR ENDED 06/30/15 | | | DOCKET NO. 150181-WU | | | | | |
| SCHEDULE OF CAPITAL STRUCTURE | | | | | | | | |
| CAPITAL COMPONENT | PER UTILITY | SPECIFIC ADJUSTMENTS | BALANCE BEFORE PRO RATA ADJUSTMENTS | PRO RATA ADJUSTMENTS | BALANCE PER STAFF | PERCENT OF TOTAL | COST | WEIGHTED COST |
| 1. COMMON STOCK | (\$622,743) | \$622,743 | \$0 | | | | | |
| 2. RETAINED EARNINGS | 0 | 0 | 0 | | | | | |
| 3. PAID IN CAPITAL | 0 | 0 | 0 | | | | | |
| 4. OTHER COMMON EQUITY | 0 | 0 | 0 | | | | | |
| TOTAL COMMON EQUITY | (\$622,743) | \$622,743 | \$0 | \$0 | \$0 | 0.00% | 11.16% | 0.00% |
| 5. LONG TERM DEBT | \$178,919 | (\$75,472) | \$103,447 | \$46,383 | \$149,830 | 95.20% | 6.85% | 6.52% |
| 6. SHORT-TERM DEBT | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% |
| 7. PREFERRED STOCK | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% |
| TOTAL LONG TERM DEBT | \$178,919 | (\$75,472) | \$103,447 | \$46,383 | \$149,830 | 95.20% | | |
| 8. CUSTOMER DEPOSITS | \$7,995 | (\$445) | \$7,550 | \$0 | \$7,550 | 4.80% | 2.00% | 0.10% |
| 9. TOTAL | (\$435,829) | \$546,826 | \$110,997 | \$46,383 | \$157,380 | 100.00% | | 6.62% |
| RANGE OF REASONABLENESS | | | | | | <u>LOW</u> | <u>HIGH</u> | |
| RETURN ON EQUITY | | | | | | <u>10.16%</u> | <u>12.16%</u> | |
| OVERALL RATE OF RETURN | | | | | | <u>6.62%</u> | <u>6.62%</u> | |

| NEIGHBORHOOD UTILITIES, LLC | | | SCHEDULE NO. 3-A | | |
|------------------------------------|--------------------------|----------------------|--------------------------------|----------------------------|------------------------|
| TEST YEAR ENDED 06/30/15 | | | DOCKET NO. 150181-WU | | |
| SCHEDULE OF WATER OPERATING INCOME | | | | | |
| | TEST YEAR PER UTILITY | STAFF ADJUSTMENTS | STAFF ADJUSTED TEST YEAR | ADJUST. FOR INCREASE | REVENUE REQUIREMENT |
| 1. OPERATING REVENUES | <u>\$135,972</u> | <u>\$5,948</u> | <u>\$141,920</u> | <u>\$44,949</u> 31.67% | <u>\$186,869</u> |
| OPERATING EXPENSES: | | | | | |
| 2. OPERATION & MAINTENANCE | \$133,012 | \$14,108 | \$147,120 | \$0 | \$147,120 |
| 3. DEPRECIATION | 13,390 | 10,271 | 23,661 | 0 | 23,661 |
| 4. AMORTIZATION | 0 | (7,938) | (7,938) | 0 | (7,938) |
| 5. TAXES OTHER THAN INCOME | 11,550 | (195) | 11,355 | 2,023 | 13,378 |
| 6. INCOME TAXES | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| 7. TOTAL OPERATING EXPENSES | <u>\$157,952</u> | <u>\$16,246</u> | <u>\$174,198</u> | <u>\$2,023</u> | <u>\$176,221</u> |
| 8. OPERATING INCOME/(LOSS) | <u>(\$21,980)</u> | | <u>(\$32,278)</u> | | <u>\$10,648</u> |
| 9. WATER RATE BASE | <u>(\$33,591)</u> | | <u>\$160,840</u> | | <u>\$160,840</u> |
| 10. RATE OF RETURN | <u>65.43%</u> | | <u>-20.07%</u> | | <u>6.62%</u> |

| NEIGHBORHOOD UTILITIES, LLC | | Schedule No. 3-B |
|---|--|----------------------|
| TEST YEAR ENDED 06/30/15 | | DOCKET NO. 150181-WU |
| ADJUSTMENTS TO OPERATING INCOME | | Page 1 of 2 |
| | | <u>WATER</u> |
| OPERATING REVENUES | | |
| 1. To reflect the appropriate test year services revenues. | | (\$2,723) |
| 2. To reflect the appropriate test year miscellaneous service revenues. | | <u>8,671</u> |
| Subtotal | | <u>\$5,948</u> |
| OPERATION AND MAINTENANCE EXPENSES | | |
| 1. Salaries and Wages - Employees (601) | | |
| To reflect appropriate employee salaries. | | <u>\$223</u> |
| 2. Purchased Power (615) | | |
| a. To reflect actual purchased power expense. | | \$187 |
| b. To include estimate of electric for office. | | <u>1,705</u> |
| Subtotal | | <u>\$1,892</u> |
| 3. Chemicals (618) | | |
| To remove invoice that occurred outside the test year. | | <u>(\$635)</u> |
| 4. Contractual Services - Billing (630) | | |
| To remove invoices outside the test year. | | <u>(\$1,123)</u> |
| 5. Contractual Services - Testing (635) | | |
| a. To remove unsupported invoices. | | (\$39) |
| b. To reflect the appropriate testing expense. | | <u>485</u> |
| Subtotal | | <u>\$446</u> |
| 6. Contractual Services - Other (636) | | |
| a. To reflect lawn maintenance. | | \$1,560 |
| b. To remove and amortize non-recurring expenses. | | (2,685) |
| c. To reflect pro forma expenses. | | <u>25,027</u> |
| Subtotal | | <u>\$23,902</u> |
| 7. Rents (640) | | |
| To include rent expense. | | <u>\$10,800</u> |

| NEIGHBORHOOD UTILITIES, LLC | Schedule No. 3-B |
|---|----------------------|
| TEST YEAR ENDED 06/30/15 | DOCKET NO. 150181-WU |
| ADJUSTMENTS TO OPERATING INCOME | Page 2 of 2 |
| 8. Transportation Expense (650) | |
| a. To reflect supported amount. | \$632 |
| b. To remove loan payment. | <u>(2,411)</u> |
| Subtotal | <u>(\$1,779)</u> |
| 9. Insurance Expenses (655) | |
| a. To reflect supported amounts. | \$1,344 |
| b. To remove Life Insurance Expense. | <u>(3,346)</u> |
| Subtotal | <u>(\$2,002)</u> |
| 10. Regulatory Commission Expense | |
| Allowance for rate case expense amortized over 4 years. | <u>\$446</u> |
| 11. Bad Debt Expense (670) | |
| a. To remove undocumented expense. (AF 11) | (\$387) |
| b. To reflect three year average bad debt expense. | 316 |
| Subtotal | <u>(\$71)</u> |
| 12. Miscellaneous Expense (675) | |
| a. To removed expenses outside the test year. (AF11) | (\$11,795) |
| b. To remove expenses due to lack of support. (AF11) | (7,895) |
| c. To include supported expenses not on utility's books. (AF11) | 5,032 |
| d. To reclassify and capitlize to UPIS. | (128) |
| e. To reflect going-forward cost of phone service. | (897) |
| f. To remove non-utility expense. | <u>(2,307)</u> |
| Subtotal | <u>(\$17,990)</u> |
| TOTAL OPERATION & MAINTENANCE ADJUSTMENTS | <u>\$14,109</u> |
| DEPRECIATION EXPENSE | |
| 1. To reflect the appropriate test year depreciation expense. (AF3) | \$9,422 |
| 2. To reflect pro forma additions. | 849 |
| Total | <u>\$10,271</u> |
| AMORTIZATION | |
| To reflect the appropriate test year amortization expense. | <u>(\$7,938)</u> |
| TAXES OTHER THAN INCOME | |
| To reflect the appropriate test year TOTI. | <u>(\$195)</u> |

| NEIGHBORHOOD UTILITIES, LLC | | SCHEDULE NO. 3-C | |
|--|----------------------------------|-----------------------------------|--------------------------------|
| TEST YEAR ENDED 06/30/15 | | DOCKET NO. 150181-WU | |
| ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE | | | |
| | TOTAL PER UTILITY | STAFF ADJUST- MENT | TOTAL PER STAFF |
| (601) SALARIES AND WAGES - EMPLOYEES | \$17,777 | \$223 | \$18,000 |
| (603) SALARIES AND WAGES - OFFICERS | 26,400 | 0 | 26,400 |
| (610) PURCHASED WATER | 0 | 0 | 0 |
| (615) PURCHASED POWER | 5,261 | 1,892 | 7,153 |
| (618) CHEMICALS | 5,339 | (635) | 4,704 |
| (620) MATERIALS AND SUPPLIES | 1,300 | 0 | 1,300 |
| (630) CONTRACTUAL SERVICES - BILLING | 4,912 | (1,123) | 3,789 |
| (631) CONTRACTUAL SERVICES - PROFESSIONAL | 3,475 | 0 | 3,475 |
| (635) CONTRACTUAL SERVICES - TESTING | 2,632 | 446 | 3,078 |
| (636) CONTRACTUAL SERVICES - OTHER | 19,774 | 23,902 | 43,676 |
| (640) RENTS | 0 | 10,800 | 10,800 |
| (650) TRANSPORTATION EXPENSE | 6,746 | (1,779) | 4,967 |
| (655) INSURANCE EXPENSE | 4,164 | (2,002) | 2,162 |
| (656) GENERATOR LEASE | 2,760 | 0 | 2,760 |
| (665) REGULATORY COMMISSION EXPENSE | 0 | 446 | 446 |
| (670) BAD DEBT EXPENSE | 387 | (71) | 316 |
| (675) MISCELLANEOUS EXPENSE | <u>32,085</u> | <u>(17,990)</u> | <u>14,095</u> |
| | <u>\$133,012</u> | <u>\$14,108</u> | <u>\$147,120</u> |

| NEIGHBORHOOD UTILITIES, INC. | | SCHEDULE NO. 4 | |
|---|--------------------------------------|--|--------------------------------------|
| TEST YEAR ENDED 06/30/15 | | DOCKET NO. 150181-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" X 3/4" | \$9.17 | \$8.46 | \$0.02 |
| 3/4" | \$13.76 | \$12.69 | \$0.03 |
| 1" | \$22.94 | \$21.15 | \$0.06 |
| 1-1/2" | \$45.86 | \$42.30 | \$0.11 |
| 2" | \$73.39 | \$67.68 | \$0.18 |
| 3" | \$146.77 | \$135.36 | \$0.37 |
| 4" | \$229.33 | \$211.50 | \$0.57 |
| 6" | \$458.67 | \$423.00 | \$1.14 |
| Charge per 1,000 gallons - Residential | | | |
| 0 - 6,000 gallons | \$2.40 | N/A | N/A |
| 6,001 - 12,000 gallons | \$3.60 | N/A | N/A |
| Over 12,000 gallons | \$4.80 | N/A | N/A |
| 0 - 5,000 gallons | N/A | \$4.35 | \$0.01 |
| 5,001 - 10,000 gallons | N/A | \$5.35 | \$0.01 |
| Over 10,000 gallons | N/A | \$8.02 | \$0.02 |
| Charge per 1,000 gallons - General Service | \$2.45 | \$4.82 | \$0.01 |
| <u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u> | | | |
| 5,000 Gallons | \$21.17 | \$30.21 | |
| 10,000 Gallons | \$37.97 | \$56.96 | |
| 15,000 Gallons | \$59.57 | \$97.06 | |