

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in  
Brevard County by Brevard Waterworks, Inc.

DOCKET NO. 140186-WU  
ORDER NO. PSC-16-0421-PAA-WU  
ISSUED: October 3, 2016

The following Commissioners participated in the disposition of this matter:

JULIE I. BROWN, Chairman  
LISA POLAK EDGAR  
ART GRAHAM  
RONALD A. BRISÉ  
JIMMY PATRONIS

NOTICE OF PROPOSED AGENCY ACTION  
ORDER ESTABLISHING PHASE II RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission (PSC or Commission) that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

**Background**

Brevard Waterworks, Inc. (Brevard or Utility) is a Class C utility providing water service to approximately 236 residential customers and one general service customer in subdivisions known as Kingswood and Oakwood in Brevard County. The Utility purchases bulk water from Brevard County (County).

On September 29, 2014, Brevard filed its application for the rate increase at issue in this docket. On August 14, 2015, by Order No. PSC-15-0329-PAA-WU, in Docket No. 140186-WU (Order), we approved Phase I rates and ordered Brevard to work with the Office of Public Counsel (OPC) and the County to submit to us a long-term solution and options of how best to address significant issues regarding the water system and rates. The issues regarding the water system included the deterioration of the distribution system. The review of available options was to include the implications of each such option. OPC conducted meetings with the customers of Brevard on September 8 and 29, 2015. The latter meeting included representatives of Brevard. The Utility and OPC each filed comments in this docket regarding the unaccounted for water in the water distribution system.

On March 14, 2016, OPC and Brevard jointly requested that we defer consideration of the Phase II rates for Brevard until our September 2016 Agenda Conference. OPC and Brevard stated that additional time was needed to find the most cost-effective solution to resolve the unaccounted for water issue and to develop a long-term solution and options of how best to address the significant issues regarding the water system and rates.

By letter dated August 1, 2016, the Utility filed additional information for our consideration. The Utility indicated that the County has no interest in purchasing the water system. The St. John's River Water Management District acknowledged that a line replacement program would be beneficial for water conservation. However, the line replacement program would not qualify for the cost sharing provided under the cooperative funding program because the Utility system is not contained in one of the Rural Economic Development Initiative communities. The Utility intends to continue exploring the possibility of obtaining a low interest loan through the state revolving fund with the Department of Environmental Protection.

We have jurisdiction in this case pursuant to Sections 367.011, 367.0814, 367.101, and 367.121, Florida Statutes (F.S.).

### **Decision**

#### **Revenue Requirement**

By our Order, we directed Brevard to work with OPC and the County to explore solutions to address ongoing rate and unaccounted for water issues. We also ordered that purchased water expense be reduced by \$30,511 due to excessive unaccounted for water (EUW). Brevard argued that an unaccounted for water adjustment would leave the Utility with two options: replace the aging infrastructure and request rates to recover the prudently incurred costs, or abandon the Utility and let the County take over.

On November 19, 2015, Brevard filed a summary of actions it had taken since our Order (Summary). In its Summary, the Utility provided information related to the customer meetings, new purchased water rates, and additional costs incurred after the Order was issued. On November 30, 2015, OPC submitted a response to Brevard's Summary.

#### *Results of OPC Meeting with Brevard Customers*

Brevard asserts that the ultimate long-term solution to the Utility's EUW would be to replace the water distribution system throughout the service territory. Subsequent to the issuance of our Order, Brevard contracted with U.S. Water Services Corporation (U.S. Water) to prepare an engineering plan for the replacement of the existing water distribution system throughout the Oakwood subdivision. The plan includes the replacement of the water distribution system in four phases. The plan also includes the replacement of the existing 2-inch and 4-inch water lines with 3-inch and 4-inch Polyvinyl Chloride (PVC) water lines. The new plan differs from what was first presented in that customers' service lines will not be moved from the back of the lot to the front. U.S. Water also prepared bid documents for the replacement project. Several companies expressed interest in the replacement project; however, only one company submitted a bid to

U.S. Water. Based on the bid, the total cost of the replacement project was estimated to be approximately \$428,040. This amount is a little more than half of the estimated price (\$835,437) that was presented during the Phase I portion of the rate case. Brevard provided OPC with a schedule showing the impact on customers' rates if the replacement project were approved. The schedule included the cost of the replacement project, the necessary amortization of loss on retired assets, depreciation expense, rate of return, and regulatory assessment fees. The schedule showed that the Utility's approved Phase I rates would increase by approximately 31.04 percent.

Three meetings were conducted between September 8 and October 29, 2015. At the first two meetings, conducted by OPC, one customer attended. The third customer meeting, conducted by OPC and Brevard, was held on October 29, 2015. The schedule showing the estimated 31.04 percent increase associated with the replacement project was provided to the customers prior to the third meeting. At that meeting, attended by approximately 20 customers, a petition signed by Brevard customers was presented to OPC. Approximately 113 customers signed the Petition with 111 customers residing in the Oakwood subdivision. The cover letter of the Petition indicated that the customers object to a rate increase and to the long-term solution of replacing the distribution system. Brevard asserts that going forward with the replacement project is not appropriate at this time due to the overwhelming customer opposition to the project and that if it does go ahead with the project, there will be further financial burden to the customers. OPC did not offer an opinion on whether or not the Utility should move forward with the replacement project. However, OPC asserts that an adjustment for EUW should still be applied to the Phase II rates.

The customer-signed petition also expressed that the customers would like Brevard to abandon the system and have the County take it over. Brevard met with the County in January 2016. The County indicated to Brevard that it had no interest in purchasing or taking over the system. The County stated that there was no perceived benefit to the existing customers if the County took over the system.

Brevard previously attempted to determine the cause of EUW by using several different methods. Brevard now intends to use ground-penetrating radar (GPR). GPR has been used and tested by the Florida Rural Water Association in cooperation with U.S. Water. GPR was used to test the distribution systems in two different systems managed by U.S. Water. Using GPR and other methods, Brevard will continue to try to identify and repair the causes of EUW.

Upon review, we agree that replacing the existing distribution system in the Oakwood subdivision would resolve the Utility's EUW issues; however, the Utility's customers object to the replacement project and its potential rate impact. Rule 25-30.4325(10), F.A.C., provides that we are to consider all relevant factors when deciding whether an adjustment to operating expense for EUW will be made. The relevant factors include whether the reason for EUW has been identified, whether a solution has been implemented, and whether the proposed solution is economically feasible. We find that the negative customer input is an indication that the replacement project may not be economically feasible. Based upon the opposition expressed by Brevard's customers, we agree with the Utility that it should not proceed with the replacement project. Brevard has complied with our Order to provide its customers with the costs of a reasonable long-term solution to the EUW situation. If customers are unwilling to pay for a long-

term solution, then we find that the customers should pay for all water purchased by Brevard. As such, we find that, because Utility is not proceeding with the replacement project at this time, the adjustment made in Phase I for EUW (\$30,511) is no longer warranted.

*Adjustment to Purchased Water*

Subsequent the issuance of our Order, Brevard worked with the County and the County approved new purchased water rates. The Utility estimates that the new rates will reduce the purchased water expense by approximately \$30,000. As discussed above, Brevard's purchased water expense was reduced by \$30,511 due to EUW. In its Summary, Brevard argued that, since the new rates charged by the County will reduce the purchased water costs by an amount approximately equal to our previously-approved reduction, no action is required at this time. However, Brevard asserts that, if the purchased water rate reduction is passed to the customers, we should revisit the EUW adjustment. It is Brevard's position that the net effect is identical.

Upon review, we find that the lower cost of water from the County must be considered in setting Phase II rates. In Phase I, the Utility's total purchased water expense of \$115,137 was decreased by \$30,511 due to an EUW of 26.5 percent. Including the adjustment for EUW, our approved purchased water expense was \$84,626 (\$115,137 - \$30,511) in Phase I. To calculate the Phase II revenue requirement, we removed the EUW adjustment and then made an adjustment to reflect the lower purchased water rate from the County by annualizing the expense using the lower rates and the test year determinants. This calculation results in an annual purchased water expense of \$58,629 for Phase II. As such, we shall decrease the purchased water expense by \$56,508 (\$115,137 - \$58,629) in Phase II to reflect the pass through of the lower rates from the County. The net adjustment to Phase I revenue requirement, based on removal of the \$30,511 EUW adjustment and reduction of purchased water by \$56,508, is a decrease of \$25,997 (\$30,511 - \$56,508). Brevard agrees with our methodology to reflect the most recent charges.

*Additional Cost*

In its Summary, Brevard also requested recovery of the additional costs related to analyzing the replacement project, as well as the cost of the customer meetings and subsequent Commission Conference. Brevard provided invoices for the additional costs and OPC does not object to the request. The break down of the costs follows:

**Replacement Project Costs**

<b>Event</b>	<b>Charge</b>
Engineering Fees for preparing the bid	\$17,790
Legal Advertisement for the bid	444
Noticing for the customer meetings	509
Travel to the customer meetings and Commission Conference	698
<b>Total</b>	<b>\$19,441</b>

When the total cost of \$19,441 is amortized over five years, the annual revenue impact is \$3,888. We used the same methodology from Phase I to calculate the cost of additional customer notices. Upon review, we find that this amount is reasonable and prudent. Therefore, we shall approve the additional cost incurred by Brevard in analyzing the replacement project. The costs shall be amortized over five years resulting in an increase of \$3,888.

*Approved Revenue Requirement*

We approve an annual decrease of \$23,306 (14.24 percent). This amount reflects the difference between the net decrease of \$25,998 discussed above and the \$3,888 increase associated with the amortization of the engineering costs. The amounts are not precisely additive due to taxes other than income. This revenue requirement allows the Utility the opportunity to recover its expenses and earn an 8.29<sup>1</sup> percent return on its investment. Our Phase II revenue requirement calculation is shown below:

**Phase II Water Revenue Requirement**

	Water
Adjusted Rate Base	\$78,930
Rate of Return	<u>x 8.29%</u>
Return on Rate Base	\$6,543
Adjusted O&M Expense	122,459
Depreciation Expense	4,862
Amortization Expense	(295)
Taxes Other Than Income	<u>6,752</u>
Phase II Revenue Requirement	\$140,321
Less Phase I Revenue Requirement	<u>163,627</u>
Annual Decrease	<u>(\$23,306)</u>
Percent Decrease	<u>(14.24%)</u>

*Summary*

Upon review, we find that the Oakwood subdivision replacement project is not economically feasible pursuant to Rule 25-30.4325(10), F.A.C., which provides that we are to consider all relevant factors. Taking into account the additional information about the cost of the replacement project and comments from the customers opposing the project, an adjustment for

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<sup>1</sup> The rate of return is higher than the 8.19 percent approved in Order No. PSC-15-0329-PAA-WU due to the correction of a formula error in the Phase I calculation.

EUW shall not be included in the Phase II revenue requirement. The lower purchase water rates and the additional costs associated with analyzing the replacement project shall be applied to the Phase II rates. The net effect of our decisions is a Phase II revenue requirement of \$140,321. This represents a \$23,306 (14.24 percent) decrease from the Phase I revenue requirement.

### Rate Structure

The approved Phase II revenue, less miscellaneous service revenues, will result in a decrease of 15 percent (\$23,306) for water over the Phase I revenue requirement (\$155,401). The calculation is as follows:

#### **Percentage Phase II Rate Decrease**

		<u>Water</u>
1.	Phase I Revenue Requirement	\$163,627
2.	Less Miscellaneous Service Revenues	(\$8,226)
3.	Phase I Service Revenue Requirement	\$155,401
4.	Phase II Revenue Decrease	(\$23,306)
5.	% Service Rate Decrease (Line 4/Line 3)	(15%)

We shall approve a Phase II rate decrease of 15 percent for water, applied as an across-the-board decrease to the existing Phase I rates. The rates, as shown on Schedule No. 4, shall be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The Utility shall file revised tariff sheets and a proposed customer notice to reflect our approved rates. In addition, the approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. The Utility shall provide proof of the date that the notice was given within 10 days of the date of the notice.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that, as set forth in the body of this Order, the appropriate Phase II revenue requirement for Brevard Waterworks, Inc. is \$140,321. It is further

ORDERED that the Phase II rate decrease of 15 percent for water shall be applied as an across-the-board decrease to the existing Phase I rates. The rates, as shown on Schedule No. 4, shall be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. It is further

ORDERED that Brevard Waterworks, Inc. shall file revised tariff sheets and a proposed customer notice to reflect our approved rates. The approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. Brevard Waterworks, Inc. shall provide proof of the date that the notice was given within 10 days of the date of the notice. It is further

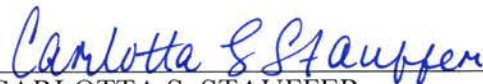
ORDERED that in the event of a protest, the approved rates shall be implemented and our staff will file a recommendation to address the appropriate monies to be held subject to refund, if any. It is further

ORDERED that 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 shall be issued. It is further

ORDERED that the docket shall remain open for our staff's verification that the revised tariff sheets and customer notice have been filed by the Brevard Waterworks, Inc. and approved by our staff. It is further,

ORDERED that once these actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 3rd day of October, 2016.



CARLOTTA S. STAUFFER  
Commission Clerk  
Florida Public Service Commission  
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Tallahassee, Florida 32399  
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Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on October 24, 2016.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.



<b>BREVARD WATERWORKS</b>		<b>SCHEDULE NO. 1-A</b>	
<b>TEST YEAR ENDED 08/31/14</b>		<b>DOCKET NO. 140186-WU</b>	
<b>SCHEDULE OF PHASE II WATER RATE BASE</b>			
<b>DESCRIPTION</b>	<b>PHASE I</b>	<b>COMMISSION ADJUSTMENTS TO UTIL. BAL.</b>	<b>BALANCE PER COMMISSION</b>
UTILITY PLANT IN SERVICE	\$102,754	\$0	\$102,754
LAND & LAND RIGHTS	2,766	0	2,766
ACCUMULATED DEPRECIATION	(35,872)	0	(35,872)
CIAC	(7,803)	0	(7,803)
ACCUMULATED AMORTIZATION OF CIAC	1,777	0	1,777
WORKING CAPITAL ALLOWANCE	<u>18,071</u>	<u>(2,764)</u>	<u>15,307</u>
WATER RATE BASE	<u>\$81,694</u>	<u>(\$2,764)</u>	<u>\$78,930</u>

<b>BREVARD WATERWORKS</b>		<b>SCHEDULE NO. 1-B</b>
<b>TEST YEAR ENDED 08/31/14</b>		<b>DOCKET NO. 140186-WU</b>
<b>ADJUSTMENTS TO PHASE II RATE BASE</b>		
<b><u>WORKING CAPITAL ALLOWANCE</u></b>		<b><u>WATER</u></b>
To reflect the appropriate amount of working capital.		<b><u>(\$2,764)</u></b>

<b>BREVARD WATERWORKS</b>							<b>SCHEDULE NO. 2</b>		
<b>TEST YEAR ENDED 08/31/14</b>							<b>DOCKET NO. 140186-WU</b>		
<b>SCHEDULE OF CAPITAL STRUCTURE</b>									
<b>CAPITAL COMPONENT</b>	<b>PER UTILITY</b>	<b>SPECIFIC ADJUSTMENTS</b>	<b>BALANCE BEFORE PRO RATA ADJUSTMENTS</b>	<b>PRO RATA ADJUSTMENTS</b>	<b>BALANCE PER COMMISSION</b>	<b>PERCENT OF TOTAL</b>	<b>COST</b>	<b>WEIGHTED COST</b>	
1. TOTAL COMMON EQUITY	\$30,660	\$63,818	\$94,478	(\$20,763)	\$73,715	93.39%	8.74%	8.16%	
2. LONG TERM DEBT	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
3. CUSTOMER DEPOSITS	<u>\$4,132</u>	<u>\$2,552</u>	<u>\$6,684</u>	<u>(\$1,469)</u>	<u>\$5,215</u>	<u>6.61%</u>	2.00%	<u>0.13%</u>	
4. TOTAL	<u>\$34,792</u>	<u>\$66,370</u>	<u>\$101,162</u>	<u>(\$22,232)</u>	<u>\$78,930</u>	<u>100.00%</u>		<u>8.29%</u>	
<b>RANGE OF REASONABLENESS</b>						<b><u>LOW</u></b>	<b><u>HIGH</u></b>		
RETURN ON EQUITY						<u>7.74%</u>	<u>9.74%</u>		
OVERALL RATE OF RETURN						<u>7.36%</u>	<u>9.23%</u>		

<b>BREVARD WATERWORKS</b>			<b>SCHEDULE NO. 3-A</b>		
<b>TEST YEAR ENDED 08/31/14</b>			<b>DOCKET NO. 140186-WU</b>		
<b>SCHEDULE OF PHASE II WATER OPERATING INCOME</b>					
	<b>PHASE I</b>	<b>COMMISSION ADJUSTMENTS</b>	<b>COMMISSION ADJUSTED TEST YEAR</b>	<b>ADJUST. FOR INCREASE</b>	<b>PHASE II REVENUE REQUIREMENT</b>
1. <b>OPERATING REVENUES</b>	<u>\$163,627</u>	<u>\$0</u>	<u>\$163,627</u>	<u>(\$23,306)</u> (14.24%)	<u>\$140,321</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	\$144,569	(\$22,110)	\$122,459	\$0	\$122,459
3. DEPRECIATION (NET)	4,862	0	4,862	0	4,862
4. CIAC AMORTIZATION EXPENSE	(295)	0	(295)	0	(295)
5. TAXES OTHER THAN INCOME	7,801	0	7,801	(1,049)	6,752
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. <b>TOTAL OPERATING EXPENSES</b>	<u>\$156,936</u>	<u>(\$22,110)</u>	<u>\$134,827</u>	<u>(\$1,049)</u>	<u>\$133,778</u>
8. <b>OPERATING INCOME/(LOSS)</b>	<u>\$6,691</u>	-	<u>\$28,800</u>	-	<u>\$6,543</u>
9. <b>WATER RATE BASE</b>	<u>\$81,694</u>		<u>\$78,930</u>		<u>\$78,930</u>
10. <b>RATE OF RETURN</b>	<u>8.19%</u>		<u>36.49%</u>		<u>8.29%</u>

<b>BREVARD WATERWORKS</b>		<b>SCHEDULE NO. 3-B</b>
<b>TEST YEAR ENDED 08/31/14</b>		<b>DOCKET NO. 140186-WU</b>
<b>ADJUSTMENTS TO PHASE II OPERATING INCOME</b>		
		<b><u>WATER</u></b>
<b>OPERATION AND MAINTENANCE EXPENSES</b>		
1.	Purchased Water Expense (610)	
	a. To reflect the appropriate Phase II purchased water expense.	<u>(\$25,998)</u>
2.	Miscellaneous Expense (675)	
	a. To reflect the amortization of non-reoccurring expenses.	<u>\$3,888</u>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>		<u>(\$22,110)</u>

<b>BREVARD WATERWORKS, INC.</b>		
<b>TEST YEAR ENDED SEPTEMBER 30, 2014</b>		<b>SCHEDULE NO. 4</b>
<b>MONTHLY WATER RATES</b>		<b>DOCKET NO. 140186-WU</b>
	<b>COMMISSION APPROVED PHASE I RATES</b>	<b>COMMISSION APPROVED PHASE II RATES</b>
-		
<b><u>Residential, General Service, and Irrigation</u></b>		
Base Facility Charge by Meter Size		
5/8" x 3/4"	\$21.38	\$18.17
3/4"	\$32.07	\$27.26
1"	\$53.45	\$45.43
1-1/2"	\$106.90	\$90.85
2"	\$171.04	\$145.36
3"	\$342.08	\$290.72
4"	\$534.50	\$454.25
6"	\$1,069.00	\$908.50
8"	\$1,710.40	\$1,453.60
10"	\$2,458.70	\$2,089.55
Charge per 1,000 gallons - Residential and Irrigation		
0-4,000 gallons	\$10.73	\$9.12
Over 4,000 gallons	\$16.10	\$13.69
Charge per 1,000 gallons - General Service		
	\$11.69	\$9.94
<b><u>Private Fire Protection</u></b>		
Base Facility Charge by Meter Size		
2"	\$14.25	\$12.11
3"	\$28.51	\$24.23
4"	\$44.54	\$37.85
6"	\$89.08	\$75.71
8"	\$142.53	\$121.13
10"	\$204.89	\$174.13
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>		
4,000 Gallons	\$64.30	\$54.65
6,000 Gallons	\$96.50	\$82.03
10,000 Gallons	\$160.90	\$136.79