

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: June 29, 2017

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Matthews, Ellis)
Division of Accounting and Finance (Brown)
Division of Economics (Friedrich)
Office of the General Counsel (Murphy)

POE
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ALM
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RE: Docket No. 160165-SU – Application for staff-assisted rate case in Gulf County by ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.

AGENDA: 07/13/17 – Regular Agenda – Proposed Agency Action – Except Issue Nos. 17, 18, and 19 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Polmann

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: 12/9/2017 (15-Month Statutory Deadline (SARC))

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Case Background

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc. (Beaches or Utility) is a Class C wastewater-only utility operating in Gulf County, Florida. The Utility currently serves approximately 316 residential and 4 general service wastewater customers, and has 45 prepaid connections. Water service is provided by the City of Port St. Joe.

By Order No. 17638, issued June 2, 1987, the Commission granted Certificate No. 422-S to Gulf Aire Properties, Inc. d/b/a Gulf Aire Wastewater Treatment Plant (Gulf Aire) for its wastewater system.¹ The Commission amended the certificate by Order No. 19621, issued July 7, 1988, to include additional territory, and amended it a second time by Order No. 25275, issued October 30, 1991, to correct, add, and delete territory.² The Utility was transferred from Gulf Aire to Beaches by Order No. PSC-02-1299-PAA-SU, issued on September 23, 2002.³

The Utility's last rate case was a staff-assisted rate case (SARC) approved in 1987.⁴ The petition for a SARC in the instant case was filed on July 12, 2016. The test year selected was July 1, 2015, through June 30, 2016. According to the Beaches 2015 Annual Report, total gross revenues were \$130,792 and total operating expenses were \$137,247.

The customer meeting was held on March 9, 2017, in Port St. Joe, Florida, to receive customer questions and comments concerning the Utility's rate case and quality of service. The Commission has jurisdiction pursuant to Sections 367.081, 367.0812, 367.0814, and 367.091, Florida Statutes (F.S.).

¹Order No. 17638, issued June 2, 1987, in Docket No. 861336-SU, *In re: Application of Gulf Aire Properties, Inc. d/b/a Gulf Aire Wastewater treatment Plant for sewer certificate in Gulf County.*

²Order No. 19621, issued July 7, 1988, in Docket No. 880621-SU, *In re: Application of Gulf Aire Wastewater Treatment Plant for amendment of Certificate No. 422-S in Gulf County*; and Order No. 25275, issued October 30, 1991, in Docket No. 910660-SU, *In re: Application of Gulf Aire Wastewater Treatment Plant (Gulf Aire Properties, Inc.) for amendment of Certificate No. 422-S for addition and deletion of territory in Gulf County.*

³Order No. PSC-02-1299-PAA-SU, issued September 23, 2002, in Docket No. 011379-SU, *In re: Application for transfer of Certificate No. 422-S in Gulf County from Gulf Aire Properties d/b/a Gulf Aire Wastewater Treatment Plant to ESAD Enterprises, Inc. d/b/a Beaches Sewer System*

⁴Order No. 17812, issued July 7, 1987 in Docket No. 861569-SU, *In re: Application of Gulf Aire Properties, Inc. d/b/a Gulf Aire Wastewater Treatment Plant for staff assistance on an increase in sewer rates in Gulf County.*

Discussion of Issues

Issue 1: Is the quality of service provided by Beaches Sewer Systems, Inc. satisfactory?

Recommendation: Yes, the quality of service provided by Beaches Sewer Systems, Inc. should be considered satisfactory. (Matthews)

Staff Analysis: Pursuant to Section 367.0812, F.S., in water and wastewater rate cases, the Commission shall determine the overall quality of service provided by a utility. The determination is made from an evaluation of three separate components of the Utility operations. The components evaluated are (1) the quality of the utility's product; (2) the operational conditions of the utility's plant and facilities; and (3) the utility's attempt to address customer satisfaction. The Statute further states that outstanding citations, violations, and consent orders on file with the Florida Department of Environmental Protection (DEP) and the county health department over the preceding five-year period shall be considered. In addition, customer comments or complaints received by the Commission are also reviewed.

Quality of Utility's Product

Jurisdiction of Beaches' wastewater facilities is under the DEP. To evaluate Beaches' product quality, staff reviewed the Utility's compliance with DEP environmental requirements regarding effluent quality. All testing of effluent quality is currently within DEP standards.

Operating Condition of the Utility's Plant and Facilities

Beaches is a wastewater service only utility. The Utility's operation of its wastewater treatment system is subject to various environmental requirements such as permitting, testing, and discharge monitoring under the jurisdiction of the DEP. On August 29, 2016, the DEP conducted an inspection of the Beaches wastewater treatment plant (WWTP) and noted several areas of non-compliance. Specifically, the areas of concern were: (1) the clarifier effluent was turbid and had excessive solids; (2) the ponds had excessive vegetation; (3) several effluent quality tests exceeded permit limitations; and (4) the three percolation ponds were not being rotated properly. On October 13, 2016, the Utility timely responded with its explanation of remedial actions on all items, and the DEP closed the inspection with satisfactory results.

Staff conducted a site visit to inspect the facility on March 9, 2017. Several components of the system were noted by staff to be in disrepair, in need of replacement, or in need of additional equipment. These items are included in the list of pro forma projects discussed in Issue 16, to the extent they are justified by proper documentation.

The Utility's Attempt to Address Customer Satisfaction

The final component of the overall quality of service that must be assessed is the utility's attempt to address customer satisfaction. As part of staff's evaluation of customer satisfaction, staff held a customer meeting in Port St. Joe, Florida, on March 9, 2017, to receive customer comments concerning Beaches' quality of service. Only one customer attended the customer meeting, and the customer provided general comments regarding wastewater systems. The customer also expressed general concerns regarding the long-term sustainability of a small wastewater system such as Beaches. However, the customer did not express any complaints or dissatisfaction with the system or the customer service.

Staff requested copies of any complaints filed with Beaches during the test year as well as the previous four years. None were received by the Utility. In addition, staff requested copies of all complaints filed with the DEP for the test year and four years prior; none were received. A review of the Commission's complaint tracking system revealed no complaints against the Utility in the five-year period from July 1, 2011, through June 30, 2016, and one customer complaint filed after the test year. The complaint expressed concerns regarding deteriorating infrastructure and safety, noting that children were observed at a lift station. The Utility's response noted that its lift stations and other facilities are locked to prevent access, and the Utility planned on posting no trespassing signs and discussing the matter with local law enforcement. During the processing of the rate case, one letter was received in which a customer expressed concern that the WWTP, which is located adjacent to the customer's back yard, was causing standing water to collect in the yard. Utility representatives went to the customer's home and demonstrated that the standing water was in fact not related to the WWTP.

Summary

The Utility's WWTP and related facilities are in compliance with all requirements of the DEP. Based on this fact and the discussion above, staff recommends that the quality of service provided by Beaches should be considered satisfactory.

Issue 2: What are the used and useful percentages (U&U) of the Beaches Sewer Systems, Inc. wastewater treatment plant and wastewater collection system?

Recommendation: Beaches' WWTP should be considered 64.3 percent U&U. The wastewater collection system should be considered 90.5 percent U&U. There appears to be no excessive infiltration and inflow (I&I), therefore staff is not recommending an adjustment be made to operating expenses for chemicals and purchased power. (Matthews)

Staff Analysis: Beaches' WWTP is a single treatment plant permitted by the DEP at 70,000 gallons per day (gpd) annual average daily flow facility. The Utility reports having 52 manholes and three lift stations in its system. In addition the wastewater collection system consists of 16,033 linear feet of 8-inch gravity main and 1,650 linear feet of 6-inch gravity main.

Infiltration and Inflow (I&I)

Rule 25-30.432, Florida Administrative Code (F.A.C.), provides that in determining the amount of U&U plant, the Commission will consider I&I. Every wastewater collection system experiences I&I. Typically, infiltration is a result of groundwater entering the wastewater collection system through broken or defective pipes and joints. Inflow is the result of water entering the collection system through manholes or lift stations.

The maximum allowable amount for infiltration is 500 gpd per inch of pipe diameter per mile of pipe length. This amount is calculated from each of the two sizes of pipe in the Utility's wastewater collection system. Using the pipe lengths and diameters given above, the infiltration allowance is calculated to be 4,775,555 gallons per year.

In addition, 10 percent of the total gallons sold to customers is allowed for inflow. Water usage data was acquired from the City of Port St. Joe for the purpose of this calculation. Ten percent of the water sold is 1,251,702 gallons. Therefore, the total I&I allowance is 6,027,257 gallons per year.

Next, the amount of wastewater expected to be returned from the system is calculated. This figure is determined by summing 80 percent of water sold to residential users with 90 percent of water sold to non-residential users. Using the data from the City of Port St. Joe, the amount calculated for expected return is 10,013,614 gallons per year. In order to find the total amount of wastewater allowed, the I&I allowance and the expected return are summed, yielding 16,040,871 gallons per year. Finally, this total is compared to the total wastewater actually treated during the test year, which in this case is 14,384,700 gallons. The total wastewater treated does not exceed the total wastewater allowed. Therefore, there is no excessive I&I.

Date: June 29, 2017

Used and Useful Percentages

Wastewater Treatment Plant

Pursuant to Rule 25-30.432, F.A.C., the U&U analysis for the Utility's WWTP is based on the customer demand compared with the permitted plant capacity, with consideration given for growth and I&I. The formula for calculating U&U for the WWTP is (average daily flow + growth – excessive I&I) / permitted plant capacity.

A linear regression analysis of the historical growth pattern yields a growth of 184 gpd. Based on the Utility's monthly operating reports the annual average daily flow is 44,829 gpd, and the permitted plant capacity is 70,000 gpd. There is no excessive I&I. Therefore, the WWTP is 64.3 percent U&U.

Wastewater Collection System

The U&U analysis for the water collection system is given by (test year connections + growth) / capacity of the system. There were 320 connections in the test year. However, the Utility also has 45 prepaid customers (customers which have paid for connecting to the system but have not yet done so). This brings the total customer count to 365. The growth is calculated to be 1.5 ERCs over the five-year statutory growth period. The system capacity is 405 ERCs. Therefore, the wastewater collection system is 90.5 percent U&U.

Summary

Beaches' WWTP should be considered 64.3 percent U&U. The wastewater collection system should be considered 90.5 percent U&U. There appears to be no excessive infiltration and inflow, therefore staff is not recommending an adjustment be made to operating expenses for chemicals and purchased power.

Issue 3: What is the appropriate average test year rate base for Beaches Sewer Systems, Inc.?

Recommendation: The appropriate average test year wastewater rate base for Beaches is \$72,658. (Brown)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service, land, Contributions-In-Aid-of-Construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. Rate base was last established as of December 1, 2000, in Docket No. 011379-SU.⁵ Staff selected the test year ended June 30, 2016, for the instant case. Commission audit staff determined that the Utility's books and records are not currently consistent with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). A summary of each component of wastewater rate base and the recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

The Utility recorded \$616,024 in UPIS. Audit staff reconciled the beginning balances from Order No. PSC-02-1299-PAA-SU to the general ledger, and determined that the Utility had not made prior ordered adjustments. Staff reduced UPIS by \$191,682 to address the prior Commission-ordered adjustments and removed \$83,849 for items that were unsupported by the Utility. The unsupported items included the removal of \$41,697 from Account 391 – Transportation Equipment for purchased vehicles.

The Utility subsequently provided staff with a mileage estimate related to its day-to-day operations.⁶ For purposes of this rate case, staff believes the estimate is sufficient to support the inclusion of a vehicle for the Utility's use as discussed below. As of April 14, 2017, the Utility owned the following vehicles: a 2010 Cadillac SRX, a 2014 Chevrolet Silverado 2500 HD LTZ Crew Cab, and a 2015 Chevrolet Silverado 1500 LT Crew Cab.⁷ The Cadillac was purchased prior to the test year, the 2015 Silverado was purchased during the test year (December 2015), and the 2014 Silverado was purchased after the test year (August 2016). Staff notes that the 2014 and 2015 Silverados were purchased at a time when the Utility asserts that it did not have the resources necessary to perform certain plant maintenance items. Additionally, the Utility represented to staff that the Cadillac was to be sold by June 2017.⁸ Even with the sale of this vehicle, staff questions the need for multiple Utility vehicles, especially when the President and Vice-President of the Utility, as well as the contract plant operator, are part-time employees. Staff believes that one vehicle is necessary for the Utility to operate effectively and should be included in plant. As such, staff believes the appropriate amount of Transportation Equipment is \$41,406, which represents the cost of the 2015 Silverado purchased during the test year.⁹

⁵Order No. PSC-02-1299-PAA-SU, issued September 23, 2002, in Docket No. 011379-SU, *In re: Application for transfer of Certificate No. 422-S in Gulf County from Gulf Aire Properties d/b/a Gulf Aire Wastewater Treatment Plant to ESAD Enterprises, Inc. d/b/a Beaches Sewer System.*

⁶Document No. 08522-16, filed October 28, 2016.

⁷Document No. 04224-17, filed April 14, 2017.

⁸Ibid.

⁹The \$41,406 was derived from information included in the December 29, 2015, purchase order and reflects the truck's retail price plus tax, title, and fees less any rebates and trade-in.

Corresponding adjustments to accumulated depreciation and depreciation expense are also necessary to appropriately reflect this UPIS addition. Additionally, while there appears to be outstanding loans on several of the Utility’s vehicles, only one of the loans was included in the Utility’s capital structure.¹⁰ Based on the discussion above, staff included the loan related to the 2015 Silverado in the Utility’s capital structure. In Issue 6, staff recommends using the Utility’s mileage estimate and the IRS standard mileage rate to develop an appropriate amount of transportation expense. This expense includes standard maintenance, repairs, taxes, gas, insurance, and registration fees.

Staff also increased UPIS by \$1,864 (net of retirements) for major repairs at the plant originally expensed to Account 775. The repairs being capitalized include a new pump, control panel, and a blower. The Utility originally booked these costs as expenses, but staff believes these items should be capitalized as they are non-recurring and extend the useful life of the plant. UPIS was also increased by \$2,934 for the purchase of a storage building located at the wastewater treatment plant. The Utility’s additional plant items are shown in Table 3-1 below, as are staff’s adjustments to UPIS, accumulated depreciation, and depreciation expense. There is also a corresponding increase to property taxes of \$67 for the additional plant. The adjustments to depreciation expense and property taxes are addressed in Issue 6, while accumulated depreciation is addressed later in this issue.

**Table 3-1
 Additional Plant Items**

Description	UPIS	Accum. Depr.	Depr. Exp.
Reclassified from O&M Expense			
Repair Pump and Control Panel	\$4,840	(\$179)	\$179
Retirement	(3,630)	134	(134)
Replace Blower	2,617	(174)	174
Retirement	(1,963)	131	(131)
Total Reclassified	<u>\$1,864</u>	<u>(\$88)</u>	<u>\$88</u>
Plant Addition (After Test Year)			
Storage Building for WWTP	<u>\$2,934</u>	<u>(\$109)</u>	<u>\$109</u>
Total Plant Addition	<u>\$2,934</u>	<u>(\$109)</u>	<u>\$109</u>

Source: Utility responses to staff data requests.

Staff also increased UPIS by \$199 for a 2012 addition that was not booked, reclassified \$939 from Account 351 to Account 390 for the purchase of a copier, and made a \$21,735 averaging adjustment. Staff’s net adjustments decrease UPIS by \$250,862. Therefore, staff recommends a UPIS balance of \$365,162.

¹⁰In Issue 4, staff removed this \$2,958 loan from the capital structure because the vehicle was sold.

Land & Land Rights

The Utility recorded a test year land balance of \$14,364. Audit staff verified that the land is owned by the Utility and determined that the land where the lift station is located was purchased since Order No. PSC-02-1299-PAA-SU. As a result, staff added \$7,500 for the lift station land. Staff recommends a land and land rights balance of \$21,864.

Non-Used and Useful (non-U&U) Plant

The Utility did not record a test year non-U&U plant balance. As discussed in Issue 2, the WWTP should be considered 64.3 percent U&U. Beaches' wastewater collection systems were calculated as 90.5 percent U&U.

Application of the U&U percentage to the average plant balances and associated average accumulated depreciation balances results in a net decrease of \$3,007 for wastewater non-U&U components. Therefore, staff's recommended non-U&U plant balance is \$3,007.

Contributions In Aid of Construction (CIAC)

The Utility recorded CIAC balances of \$247,554. Commission audit staff found that a previous audit adjustment to increase CIAC by \$31,996 had not been made and identified a \$1,500 variance between the general ledger and staff audit calculations that increased CIAC. As such, staff recommends a CIAC balance of \$281,050.

Accumulated Depreciation

The Utility recorded \$509,117 in accumulated depreciation. Staff calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff's calculation includes a previously ordered adjustment of \$66,607 that was not made by the Utility and the removal of \$135,915 for the reserve for transportation equipment cost. Staff also increased accumulated depreciation by the following amounts: \$88 for plant repairs reclassified from Account 775, \$109 to reflect an adjustment for additional plant (storage building), and \$6,901 to reflect an adjustment for the Utility's new vehicle. Finally, staff reduced accumulated depreciation by \$3,495 to reflect staff's averaging adjustment. As such, staff recommends an accumulated depreciation balance of \$310,199.

Accumulated Amortization of CIAC

Beaches recorded an amortization of CIAC balance of \$188,335. An adjustment has been made to reflect a previously ordered adjustment increasing accumulated amortization of CIAC by \$34,296. Staff calculated amortization of CIAC using composite depreciation rates, and recommends that it be increased by \$40,006. Staff recommends an accumulated amortization of CIAC balance of \$262,637.

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 (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$17,251 (based on O&M expense of \$138,009/8).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base for Beaches is \$72,658. 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 Beaches Sewer Systems, Inc.?

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 5.34 percent. (Brown)

Staff Analysis: According to the staff audit, the Utility’s test year capital structure reflected negative common equity of \$55,737, long term debt of \$217,870, and customer deposits of \$2,166. Staff adjusted the negative equity amount to zero consistent with Commission practice and removed a \$2,958 loan for a vehicle that the Utility no longer owns. Staff also added the \$41,406 loan associated with the purchase of a new Utility vehicle in December 2015. After the test year and during the course of this staff-assisted rate case, the Utility also incurred several new obligations which are detailed below in Table 4-1.

**Table 4-1
 New Loan Obligations**

Lender (Date of Loan)	Amount	Int. Rate
Centennial Bank (10/25/16)	\$10,412	7.50%
Frank J. Seifert (12/31/16)	\$13,000	5.00%
Gulf Coast Property Services (12/31/16)	\$20,000	5.00%
Donna M. Seifert (12/31/16)	\$28,400	5.00%

Source: Utility response to Staff Report, Document No. 02928-17.

The resulting long-term debt is \$266,730 (\$217,870 - \$2,958 + \$41,406 + \$10,412) and short-term debt is \$61,400 (\$13,000 + \$20,000 + \$28,400). The long-term debt balance is comprised of multiple notes at different rates, which equates to a weighted average cost rate of 5.43 percent, as detailed below in Table 4-2.

**Table 4-2
 Long-Term Debt – Weighted Average**

Loan	Amount	% of Total	Int. Rate	Weighted Cost
Centennial Bank (Purchase of Utility)	\$214,912	80.57%	5.50%	4.43%
Ally Financial (New Vehicle – 12/29/15)	\$41,406	15.52%	4.56%	0.71%
Centennial Bank (10/25/16)	\$10,412	3.90%	7.50%	0.29%
Total	<u>\$266,730</u>	<u>100.00%</u>		<u>5.43%</u>

Source: Audit Report and Utility responses to staff data requests.

The weighted average cost rate for the short-term debt shown in Table 4-1 above, which is comprised of the three December 31, 2016 promissory notes, is 5.00 percent.

Staff also removed \$1,995 in customer deposits based on the Utility’s assertion, and subsequent documentation, that no new deposits will be collected (unless the customers is renting their residence) and all deposits will be refunded for customers that have moved, or issued as a credit

memo for current customer.¹¹ The Utility refunded or issued credit memos for customer deposits in December 2016.¹² The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE for the Utility is 11.16 percent based on 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 5.34 percent. The ROE and overall rate of return are shown on Schedule No. 2.

¹¹Document No. 00581-17, filed January 18, 2017.

¹²Document No. 04224-17, filed April 14, 2017.

¹³Order 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)(j), F.S.*

Issue 5: What are the appropriate test year revenues for Beaches Sewer Systems, Inc.?

Recommendation: The appropriate test year revenues for Beaches are \$131,256. (Friedrich)

Staff Analysis: Beaches recorded total test year revenues of \$131,149. The wastewater revenues included \$124,237 of service revenues, \$2,132 of miscellaneous revenues, and \$4,780 of guaranteed 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 \$124,324. This results in an increase of \$87 (\$124,324 - \$124,237) to service revenues. In addition, staff made adjustments to miscellaneous revenues. Staff determined miscellaneous revenues should be \$2,160. Staff's audit findings revealed that the Utility was charging a normal reconnection charge of \$14.64 when their approved tariff rate is \$15.00 for this charge. This results in an increase of \$28 (\$2,160 - \$2,132) to miscellaneous revenues. Staff also determined that guaranteed revenues should be \$4,772, resulting in a decrease of \$8 (\$4,780 - \$4,772) to Beaches recorded guaranteed revenues during the test year. Based on the above, the appropriate test year revenues for Beaches' wastewater system are \$131,256.

Issue 6: What is the appropriate amount of operating expense for Beaches Sewer Systems, Inc.?

Recommendation: The appropriate amount of operating expense for Beaches is \$155,232. (Brown, Matthews)

Staff Analysis: Beaches recorded operating expense of \$146,044 for the test year ended June 30, 2016. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff made several adjustments to the Utility’s operating expenses as summarized below.

Salaries and Wages – Officers, Directors, and Majority Stockholders (703)

Beaches recorded salaries and wages – officers, directors, and majority stockholders expense of \$58,274. In response to staff’s audit report, the Utility reflected salaries of \$32,400 for the President and \$19,800 for the Vice-President.¹⁴ The Utility also included \$3,993 for payroll taxes and a total of \$2,000 for director’s fees. As such, total salaries and wages according to the Utility are \$58,193 (\$32,400 + \$19,800 + \$3,993 + \$2,000). The three-year average for salaries and wages is \$44,667 based on amounts reported in the Utility’s 2013-2015 Annual Reports. Staff notes that the Vice-President’s salary reflects an increase from January 1, 2016, through the end of the test year, June 30, 2016. Staff believes that to get an accurate picture of test year salaries, the increase to the Vice-President’s salary should be applied to all 12 months. Since six months were already included in the Utility’s calculation, an additional six months should be added. This results in a \$9,000 increase (\$1,500 x 6 months), bringing the Vice-President’s salary to \$28,800, and total salaries to \$61,200. The Utility also made several additional changes to requested salaries after the test year as illustrated below in Table 6-1.

**Table 6-1
 Change in Salaries**

Position	Utility TY	Staff TY	Utility 7/1/2016	Utility 1/1/2017
President	\$32,400	\$32,400	\$48,000	\$48,000
Vice-President	19,800	28,800	36,000	30,000
Total	\$52,200	\$61,200	\$84,000	\$78,000
Increase over staff’s TY (%)			37.25%	27.45%

Source: Utility responses to Audit Report and staff data requests.

In support of its salary requests, the Utility argued that the increases approved by the board of directors are both fair and reasonable, and based on what the city and other utility companies in the area are paying.¹⁵ Staff notes that Beaches’ board of directors is comprised of the President, the Vice-President, and their spouses. According to information provided by the Utility, the President works approximately 31.5 hours per week dealing with customer billing and mail. The

¹⁴Document No. 08522-16, filed October 28, 2016.

¹⁵The Utility used salary information from Lighthouse Utilities Company, Inc. (a large Class B water utility) and St. Joe Natural Gas Company, Inc., which are both regulated by the Commission, see Document Nos. 08522, filed October 28, 2016, 09065, filed November 30, 2016, and 02928, filed September 3, 2017.

Vice-President works approximately 12.5 hours per week assisting the plant operator, monitoring the plant, and working with contractors.

Staff believes that the Utility's requested salaries, which represent a 27.45 percent increase over staff's test year salaries, are unreasonable and have not been fully supported. The Utility's primary reason for the increase in salaries is that they are low compared to other utilities in the area. While this does appear to be the case, the Utility is not comparing itself with similarly sized and staffed utilities, or utilities within the same industry. As such, staff does not believe the Utility's customers should be burdened with such an unwarranted increase absent additional justification.

Instead of accepting the Utility's requested salary levels, staff believes it is more appropriate to use its revised test year amount of \$61,200 for salaries. This amount reflects changes to salaries that the Utility instituted during the test year and appears reasonable given the fact that the Utility's last rate case was approved in July 1987.¹⁶ Moreover, according to the Utility the President and Vice-President are responsible for everything from taking out the trash to fixing a stopped up air line. As such, staff recommends salaries and wages of \$61,200.

Staff made no increase to the amount of officer's salaries and wages expense for directors' fees of \$2,000. The Utility's board of directors now consists of four directors who meet twice a year. Beaches' board of directors is currently comprised of the President, the Vice-President, and their spouses. Prior to March 1, 2016, the Utility had two board members that met twice a year and received \$1,000 each annually. Staff believes it is excessive to have four directors for a small wastewater utility that has no full-time employees. As such, staff recommends directors' fees for the President and Vice-President be held to \$1,000 each annually, for a total of \$2,000.

Staff first reduced salaries included in the Utility's general ledger by \$81 (\$58,274 - \$58,193) to reflect the difference between what was booked versus what was supported. Next, staff reduced salaries by \$3,993 to move payroll taxes to taxes other than income (TOTI). Then, staff increased salaries by \$9,000 to reflect the increase to salaries discussed above. Staff's net adjustment to salaries is an increase of \$4,926 (\$9,000 - \$3,993 - \$81). Staff also increased TOTI by \$842 to reflect the appropriate amount of payroll taxes. Therefore, staff recommends salaries and wages – officers, directors, and majority stockholders expense of \$63,200 (\$58,274 + \$4,926).

Sludge Removal Expense (711)

In the Staff Report, staff increased this account by \$650 to reflect actual supporting documentation and the belief that the Utility conducted sludge removal once every other year. The Utility subsequently stated that sludge removal will need to be done at least four times per year. Beaches produced invoices reflecting a total of \$1,950 for sludge removal that occurred during a nine month period between June 15, 2016, and March 1, 2017, and indicated to staff that this expense would be incurred again in May or June 2017. Based on support documentation, the average sludge removal expense would be \$650 per quarter, or \$2,600 (\$650 x 4) per year. Therefore, staff is recommending sludge removal expense of \$2,600.

¹⁶The Commission has not approved an index or pass-through increase for the Utility since September 1998.

Purchased Power (715)

The Utility recorded purchased power expense of \$8,335. Commission audit staff determined that the purchased power expense was understated. Therefore, staff increased this expense by \$260 to reflect the correct test year balances. Staff recommends purchased power expense of \$8,595.

Chemicals (718)

The Utility recorded chemicals expense of \$2,752. Beaches' actual test year chemicals expenses was \$2,752 therefore, no adjustments are necessary. Staff believes that the amount is appropriate and includes all required testing. Staff recommends chemicals expense for the test year of \$2,752.

Contractual Services – Billing (730)

The Utility recorded contractual services – billing expense of \$18,545. Audit staff decreased this account by \$18,545, reallocating \$5,000 to contractual services – accounting (732), \$1,545 to contractual services – testing (735), and \$12,000 to contractual services – other (736).

Contractual Services – Accounting (732)

Staff increased this account by \$5,000 to reflect the reclassification from Account 730. Staff reviewed support documentation which included two invoices for \$2,500 each, one in September 2015, and another in May 2016. Each invoice reflected the preparation of Beaches' corporate tax return. Because staff utilized a test year from July 1, 2015, through June 30, 2016, the cost associated with both returns was captured in the Utility's test year. While staff believes that the Utility should be able to recover the cost associated with the annual preparation of its corporate tax return, the allowed recovery should include the expense of one return per year, not two. Therefore, staff removed the \$2,500 duplicative cost associated with one of the returns and recommends accounting expense of \$2,500.

Contractual Services – Testing (735)

Staff increased this account by \$1,545 to reflect testing expense supported by actual documentation. This amount was reclassified from Account 730. Therefore, staff recommends testing expense of \$1,545.

Contractual Services - Other (736)

Staff increased this account by \$12,000 to reflect the appropriate amount of contractual services-other expense supported by documentation. This amount was reclassified from Account 730 and represents the contractual services for the operator of the wastewater plant at \$1,000 per month. In response to the Staff Report, the Utility included a revised contract for the plant operator which provides that as of July 15, 2017, the plant operator will be paid \$1,100 per month (\$13,200 per year).¹⁷ Staff believes that increase is reasonable. Since the change is known and measurable and scheduled to go into effect just a few days after the Commission's vote in this docket, staff believes the revised amount should be included in O&M expenses. Therefore, staff recommends contractor operator expense of \$13,200.

¹⁷Document No. 02928-17, dated March 3, 2017. The filing also included a detailed division of responsibilities and duties for the plant operator.

The Utility also provided documentation showing costs related to Beaches' WWTP permit renewal with the DEP. According to support documentation, the Utility paid a total of \$2,000 for Engineering Solutions International to prepare and submit the permit renewal. This renewal takes place every five years. While the invoice was dated October 2014, which is outside the test year, staff believes the expense should be amortized and included here due to its recurring nature. As such, staff has included \$400 ($\$2,000 / 5 \text{ yrs.}$) for DEP permit renewal. Therefore, staff recommends contractual services - other expense of \$13,600 ($\$13,200 + \400).

Rent Expense (740)

The Utility recorded rent expense of \$7,200. The Utility provided a copy of its lease in response to Staff's First Data Request. The lease calls for \$600 a month in rent, which includes insurance, repairs, utilities, and all furniture, computers, software, etc. This amount has not changed since 2012, based on the Utility's 2012-2015 Annual Reports. As such, staff made no adjustments. Therefore, staff recommends rent expense of \$7,200.

Transportation Expense (750)

Beaches did not record transportation expense for the test year. As discussed in Insurance Expense (755) below, staff removed the entire amount related to vehicle insurance. However, staff believes that the Utility should be allowed to recover utility-related expenses associated with the vehicle added to UPIS in Issue 3. In its place, staff recommends using the Utility's mileage estimates and IRS standard mileage rates to develop an appropriate amount of transportation expense.¹⁸ Staff believes that the Utility's mileage estimate is reasonable based on normal operations. According to the IRS, the standard mileage rate for business includes the fixed and variable costs of operating a vehicle for business purposes. These costs would include standard maintenance, repairs, taxes, gas, insurance, and registration fees. As a result, staff increased transportation expense by \$10,178 ($19,025 \text{ miles} \times \$0.535/\text{per mile}$).

Insurance Expense (755)

The Utility recorded vehicle insurance expense of \$5,856 for the test year. The recorded expense provided insurance coverage for three Utility vehicles. As discussed in Issue 3, staff recommends that transportation equipment costs be adjusted to include one vehicle for Utility operations. As such, staff removed the entire amount related to vehicle insurance here, but believes it has provided an appropriate alternate amount as part of its calculation of Transportation Expense (750), above. According to the IRS, the standard mileage rate for business includes the fixed and variable costs of operating a vehicle for business purposes, including vehicle insurance. As such, staff believes that insurance is accurately reflected as part of Transportation Expense (750) and removed \$5,856 from insurance expense.

In response to the Staff Report, the Utility provided a copy of its commercial general liability policy renewal with a premium of \$2,335 per year.¹⁹ The premium associated with this general liability policy does not appear to have been previously included in the Utility's insurance expense. As such, staff believes that \$2,335 should be included in insurance expense. This

¹⁸The IRS standard mileage rate for business is 53.5 cents per mile for 2017.

¹⁹Document No. 02928-17, filed March 3, 2017.

represents a net reduction of \$3,521 (-\$5,856 + \$2,335). Therefore, staff recommends insurance expense of \$2,335.

Regulatory Commission Expense (765)

The Utility did not record regulatory commission expense for the test year. The Utility is required by Rule 25-22.0407, F.A.C., to provide notices of the customer meeting and notices of final rates in this case to its customers. For noticing, staff estimated \$300 for postage expense, \$214 for printing expense, and \$31 for envelopes. This results in \$545 for the Phase I noticing requirement. Staff also estimated \$150 for postage expense, \$61 for printing expense, and \$15 for envelopes for the Phase II notice. This results in \$226 for the Phase II noticing requirement. The Utility also paid a \$1,000 rate case filing fee. In response to a staff data request, the Utility notified staff that it had spent \$319 to obtain water usage information from the municipal water system.²⁰ Staff believes that since the cost was incurred as a result of a staff request, the Utility should be allowed to recover it here. Based on the above, staff recommends total rate case expense of \$2,090 (\$545 + \$226 + \$1,000 + \$319), which amortized over four years is \$523. Therefore, staff recommends regulatory commission expense of \$523.

Bad Debt Expense (770)

Beaches recorded bad debt expense of \$2,971 for the test year. This amount reflects the actual bad debt expense per the Utility’s records. Staff believes the Utility’s recorded bad debt expense is reasonable and representative of the Utility’s bad debt expense going forward. Staff made no adjustments to bad debt expense. Therefore, staff recommends bad debt expense of \$2,971.

Miscellaneous Expense (775)

The Utility recorded miscellaneous expense of \$27,928. Staff recommends the following adjustments to miscellaneous expense:

**Table 6-2
 Adjustments Made to Miscellaneous Expense**

	Adjustment Description	Amount
1.	To reflect appropriate test year cell phone expense.	(\$136)
2.	To remove meals with association representative.	(98)
3.	To reflect appropriate test year postage expense.	41
4.	To remove plant items that were incorrectly expensed. (Issue 3)	(7,457)
5.	To remove duplicate phone bill.	(48)
6.	To remove water bill late fees.	(20)
7.	To remove gift card purchase.	(200)
	Total	<u>(\$7,918)</u>

Source: Utility records, Audit Response, responses to staff data requests, and Audit Control No. 16-222-1-1.

²⁰Document No. 00104-17, filed January 4, 2017.

During this docket, the Utility also requested the following pro forma expense items that were not included in the miscellaneous expense adjustments listed above:

**Table 6-3
Pro Forma Expense Items**

	Description	Amount
1.	Landscaping to address customer complaints regarding the plant and ponds.	\$2,500
2.	Clear the ponds of vegetation, add sand.	\$5,800
3.	Sand and grit removal from the wastewater treatment plant.	<u>\$19,010</u>
	Total	<u>\$27,310</u>

Source: Responses to staff data requests.

These items are addressed in additional detail as part of the Phase II discussion in Issue 16. As such, staff's total adjustments decrease this account by \$7,918. Therefore, staff recommends miscellaneous expense of \$20,010 (\$27,928 - \$7,918).

Operation and Maintenance Expenses Summary

Based on the above adjustments, staff recommends that the O&M expense balance is \$138,009. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A through 3-C.

Depreciation Expense (Net of Amortization of CIAC)

The Utility's records reflect test year depreciation of \$7,306 and CIAC amortization of \$6,407, for a net depreciation expense of \$899 (\$7,306 - \$6,407). Audit staff recalculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff decreased depreciation expense by \$3,404 to reflect the appropriate depreciation expense. Staff included depreciation expense for the plant repair that is being capitalized as addressed in Issue 3; this adjustment results in an increase in depreciation expense of \$88. Staff also calculated depreciation expense of \$109 for the additional plant the Utility has requested and \$6,901 for the new Utility vehicle, also addressed in Issue 3. In addition, staff decreased depreciation expense by \$385 to reflect the non-U&U portion of the test year depreciation expense. This results in additional depreciation expense of \$10,615 (\$7,306 - \$3,404 + \$88 + \$109 + \$6,901 - \$385). Beaches recorded amortization of CIAC expense as \$6,407 during the test year. Audit staff also recalculated amortization of CIAC expense and increased this account by \$6,403 to reflect the appropriate amount of this expense during the test year. This results in CIAC amortization of \$12,810 (\$6,407 + \$6,403).

Staff's adjustments result in negative net depreciation expense of \$2,195 (\$10,615 - \$12,810). As in cases where negative rate base is adjusted to zero, the Commission has previously adjusted test year depreciation expense to zero.²¹ Therefore, staff increased wastewater depreciation

²¹See e.g; Order No. PSC-07-0865-PAA-SU, issued October 29, 2007, in Docket No. 060285-SU, *In re: Application for increase in wastewater rates in Charlotte County by Utilities, Inc. of Sandalhaven.*

expense by \$2,195 to set the resulting negative net depreciation expense to zero. Therefore, staff recommends net depreciation expense of zero for wastewater.

Taxes Other Than Income (TOTI)

Beaches recorded taxes other than income (TOTI) of \$13,284 for the test year. Staff recommends the following adjustments to TOTI:

**Table 6-4
Adjustments Made to TOTI**

	Adjustment Description	Amount
1.	To reflect appropriate test year RAFs.	(\$100)
2.	To reflect appropriate test year property tax.	(2,242)
3.	To reflect actual test year filing fees.	(150)
4.	To reclassify payroll taxes from Acct. 703.	3,993
5.	To reflect additional payroll taxes from salary increase.	842
6.	To reflect property tax associated with plant reclassified from Acct. 775.	26
7.	To reflect property tax associated with pro forma plant.	41
	Total	<u>\$2,411</u>

Source: Utility records, Audit Response, responses to staff data requests, and Audit Control No. 16-222-1-1

Staff's total adjustment to test year TOTI is an increase of \$2,411.

In addition, as discussed in Issue 8, revenues have been increased by \$33,976 to reflect the change in revenue required to cover expenses and allow the recommended rate of return. As a result, TOTI should be increased by \$1,529 to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$17,223.

Operating Expenses Summary

The application of staff's recommended adjustments to Beaches' test year operating expenses results in operating expenses of \$155,232. Operating expenses are shown on Schedule Nos. 3-A. The related adjustments are shown on Schedule Nos. 3-B and 3-C.

Issue 7: Should the Commission utilize the operating ratio methodology as an alternative method of calculating the wastewater revenue requirement for Beaches Sewer Systems, Inc., and, if so, what is the appropriate margin?

Recommendation: Yes. The Commission should utilize the operating ratio methodology for calculating the revenue requirement for Beaches. The margin should be 7.25 percent of O&M expense. (Brown)

Staff Analysis: Section 367.0814(9), F.S., provides that the Commission may, by rule, establish standards and procedures for setting rates and charges of small utilities using criteria other than those set forth in Sections 367.081(1), (2)(a), and (3), F.S. Rule 25-30.456, F.A.C., provides an alternative to a staff-assisted rate case as described in Rule 25-30.455, F.A.C. As an alternative, utilities with total gross annual operating revenue of less than \$275,000 per system may petition the Commission for staff assistance using alternative rate setting.

Beaches did not petition the Commission for alternative rate setting under the aforementioned rule, but staff believes the Commission should employ the operating ratio methodology to set rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the Utility's rate base, the revenue requirement is based on Beaches' O&M expenses plus a margin. This methodology has been applied in cases in which the traditional calculation of the revenue requirement would not provide sufficient revenue to protect against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU,²² the Commission, for the first time, utilized the operating ratio methodology as an alternative means for setting rates. This order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expense. This criterion was applied again in Order No. PSC-97-0130-FOF-SU.²³ Recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-17-0144-PAA-WU.²⁴

By Order No. PSC-96-0357-FOF-WU, the Commission established criteria to determine whether to utilize the operating ratio methodology for those utilities with low or non-existent rate base. The qualifying criteria established by Order No. PSC-96-0357-FOF-WU and how they apply to the Utility are discussed below:

²²Order No. PSC-96-0357-FOF-WU, issued March 13, 1996, in Docket No. 950641-WU, *In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.*

²³Order No. PSC-97-0130-FOF-SU, issued February 10, 1997, in Docket No. 960561-SU, *In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.*

²⁴Order No. PSC-17-0144-PAA-WU, issued April 27, 2017, in Docket No. 160143-WU, *In re: Application for staff-assisted rate case in Hardee County by Charlie Creek Utilities, LLC.*

- 1) Whether the Utility's O&M expense exceeds rate base. The operating ratio method substitutes O&M expense for rate base in calculating the amount of return. A utility generally would not benefit from the operating ratio method if rate base exceeds O&M expense. In the instant case, rate base is less than the level of O&M expense. The Utility's primary risk resides with covering its operating expense. Based on staff's recommendation, the adjusted wastewater rate base for the test year is \$72,658, while adjusted O&M expenses are \$138,009.
- 2) Whether the Utility is expected to become a Class B utility in the foreseeable future. Pursuant to Section 367.0814(9), F.S., the alternative form of regulation being considered in this case only applies to small utilities. Beaches is a Class C utility and the recommended revenue requirement of \$165,232 is below the threshold level for Class B status. The Utility's service area has not had any significant growth in the last five years. Therefore, it appears the Utility will not become a Class B utility in the foreseeable future.
- 3) Quality of service and condition of plant. As discussed in Issue 1, the quality of service should be considered satisfactory.
- 4) Whether the Utility is developer-owned. The current utility owner is not a developer.
- 5) Whether the Utility operates treatment facilities or is simply a distribution and/or collection system. The issue is whether or not purchased water and/or wastewater costs should be excluded in the computation of the operating margin. Beaches operates a wastewater treatment plant.

Based on staff's review of the Utility's situation relative to the above criteria, staff recommends that Beaches is a viable candidate for the operating ratio methodology.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, the Commission determined that a margin of 10 percent shall be used unless unique circumstances justify the use of a greater or lesser margin. The important question is not what the return percentage should be, but what level of operating margin will allow the Utility to provide safe and reliable service and remain a viable entity. The answer to this question requires a great deal of judgment based upon the particular circumstances of the Utility.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenue for the Utility to cover its interest expense. Beaches interest expense is not a concern in this case.

Second, the operating ratio method recognizes that a major issue for small utilities is cash flow; therefore, the operating ratio method focuses more on cash flow than on investment. In the instant case, the Utility's primary risk resides with covering its operating expense. A traditional calculation of the revenue requirement may not provide sufficient revenue to protect against potential variances in revenues and expenses. Under the rate base methodology, the return to

Date: June 29, 2017

Beaches would be \$3,882. Staff does not believe this would provide the necessary financial cushion to successfully operate this Utility.

Third, if the return on rate base method was applied, a normal return would generate such a small level of revenue that in the event revenues or expenses vary from staff's estimates, Beaches could be left with insufficient funds to cover operating expenses. Therefore, the margin should provide adequate revenue to protect against potential variability in revenues and expenses. If the Utility's operating expenses increase or revenues decrease, Beaches may not have the funds required for day-to-day operations. Using a 10 percent margin in this docket produces an operating margin of \$13,801, which is above the suggested cap of \$10,000. As such, staff recommends a 7.25 percent margin in this case, resulting in a \$10,000 operating margin.

In conclusion, staff believes the above factors show that the Utility needs a higher margin of revenue over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide Beaches with adequate cash flow to provide some assurance of safe and reliable service, staff recommends application of the operating ratio methodology at a margin of 7.25 percent of O&M expense for determining the revenue requirements.

Issue 8: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$165,232 resulting in an annual increase of \$33,976 (25.89 percent). (Brown)

Staff Analysis: Beaches should be allowed an annual increase of \$33,976 (25.89 percent). This will allow the Utility the opportunity to recover its expenses as well as a 7.25 percent margin on O&M expenses for its water systems. The calculations are shown below in Table 8-1.

**Table 8-1
Wastewater Revenue Requirement**

Adjusted O&M Expense	\$138,009
Operating Margin (%)	<u>7.25%</u>
Operating Margin (\$10,000 Cap)	\$10,000
Adjusted O&M Expense	138,009
Depreciation Expense (Net)	0
Taxes Other Than Income	15,695
Test Year RAFs	<u>1,529</u>
Revenue Requirement	\$165,232
Less Adjusted Test Year Revenues	<u>131,256</u>
Annual Increase	<u>\$33,976</u>
Percent Increase	<u>25.89%</u>

Issue 9: What is the appropriate rate structure and rate for Beaches Sewer Systems, Inc.?

Recommendation: Staff recommends a monthly flat rate for residential and general wastewater service of \$40.26 per month as 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 or connections made on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility should provide proof of noticing within 10 days of rendering its approved notice. (Friedrich)

Staff Analysis: Beaches is located in Gulf County and currently provides wastewater service to approximately 316 residential and 4 general service customers. The Utility's current rate structure for residential and general service customers consists of a monthly flat rate of \$32.20. The customers served by this Utility receive their water from the City of Port St. Joe. Staff asked the Utility for water data in order to evaluate the Utility's current rate structure and possible alternatives. The Utility provided one month of water data of its customers. However, the Utility expressed that there would be additional costs incurred for obtaining water usage data from the city to bill for wastewater. Therefore, staff does not believe it would be cost effective to bill based on the metered water usage and believes maintaining the Utility's current flat rate structure is appropriate. As a result, the recommended increase, excluding miscellaneous revenues, should be applied across the board to the existing monthly flat rate. The appropriate miscellaneous revenues to exclude should reflect the incremental increase in the Utility's miscellaneous service and late payment charges. Staff's calculation is shown below in Table 9-1.

Table 9-1
Percentage Service Rate Increase

1. Total Test Year Revenues	\$131,256
2. Less: Test Year Miscellaneous Revenues	<u>\$2,160</u>
3. Test Year Revenues from Service Rates	\$129,096
4. Revenue Increase	\$33,976
5. Less: Incremental Increase in Miscellaneous Revenues	<u>\$1,660</u>
6. Adjusted Revenue Increase	\$32,316
7. Percentage Service Rate Increase (Line 6/ Line 3)	25.03%

Based on the above, staff recommends a monthly flat rate for residential and general service wastewater customers of \$40.26 per month as 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 or connections made on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility should provide proof of noticing within 10 days of rendering its approved notice.

Issue 10: What are the appropriate miscellaneous service charges for Beaches Sewer Systems, Inc.?

Recommendation: The miscellaneous service charges identified in Table 10-4 are appropriate and should be approved. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved miscellaneous service charges. The approved charges should be effective for service rendered or connections made on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility should provide proof of noticing within 10 days of rendering its approved notice. (Friedrich)

Staff Analysis: The Utility’s current miscellaneous service charges are shown in Table 10-4. The Utility is requesting updated miscellaneous service charges to reflect current costs. Section 367.091, F.S., authorizes the Commission to change miscellaneous service charges. Staff’s recommended miscellaneous service charges reflect the hourly salaries of the administrative and field employees and the average distance traveled by the field employee to administer miscellaneous services during normal and after hours. The after hours transportation cost is less than the cost during normal business hours because the residence of the field employee is closer to the Utility’s service territory than the Utility’s office. This is reflected in Tables 10-1, 10-2, and 10-3 in staff’s transportation calculations. Staff’s recommended miscellaneous service charges are rounded to the nearest ten cents and are summarized in Table 10-4.

Initial Connection Charge

The initial connection charge is levied for service initiation at a location where service did not exist previously. A Beaches’ representative makes one round trip when performing the service of an initial connection. Based on labor and transportation to and from the customer’s property, staff recommends initial connection charges of \$25.70 for normal hours and \$27.70 for after hours. Staff’s calculation is shown below in Table 10-1.

**Table 10-1
 Initial Connection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Administrative Labor \$22.66/hr x 1/4hr	\$5.67	Administrative Labor \$22.66/hr x 1/4hr	\$5.67
Field Labor \$31.64/hr x 1/3hr	\$10.55	Field Labor \$47.46/hr x 1/3hr	\$15.82
Transportation \$0.535/mile x 17.6 miles-to/from	\$9.42	Transportation \$0.535/mile x 11.6 miles-to/from	\$6.21
Total	\$25.64	Total	\$27.70

Source: Utility’s cost justification documentation.

Normal Reconnection Charge

A 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 off and the other to turn service on.

Based on labor and transportation to and from the customer’s property or premises, staff recommends that the normal reconnection charge should be \$46.00 for normal hours and \$47.50 for after hours. Staff’s calculations are shown below in Table 10-2.

**Table 10-2
 Normal Reconnection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Administrative Labor \$22.66/hr x 1/4hr x 2	\$11.33	Administrative Labor \$22.66/hr x 1/4hr x 2	\$11.33
Field Labor \$31.64/hr x 1/4hr x 2	\$15.82	Field Labor \$47.46/hr x 1/4hr x 2	\$23.73
Transportation \$0.535/mile x 17.6 miles-to/from x 2	\$18.83	Transportation \$0.535/mile x 11.6 miles-to/from x 2	\$12.41
Total	\$45.98	Total	\$47.47

Source: Utility’s cost justification documentation

Violation Reconnection Charge

The violation reconnection charge is levied prior to reconnection of an existing customer after discontinuance of service for cause according to Rule 25-30.460(1)(c), F.A.C., including a delinquency in bill payment. Violation reconnection charges are at the tariffed rate for water and actual cost for wastewater. Therefore, staff recommends this charge should remain at the Utility’s actual cost to administer and process a violation reconnection.

Premises Visit Charge

The premises visit charge is levied when a service representative visits the 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 charge 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 round trip.

Based on labor and transportation to and from the customer’s premises, staff recommends premises visit charges of \$25.70 for normal hours and \$27.70 for after hours. Staff’s calculations are shown in Table 10-3.

**Table 10-3
 Premises Visit Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Administrative Labor \$22.66/hr x 1/4hr	\$5.67	Administrative Labor \$22.66/hr x 1/4hr	\$5.67
Field Labor \$31.64/hr x 1/3 hr	\$10.55	Field Labor \$47.46/hr x 1/3 hr	\$15.82
Transportation \$0.535/mile x 17.6 miles-to/from	\$9.42	Transportation \$0.535/mile x 11.6 miles-to/from	\$6.21
Total	\$25.64	Total	\$27.70

Source: Utility's cost justification documentation.

The Utility's current and staff's recommended miscellaneous service charges are shown below in Table 10-4.

**Table 10-4
 Miscellaneous Service Charges**

	Current	Staff Recommended	
	Normal and After Hours	During Hours	After Hours
Initial Connection Charge	\$15.00	\$25.70	\$27.70
Normal Reconnection Charge	\$15.00	\$46.00	\$47.50
Violation Reconnection Charge	Actual Cost	Actual Cost	
Premises Visit Charge	\$10.00	\$25.70	\$27.70

Conclusion

Based on the above, the recommended miscellaneous service charges identified in Table 10-4 are appropriate and should be approved. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved miscellaneous service charges. The approved charges should be effective for service rendered or connections made on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility should provide proof of noticing within 10 days of rendering its approved notice.

Issue 11: Should Beaches Sewer Systems, Inc. be authorized to collect Non-Sufficient Funds Charges (NSF)?

Recommendation: Yes. Beaches should be authorized to collect NSF charges. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved NSF charges. The approved charges should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility should provide proof of noticing within 10 days of rendering its approved notice. (Friedrich)

Staff Analysis: Section 367.091, F.S., authorizes the Commission to approve NSF charges. Staff believes that Beaches 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.²⁵ Furthermore, NSF charges place the cost on the cost-causer, rather than requiring that the costs associated with the return of the NSF checks to be spread across the general body of ratepayers. As such, Beaches should be authorized to collect NSF charges. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved NSF charges. The approved charges should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility should provide proof of noticing within 10 days of rendering its approved notice.

²⁵Order 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 12: What is the appropriate late payment charge to be implemented by Beaches Sewer Systems, Inc.?

Recommendation: The appropriate late payment charge to be implemented by Beaches should be \$5.43. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved late payment charge. The approved charge should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility should provide proof of noticing within 10 days of rendering its approved notice. (Friedrich)

Staff Analysis: The Utility requested a \$5.41 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, F.S. Beaches' labor cost of \$4.83 accounts for the office personnel time to review and process a delinquent account. The provided justification by Beaches also included costs for supplies and postage for printing and sending out late payment notices. The Utility requested recovery of \$0.47 for postage, but staff recommends the Utility recover the full cost of a postage stamp, which is \$0.49. The cost basis for the late payment charge is shown below in Table 12-1.

**Table 12-1
Late Payment Charge Cost Justification**

Activity	Cost
Labor	\$4.83
Supplies	0.11
Postage	0.49
Total Cost	<u>\$5.43</u>

Source: Utility's cost justification documentation.

Since the 1990s, the Commission has approved late payment charges ranging from \$2.00 to \$7.15.²⁶ The purpose of this charge is to provide an incentive for customers to make timely payments and to place the cost burden of processing delinquent accounts solely upon those who are cost causers.

Based on the above, the appropriate late payment charge to be implemented by Beaches should be \$5.43. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved late payment charge. The approved charge should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility should provide proof of noticing within 10 days of rendering its approved notice.

²⁶Order Nos. PSC-17-0092-PAA-WU, in Docket No. 160144-WU, dated March 13, 2017, *In Re: Application for transfer of Certificate No. 288-W in Pasco County from Orangeland Water Supply to Orange Land Utilities, LLC*; PSC-17-0091-FOF-SU, in Docket No. 150071-SU, dated March 13, 2017, *In Re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

Issue 13: Should Beaches Sewer System's existing service availability charges be revised, and if so, what are the appropriate charges?

Recommendation: Yes. Beaches' existing wastewater service availability charges should be revised in part. A main extension charge of \$373 per ERC should be approved. The recommended service availability charge should be based on an estimated 240 gallons per day of treated wastewater. The Utility's existing customer connection and plant capacity charges should be continued. The Utility should file revised tariff sheets and a proposed customer notice. Beaches should provide notice to property owners who have requested service 12 months prior to the month the application was filed to the present. The approved charges should be effective for connections made on or after the stamped approval date on the tariff sheets. The Utility should provide proof of noticing within 10 days of rendering its approved notice. (Friedrich)

Staff Analysis: Beaches' current service availability charges, which were approved in 1988, include a customer connection charge of \$100, a main extension charge of \$100, and a plant capacity charge of \$300. If a customer connects in an area where the line was constructed by the developer and donated to the Utility, the customer is not required to pay the main extension charge.

Rule 25-30.580, F.A.C., establishes guidelines for designing a Utility's service availability charges. Pursuant to the rule, the maximum amount of contributions-in-aid-of construction (CIAC), net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of the Utility's facilities and plant when the facilities and plant are at their designed capacity. The minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the sewage collection systems.

A customer connection charge is designed to recover the cost of installing a connection from the Utility's wastewater line to a customer's property. Staff recommends no change to the Utility's existing customer connection charge.

However, staff believes the Utility's existing main extension charge should be revised to reflect the average historical cost of the existing sewage collection system. The cost of the sewage collection system is \$151,242 and the lines have a design capacity of 405 ERCs. Therefore, staff recommends a main extension charge of \$373. This charge is consistent with the guidelines in Rule 25-30.580, F.A.C., which provide that, at a minimum, the cost of the Utility's lines should be contributed.

As previously discussed, the Utility receives guaranteed revenues from approximately 45 property owners. Consistent with prior Commission decisions, a developer or property owner who pays guaranteed revenues is not required to pay additional service availability charges if there is an increase prior to the date of connection.²⁷ Therefore, upon connection, those property owners who have paid guaranteed revenues will not be required to pay the incremental increase in the main extension charge.

²⁷Order No. 16625, in Docket No. 861171-WS, dated September 23, 1986, *In Re: Petition of Edward L. Keohane for Declaratory Statement*

The Utility's current contribution level is approximately 24 percent and Beaches is approximately 90 percent built out. Staff does not recommend any change to the Utility's existing plant capacity charge because the current charge reflects the average cost per ERC of the Utility's treatment facilities. Although these charges are unlikely to result in a significant increase in the Utility's overall contribution level, staff does not recommend requiring future connections to pay more than their fair share of the cost of the Utility's investment in its treatment facilities. The Utility's existing and staff's recommended service availability charges are shown below in Table 13-1.

Table 13-1
Service Availability Charges

Charge Type	Current	Staff Recommended
Customer Connection (Tap-in) Charge	\$100.00	\$100.00
Main Extension Charge	\$100.00	\$373.00
Plant Capacity Charge	\$300.00	\$300.00

Based on the above, Beaches' existing wastewater service availability charges should be revised in part. A main extension charge of \$373 per ERC should be approved. The recommended service availability charge should be based on an estimated 240 gallons per day of treated wastewater. The Utility's existing customer connection and plant capacity charges should be continued. The Utility should file revised tariff sheets and a proposed customer notice. Beaches should provide notice to property owners who have requested service 12 months prior to the month the application was filed to the present. The approved charges should be effective for connections made on or after the stamped approval date on the tariff sheets. The Utility should provide proof of noticing within 10 days of rendering its approved notice.

Issue 14: Should Beaches Sewer System's guaranteed revenue charge be revised?

Recommendation: Yes. Beaches' guaranteed revenue charge should be revised. Staff's recommended guaranteed revenue charge is \$11.03 per ERC. The Utility should file revised tariff sheets and a proposed customer notice. Beaches should provide notice to property owners who have requested service 12 months prior to the month the application was filed to the present, as well as all property owners currently paying the guaranteed revenue charge. The approved charge should be effective on or after the stamped approval date on the tariff sheets. The Utility should provide proof of noticing within 10 days of rendering its approved notice. (Friedrich)

Staff Analysis: Beaches' current guaranteed revenue charge of \$8.82 per ERC was approved in 1988.²⁸ Pursuant to Rule 25-30.515(9), F.A.C., the guaranteed revenue charge is designed to cover the Utility's costs including, but not limited to the cost of operation, maintenance, depreciation, and any taxes, and to provide reasonable return to the Utility for facilities, a portion of which may not be used and useful to the Utility of existing customers. This charge is designed to help the Utility recover a portion of its cost from the time capacity is reserved until a customer begins to pay monthly service charges. In addition, the Utility should only begin to collect the guaranteed revenue charge upon the payment of the applicable service availability charges. The Commission has found that a guaranteed revenue charge locks in the amount of service availability charges notwithstanding a Commission approved change in service availability charges prior to the time of connection.²⁹

In the past, the Commission has, on occasion, based guaranteed revenue charges on the Utility's approved base facility charge to reflect the fixed costs associated with the reserved capacity.³⁰ However, Beaches bills customers a monthly flat rate for wastewater service; therefore, staff believes it is appropriate to apply the recommended revenue increase of 25.03 percent, as calculated in Issue 9 across the board to the Utility's existing guaranteed revenue charge.

Based on the above, Beaches' guaranteed revenue charge should be revised. Staff's recommended guaranteed revenue charge is \$11.03 per ERC. The Utility should file revised tariff sheets and a proposed customer notice. Beaches should provide notice to property owners who have requested service 12 months prior to the month the application was filed to the present, as well as all property owners currently paying the guaranteed revenue charge. The approved charge should be effective on or after the stamped approval date on the tariff sheets. The Utility should provide proof of noticing within 10 days of rendering its approved notice.

²⁸Order No. 19435, in Docket No. 880596-SU, dated June 6, 1988, *In Re: Request for approval of a special service availability contract between Gulf Aire Properties, Inc. d/b/a Gulf Aire Wastewater Treatment Plant, and C.M. Parker and Cecil G. Costin, Jr. in Gulf County.*

²⁹Order No. 16625, in Docket No. 861171-WS, dated September 23, 1986, *In Re: Petition of Edward L. Keohane for Declaratory Statement.*

³⁰Order No. PSC-99-0513-FOF-WS, in Docket No. 980214-WS, dated March 12, 1999, *In Re: Application for rate increase in Duval, St. Johns and Nassau Counties by United Water Florida Inc.*

Issue 15: Should the Utility be required to discontinue the collection of Allowance for Funds Prudently Invested (AFPI) for the collection system?

Recommendation: Yes. Staff recommends that the Utility should be required to discontinue the collection of AFPI charges for the collection system and the tariff for AFPI should be canceled. (Friedrich)

Staff Analysis: Pursuant to Rule 25-30.434, F.A.C., AFPI is a mechanism which allows a Utility the opportunity to earn a fair rate of return on prudently constructed plant held for future use from the future customers to be served by that plant in the form of a charge paid by those customers. Further, the Rule prescribes that the Utility can continue to collect AFPI until all projected ERCs included in the calculation of the charge have been added. Beaches' AFPI charges for the collection system were approved on December 26, 1989. The Utility was authorized to collect the charge from 185 additional ERCs.

At the time the charges were approved the Utility was serving approximately 120 customers. Currently, the Utility serves approximately 320 customers; therefore, it appears that the additional 185 ERCs have connected to the Utility. Based on the above, staff recommends that the Utility should be required to discontinue the collection of AFPI charges for the collection system and the tariff for AFPI should be canceled.

Issue 16: Should the Commission approve a Phase II increase for pro forma items for Beaches Sewer Systems, Inc.?

Recommendation: No. Staff believes that a final decision on the amount of the Phase II revenue requirement and rates should be made after the Utility has completed the Phase II pro forma projects and the costs have been evaluated. The Utility should complete the pro forma items within 12 months of the issuance of the consummating order. After this period, the Utility should be required to submit within 60 days a copy of the final invoices and cancelled checks for all Phase II pro forma plant and O&M items to staff. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing. Once the required information has been submitted by the Utility and evaluated by staff, a recommendation regarding the appropriate amount of the Phase II revenue requirement and rates should be considered by the Commission. (Brown, Matthews)

Staff Analysis: The Utility requested recognition of several pro forma plant items in the instant case which totaled \$130,092. Staff identified three pro forma items, totaling \$27,390, which should be reclassified as pro forma expense. Staff’s preliminary adjustments are reflected in Table 16-1. The remaining \$102,702 (\$130,092 - \$19,010 - \$5,880 - \$2,500) in pro forma plant items, and any preliminary staff adjustments to those items, are also reflected in Table 16-1 below. The Utility anticipates that all pro forma projects listed below will be completed no later than July 30, 2018.³¹

**Table 16-1
Pro Forma Items**

Description	Per Utility	Staff Recom.	Staff Adj.	Reason for Staff Adjustment
Pro Forma O&M				
Landscaping	\$2,500	\$0	(\$2,500)	No bid provided.
Clear Ponds of Vegetation	5,880	4,152	(1,728)	Reduced hourly rate included in bid.
Sand and Grit Removal	19,010	19,010	0	
Total Pro Forma O&M	<u>\$27,390</u>	<u>\$23,162</u>	<u>(\$4,228)</u>	
Pro Forma Plant				
Purchase of Portable Generator	\$31,560	\$23,756	(\$7,804)	Used lower of two provided bids.
Replace Lift Station Pump (Hwy 98)	12,200	12,200	0	
Replace Lift Station Pump (Americus)	14,000	14,000	0	
Replace Control Panel (Americus)	2,581	2,581	0	
Replace of Rail System (Americus)	6,500	0	(6,500)	Included in Americus pump bid.
Purchase of Second Blower	2,617	2,617	0	
Replace Piping at WWTP/Ponds	14,500	0	(14,500)	No bids provided.
Repair Fencing at WWTP	10,744	7,864	(2,880)	Reduced hourly rate included in bid.
Install Electrical Hookup for Generator	4,000	4,000	0	
Repair to Clarifier at WWTP	4,000	0	(4,000)	No bid provided.
Total Pro Forma Plant	<u>\$102,702</u>	<u>\$67,018</u>	<u>(\$35,684)</u>	
Total	<u>\$130,092</u>	<u>\$90,180</u>	<u>(\$39,912)</u>	

Source: Utility responses to staff data requests.

³¹Document No. 04224-17, filed April 14, 2017.

Staff requested the Utility provide several bids and/or quotes for each pro forma project on several occasions, yet was only provided with one bid for many of the projects. Staff notes that several of the bids date to late 2014 and early 2015, while several other much needed pro forma items have no bids. Beaches indicated that it had difficulty finding companies or persons to provide quotes and perform specific jobs. During the site visit, staff observed the condition of Beaches' plant and believes the majority of the pro forma projects are warranted.

Pro Forma Expense

Beaches requested three pro forma expense items, totaling \$27,390, which are summarized in the table above and discussed in additional detail below.

Landscaping

The Utility requested \$2,500 to install landscaping at the WWTP and lift stations. The Utility did not provide any bids describing the nature of the work to be performed, or a cost breakdown of materials and labor to justify the expense. Absent additional support documentation, staff removed the expense from Phase II consideration.

Pond Clearing

The Utility has also requested the inclusion of \$5,880 to clear the ponds of vegetation, add sand, and apply a growth inhibitor to prevent unwanted vegetation in the future. Staff notes that the Beaches' DEP permit requires the Utility to rotate ponds weekly. According to the Utility, that has become increasingly difficult due to the growth of vegetation and the deficient lines. As with the fencing bid included in pro forma plant below, staff takes issue with the hourly labor rate included in the Gulf Coast Property Services, LLC bid for the vegetation clearing. Staff notes the single bid for the project comes from the same company that provided the fencing bid. It also happens to be the same company that provides the Utility's grounds keeping services and is owned by the Utility's Vice-President. Staff believes the labor rate of \$65/hour is excessive given the type of work to be performed. While not directly analogous to the contractual relationships between Ni Florida and Utility Group of Florida, LLC (UGF), or several other utilities' relationship with U.S. Water Services Corporation (USWS), staff believes a similar situation exists here. Staff compared the labor rates charged under the UGF and USWS service agreements for general maintenance or labor to review the reasonableness of the rate included in the bid here. The rate was \$30 per hour for UGF and \$52 per hour for USWS, which result in an average hourly rate of \$41 per hour. As such, staff applied an average labor rate of \$41 per hour instead of \$65 per hour here and in the pro forma fencing project. This reduces the labor component of the bid from \$4,680 (72 hrs. x \$65/hr.) to \$2,952 (72 hrs. x \$41/hr.). All other portions of the bid appear reasonable. As such, staff recommends pro forma pond clearing expense of \$4,152 amortized over five years, or \$830 per year (\$4,152 / 5 years).

Sand and Grit Removal

In addition, the Utility requested \$19,010 for sand and grit removal from the wastewater treatment plant. According to the Utility, this has not been done since the current owner took over approximately 17 years ago. As a result, this has caused the Utility's air lines to become clogged. The Utility believes that once done, this project will not need to be done again for at least five more years. The Utility has estimated that one half of the project will be completed by August 30, 2017, and the other half by July 30, 2018. Staff believes that the project is necessary

to avoid additional repairs at the plant. As such, staff recommends pro forma sand and grit removal expense of \$19,010 amortized over five years, or \$3,802 per year ($\$19,010 / 5$ years).

Accordingly, staff recommends preliminary pro forma O&M expense of \$23,162 ($\$4,152 + \$19,010$) amortized over five years, or \$4,632 per year ($\$830 + \$3,802$).

Pro Forma Plant

The Utility also requested \$102,702 in pro forma plant projects for consideration. Staff made several adjustments to the Utility's request as described below.

Generators

The Utility currently has no generators to provide power to the WWTP or lift station pumps in the event of a power outage. Due to the high cost of this type of equipment, staff recommends that a single generator which can be moved to the particular location is required by Beaches. Staff utilized the lowest bid provided by the Utility for the cost of the portable generator.

Lift Station Pumps

The pumps at lift stations Americus and Highway 98 are in need of replacement due to their excessive age and poor condition. The cost for the pumps were obtained from bids provided by Beaches. In addition, staff determined during its site visit that the control panel and rail system at the Americus lift station need replacement. The rail system used for servicing the pump has completely rusted away and the control panel is in poor condition. The Utility provided a bid for replacing the pump at Americus which included the cost of installing a rail system, so staff did not include the separate cost of the rail system in the list of pro forma items.

Blower

The WWTP currently has a single blower in place; however, the DEP regulations require a backup blower in the event of a failure of the primary blower. The cost for the second blower was based on the invoice provided from the purchase of the primary blower.

Piping

Staff determined during its site visit that the WWTP piping is deteriorated and in need of replacement. The Utility also indicated that in order to operate the ponds per DEP requirements, piping needs to be lowered to facilitate flows to different ponds. However, after requesting bids in at least two data requests for the WWTP piping, the Utility provided none. No bids or formal estimates were received for the pond piping either. Therefore, the replacement of the piping was not included in the pro forma items.

Fencing

The fencing around the WWTP is in need of repair. Only one bid was provided by Beaches. The company providing the single bid is the same company that provided the bid for clearing the ponds of vegetation and is owned by the Utility's Vice-President. The recommended pro forma expense for cleaning the ponds is discussed earlier in this issue. As with the pond cleaning, the recommended amount for labor was adjusted from \$65 per hour to a more reasonable \$41 per hour.

Electrical Equipment

The electrical equipment at the WWTP must be upgraded in order to connect the portable generator when required by a power outage. Staff recommends this pro forma item is necessary, and has based the cost on a bid provided by the Utility.

Clarifier

Although repairs to the clarifier at the WWTP are needed, Beaches did not provide any bid or formal estimate of the cost of the repairs. Without proper documentation, staff is unable to include in pro forma the requested amount for this work. Accordingly, staff recommends preliminary pro forma plant of \$67,018.

Conclusion

Although multiple bids were not provided, staff believes the supported pro forma items recommended above to be reasonable based on the analysis of each item. However, staff anticipates that the final costs associated with the Utility's pro forma expense and plant items will likely be higher than currently reflected due to the age of several of the bids.

As such, staff believes a Phase II revenue requirement associated with the pro forma expense and plant items is appropriate for a number of reasons. First, it assures that the pro forma items are completed prior to the Utility's recovery of the investment in rates. In addition, addressing the pro forma items in a single case saves additional rate case expense to the customers because the Utility would not need to file another rate case or limited proceeding to seek recovery for these items. The Commission has approved a phased-in approach in Docket Nos. 140177-WU, 140175-WU, 130265-WU, 110238-WU, and 110165-SU.³²

However, due to concerns with the age of some bids, staff is recommending that a final decision on the amount of the Phase II revenue requirement and rates should be made after the Utility has completed the Phase II pro forma O&M and plant items listed above and the costs have been evaluated by staff. The Utility should complete the pro forma items within 12 months of the issuance of the consummating order. After this period, the Utility should be required to submit within 60 days a copy of the final invoices and cancelled checks for all Phase II pro forma O&M and plant items. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing. Once the required information has been submitted by the Utility and evaluated by staff, a recommendation regarding the appropriate amount of the Phase II revenue requirement and rates should be considered by the Commission.

³²Order Nos. PSC-15-0588-PAA-WU, issued December 29, 2015, in Docket No. 140177-WU, *In re: Application for staff-assisted rate case in Pasco County by Holiday Gardens Utilities, LLC*; PSC-15-0592-PAA-WU, issued December 30, 2015, in Docket No. 140175-WU, *In re: Application for staff-assisted rate case in Pasco County by Crestridge Utilities, LLC*; PSC-14-0626-PAA-WU, issued October 29, 2014, in Docket No. 130265-WU, *In re: Application for staff-assisted rate case in Charlotte County by Little Gasparilla Water Utility, Inc.*; PSC-12-0533-PAA-WU, issued October 9, 2012, in Docket No. 110238-WU, *In re: Application for staff-assisted rate case in Polk County by Sunrise Utilities, LLC*; and PSC-12-0410-PAA-SU, issued August 13, 2012, in Docket No. 110165-WU, *In re: Application for staff-assisted rate case in Highlands County by Utility Corporation of Florida, Inc.*

Issue 17: What is the appropriate amount by which rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense?

Recommendation: The wastewater rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period. The Utility 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 Beaches 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. (Friedrich, Brown)

Staff Analysis: Beaches' wastewater rates should be reduced immediately following the expiration of the four-year rate case expense recovery period by the amount of the rate case expense previously included in the rates, pursuant to 367.081(8) F.S. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs which is \$547 for wastewater. Using the Utility's current revenues, expenses, and customer base, the reduction in revenues will result in the rate decrease shown on Schedule No. 4.

Beaches should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the 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 18: Should the recommended rates be approved for Beaches Sewer Systems, Inc. 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. Beaches 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. (Brown)

Staff Analysis: This recommendation proposes an increase in wastewater 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. Beaches 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.

Beaches 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 \$22,787. 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.

Should the recommended rates be approved by the Commission on a temporary basis, Beaches 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 19: Should the Utility be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision?

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

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. Beaches should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Issue 20: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, 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 Phase II pro forma items have been completed, and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively. (Murphy)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and the Utility has provided staff with proof that the adjustments for all applicable NARUC USOA primary accounts have been made. Also, the docket should remain open to allow staff to verify that the Phase II pro forma items have been completed and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively.

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 06/30/16		DOCKET NO. 160165-SU	
SCHEDULE OF WASTEWATER RATE BASE (PHASE I)			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$616,024	(\$250,862)	\$365,162
LAND & LAND RIGHTS	14,364	7,500	21,864
NON-USED AND USEFUL COMPONENTS	0	(3,007)	(3,007)
CIAC	(247,554)	(33,496)	(281,050)
ACCUMULATED DEPRECIATION	(509,117)	198,919	(310,199)
AMORTIZATION OF CIAC	188,335	74,302	262,637
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>17,251</u>	<u>17,251</u>
WASTEWATER RATE BASE	<u>\$62,052</u>	<u>\$10,606</u>	<u>\$72,658</u>

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.	SCHEDULE NO. 1-B
TEST YEAR ENDED 06/30/16	DOCKET NO. 160165-SU
ADJUSTMENTS TO RATE BASE (PHASE I)	
	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
1. To reflect previously ordered Commission adjustment.	(\$191,682)
2. To reflect removal of unsupported items.	(83,849)
3. To reflect plant that was not booked.	199
4. To reflect major plant repairs previously placed in Acct. 775.	1,864
5. To reflect adjustment for additional plant.	2,934
6. To reflect the purchase of Utility vehicle.	41,406
7. To reflect an averaging adjustment.	<u>(21,735)</u>
Total	<u>(\$250,862)</u>
<u>LAND & LAND RIGHTS</u>	
To reflect the Utility's purchase of land.	<u>\$7,500</u>
<u>NON-USED AND USEFUL PLANT</u>	
1. To reflect non-used and useful plant.	(\$69,232)
2. To reflect non-used and useful accumulated depreciation.	<u>66,225</u>
Total	<u>(\$3,007)</u>
<u>CIAC</u>	
1. To reflect previously ordered Commission adjustment.	(\$31,996)
2. To reflect appropriate CIAC.	<u>(1,500)</u>
Total	<u>(\$33,496)</u>
<u>ACCUMULATED DEPRECIATION</u>	
1. To reflect previously ordered Commission adjustment.	\$66,607
2. To reflect removal of the reserve for transportation costs.	135,915
3. To reflect major plant repairs previously placed in Acct. 775.	(88)
4. To reflect adjustment for additional plant.	(109)
5. To reflect the purchase of Utility vehicle.	(6,901)
6. To reflect an averaging adjustment.	<u>3,495</u>
Total	<u>\$198,919</u>
<u>AMORTIZATION OF CIAC</u>	
1. To reflect previously ordered Commission adjustment.	\$34,296
2. To reflect appropriate amortization of CIAC.	<u>40,006</u>
Total	<u>\$74,302</u>
<u>WORKING CAPITAL ALLOWANCE</u>	
To reflect 1/8 of test year O & M expenses.	<u>\$17,251</u>

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.
TEST YEAR ENDED 06/30/16
SCHEDULE OF CAPITAL STRUCTURE (PHASE I)

SCHEDULE NO. 2
DOCKET NO. 160165-SU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	(\$55,737)	\$55,737	\$0					
2. RETAINED EARNINGS	0	0	0					
3. PAID IN CAPITAL	0	0	0					
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>					
TOTAL COMMON EQUITY	(\$55,737)	\$55,737	\$0	\$0	\$0	0.00%	11.16%	0.00%
5. LONG TERM DEBT	\$217,870	\$48,460	\$266,730	(\$207,806)	\$58,923	81.10%	5.43%	4.41%
6. SHORT-TERM DEBT	0	61,400	61,400	(47,836)	13,564	18.67%	5.00%	0.93%
7. PREFERRED STOCK	<u>0</u>	<u>0</u>	0	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%
TOTAL LONG TERM DEBT	\$217,870	\$110,260	\$328,130	(\$255,643)	\$72,487	99.76%		
8. CUSTOMER DEPOSITS	<u>\$2,166</u>	<u>(\$1,995)</u>	<u>\$171</u>	<u>\$0</u>	<u>\$171</u>	<u>0.24%</u>	2.00%	<u>0.01%</u>
9. TOTAL	<u>\$164,299</u>	<u>\$164,002</u>	<u>\$328,301</u>	<u>(\$255,643)</u>	<u>\$72,658</u>	<u>100.00%</u>		<u>5.34%</u>
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>	
OVERALL RATE OF RETURN						<u>5.34%</u>	<u>5.34%</u>	

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc. TEST YEAR ENDED 06/30/16 SCHEDULE OF WASTEWATER OPERATING INCOME (PHASE I)						SCHEDULE NO. 3-A DOCKET NO. 160165-SU
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$131,149</u>	<u>\$107</u>	<u>\$131,256</u>	<u>\$33,976</u> 25.89%	<u>\$165,232</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$131,861	\$6,148	\$138,009	\$0	\$138,009	
3. DEPRECIATION	7,306	5,504	12,810	0	12,810	
4. AMORTIZATION	(6,407)	(6,403)	(12,810)	0	(12,810)	
5. TAXES OTHER THAN INCOME	13,284	2,411	15,695	1,529	17,223	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$146,044</u>	<u>\$7,659</u>	<u>\$153,703</u>	<u>\$1,529</u>	<u>\$155,232</u>	
8. OPERATING INCOME/(LOSS)	<u>(\$14,895)</u>		<u>(\$22,407)</u>		<u>\$10,000</u>	
9. WASTEWATER O&M EXPENSE	<u>\$131,861</u>		<u>\$138,009</u>		<u>\$138,009</u>	
10. OPERATING RATIO						<u>7.25%</u>

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc. TEST YEAR ENDED 06/30/16 ADJUSTMENTS TO OPERATING INCOME (PHASE I)		SCHEDULE NO. 3-B DOCKET NO. 160165-SU Page 1 of 2
		<u>WASTEWATER</u>
OPERATING REVENUES		
1.	To reflect the appropriate test year revenues.	<u>\$107</u>
OPERATION AND MAINTENANCE EXPENSES		
2.	Salaries and Wages - Officers (703)	
	a. To reflect appropriate salaries and wages.	(\$81)
	b. To reclassify payroll taxes.	(3,993)
	c. To reflect pro forma salaries and wages.	<u>9,000</u>
	Subtotal	<u>\$4,926</u>
3.	Sludge Removal Expense (711) To reflect amortized portion of sludge hauling expense from test year.	<u>\$2,600</u>
4.	Purchased Power (715) To reflect appropriate purchased power incurred during test year.	<u>\$260</u>
5.	Contractual Services - Billing (730) To reclassify expenses to appropriate accounts.	<u>(\$18,545)</u>
6.	Contractual Services -Accounting (732)	
	a. To reflect contractual service expense reclassified from Acct. 730.	\$5,000
	b. To reflect appropriate contractual service expense.	<u>(2,500)</u>
	Subtotal	<u>\$2,500</u>
7.	Contractual Services - Testing (735) To reflect appropriate contractual service expense reclassified from Acct. 730.	<u>\$1,545</u>
8.	Contractual Services - Other (736)	
	a. To reflect contractual service expense reclassified from Acct. 730.	\$12,000
	b. To reflect increase in expense for contract operator.	1,200
	c. To reflect appropriate engineering expense for DEP permit renewal.	<u>400</u>
	Subtotal	<u>\$13,600</u>
9.	Transportation Expense (750) To reflect appropriate transportation expense.	<u>\$10,178</u>

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.	SCHEDULE NO. 3-B
TEST YEAR ENDED 06/30/16	DOCKET NO. 160165-SU
ADJUSTMENTS TO OPERATING INCOME (PHASE I)	Page 2 of 2
10. Insurance Expenses (755)	
a. To remove vehicle insurance expense.	(\$5,856)
b. To reflect previously unrecorded general liability insurance expense.	<u>2,335</u>
Subtotal	<u>(\$3,521)</u>
11. Regulatory Commission Expense (765)	
To reflect 4-year amortization of rate case expense (\$2,090/4).	<u>\$523</u>
12. Miscellaneous Expense (775)	
To reflect appropriate miscellaneous expense.	<u>(\$7,918)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$6,148</u>
DEPRECIATION EXPENSE	
1. To reflect appropriate depreciation expense per staff audit.	(\$3,404)
2. To reflect major plant repairs previously placed in Acct. 775.	88
3. To reflect adjustment for additional plant.	109
4. To reflect the purchase of Utility vehicle.	6,901
5. To reflect non-used & useful depreciation expense.	(385)
6. To set a resulting negative net depreciation expense to zero.	<u>2,195</u>
Total	<u>\$5,504</u>
AMORTIZATION	
To reflect appropriate amortization expense.	<u>(\$6,403)</u>
TAXES OTHER THAN INCOME	
1. To reflect the appropriate test year RAFs.	(\$100)
2. To reflect appropriate test year utility property taxes.	(2,242)
3. To reflect appropriate state filing fees.	(150)
4. To reflect appropriate payroll taxes.	3,993
5. To reflect payroll taxes associated with salary increase.	842
6. To reflect property tax adjustment for major plant repairs previously placed in Acct. 775.	26
7. To reflect property tax adjustment for additional plant.	<u>41</u>
Total	<u>\$2,411</u>

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 06/30/16		DOCKET NO. 160165-SU	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE (PHASE I)			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(703) SALARIES AND WAGES - OFFICERS	58,274	4,926	63,200
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED WASTEWATER	0	0	0
(711) SLUDGE REMOVAL EXPENSE	0	2,600	2,600
(715) PURCHASED POWER	8,335	260	8,595
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	2,752	0	2,752
(720) MATERIALS AND SUPPLIES	0	0	0
(730) CONTRACTUAL SERVICES - BILLING	18,545	(18,545)	0
(732) CONTRACTUAL SERVICES - ACCOUNTING	0	2,500	2,500
(735) CONTRACTUAL SERVICES - TESTING	0	1,545	1,545
(736) CONTRACTUAL SERVICES - OTHER	0	13,600	13,600
(740) RENTS	7,200	0	7,200
(750) TRANSPORTATION EXPENSE	0	10,178	10,178
(755) INSURANCE EXPENSE	5,856	(3,521)	2,335
(765) REGULATORY COMMISSION EXPENSE	0	523	523
(770) BAD DEBT EXPENSE	2,971	0	2,971
(775) MISCELLANEOUS EXPENSE	<u>27,928</u>	<u>(7,918)</u>	<u>20,010</u>
	<u>\$131,861</u>	<u>\$6,148</u>	<u>\$138,009</u>

TEST YEAR ENDED 06/30/16		SCHEDULE NO. 4	
MONTHLY WASTEWATER RATE		DOCKET NO. 160165-SU	
	UTILITY CURRENT RATE	STAFF RECOMMENDED PHASE I RATE	4 YEAR RATE REDUCTION
<u>Residential & General Service</u>			
Flat Rate	\$32.20	\$40.26	\$0.13