

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in
Gulf County by ESAD Enterprises, Inc. d/b/a
Beaches Sewer Systems, Inc. | DOCKET NO. 20160165-SU
ORDER NO. PSC-2017-0383-PAA-SU
ISSUED: October 4, 2017

The following Commissioners participated in the disposition of this matter:

JULIE I. BROWN, Chairman
ART GRAHAM
RONALD A. BRISÉ
DONALD J. POLMANN

NOTICE OF PROPOSED AGENCY ACTION ORDER
APPROVING RATE INCREASE FOR
ESAD ENTERPRISES, INC. D/B/A BEACHES SEWER SYSTEMS, INC.
AND FINAL ORDER ON RECOVERY OF RATE CASE EXPENSES,
TEMPORARY RATES, AND ACCOUNTING ADJUSTMENTS

BY THE COMMISSION:

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

Background

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, this 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 We 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

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.*

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. We have jurisdiction pursuant to Sections 367.081, 367.0812, 367.0814, and 367.091, Florida Statutes (F.S.).

Review and Decision

1. Quality of Service

Pursuant to Section 367.081(2)(a)1, F.S., in water and wastewater rate cases, we must consider the overall quality of service provided by a utility. Rule 25-30.433(1), F.A.C., provides for the evaluation of three separate components of the utility's 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 Rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Florida Department of Environmental Protection (DEP) and the county health department over the preceding three year period shall be considered. Customer comments or complaints received by this Commission are also reviewed.

A. Quality of Utility's Product

The DEP has environmental jurisdiction over Beaches' wastewater facilities. To evaluate Beaches' product quality, we reviewed the Utility's compliance with the DEP environmental requirements regarding effluent quality. For the period of August 2016, through May of 2017, a review of the Utility's discharge monitoring reports shows all testing of effluent quality is currently within the DEP standards.

B. Operating Condition of the Utility's Plant and Facilities

Beaches is a wastewater service only utility. Our staff conducted a site visit to inspect the facility on March 9, 2017. Several components of the system were noted to be in disrepair, in

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*.

need of replacement, or in need of additional equipment. These items are included in the list of pro forma projects discussed below under the heading, “16. Phase II, Pro Forma.”

On May 3, 2017, DEP conducted an inspection of the Beaches wastewater treatment plant (WWTP) and noted several areas of non-compliance such as out-of-date chemicals and no receipt for flow meter calibration; these have subsequently been corrected by the Utility. The only remaining item of concern to be addressed by the Utility is the failure to rotate and rest the percolation ponds as described in the WWTP’s permit. This concern was noted in a prior DEP inspection conducted on August 29, 2016. The Utility has proposed pro-forma projects to address this concern.

C. 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 our evaluation of customer satisfaction, we 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.

We 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, we requested copies of all complaints filed with the DEP for the test year and four years prior; none were received.

A review of our 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 on January 31, 2017. The complaint expressed concerns regarding deteriorating infrastructure and safety, noting that children were observed at a lift station. In its response, the Utility’s noted that its lift stations and other facilities are locked to prevent access, and the Utility planned on posting additional “No Trespassing” signs and discussing the matter with local law enforcement.

During the processing of the rate case, four letters were received. Three letters, including one with nine names listed, expressed concerns regarding the amount of the increase, various suggestions on how the increase could be handled, and the need to explore efficiencies. In the fourth letter, 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 not related to the WWTP.

D. Summary

The Utility’s WWTP and related facilities are in substantial compliance with the DEP’s requirements. However, several components of the system appear to be in need of replacement. These items are included in the list of pro forma projects discussed below under the heading “16. Phase II, Pro Forma.” Because the Utility is working towards full compliance with the DEP, and

based upon the discussion above, the quality of service provided by Beaches shall be considered satisfactory.

2. Used and Useful (U&U)

Beaches' WWTP is a single treatment plant facility permitted by the DEP at 70,000 gallons per day (gpd) annual average daily flow. The Utility reports having 52 manholes and 3 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.

A. Infiltration and Inflow (I&I)

Rule 25-30.432, F.A.C., provides that, in determining the amount of U&U plant, this 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.

B. Used and Useful Percentages

i. 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.

ii. Wastewater Collection System

The U&U analysis for the water collection system is (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 equivalent residential connections (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.

C. Summary

Upon review, Beaches' WWTP is 64.3 percent U&U. The wastewater collection system is 90.5 percent U&U. There is excessive infiltration and inflow, therefore there shall be no adjustment to operating expenses for chemicals and purchased power.

3. Test Year Rate Base

The 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 We selected the test year ended June 30, 2016, for the instant case. 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 approved adjustments are discussed below.

A. Utility Plant in Service (UPIS)

The Utility recorded \$616,024 in UPIS. We 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. We 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 us with a mileage estimate related to its day-to-day operations. For purposes of this rate case, we find that the estimate is sufficient to support the

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.*

inclusion of a vehicle for the Utility's use. As of April 14, 2017, the Utility owned a 2010 Cadillac SRX, a 2014 Chevrolet Silverado 2500 HD LTZ Crew Cab, and a 2015 Chevrolet Silverado 1500 LT Crew Cab. 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). 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 that the Cadillac was to be sold by June 2017. Even with the sale of this vehicle, we question the need for multiple Utility vehicles when the President and Vice-President of the Utility, as well as the contract plant operator, work part time. We find that one vehicle is necessary for the Utility to operate effectively and thus, shall be included in plant. As such, the appropriate amount of Transportation Equipment is \$41,406, which represents the cost of the 2015 Silverado purchased during the test year.

Corresponding adjustments to accumulated depreciation and depreciation expense are also necessary to appropriately reflect this UPIS addition. Additionally, while there appear to be outstanding loans on several of the Utility's vehicles, only one of the loans was included in the Utility's capital structure.⁶ Based on the foregoing, we included the loan related to the 2015 Silverado in the Utility's capital structure. Under the heading, "6. Operating Expense" below, we use 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.

We 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; however, these items shall 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 and adjustments to UPIS are shown in the table below.

Additional Plant Items	
Description	UPIS
Reclassified from O&M Expense	
Repair Pump and Control Panel	\$4,840
Retirement	(3,630)
Replace Blower	2,617
Retirement	<u>(1,963)</u>
Total Reclassified	<u>\$1,864</u>
Plant Addition (After Test Year)	
Storage Building for WWTP	<u>\$2,934</u>
Total Plant Addition	<u><u>\$2,934</u></u>

⁶Below, under the heading "4. Return on Equity and Overall Rate of Return," we removed this \$2,958 loan from the capital structure because the vehicle was sold.

Based on the plant additions described above, the following corresponding adjustments shall be made.

Corresponding Adjustments

Description	Accum. Depr.	Depr. Exp.	Prop. Taxes
Repair Pump and Control Panel	\$3,585	\$45	\$17
Replace Blower	\$1,919	\$44	\$9
Storage Building for WWTP	(\$109)	\$109	\$41
Utility Vehicle	(\$6,901)	\$6,901	\$0
Total	<u>(\$1,506)</u>	<u>\$7,098</u>	<u>\$67</u>

The adjustments to depreciation expense and property taxes are addressed below under the heading “6. Operating Expense.” Accumulated depreciation is addressed at this heading “3. Test Year Rate Base,” under the subheading “E. Accumulated Depreciation.”

We 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. Our approved adjustments result in a net decrease to UPIS of \$250,862. Therefore, we approve a UPIS balance of \$365,162.

B. Land & Land Rights

The Utility recorded a test year land balance of \$14,364. We 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 was issued. As a result, we added \$7,500 for the lift station land. We approve a land and land rights balance of \$21,864.

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

The Utility did not record a test year non-U&U plant balance. As discussed above, under the heading “2. Used and Useful,” the WWTP is 64.3 percent U&U and Beaches’ wastewater collection systems are 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 \$2,021 for wastewater non-U&U components. Therefore, we approve a non-U&U plant balance of \$2,021.

D. Contributions In Aid of Construction (CIAC)

The Utility recorded CIAC balances of \$247,554. We 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 our staff’s audit calculations that increased CIAC. As such, we approve a CIAC balance of \$281,050.

E. Accumulated Depreciation

The Utility recorded \$509,117 in accumulated depreciation. We calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. Our calculation includes a previously ordered adjustment of \$66,607 that was not made by the Utility and the removal of \$135,915 for transportation equipment cost. We also made adjustments to accumulated depreciation of the following amounts: a decrease of \$5,504 (\$3,585 + \$1,919) for plant repairs reclassified from Account 775, an increase of \$109 to reflect an adjustment for additional plant (storage building), and an increase of \$6,901 to reflect an adjustment for the Utility's new vehicle. Finally, we reduced accumulated depreciation by \$753 to reflect an averaging adjustment. Based on the foregoing, we approve an accumulated depreciation balance of \$307,348.

F. 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. We calculated amortization of CIAC using composite depreciation rates, and approve an increase of \$40,006. In addition, we find that the CIAC shall be fully amortized no later than early 2018. As such, accumulated amortization of CIAC shall be increased by \$18,413, which results in the Utility's CIAC becoming fully amortized. Because the CIAC is reflected as being fully amortized, no averaging adjustment is necessary in this case. Our total adjustment to accumulated amortization of CIAC is an increase of \$92,715, resulting in an accumulated amortization of CIAC balance of \$281,050.

G. 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., we used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. We also removed the unamortized balance of rate case expense of \$523 pursuant to Section 367.081(9), F.S.⁷ Applying this formula, we approve a working capital allowance of \$17,186 (\$137,486/8), based on O&M expense of \$137,486 (\$138,009 - \$523).

H. Rate Base Summary

Based on the foregoing, we approve an average test year rate base for Beaches of \$94,842. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

⁷Section 367.081(9), F.S., which became effective July 1, 2016, states, "A utility may not earn a return on the unamortized balance of the rate case expense. Any unamortized balance of rate case expense shall be excluded in calculating the utility's rate base." Therefore, we excluded rate case expense from the working capital calculations.

4. Return on Equity and Overall Rate of Return

Based upon our staff's 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. Consistent with our practice, we adjusted the negative equity amount to zero and removed a \$2,958 loan for a vehicle that the Utility no longer owns. We 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 the table below.

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%

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 in the table below.

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)	<u>\$10,412</u>	<u>3.90%</u>	<u>7.50%</u>	<u>0.29%</u>
Total	<u>\$266,730</u>	<u>100.00%</u>		<u>5.43%</u>

The weighted average cost rate for the short-term debt shown in the table entitled "New Loan Obligations" above (comprised of the three December 31, 2016 promissory notes) is 5.00 percent.

We also removed \$1,995 in customer deposits based on the Utility's 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 customers. The Utility refunded or issued credit memos for customer deposits in December 2016. The Utility's capital structure has been reconciled with our approved rate base. The

appropriate ROE for the Utility is 11.16 percent based on our approved leverage formula.⁸ We approve an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 5.35 percent. The ROE and overall rate of return are shown on Schedule No. 2.

5. Test Year Revenues

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 our review of the Utility's billing determinants and the service rates that were in effect during the test year, test year service revenues shall be \$124,324. This results in an increase of \$87 (\$124,324 - \$124,237) to service revenues. In addition, we made adjustments to miscellaneous revenues and determined that miscellaneous revenues shall be \$2,160. Our audit findings revealed that the Utility was charging a normal reconnection charge of \$14.64 when its approved tariff rate is \$15.00 for this charge. This results in an increase of \$28 (\$2,160 - \$2,132) to miscellaneous revenues. We also determined that guaranteed revenues shall 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 foregoing, we approve test year revenues for Beaches' wastewater system of \$131,256.

6. Operating Expense

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. We made several adjustments to the Utility's operating expenses as summarized below.

A. 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 our staff's audit report, the Utility reflected salaries of \$32,400 for the President and \$19,800 for the Vice-President. 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. The Vice-President's salary reflects an increase from January 1, 2016, through the end of the test year, June 30, 2016. To get an accurate picture of test year salaries, we applied the increase to the Vice-President's salary to all 12 months. Since six months were already included in the Utility's calculation, an additional six months was 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 made several additional changes to requested salaries after the test year, as illustrated in the table below.

⁸Order No. PSC-17-0249-PAA-WS, issued June 26, 2017, in Docket No. 170006-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.*

Change in Salaries

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

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.⁹ Beaches' board of directors is comprised of the President, the Vice-President, and their spouses. The President works approximately 31.5 hours per week dealing with customer billing and mail. The Vice-President works approximately 12.5 hours per week assisting the plant operator, monitoring the plant, and working with contractors.

We find that Utility's requested salaries, which represent a 27.45 percent increase over our approved test year salaries, are unreasonable and have not been fully supported. The Utility's primary reason for the increase in salaries is that the salaries 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. Upon review, the Utility's customers shall not be burdened with such a significant increase absent additional justification.

Instead, we approve a 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 that the Utility's last rate case was approved in July 1987.¹⁰ 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.

We 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. We find it excessive to have four directors for a small wastewater utility that has no full-time employees. As such, directors' fees for the President and Vice-President shall be \$1,000 each annually, for a total of \$2,000.

⁹The 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 this Commission.

¹⁰We have not approved an index or pass-through increase for the Utility since September 1998.

We 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, we reduced salaries by \$3,993 to move payroll taxes to taxes other than income (TOTI). Then, we increased salaries by \$9,000 to reflect the increase to salaries discussed above. Our adjustment to salaries results in a net increase of \$4,926 (\$9,000 - \$3,993 - \$81). We also increased TOTI by \$842 to reflect the appropriate amount of payroll taxes. Therefore, we approve salaries and wages – officers, directors, and majority stockholders expense of \$63,200 (\$58,274 + \$4,926).

B. Sludge Removal Expense (711)

Based on supporting documentation, the average sludge removal expense is \$650 per quarter, or \$2,600 (\$650 x 4) per year. Therefore, we approve sludge removal expense of \$2,600.

C. Purchased Power (715)

The Utility recorded purchased power expense of \$8,335. We determined that the purchased power expense was understated. Therefore, we increased this expense by \$260 to reflect the correct test year balances. We approve purchased power expense of \$8,595.

D. Chemicals (718)

The Utility recorded chemicals expense of \$2,752. Beaches' actual test year chemicals expense was \$2,752. We find that the amount is appropriate and includes all required testing; therefore, we approve chemicals expense for the test year of \$2,752.

E. Contractual Services – Billing (730)

The Utility recorded contractual services – billing expense of \$18,545. We 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).

F. Contractual Services – Accounting (732)

We increased this account by \$5,000 to reflect the reclassification from Account 730. We 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 we 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 we find it appropriate for the Utility 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, we removed the \$2,500 duplicative cost associated with one of the returns and approve an accounting expense of \$2,500.

G. Contractual Services – Testing (735)

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

H. Contractual Services - Other (736)

We 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 our staff's 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). Since the change is known and measurable and has already gone into effect, the revised amount shall be included in O&M expenses. Therefore, we approve contractor operator expense of \$13,200.

The Utility also provided documentation showing costs related to Beaches' WWTP permit renewal with the DEP. 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, the expense shall be amortized and included here due to its recurring nature. As such, we have included \$400 (\$2,000 / 5 yrs.) for DEP permit renewal. Therefore, we approve contractual services - other expense of \$13,600 (\$13,200 + \$400).

I. Rent Expense (740)

The Utility recorded rent expense of \$7,200. This is based upon rent of \$600 per month which includes insurance, repairs, utilities, and all furniture, computers, software, and similar items. This amount has not changed since 2012. We approve rent expense of \$7,200.

J. Transportation Expense (750)

Beaches did not record transportation expense for the test year. As discussed immediately below under the subheading "*K Insurance Expense*," we removed the entire amount related to vehicle insurance. However, the Utility shall be allowed to recover utility-related expenses associated with the vehicle added to UPIS above under the heading "3. Test Year Rate Base." In its place, we have used the Utility's mileage estimates and IRS standard mileage rates to develop an appropriate amount of transportation expense.¹¹ The IRS standard mileage rate for business includes the fixed and variable costs of operating a vehicle for business purposes. These costs include standard maintenance, repairs, taxes, gas, insurance, and registration fees. As such, we increased transportation expense by \$10,178 (19,025 miles x \$0.535/per mile).

¹¹The IRS standard mileage rate for business is 53.5 cents per mile for 2017.

K. 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 above under the heading “3.Test Year Rate Base,” the transportation equipment costs were adjusted to include one vehicle for Utility operations. Thus, we removed the entire amount related to vehicle insurance here. Nonetheless, insurance cost is included immediately above under the subheading “J. Transportation Expense.” Thus, we removed \$5,856 from insurance expense.

The Utility provided a copy of its commercial general liability policy renewal with a premium of \$2,335 per year. The premium associated with this general liability policy does not appear to have been previously included in the Utility’s insurance expense. As such, the \$2,335 shall be included in insurance expense. This represents a net reduction of \$3,521 ($-\$5,856 + \$2,335$). Therefore, we approve insurance expense of \$2,335.

L. 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, we estimated \$300 for postage expense, \$214 for printing expense, and \$31 for envelopes. This results in \$545 for the Phase I noticing requirement. We 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. The Utility notified us that it had spent \$319 to obtain water usage information from the municipal water system. We find that because the cost was incurred as a result of our staff’s request, the Utility shall be allowed to recover it here. Based on the foregoing, we approve a total rate case expense of \$2,090 ($\$545 + \$226 + \$1,000 + \319), which amortized over four years is \$523. Therefore, we approve regulatory commission expense of \$523.

M. 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. While we typically calculate an appropriate amount of bad debt expense based on a three-year average, the Utility’s 2013, 2014, and 2015 annual reports reflected no bad debt. Instead, we find the Utility’s bad debt expense as recorded to be reasonable and likely to be representative of the Utility’s bad debt expense going forward. As such, we made no adjustments to bad debt expense and approve debt expense of \$2,971.

N. Miscellaneous Expense (775)

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

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>

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

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>

These items are addressed below under the heading "16. Phase II, Pro Forma."

Our total adjustments decrease this account by \$7,918. Therefore, we approve miscellaneous expense of \$20,010 (\$27,928 - \$7,918).

O. Operation and Maintenance Expenses Summary

Based on the foregoing adjustments, we approve an O&M expense balance of \$138,009. Our adjustments to O&M expense are shown on Schedule Nos. 3-A through 3-C.

P. 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). We recalculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. We decreased depreciation expense by \$3,404 to reflect the appropriate depreciation expense. We included depreciation expense for the plant repair that is being capitalized as addressed above under the heading "3. Test Year Rate Base;" this adjustment results in an increase in depreciation expense of \$89. We also calculated depreciation expense of \$109 for the additional plant the Utility has requested and \$6,901 for the new Utility vehicle, also addressed under the heading "3. Test Year Rate Base." In addition, we 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 \$3,310 (-\$3,404 + \$89 + \$109 + \$6,901 - \$385). Therefore, we approve depreciation expense of \$10,616 (\$7,306 + \$3,310).

Beaches recorded amortization of CIAC expense as \$6,407 during the test year. As discussed above under the heading, “3. Test Year Rate Base,” the Utility’s CIAC will become fully amortized in early 2018. Consequently, the CIAC amortization expense will also end at that time. In order to reflect removal of the CIAC amortization expense going forward, we increased this account by \$6,407 to “zero out” the test year balance. Our adjustments result in a net depreciation expense of \$10,616 (\$10,616 - \$0). Therefore, we approve net depreciation expense of \$10,616.

Q. Taxes Other Than Income (TOTI)

Beaches recorded taxes other than income (TOTI) of \$13,284 for the test year. We approve the adjustments to TOTI set forth in the table below.

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.	<u>41</u>
	Total	<u>\$2,411</u>

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

In addition, as discussed below under the heading, “8. Revenue Requirement,” revenues have been increased by \$45,092 to reflect the change in revenue required to cover expenses and allow an opportunity to earn the approved rate of return. As a result, TOTI shall be increased by \$2,029 to reflect RAFs of 4.5 percent of the change in revenues. Therefore, we approve TOTI of \$17,724.

R. Operating Expenses Summary

The application of our approved adjustments to Beaches’ test year operating expenses results in operating expenses of \$166,348. Operating expenses are shown on Schedule Nos. 3-A. The related adjustments are shown on Schedule Nos. 3-B and 3-C.

7. Operating Ratio Methodology

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 this Commission for staff assistance using alternative rate setting.

Beaches did not petition this Commission for alternative rate setting under the aforementioned Rule, but we find that it is appropriate to use 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,¹² we first used the operating ratio methodology as an alternative means for setting rates. By Order, we 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 by Order No. PSC-97-0130-FOF-SU.¹³ Recently, we approved the operating ratio methodology for setting rates by Order No. PSC-17-0144-PAA-WU.¹⁴

The qualifying criteria and how they apply to the Utility are discussed below:

- 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. We have determined that the adjusted rate base for the test year is \$94,842, 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 approved revenue requirement of \$176,348 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.

¹²Order 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.*

¹³Order 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.*

¹⁴Order 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.*

- 3) Quality of service and condition of plant. As discussed, under the heading “1. Quality of Service,” the Utility’s quality of service is 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 upon our review, of the Utility’s situation relative to the above criteria, we find Beaches to be a viable candidate for the operating ratio methodology.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, we 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 Beaches would be \$5,070. We do not find that this amount 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 our 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. We find a 7.25 percent margin to be appropriate in this case because it results in a \$10,000 operating margin.

In conclusion, the foregoing 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, we approve the use of the operating ratio methodology at a margin of 7.25 percent of O&M expense for determining the revenue requirements.

8. Revenue Requirement

Upon review, we approve an annual increase of \$45,092 (34.35 percent). This will allow the Utility the opportunity to recover its expenses as well as a 7.25 percent margin on O&M expenses. The calculations are shown in the table below.

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)	10,616
Taxes Other Than Income	15,695
Test Year RAFs	<u>2,029</u>
Revenue Requirement	\$176,348
Less Adjusted Test Year Revenues	<u>131,256</u>
Annual Increase	<u>\$45,092</u>
Percent Increase	<u>34.35%</u>

9. Rate Structure

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. We asked the Utility for water data in order to evaluate its current rate structure and possible alternatives. The Utility provided one month of water data of its customers. However, there would be additional costs incurred for obtaining water usage data from the city to bill for wastewater. Therefore, we find that it would not be cost effective to bill based on the metered water usage and that maintaining the Utility's current flat rate structure is appropriate. As a result, the approved increase, excluding miscellaneous revenues, shall be applied across the board to the existing monthly flat rate. Our calculation is shown in the table below.

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	\$45,092
5. Less: Incremental Increase in Miscellaneous Revenues	<u>\$1,687</u>
6. Adjusted Revenue Increase	\$43,405
7. Percentage Service Rate Increase (Line 6/ Line 3)	33.64%

Based on the foregoing, we approve a monthly flat rate for residential and general wastewater service of \$43.03 per month as shown on Schedule No. 4. The Utility shall file revised tariff sheets and a proposed customer notice to reflect our approved rates. The approved rates shall be effective for service rendered or connections made on or after the stamped approval date on the tariff sheets, provided that customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility shall provide proof of noticing within 10 days of rendering its approved notice.

10. Miscellaneous Service Charges

The Utility's current miscellaneous service charges are shown in the table in this heading, below under the table named "Miscellaneous Service Charges." The Utility is requesting updated miscellaneous service charges to reflect current costs. Section 367.091, F.S., authorizes this Commission to change such charges. Our approved 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. Our approved miscellaneous service charges are rounded to the nearest ten cents and are summarized below in the table named "Miscellaneous Service Charges."

A. 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, we approve initial connection charges of \$25.70 for normal hours and \$27.70 for after hours. Our calculation is shown in the table below.

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

B. Normal Reconnection Charge

A normal reconnection charge is levied 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, the normal reconnection charge shall be \$46.00 for normal hours and \$47.50 for after hours. Our calculations are shown below in the table below.

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

C. Violation Reconnection Charge

The violation reconnection charge is levied prior to reconnection of an existing customer after discontinuance of service for cause according to subsection 25-30.320(2), 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, this charge shall remain at the Utility's actual cost to administer and process a violation reconnection.

D. 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. The premises visit charge can also 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, we approve a premises visit charges of \$25.70 for normal hours and \$27.70 for after hours. Our calculations are shown in the table below.

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

E. Conclusion

The Utility's current, and our approved, miscellaneous service charges are shown below in the table below.

Miscellaneous Service Charges

	Current	Approved	
	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

Based on the foregoing, we approve the miscellaneous service charges set forth in the table immediately above. The Utility shall file revised tariff sheets and a proposed customer notice to reflect the approved miscellaneous service charges. The approved charges shall 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 shall provide proof of noticing within 10 days of rendering its approved notice.

11. Non-Sufficient Funds Charges (NSF)

Section 367.091, F.S., authorizes this Commission to approve NSF charges. Section 68.065, F.S., authorizes 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 our prior decisions. 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 shall be authorized to collect NSF charges at the rates set forth above. The Utility shall file revised tariff sheets and a proposed customer notice to reflect the approved NSF charges. The approved charges shall 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 shall provide proof of noticing within 10 days of rendering its approved notice.

12. Late Payment Charge

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 justification 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 we approve the full cost of a postage stamp, which is \$0.49. The cost basis for the late payment charge is shown in the table below.

Late Payment Charge Cost Justification

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

Since the 1990s, we have approved late payment charges ranging from \$2.00 to \$7.15. 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 foregoing, the appropriate late payment charge to be implemented by Beaches is \$5.43. The Utility shall file revised tariff sheets and a proposed customer notice to reflect the approved late payment charge. The approved charge shall be effective for service rendered on or after the stamped approval date on the tariff sheets provided that customers have

received notice pursuant to Rule 25-30.475, F.A.C. The Utility shall provide proof of noticing within 10 days of rendering its approved notice.

13. Service Availability Charges

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 lines were 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 policy. Pursuant to the Rule, the maximum amount of contributions-in-aid-of construction (CIAC), net of amortization, shall 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 shall 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. Upon review, we approve no changes to the Utility's existing customer connection charge.

However, the Utility's existing main extension charge shall 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 403 ERCs. Therefore, we approve a main extension charge of \$375, consistent with the guidelines in Rule 25-30.580, F.A.C. This charge is not applicable in areas of the Utility's service territory where the lines were donated to the Utility.

The Utility receives guaranteed revenues from approximately 45 property owners. Consistent with our prior 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. 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.

The Utility's current contribution level is approximately 21 percent and Beaches is approximately 90 percent built out. We make no 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, we will not require future connections to pay more than their fair share of the cost of the Utility's investment in its treatment facilities. Both the Utility's existing, and our approved, service availability charges are shown below in the table below.

Service Availability Charges

Charge Type	Current	Approved
Customer Connection (Tap-in) Charge	\$100.00	\$100.00
Main Extension Charge	\$100.00	\$375.00
Plant Capacity Charge	\$300.00	\$300.00

Based on the foregoing, Beaches' existing wastewater service availability charges shall be revised in part. A main extension charge of \$375 per ERC is hereby approved. The approved service availability charge shall be based on an estimated 240 gallons per day (gpd) of treated wastewater. The Utility's existing customer connection and plant capacity charges shall be continued. The Utility shall file revised tariff sheets and a proposed customer notice. Beaches shall provide notice to property owners who have requested service in the 12 months prior to the month the SARC application was filed. The approved charges shall be effective for connections made on or after the stamped approval date on the tariff sheets. The Utility shall provide proof of noticing within 10 days of rendering its approved notice.

14. Guaranteed Revenue Charge

Beaches' current guaranteed revenue charge of \$8.82 per ERC for each was approved in 1988. 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 by the Utility for 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. The Utility can only begin to collect the guaranteed revenue charge upon the payment of the applicable service availability charges. We have found that a guaranteed revenue charge locks in the amount of service availability charges notwithstanding an approved change in service availability charges prior to the time of connection.

In the past, we have, on occasion, based guaranteed revenue charges on the Utility's approved BFC to reflect the fixed costs associated with the reserved capacity. However, Beaches bills customers a monthly flat rate for wastewater service; therefore, we find that it is appropriate to apply the approved revenue increase of 33.64 percent (as calculated above under the heading "9. Rate Structure") across the board to the Utility's existing guaranteed revenue charge.

Based on the foregoing, Beaches' guaranteed revenue charge shall be revised. The approved guaranteed revenue charge is \$11.79 per ERC. The Utility shall file revised tariff sheets and a proposed customer notice. Beaches shall provide notice to property owners who have requested service beginning 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 shall be effective for connections made on or after the stamped approval date on the tariff sheets. The Utility shall provide proof of noticing within 10 days of rendering its approved notice.

15. Allowance for Funds Prudently Invested (AFPI)

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. 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 foregoing, the Utility is hereby required to discontinue the collection of AFPI charges for the collection system and the tariff for AFPI shall be canceled.

16. Phase II, Pro Forma

In the instant case, the Utility requested recognition of several pro forma plant items which totaled \$130,092. We identified three pro forma items, totaling \$27,390, which shall be reclassified as pro forma expense. Our approved adjustments are reflected in the table below. The remaining \$102,702 (\$130,092 - \$19,010 - \$5,880 - \$2,500) in pro forma plant items, and adjustments to those items, are also reflected in the table below. The Utility anticipates that all pro forma projects listed below will be completed no later than July 30, 2018.

Pro Forma Items

Description	Per Utility	Approved	Adjustment	Reason for 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	<u>19,010</u>	<u>19,010</u>	<u>0</u>	
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	<u>4,000</u>	<u>0</u>	<u>(4,000)</u>	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>	

We asked the Utility to provide multiple bids and/or quotes for each pro forma project and were only provided with one bid for many of the projects. 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. Having observed the condition of Beaches' plant, we find that the majority of the pro forma projects are warranted.

A. 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.

i. 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, we removed the expense from Phase II consideration.

ii. 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. 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, we question the hourly labor rate included in the Gulf Coast Property Services, LLC bid for the vegetation clearing. 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. We find the labor rate of \$65/hour to be 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), it appears that a similar situation exists here. We 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 in this docket. 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. We 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, we approve pro forma pond clearing expense of \$4,152 amortized over five years, or \$830 per year (\$4,152 / 5 years).

iii. Sand and Grit Removal

The Utility requested \$19,010 for sand and grit removal from the wastewater treatment plant. This has not been done since the current owner took over approximately 17 years ago. As a result, the Utility's air lines have become clogged. The Utility asserts that once done, the project will not need to be done again for at least five years. The Utility estimated that one half of the project will be completed by August 30, 2017, and the other half by July 30, 2018. We find the project to be necessary to avoid additional repairs at the plant. As such, we approve pro forma sand and grit removal expense of \$19,010 amortized over five years, or \$3,802 per year (\$19,010 / 5 years).

Accordingly, we approve 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).

B. Pro Forma Plant

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

i. 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, we approve a single generator which can be moved to the particular location as required by Beaches. We used the lowest bid provided by the Utility for the cost of the portable generator.

ii. Lift Station Pumps

The Utility states that 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 was obtained from bids provided by Beaches. At Americus, 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, therefore, we do not include the separate cost of the rail system in the list of pro forma items.

iii. 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.

iv. Piping

The Utility indicated that in order to operate the ponds per DEP requirements, piping needs to be lowered to facilitate flows to different ponds. However, the Utility provided no bids for WWTP piping. 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.

v. Fencing

The Utility states that 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 approved pro forma expense for cleaning the ponds is discussed above under this heading 16, under subheading A. at paragraph "ii. Pond Clearing." As with the pond cleaning, we adjust labor for fencing from \$65 per hour to a more reasonable \$41 per hour.

vi. Electrical Equipment

The Utility states that the electrical equipment at the WWTP must be upgraded in order to connect the portable generator when required by a power outage. We find this pro forma item to be necessary, and have based the cost on a bid provided by the Utility.

vii. Clarifier

Although the Utility states that 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, we are unable to include in pro forma the requested amount for this work.

C. Conclusion

Although multiple bids were not provided, we find the pro forma items discussed above to be reasonable based on the analysis of each item. Accordingly, we approve preliminary pro forma plant of \$67,018. However, we anticipate 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, 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 will not need to file another rate case or limited proceeding to seek recovery for these items. Due to concerns with the age of some bids, a final decision on the amount of the Phase II revenue requirement and rates shall 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. The Utility shall complete the pro forma items within 12 months of the issuance of the consummating order. After

this period, the Utility shall 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 shall immediately notify this Commission in writing. Once the required information has been submitted by the Utility, the appropriate amount of the Phase II revenue requirement and rates shall be considered by this Commission.

17. Removal of the Amortized Rate Case Expense
(Final Agency Action)

Pursuant to 367.081(8), F.S., Beaches' wastewater rates shall 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. 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 shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility also shall 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 shall 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.

18. Temporary Rates
(Final Agency Action)

By this Order, we propose 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, the proposed rates are hereby approved as temporary rates. Beaches shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall 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 shall not be implemented until our staff has approved the proposed notice, and the notice has been received by the customers. The approved rates collected by the Utility shall be subject to the refund provisions discussed below.

Beaches shall be authorized to collect the temporary rates upon our staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security shall be in the form of a bond or letter of credit in the amount of \$30,282. Alternatively, the Utility may establish an escrow agreement with an independent financial institution.

If the Utility chooses a bond as security, the bond shall contain wording to the effect that it will be terminated only under the following conditions:

- 1) This Commission approves the rate increase; or,
- 2) If this 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 shall 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 shall 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 shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall 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 shall be maintained by the Utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

Should the rates be approved on a temporary basis, Beaches shall 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 shall file reports with this 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 shall also indicate the status of the security being used to guarantee repayment of any potential refund.

19. Adjustment to Books
(Final Agency Action)

The Utility is hereby required to notify this Commission, in writing, that it has adjusted its books in accordance with our decision. Beaches shall 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 shall be provided within seven days prior to the deadline. Our staff has given administrative authority to grant an extension of up to 60 days upon a showing of good cause by the Utility.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the quality of service provided by ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc. is satisfactory. It is further

ORDERED that ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.'s WWTP is 64.3 percent U&U. The wastewater collection system is 90.5 percent U&U. There is no excessive infiltration and inflow. It is further

ORDERED that the average test year rate base for ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc. is \$94,842. It is further

ORDERED that the approved return on equity for ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc. is 11.16 percent with a range of 10.16 percent to 12.16 percent. The approved overall rate of return is 5.35 percent. It is further

ORDERED that the appropriate test year revenues for ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc. are \$131,256. It is further

ORDERED that ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc. recorded operating expense of \$146,044 for the test year ended June 30, 2016. It is further

ORDERED that the operating ratio methodology shall be used for calculating the revenue requirement for ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc. The margin is 7.25 percent of O&M expense. It is further

ORDERED that the revenue requirement is \$176,348 resulting in an annual increase of \$45,092 (34.35 percent). It is further

ORDERED that we approve a flat rate for residential and general wastewater service of \$43.03 per month as shown on Schedule No. 4. ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc. shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall be effective for service rendered or connections made

on or after the stamped approval date on the tariff sheets provided that customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility shall provide proof of noticing within 10 days of rendering its approved notice. It is further

ORDERED that the miscellaneous service charges identified in the body of this Order under the heading "10. Miscellaneous Service Charges" are approved. The Utility shall file revised tariff sheets and a proposed customer notice to reflect these approved charges. The approved charges shall be effective for service rendered on or after the stamped approval date on the tariff sheets provided that customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility shall provide proof of noticing within 10 days of rendering its approved notice. It is further

ORDERED that ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc. is authorized to collect NSF charges. The Utility shall file revised tariff sheets and a proposed customer notice to reflect the approved NSF charges. The approved charges shall be effective for service rendered on or after the stamped approval date on the tariff sheets provided that customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility shall provide proof of noticing within 10 days of rendering its approved notice. It is further

ORDERED that a late payment charge of \$5.43 is approved ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc. shall file revised tariff sheets and a proposed customer notice to reflect the approved late payment charge. The approved charge shall be effective for service rendered on or after the stamped approval date on the tariff sheets provided that customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility shall provide proof of noticing within 10 days of rendering its approved notice. It is further

ORDERED that ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.'s existing wastewater service availability charges shall be revised in part. A main extension charge of \$375 per ERC is approved. The service availability charge is on an estimated 240 gallons per day of treated wastewater. The Utility's existing customer connection and plant capacity charges shall be continued. The Utility shall file revised tariff sheets and a proposed customer notice. Beaches shall provide notice to property owners who have requested service in the 12 months prior to the month the SARC application was filed. The approved charges shall be effective for connections made on or after the stamped approval date on the tariff sheets. The Utility shall provide proof of noticing within 10 days of rendering its approved notice. It is further

ORDERED that ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.'s guaranteed revenue charge is \$11.79 per ERC. The Utility shall file revised tariff sheets and a proposed customer notice. Beaches shall provide notice to property owners who have requested service beginning 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 shall be effective for connections made on or after the stamped approval date on the tariff sheets. The Utility shall provide proof of noticing within 10 days of rendering its approved notice. It is further

ORDERED that ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc. shall discontinue the collection of Allowance for Funds Prudently Invested charges for the collection system and the tariff for this charge shall be cancelled. It is further

ORDERED that final decision on the amount of the Phase II revenue requirement and rates shall be made after ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc. has completed the Phase II pro forma projects and the costs have been evaluated. The Utility shall complete the pro forma items within 12 months of the issuance of the consummating order. After this period, the Utility shall 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 our staff. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility shall immediately notify this Commission in writing. Once the required information has been submitted by the Utility, the appropriate amount of the Phase II revenue requirement and rates shall be considered by this Commission.

It is further

ORDERED that the wastewater rates shall 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 shall become effective immediately following the expiration of the four-year rate case expense recovery period. The Utility shall 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 ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc. files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall 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. (FINAL AGENCY ACTION). It is further

ORDERED that, in the event of a protest filed by a party other than ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc., the approved rates shall be approved for the Utility on a temporary basis, subject to refund with interest, The Utility shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall 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 shall not be implemented until our staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility shall provide appropriate security. Temporary rates collected by the Utility are subject to the refund as set forth in the body of this Order. Once the increased rates are in effect, the Utility shall file reports with this 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 shall also indicate the status of the security being used to guarantee repayment of any potential refund. (FINAL AGENCY ACTION). It is further

ORDERED that the ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc. is required to notify this Commission, in writing, that it has adjusted its books in accordance with our decision. Beaches shall 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 shall be provided at least seven days prior to deadline. Our staff is given administrative authority to grant an extension of up to 60 days based upon a showing of good cause by the Utility. (FINAL AGENCY ACTION). It is further

ORDERED that, if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order shall be issued. The docket shall remain open (1) for our staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, (2) for the Utility to provide proof that the adjustments for all applicable NARUC USOC primary accounts have been made, and (3) for the Commission to address Phase II of this docket.

By ORDER of the Florida Public Service Commission this 4th day of October, 2017.



CARLOTTA S. STAUFFER
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

CWM

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our actions are preliminary in nature, with the exception of our decisions (1) regarding the granting of temporary rates in the event of a protest, (2) addressing rate case expense, and (3) requiring specified accounting practices; these decisions are final agency actions. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on October 25, 2017. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

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

Any party adversely affected by the Commission's final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Office of Commission Clerk and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc. TEST YEAR ENDED 06/30/16 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 20160165-SU	
DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUSTMENTS TO UTIL. BAL.	APPROVED BALANCE
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	(2,021)	(2,021)
CIAC	(247,554)	(33,496)	(281,050)
ACCUMULATED DEPRECIATION	(509,117)	201,769	(307,348)
AMORTIZATION OF CIAC	188,335	92,715	281,050
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>17,186</u>	<u>17,186</u>
WASTEWATER RATE BASE	<u>\$62,052</u>	<u>\$32,790</u>	<u>\$94,842</u>

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.	SCHEDULE NO. 1-B
TEST YEAR ENDED 06/30/16	DOCKET NO. 20160165-SU
ADJUSTMENTS TO RATE BASE	
	<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>67,211</u>
Total	<u>(\$2,021)</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.	5,504
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>753</u>
Total	<u>\$201,769</u>
<u>AMORTIZATION OF CIAC</u>	
1. To reflect previously ordered Commission adjustment.	\$34,296
2. To reflect appropriate amortization of CIAC.	40,006
3. To fully amortize CIAC.	<u>18,413</u>
Total	<u>\$92,715</u>
<u>WORKING CAPITAL ALLOWANCE</u>	
To reflect 1/8 of test year O & M expenses.	<u>\$17,186</u>

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

SCHEDULE NO. 2
DOCKET NO. 20160165-SU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER COMM.	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	(\$189,773)	\$76,956	81.14%	5.43%	4.41%
6. SHORT-TERM DEBT	0	61,400	61,400	(43,685)	17,715	18.68%	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	(\$233,458)	\$94,671	99.82%		
8. CUSTOMER DEPOSITS	<u>\$2,166</u>	<u>(\$1,995)</u>	<u>\$171</u>	<u>\$0</u>	<u>\$171</u>	<u>0.18%</u>	2.00%	<u>0.00%</u>
9. TOTAL	<u>\$164,299</u>	<u>\$164,002</u>	<u>\$328,301</u>	<u>(\$233,458)</u>	<u>\$94,842</u>	<u>100.00%</u>		<u>5.35%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>	
OVERALL RATE OF RETURN						<u>5.35%</u>	<u>5.35%</u>	

ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.			SCHEDULE NO. 3-A			
TEST YEAR ENDED 06/30/16			DOCKET NO. 20160165-SU			
SCHEDULE OF WASTEWATER OPERATING INCOME						
	TEST YEAR	COMM.	COMM.	ADJUST.	REVENUE	
	PER	ADJUSTMENTS	ADJUSTED	FOR	REQUIREMENT	
	UTILITY		TEST YEAR	INCREASE		
1.	OPERATING REVENUES	<u>\$131,149</u>	<u>\$107</u>	<u>\$131,256</u>	<u>\$45,092</u> 34.35%	<u>\$176,348</u>
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	\$131,861	\$6,148	\$138,009	\$0	\$138,009
3.	DEPRECIATION	7,306	3,310	10,616	0	10,616
4.	AMORTIZATION	(6,407)	6,407	0	0	0
5.	TAXES OTHER THAN INCOME	13,284	2,411	15,695	2,029	17,724
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>\$18,275</u>	<u>\$164,319</u>	<u>\$2,029</u>	<u>\$166,348</u>
8.	OPERATING INCOME/(LOSS)	<u>(\$14,895)</u>		<u>(\$33,063)</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.		SCHEDULE NO.
		3-B
TEST YEAR ENDED 06/30/16		DOCKET NO.
		20160165-SU
ADJUSTMENTS TO OPERATING INCOME		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>

ADJUSTMENTS TO OPERATING INCOME		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.	89
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.	<u>(385)</u>
	Total	<u>\$3,310</u>
AMORTIZATION		
	To reflect appropriate amortization expense.	<u>\$6,407</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.	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE		20160165-SU	
	TOTAL PER UTILITY	COMM. ADJUST- MENT	TOTAL PER COMM.
(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>

ESAD ENTERPRISES d/b/a BEACHES SEWER SYSTEMS, INC.			SCHEDULE 4 DOCKET NO. 20160165-SU
TEST YEAR ENDED 06/30/16			
MONTHLY WASTEWATER RATE	UTILITY CURRENT RATE	APPROVED PHASE I RATE	4-YEAR RATE REDUCTION
<u>Residential & General Service</u>			
Flat Rate	\$32.20	\$43.03	\$0.13