

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: January 25, 2018

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Norris, D. Andrews, Sowards)
Division of Economics (Friedrich, Hudson) *pd MF 8H*
Division of Engineering (Graves, Knoblauch)
Office of the General Counsel (Mapp, Crawford) *xem Tz JSC*

RE: Docket No. 20170141-SU – Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp. *Boz ALM*

AGENDA: 2/6/18 – Regular Agenda – Decision on Suspension of Rates and Interim Rates – Participation is at the Discretion of the Commission.

COMMISSIONERS ASSIGNED: Polmann, Clark

PREHEARING OFFICER: Polmann

CRITICAL DATES: 60-day statutory deadline extended until February 6, 2018.

SPECIAL INSTRUCTIONS: None

Case Background

K W Resort Utilities Corp. (KWRU or Utility) is a Class A utility providing wastewater service to approximately 1,867 customers in Monroe County. Water service is provided by the Florida Keys Aqueduct Authority (FKAA). Rates were last established for this Utility in its 2015 rate case.¹ In 2016, KWRU recorded total company operating revenues of \$2,135,343 and operating expenses of \$1,815,421.

¹ Order No. PSC-2017-0091-FOF-SU, issued March 13, 2017, in Docket No. 20150071-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

On November 21, 2017, KWRU filed its application for approval of interim and final wastewater rate increases. On December 7, 2017, staff sent the Utility a letter indicating deficiencies in the filing of its minimum filing requirements (MFRs). After reviewing the Utility's response filed December 12, 2017, staff determined KWRU had not corrected all deficiencies and sent a second letter on December 13, 2017. The Utility filed a response to address the second MFR deficiencies letter on December 13, 2018. By letter dated December 14, 2017, staff advised KWRU that its MFRs are complete and the official filing date was established as December 13, 2017.

The Utility's application for increased interim wastewater rates is based on the historical 12-month period ended June 30, 2017, with no averaging adjustment. The test year that will be used to establish final rates is the 13-month average period ended June 30, 2017. KWRU is requesting an increase to recover all expenses it will incur in order to generate a fair rate of return on its investment and pro forma plant additions.

The Utility requested interim rates designed to generate additional revenues of \$146,041 resulting in a 6.26 percent revenue increase. Additionally, KWRU requested interim Allowance for Funds Prudently Invested (AFPI) charges.

The Utility is also requesting final rates designed to generate annual revenues of \$3,682,216. This represents a revenue increase of \$1,349,690 or 57.9 percent.

The intervention of the Office of Public Counsel was acknowledged by Order No. PSC-2017-0460-PCO-SU, issued November 30, 2017, in this docket. Additionally, the intervention of Monroe County was acknowledged by Order No. PSC-2017-0472-PCO-SU, issued December 15, 2017, in this docket.

The original 60-day statutory deadline for the Commission to suspend KWRU's requested final rates and address its interim rate request was January 20, 2018. However, by letter dated November 21, 2017, the Utility agreed to extend the statutory time frame by which the Commission is required to address the suspension of KWRU's final rates and its interim rate request, to February 6, 2018. The Commission has jurisdiction pursuant to Sections 367.081, 367.082, and 367.101, Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Should the Utility's proposed final wastewater rates and charges be suspended?

Recommendation: Yes. KWRU's proposed final wastewater rates and charges should be suspended. (D. Andrews)

Staff Analysis: Section 367.081(6), F.S., provides that the rates proposed by the Utility shall become effective within sixty days after filing unless the Commission votes to withhold consent of implementation of the requested rates. Further, the above referenced statute permits the proposed final rates to go into effect, under bond, escrow, or corporate undertaking eight months after filing unless final action has been taken by the Commission.

Staff has reviewed the filing and has considered the proposed rates and charges, the revenues thereby generated, and the information filed in support of the rate application. Staff believes that it is reasonable and necessary to require further amplification and explanation regarding this data, and to require production of additional and/or corroborative data. To date, staff has initiated an audit of KWRU's books and records. The audit report is tentatively due on January 29, 2018. In addition, staff sent its first set of discovery on December 18, 2017, and responses were received on December 28, 2017. Further, staff believes additional requests will be necessary to process this case. Based on the foregoing, staff recommends that the Utility's proposed final rates and charges be suspended.

Issue 2: Should interim rates be established using year-end rate base and cost of capital determinations?

Recommendation: Yes. (Sewards)

Staff Analysis: The Utility has asked the Commission to establish interim rates using year-end rate base and cost of capital measurements. Pursuant to Section 367.082(5)(a), F.S., in setting interim rates or setting revenues subject to refund, the Commission shall determine the revenue deficiency or excess by calculating the difference between the achieved rate of return of a utility or regulated company and its required rate of return applied to an average investment rate base or an end-of-period investment rate base.

Based on Commission practice, use of a year-end basis for purposes of setting interim rates should be preceded by a showing of extraordinary circumstances.² In response to a staff interrogatory, the Utility stated that the construction of a new wastewater treatment plant and the replacement of a vacuum tank during the test year demonstrated extraordinary circumstances existed during the test year. KWRU also stated that if a year-end rate base is not used, interim rates would not reflect the full amount of investments made during the test year. Accordingly, staff recommends approval of the Utility's use of a year-end basis for interim purposes in accordance with Section 367.082(5)(a), F.S.

² Order No. PSC-92-1359-FOF-WS, issued November 23, 1992, in Docket No. 920655-WS, *In re: Application for a rate increase in Collier County by Marco Island Utilities (Deltona)*.; Order No. PSC-93-1174-FOF-SU, issued August 10, 1993, in Docket No. 921293-SU, *In re: Application for a rate increase in Pinellas County by Mid-County Services, Inc.*; Order No. PSC-95-0040-FOF-WS, issued January 10, 1995, in Docket No. 940765-WS, *In re: Application for a rate increase in Broward County by Ferncrest Utilities, Inc.*

Issue 3: Should any interim revenue increase be approved?

Recommendation: Yes, the Utility should be authorized to collect annual wastewater revenues as indicated below.

| | <u>Adjusted Test Year Revenues</u> | <u>\$ Increase</u> | <u>Revenue Requirement</u> | <u>% Increase</u> |
|------------|--|--------------------|--------------------------------|-------------------|
| Wastewater | \$2,340,275 | \$85,629 | \$2,425,904 | 3.66% |

(Sewards)

Staff Analysis: Pursuant to Section 367.082(1), F.S., the Commission may authorize the collection of interim rates during any proceeding for a change of rates upon petition from any party or on its own motion; and, in order to establish a prima facie entitlement for interim relief, the utility shall demonstrate that it is earning outside the range of reasonableness on its rate of return. Pursuant to Section 367.082(2)(a), F.S., in a proceeding for an interim increase in rates, the Commission shall authorize, within 60 days of the filing for such relief, the collection of rates sufficient to earn the minimum of the range of return on equity.

On November 21, 2017, KWRU filed rate base, cost of capital, and operating income schedules using year-end balances to support its requested interim wastewater increase. Pursuant to Section 367.082(5)(b)1., F.S., the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with those used in the utility's most recent rate proceeding and annualizing any rate changes. Staff reviewed KWRU's interim request, as well as Order No. PSC-2017-0091-FOF-SU, the Order setting KWRU's current rates. Staff has attached accounting schedules to illustrate staff's recommended rate base, capital structure, and test year operating income amounts. The rate base schedules are labeled as Schedule Nos. 1-A and 1-B. The capital structure schedule is labeled Schedule No. 2. The operating income schedules are labeled as Schedule Nos. 3-A and 3-B. Staff's recommended adjustments are discussed below

Interim Rate Base

In its filing, the Utility made adjustments to plant in service, accumulated depreciation, and depreciation expense to recognize reclassifications of plant accounts and retirements. Staff believes these adjustments are appropriate for interim purposes. However, staff believes additional adjustments to rate base are necessary for interim purposes.

Used & Useful

Pursuant to Section 367.082, F.S., the method used to calculate Used and Useful (U&U) in KWRU's last rate case must be used for interim purposes. In Order No. PSC-2017-0091-FOF-SU, the Commission found that KWRU's wastewater collection system is 100 percent U&U and the wastewater treatment plant is 71.5 percent U&U. Based on its review, staff recommends that the wastewater collection system be considered 100 percent U&U and the wastewater treatment plant be considered 71.5 percent U&U.

In its filing, the Utility made a net non-U&U adjustment of \$1,960,672 to reduce plant in service and a \$73,908 net reduction to depreciation expense. Staff recommends an adjustment to decrease U&U by \$86,356 to recognize non-U&U of contributions in aid of construction (CIAC) and accumulated amortization of CIAC. In addition, staff recommends a corresponding adjustment to decrease net depreciation expense by \$12,315.

Working Capital Allowance

Pursuant to Rule 25-30.433(2), Florida Administrative Code (F.A.C.), Working Capital for the Utility was correctly calculated using the balance sheet approach. KWRU reflected a balance of \$438,721 in deferred rate case expense and included an adjustment to reduce the balance by \$107,707. This adjustment represents the removal of one year of approved prior rate case expense. The July 1, 2016 implementation of Section 376.081(9), F.S., prohibits a utility from earning a return on the unamortized balance of rate case expense. However, the current statute does not apply to rate case expense previously authorized by the Commission prior to the 2016 implementation of Section 367.081(9), F.S. Thus, consistent with former Commission practice, one-half of the Utility's total rate case expense associated with its prior case should be included in working capital.³ Staff reduced the interim working capital by an additional \$107,707 to reflect one-half of the prior rate case expense. In addition, staff made an adjustment to remove \$7,893 of rate case expense incurred for the instant docket.

During the previous rate case, an escrow agreement was signed between the Commission and the Utility.⁴ Pursuant to Section 367.081(10), F.S., if a PAA Order is protested by a party other than the utility, the utility is authorized to place its requested rates in effect under bond, escrow, or corporate undertaking subject to refund. The escrow account was created to ensure a refund to customers could be made with interest if necessary, and is reflected in the test year with an ending balance of \$155,616. In the last rate case, the Commission determined that a PAA rate refund was necessary.⁵ The order from the last rate case states that upon Commission staff's verification that the required refunds have been made; any remaining funds shall be released to the Utility. On August 28, 2017, KWRU was authorized to close the escrow account as refunds had been verified by staff.⁶

Based on the Commission's required refund and subsequent closing of this account, staff believes an adjustment is necessary to remove the account for interim rate setting purposes. Thus, staff recommends decreasing working capital by \$155,616. As such, staff recommends the working capital allowance be reduced by \$271,216 (\$107,707+\$7,893+\$155,616).

Based on the above, staff recommends that KWRU's interim rate base should be \$4,153,288.

³ Order No. PSC-2017-0361-FOF-WS, issued September 25, 2017, in Docket No. 20160101-WS, *In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties by Utilities, Inc. of Florida.*; and PSC-2017-0091-FOF-SU, issued March 13, 2017, in Docket No. 20150071-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

⁴ Document No. 03435-16

⁵ Order No. PSC-2017-0091-FOF-SU, issued March 13, 2017, in Docket No. 20150071-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

⁶ Document No. 0742-2017

Interim Cost of Capital

Based on an analysis of the MFRs, Order No. PSC-2017-0091-FOF-SU and adjustments to rate base discussed above, staff recommends that the overall rate of return be reduced from 7.15 percent to 7.14 percent.

Interim Net Operating Income

To calculate the appropriate amount of interim test year operating revenues, staff removed the Utility's requested interim revenue increase of \$146,041 and increased operating revenues by \$7,748 to reflect annualized revenues. Staff also reduced regulatory assessment fees by \$6,223 to reflect the removal of the Utility's requested revenue increase. Pursuant to Section 367.082(5)(b)1., F.S., the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with adjustments made in the utility's most recent rate proceeding and annualizing any rate changes.

O&M Expenses

Based on staff's review, adjustments to operation and maintenance (O&M) expenses are necessary for interim purposes. KWRU proposed an adjustment of \$18,879 to Salaries and Wages to reflect allowable employee expenses per the last rate case. The Utility also proposed corresponding adjustments to Employee Pensions and Benefits and Insurance – Workman's Comp., for \$4,531 and \$831, respectively. In the last rate case, all adjustments to salaries and wages were made on a pro forma basis and no methodology for increasing these expenses was established. As such, staff recommends an adjustment to remove \$24,241 ($\$18,879 + \$4,531 + \831) from O&M Expenses.

Based on the above, staff recommends that the appropriate test year operating income, before any revenue increase, is \$214,665.

Interim Revenue Requirement

Based on the above adjustments, staff recommends a revenue requirement of \$2,425,904. This represents an interim increase in annual revenues of \$85,629 or 3.66 percent.

Issue 4: What are the appropriate interim wastewater rates for KWRU?

Recommendation: The service rates for KWRU should be increased by 3.78 percent to generate the recommended revenue increase for the interim period. The rates, as shown on Schedule No. 4, should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. In addition, the approved rates should not be implemented until the required security has been filed, staff has approved the proposed customer notice, and the notice has been received by the customers. The Utility should provide proof of noticing within 10 days of rendering its approved notice. (Friedrich)

Staff Analysis: Staff recommends that interim service rates for KWRU be designed to allow the Utility the opportunity to generate annual operating revenues of \$2,425,904. The test year revenues were adjusted to annualize the rate in effect at the end of the test year. Before removal of miscellaneous revenues, the resulting revenue increase is \$85,629 (3.66 percent). To determine the appropriate increase to apply to the service rates, miscellaneous revenues should be removed from the test year revenues. The calculation is as follows:

**Table 4-1
 Percentage Service Rate Increase**

| | <u>Wastewater</u> |
|--|-------------------|
| 1 Total Test Year Revenues | \$2,340,275 |
| 2 Less: Miscellaneous Revenues | <u>\$77,500</u> |
| 3 Test Year Revenues from Service Rates | \$2,262,775 |
| 4 Revenue Increase | <u>\$85,629</u> |
| 5 Percentage Service Rate Increase (Line 4/Line 3) | 3.78% |

Source: Staff's Recommended Revenue Requirement and the Utility's MFRs

Consistent with Commission practice for interim rates, the above percentage increase should be applied as an across-the-board increase to the service rates in effect at the end of the Utility's test year. The rates shown on Schedule No. 4 should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. In addition, the approved rates should not be implemented until the required security has been filed, staff has approved the proposed customer notice, and the notice has been received by the customers. The Utility should provide proof of noticing within 10 days of rendering its approved notice.

Issue 5: What is the appropriate security to guarantee the interim increase?

Recommendation: The Utility should be required to secure a letter of credit, or alternately an escrow account or surety bond, to guarantee any potential refund of revenues collected under interim conditions. If the security provided is a letter of credit or surety bond, it should be in the amount of \$78,925. Otherwise, the Utility should deposit 3.78 percent of service revenues collected into the escrow account each month. Pursuant to Rule 25-30.360(6), F.A.C., the Utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and in accordance with Rule 25-30.360, F.A.C. (Sewards)

Staff Analysis: Pursuant to Section 367.082, F.S., revenues collected under interim rates shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by the Commission. As recommended in Issue 2, the total interim increase is \$85,629. In accordance with Rule 25-30.360, F.A.C., staff calculated the potential refund of revenues and interest collected under interim conditions to be \$78,925. This amount is based on an estimated eleven months of revenue being collected from staff's recommended interim rates over the Utility's current authorized rates shown on Schedule No. 4.

The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. The Utility has indicated to staff that it intends to utilize an escrow account as security for potential refund of interim rates granted. As such, staff did not perform an analysis regarding the Utility's financial capability to support a corporate undertaking. Staff recommends KWRU be required to secure a letter of credit, or alternately an escrow account or surety bond, to guarantee any potential refund of water and wastewater revenues. The requirements associated with each are discussed below.

If the security provided is a surety bond or a letter of credit, said instrument should be in the amount of \$78,925. If the Utility chooses a surety bond as security, the surety bond should state that it will be released or terminated only upon subsequent order of the Commission. If the Utility chooses to provide a letter of credit as security, the letter of credit should state that it is irrevocable for the period it is in effect and that it will be in effect until a final Commission order is rendered releasing the funds to the Utility or requiring a refund.

If the security provided is an escrow account, said account should be established between the Utility and an independent financial institution or the Division of Treasury for the Florida Department of Financial Services pursuant to a written escrow agreement. The Commission should be a party to the written escrow agreement and a signatory to the escrow account. The written escrow agreement should state the following: the account is established at the direction of the Commission for the purpose set forth above; no monies in the escrow account may be withdrawn by the Utility without prior written authorization of the Commission Clerk, or his or her designee; the account shall be interest bearing; all information on the escrow account shall be available from the holder of the escrow account to a commission representative at all times; the amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt; 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; and, the account must specify by whom and on whose behalf such monies were paid.

If the security provided is an escrow account, the Utility should deposit 3.78 percent of service revenues collected into the escrow account each month. The escrow agreement should also state that “if a refund to the customers is required, all interest earned on the escrow account shall be distributed to the customers, and if a refund to the customers is not required, the interest earned on the escrow account shall revert to the Utility.”

Pursuant to Rule 25-30.360(6), F.A.C., the Utility should provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, F.A.C.

In no instance should maintenance and administrative costs associated with any refund be borne by the customers. Such costs are the responsibility of, and should be borne by, the Utility.

Issue 6: What is the appropriate amount and mechanism by which the Utility should recover over-refunded interest from the previous rate case, Docket No. 20150071-SU?

Recommendation: The over-refunded interest of \$9,625 should be recovered through a one-time surcharge for one billing cycle. The appropriate surcharges are shown on Schedule No. 4. The Utility should file a proposed customer notice to reflect the Commission-approved surcharge. In addition, the approved surcharge should not be implemented until staff has approved the customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Friedrich, Sowards)

Staff Analysis: On July 26, 2017, KWRU filed its final refund report pursuant to Order No. PSC-2017-0091-FOF-SU and Rule 25-30.360(7), F.A.C., following the 2015 rate case. Subsequently, the Utility filed a second revised refund report on August 17, 2017, to correct the application of the commercial paper rates it previously used to calculate the appropriate interest for the refunds. Due to the calculation error, KWRU over-refunded interest in the amount of \$9,625. Based on the anticipated timing of an interim rate increase, KWRU elected to address the recovery of the over-refunded revenues in the instant docket. Therefore, staff recommends a one-time surcharge for one billing period in order to remedy this differential. Staff's recommended surcharges are based on the customer's respective ERCs and are shown on Schedule No. 4.

Based on the above, the over-refunded interest of \$9,625 should be recovered through a one-time surcharge for one billing cycle. The appropriate surcharges are shown on Schedule No. 4. The Utility should file a proposed customer notice to reflect the Commission-approved surcharge. In addition, the approved surcharge should not be implemented until staff has approved the customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 7: Should KWRU's request to implement interim Allowance for Funds Prudently Invested (AFPI) charges be approved, and if so, what are the appropriate charges?

Recommendation: No. Section 367.082, F.S., has historically applied to afford interim relief to service rates, and has not been applied to charges such as AFPI. KWRU's request to implement interim relief to its requested AFPI charge has not been adequately supported, and should be denied. (J. Crawford)

Staff Analysis: An AFPI charge is a mechanism designed to allow a Utility the opportunity to earn a fair rate of return on prudently constructed plant held for future use from the customers that will be served by that plant. The charge is calculated based on the costs associated with the non-used and useful plant. This one-time charge is assessed based on the date the future customer connects to the Utility, and is generally applicable to all future customers who have not already prepaid connection fees, contributions-in-aid-of-construction or customer advances. KWRU currently does not have any Commission approved AFPI charges, but has requested interim as well as final AFPI charges.

A utility may seek Commission approval of AFPI charges through two primary mechanisms – either in the course of a comprehensive rate proceeding pursuant to Section 367.081, F.S., or as a separate tariff filing pursuant to Section 367.091, F.S. In either case, the rate request may be suspended pursuant to Section 367.081(6), F.S. In a file-and-suspend (direct to hearing) comprehensive earnings review (such as the instant docket), an AFPI charge would be approved prospectively upon the post-hearing vote of the Commission. In a tariff docket, the AFPI charge would also be approved by vote of the Commission, but would be subject to protest by a substantially affected person, in which case the matter would be set for a Section 120.57, F.S., administrative hearing. The timing of requesting an AFPI charge, as well as the procedure by which it is requested (thus affecting the timing in which Commission approval is granted), is a matter left to the utility's discretion.

The purpose of Section 367.082, F.S., is to protect utilities from the “regulatory lag” associated with full blown rate proceedings by providing interim rate relief, subject to refund. The Commission may authorize an interim rate increase if the MFRs indicate that the utility is earning less than its last authorized rate of return on investment, subject to refund at the conclusion of the case. Section 367.082(1), F.S., provides:

The commission may, during any proceeding for a change of rates, upon its own motion, upon petition from any party, or by a tariff filing of a utility or a regulated company, authorize the collection of interim rates until the effective date of the final order. Such interim rates may be based upon a test period different from the test period used in the request for permanent rate relief. Upon application by a utility, the commission may use the projected test-year rate base when determining the interim rates or revenues subject to refund. To establish a prima facie entitlement for interim relief, the commission, the petitioning party, the utility, or the regulated company shall demonstrate that the utility or the regulated company is earning outside the range of reasonableness on rate of return calculated in accordance with subsection (5).

In Commission Staff's First Set of Interrogatories, No. 1(B), staff requested that KWRU explain and provide the legal support for its request for interim recovery of its requested AFPI charges. In response, KWRU provided:

An AFPI charge 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. Section 367.082, Florida Statutes, authorizes the Commission to grant interim rates during the pendency of a rate case. There is no exclusion for AFPI charges. The purpose of interim rates is to reduce regulatory lag, and is equally applicable to AFPI. If AFPI is not allowed then the amounts not collected as new connections are made will be forever lost which impairs KWRU's opportunity to earn a fair return on its investment.

In essence, KWRU contends that Section 367.082, F.S., does not specifically exclude AFPI charges from interim recovery, and that exclusion of AFPI from interim would impair KWRU's ability to earn a fair return. KWRU did not specifically request interim treatment for its requested AFPI charges in its petition, or provide any support for what appears to be a case of first impression for the Commission. KWRU did not provide any case law that supports applying interim recovery to charges such as AFPI pursuant to Section 367.082, F.S. The Utility did not provide an AFPI tariff with its application for either interim or final relief, but did provide schedules showing the calculation of AFPI carrying costs for each ERC, for both interim and final rate purposes, in its E-10 schedules.

The interim statute has historically been applied only with respect to a utility's service rates, and has not been applied to expedite recovery of charges, such as AFPI or service availability charges. Section 367.082, F.S., provides a very prescriptive methodology by which interim rates are calculated, and does not provide a methodology for granting interim relief for charges such as AFPI.

Finally, staff notes that by Order No. PSC-93-0136-FOF-SU,⁷ the Commission denied South Broward Utility, Inc.'s (SBU) request for interim AFPI charges pursuant to Section 367.082, F.S., electing instead to suspend the tariff pursuant to Section 367.091, F.S. The Commission stated:

In its application, SBU requests that this Commission enter an order "pursuant to Section 367.082 and Section 367.101, Florida Statutes (1991), authorizing the Company to charge and collect interim wastewater AFPI charges"

We note that §367.082, Florida Statutes, is designed for allowing interim rates only in conjunction with comprehensive earnings reviews. The information at hand in this case is insufficient for such a review. Further, although AFPI charges are paid for by future customers like service availability charges, we do not

⁷ Issued January 26, 1993, in Docket No. 921186-SU, *In re: Application for Modification of Allowance for Funds Prudently Invested Charges by South Broward Utility, Inc. in Broward County.*

believe that AFPI charges are service availability charges as contemplated in §367.101, Florida Statutes.

Section 367.091(5),⁸ Florida Statutes, gives this Commission authority to withhold consent, upon justification, to all or portions of new rate schedules other than service availability and monthly service rate schedules. Above, we have suspended SBU's AFPI tariffs because we cannot at this time conclude that the utility's supporting calculations are correct, and, therefore, we cannot allow the tariffs to become effective.

In consideration of the above, SBU's request for interim rates is denied.

Staff notes that unlike the SBU docket, KWRU's request for interim AFPI has been made in conjunction with a comprehensive earnings review. However, it appears that the Commission has historically interpreted Section 367.082, F.S., as applying to interim rate relief for service rates, and not charges such as AFPI or service availability charges. Further, KWRU has not provided adequate support for why the Commission should depart from this practice. Therefore, staff recommends that KWRU's request for interim treatment of its requested AFPI charge should be denied

⁸ Staff notes that the Florida Statutes has since been revised, and this subsection is now numbered 367.091(6).

Issue 8: Should this docket be closed?

Recommendation: This docket should remain open pending the Commission's final action on the Utility's requested rate increase. (Mapp)

Staff Analysis: This docket should remain open pending the Commission's final action on the Utility's requested rate increase.

| KWRU | | | Schedule No. 1-A | | |
|---|--------------------------------------|--------------------------------------|---|------------------------------------|---|
| Schedule of Wastewater Rate Base | | | Docket No. 20170141-SU | | |
| Test Year Ended 06/30/17 | | | | | |
| Description | Test Year Per Utility | Utility Adjust- ments | Adjusted Test Year Per Utility | Staff Adjust- ments | Staff Adjusted Test Year |
| 1 Plant in Service | \$17,465,392 | (\$390,690) | \$17,074,702 | \$0 | \$17,074,702 |
| 2 Land and Land Rights | 375,000 | 0 | 375,000 | 0 | 375,000 |
| 3 Non-used and Useful Components | 0 | (1,960,672) | (1,960,672) | 86,356 | (1,874,316) |
| 4 CWIP | 15,150 | 0 | 15,150 | 0 | 15,150 |
| 5 Accumulated Depreciation | (6,766,511) | 381,000 | (6,385,511) | 0 | (6,385,511) |
| 6 CIAC | (10,388,558) | 0 | (10,388,558) | 0 | (10,388,558) |
| 7 Amortization of CIAC | 4,077,673 | 0 | 4,077,673 | 0 | 4,077,673 |
| 8 Working Capital Allowance | <u>0</u> | <u>1,530,364</u> | <u>1,530,364</u> | <u>(271,216)</u> | <u>1,259,148</u> |
| 9 Rate Base | <u>\$4,778,146</u> | <u>(\$439,998)</u> | <u>\$4,338,148</u> | <u>(\$184,860)</u> | <u>\$4,153,288</u> |

| KWRU | | Schedule No. 1-B |
|---|--|-------------------------------|
| Adjustments to Rate Base | | Docket No. 20170141-SU |
| Test Year Ended 06/30/17 | | |
| Explanation | | Wastewater |
| Non-used and Useful | | |
| To reflect net non-used and useful adjustment. | | <u>\$86,356</u> |
| Working Capital | | |
| 1 To reflect appropriate deferred rate case expense. | | (\$107,707) |
| 2 To remove PAA escrow account. | | (155,616) |
| 3 To remove deferred rate case expense from instant docket. | | (7,893) |
| Total | | <u>(\$271,216)</u> |

| KWRU Capital Structure Test Year Ended 06/30/17 | | | | | | Schedule No. 2 Docket No. 20170141-SU | | | |
|--|-----------------------|------------------------------|---------------------------------|-----------------------------|--|--|----------------|------------------|--------------|
| Description | Total Capital | Specific Adjust- ments | Subtotal Adjusted Capital | Prorata Adjust- ments | Capital Reconciled to Rate Base | Ratio | Cost Rate | Weighted Cost | |
| Per Utility | | | | | | | | | |
| 1 | Long-term Debt | \$3,454,167 | \$0 | \$3,454,167 | (\$1,295,932) | \$2,158,235 | 49.75% | 4.88% | 2.43% |
| 2 | Short-term Debt | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% |
| 3 | Preferred Stock | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% |
| 4 | Common Equity | 3,161,980 | 0 | 3,161,980 | (1,186,457) | 1,975,523 | 45.54% | 10.16% | 4.63% |
| 5 | Customer Deposits | 204,389 | 0 | 204,389 | 0 | 204,389 | 4.71% | 2.00% | 0.09% |
| 6 | Deferred Income Taxes | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0.00%</u> | 0.00% | <u>0.00%</u> |
| 7 | Total Capital | <u>\$6,820,536</u> | <u>\$0</u> | <u>\$6,820,536</u> | <u>(\$2,482,389)</u> | <u>\$4,338,147</u> | <u>100.00%</u> | | <u>7.15%</u> |
| Per Staff | | | | | | | | | |
| 8 | Long-term Debt | \$3,454,167 | \$0 | \$3,454,167 | (\$1,392,520) | \$2,061,647 | 49.64% | 4.88% | 2.42% |
| 9 | Short-term Debt | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% |
| 10 | Preferred Stock | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% |
| 11 | Common Equity | 3,161,980 | 0 | 3,161,980 | (1,274,727) | 1,887,253 | 45.44% | 10.16% | 4.62% |
| 12 | Customer Deposits | 204,389 | 0 | 204,389 | 0 | 204,389 | 4.92% | 2.00% | 0.10% |
| 13 | Deferred Income Taxes | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0.00%</u> | 0.00% | <u>0.00%</u> |
| 14 | Total Capital | <u>\$6,820,536</u> | <u>\$0</u> | <u>\$6,820,536</u> | <u>(\$2,667,248)</u> | <u>\$4,153,288</u> | <u>100.00%</u> | | <u>7.14%</u> |
| | | | | | | LOW | HIGH | | |
| RETURN ON EQUITY | | | | | | <u>10.16%</u> | <u>12.16%</u> | | |
| OVERALL RATE OF RETURN | | | | | | <u>7.14%</u> | <u>8.05%</u> | | |

| KWRU | | | | Schedule No. 3-A | | | |
|---|------------------------------|----------------------------|---------------------------------------|-------------------------------|---------------------------------|--------------------------|----------------------------|
| Statement of Wastewater Operations | | | | Docket No. 20170141-SU | | | |
| Test Year Ended 06/30/17 | | | | | | | |
| Description | Test Year Per Utility | Utility Adjustments | Adjusted Test Year Per Utility | Staff Adjustments | Staff Adjusted Test Year | Revenue Increase | Revenue Requirement |
| 1 Operating Revenues: | <u>\$2,130,307</u> | <u>\$348,261</u> | <u>\$2,478,568</u> | <u>(\$138,293)</u> | <u>\$2,340,275</u> | <u>\$85,629</u> 3.66% | <u>\$2,425,904</u> |
| Operating Expenses | | | | | | | |
| 2 Operation & Maintenance | \$1,720,331 | \$184,650 | \$1,904,981 | (\$24,241) | \$1,880,740 | | \$1,880,740 |
| 3 Depreciation | 144,159 | (69,456) | 74,703 | (12,315) | 62,388 | | 62,388 |
| 4 Amortization | 0 | 0 | 0 | 0 | 0 | | 0 |
| 5 Taxes Other Than Income | 175,513 | 13,192 | 188,705 | (6,223) | 182,482 | 3,853 | 186,335 |
| 6 Income Taxes | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| 7 Total Operating Expense | <u>2,040,003</u> | <u>128,386</u> | <u>2,168,389</u> | <u>(42,779)</u> | <u>2,125,610</u> | <u>3,853</u> | <u>2,129,463</u> |
| 8 Operating Income | <u>\$90,304</u> | <u>\$219,875</u> | <u>\$310,179</u> | <u>(\$95,514)</u> | <u>\$214,665</u> | <u>\$81,776</u> | <u>\$296,441</u> |
| 9 Rate Base | <u>\$4,778,146</u> | | <u>\$4,338,148</u> | | <u>\$4,153,288</u> | | <u>\$4,153,288</u> |
| 10 Rate of Return | <u>1.89%</u> | | <u>7.15%</u> | | <u>5.17%</u> | | <u>7.14%</u> |

| KWRU | | Schedule No. 3-B |
|---|--------------------|-------------------------------|
| Adjustments to Operating Income | | Docket No. 20170141-SU |
| Test Year Ended 06/30/17 | | |
| Explanation | Wastewater | |
| Operating Revenues | | |
| 1 To remove requested interim revenue increase. | (\$146,041) | |
| 2 To reflect the appropriate amount of annualized revenues. | <u>7,748</u> | |
| Total | <u>(\$138,293)</u> | |
| Operation and Maintenance Expense | | |
| 1 To remove salaries & wages adjustment. | (\$18,879) | |
| 2 To remove employee pensions & benefits adjustment. | (4,531) | |
| 3 To remove insurance - workman's comp adjustment. | <u>(831)</u> | |
| Total | <u>(\$24,241)</u> | |
| Depreciation Expense - Net | | |
| To remove depreciation expense on non U&U adjustment. | <u>(\$12,315)</u> | |
| Taxes Other Than Income | | |
| To remove RAFs on revenue increase. | <u>(\$6,223)</u> | |

| KWRU | | SCHEDULE NO. 4 | | |
|---|--------------------------------------|--|--|--|
| TEST YEAR ENDED JUNE 30, 2017 | | DOCKET NO. 20170141-SU | | |
| MONTHLY WASTEWATER RATES | | | | |
| | UTILITY CURRENT RATES | UTILITY REQUESTED INTERIM RATES | STAFF RECOMMENDED INTERIM RATES | STAFF RECOMMENDED SURCHARGE |
| <u>Residential Service</u> | | | | |
| Base Facility Charge- All Meter Sizes | \$31.86 | \$33.79 | \$33.07 | \$2.30 |
| Charge per 1,000 gallons 10,000 gallon cap | \$5.28 | \$5.60 | \$5.48 | \$0.16 |
| <u>General Service</u> | | | | |
| Base Facility Charge by Meter Size | | | | |
| 5/8" x 3/4" | \$31.86 | \$33.79 | \$33.07 | \$2.30 |
| 1" | \$79.65 | \$84.48 | \$82.66 | \$5.75 |
| 1.5" | \$159.30 | \$168.95 | \$165.33 | \$11.50 |
| 2" | \$254.88 | \$270.33 | \$264.53 | \$18.40 |
| 3" | \$509.76 | \$540.65 | \$529.05 | \$36.80 |
| 4" | \$796.50 | \$844.77 | \$826.64 | \$57.50 |
| 6" | \$1,593.00 | \$1,689.54 | \$1,653.28 | \$115.00 |
| 8" | \$2,548.80 | \$2,703.26 | \$2,645.25 | \$184.00 |
| 8" Turbo | \$2,867.40 | \$3,041.16 | \$2,975.91 | \$207.00 |
| Charge per 1,000 gallons | \$6.33 | \$6.71 | \$6.57 | \$0.20 |
| <u>Harbor Shores</u> | | | | |
| Base Facility Charge | \$2,198.34 | \$2,331.56 | \$2,281.53 | \$158.70 |
| Charge per 1,000 gallons 690,000 gallon cap | \$5.28 | \$5.60 | \$5.48 | \$0.16 |
| <u>Private Lift Station Owners</u> | | | | |
| 5/8" x 3/4" | \$25.49 | \$27.03 | \$26.45 | \$2.30 |
| 1" | \$63.72 | \$67.58 | \$66.14 | \$5.75 |
| 1.5" | \$127.44 | \$135.16 | \$132.27 | \$11.50 |
| 2" | \$203.90 | \$216.26 | \$211.64 | \$18.40 |
| 3" | \$407.81 | \$432.52 | \$423.27 | \$36.80 |
| 4" | \$637.20 | \$675.81 | \$661.37 | \$57.50 |
| 6" | \$1,274.40 | \$1,351.63 | \$1,322.73 | \$115.00 |
| 8" | \$2,039.04 | \$2,162.61 | \$2,116.37 | \$184.00 |
| Charge per 1,000 gallons | \$6.33 | \$6.71 | \$6.57 | \$0.20 |
| <u>Reuse Service</u> | | | | |
| Charge per 1,000 gallons | \$1.34 | \$1.42 | \$1.39 | \$0.16 |
| <u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u> | | | | |
| 5,000 Gallons | \$58.26 | \$61.79 | \$60.46 | \$63.57* |
| 10,000 Gallons | \$84.66 | \$89.79 | \$87.86 | \$91.77* |
| 15,000 Gallons | \$84.66 | \$89.79 | \$87.86 | \$91.77* |

*These bill comparisons utilize staff's recommended interim rates and surcharges to exemplify a typical residential bill during the single billing period the surcharges will be effective at varying consumption levels