

State of Florida



Public Service Commission

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

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

DATE: June 26, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Bruce, Hudson) *SBH*
Division of Accounting and Finance (Wilson, Golden, Hightower) *ALM*
Division of Engineering (Knoblauch, Lewis) *EK CKL*
Office of the General Counsel (DuVal) *MD TW*

RE: Docket No. 20190114-WU – Application for staff-assisted rate case in Alachua County, and request for interim rate increase by Gator Waterworks, Inc.

AGENDA: 07/09/19 – Regular Agenda – Decision on Interim Rates – Participation is at the Discretion of the Commission

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Clark

CRITICAL DATES: 07/12/19 (60-Day Decision on Interim Rates)

SPECIAL INSTRUCTIONS: None

COMMISSION
CLERK

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Case Background

Gator Waterworks, Inc. (Gator Waterworks or utility) is a Class C utility serving 354 residential water customers in Alachua County. The utility's rates and charges were last approved in a grandfather certificate proceeding in 1993.¹ However, the utility's rates have been amended through three price index increases. The utility has never had a staff-assisted rate case before the Commission. According to Gator Waterworks' 2018 annual report, total gross revenue was \$47,041 and total operating expense was \$80,178.

On May 13, 2019, Gator Waterworks filed its application for a staff-assisted rate case. In its application, the utility requested a test year ended March 31, 2019, for interim and final rate purposes.

This recommendation addresses the utility's interim rates. The Commission has jurisdiction pursuant to Sections 367.082 and 367.0814(4), Florida Statutes (F.S).

¹Order No. PSC-93-1027-FOF-WU, issued July 13, 1993, in Docket No. 19921195-WU, *In re: Application for certificate to provide water service in Alachua County under grandfather rights by Kincaid Hills Water Company.*

Discussion of Issues

Issue 1: Should an interim revenue increase be approved?

Recommendation: Yes, Gator Waterworks should be authorized to collect interim revenues as indicated below:

	Test Year Revenues	\$ Increase	Revenue Requirement	% Increase
Water	\$56,351	\$21,089	\$77,440	37.42%

(Wilson, Golden)

Staff Analysis: On May 13, 2019, Gator Waterworks filed an application requesting an interim revenue increase in its water rates. Section 367.0814(4), F.S., details interim rate increases for staff-assisted rate cases.

Section 367.0814(4), F.S., states:

The commission may, upon its own motion, or upon petition from the regulated utility, 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. To establish interim relief, there must be a demonstration that the operation and maintenance expenses exceed the revenues of the regulated utility, and interim rates shall not exceed the level necessary to cover operation and maintenance expenses as defined by the Uniform System of Accounts for Class C Water and Wastewater Utilities (1996) of the National Association of Regulatory Utility Commissioners.

Staff has reviewed the utility's filed operation and maintenance (O&M) expenses in relation to its revenues. Based on the utility's filing, staff recommends that Gator Waterworks has demonstrated a *prima facie* entitlement to an interim rate increase in accordance with Section 367.0814(4), F.S.

Revenue Increase

In order to establish interim rate relief as prescribed by Section 367.0814(4), F.S., staff used the utility's revenues reflected in its filing for the test year ended March 31, 2019. The test year revenues are \$56,351, which includes \$51,833 from water service rates and \$4,518 from miscellaneous service revenues. The test year O&M expenses are \$76,491. The difference between the utility's test year revenues and O&M expenses is \$20,140.

In addition, the interim water increase should be grossed up to include regulatory assessment fees (RAFs). The Commission has previously determined that it would be inappropriate to approve an increase in a utility's rates to cover its operating expenses and deny that same utility

the funds to pay RAFs.² Furthermore, by approving an interim rate increase that allows for the payment of RAFs, the utility should be able to fully cover its O&M expenses. The RAFs associated with the interim increase equal \$949.

In total, Gator Waterworks should be allowed an interim water revenue increase of \$21,089 (\$20,140 + \$949) to produce revenues sufficient to cover O&M expenses and additional RAFs. Thus, staff recommends the appropriate interim revenue requirement should be \$77,440. This is a 37.42 percent increase above the utility's test year revenues. Table 1-1 illustrates staff's interim increase calculation.

**Table 1-1
Determination of Interim Increase**

	Water
1. Utility Test Year O&M Expenses	\$76,491
2. Less: Utility Test Year Revenues	<u>\$56,351</u>
3. Revenues to Cover O&M Expenses	\$20,140
4. Interim Revenue Increase	\$20,140
5. RAFs on Interim Rate Increase	\$949
6. Total Interim Revenue Increase (\$)	<u>\$21,089</u>
7. Total Interim Revenue Increase (%)	<u>37.42%</u>

Source: The utility's application and staff's calculations

²Order No. PSC-01-1654-FOF-WS, issued August 13, 2001, in Docket No. 20010396-WS, *In re: Application for staff-assisted rate case in Brevard County by Burkim Enterprises, Inc.*

Issue 2: What are the appropriate interim water rates?

Recommendation: The interim rate increase of 40.69 percent should be applied as an across-the-board increase to the existing service rates. The rates, as shown on Schedule No. 1, should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code (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 the date notice was given within 10 days of the date of the notice. (Bruce)

Staff Analysis: Staff recommends that interim service rates for Gator Waterworks are designed to allow the utility the opportunity to generate annual operating revenues of \$77,440. Before removal of miscellaneous revenues, this would result in an increase of \$21,089 (37.42 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 2-1
Percentage Increase Less Miscellaneous Revenues**

	<u>Water</u>
1. Total Test Year Revenues	\$56,351
2. Less: Miscellaneous Revenues	<u>\$4,518</u>
3. Test Year Revenues from Service Rates	\$51,833
4. Revenue Increase	<u>\$21,089</u>
5. % Service Rate Increase (Line 4/Line 3)	<u>40.69%</u>

Source: Staff's recommended revenue requirement and the utility's application

Staff recommends that the interim rate increase of 40.69 percent should be applied as an across-the-board increase to the existing service rates. The rates, as shown on Schedule No. 1, 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 the date notice was given within 10 days of the date of the notice.

Issue 3: What is the appropriate security to guarantee the interim increase?

Recommendation: The appropriate security to guarantee the funds collected subject to refund is a corporate undertaking. (Hightower, Wilson, Golden)

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 1, the total annual interim revenue increase is \$21,089. 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 \$14,286. This amount is based on an estimated eight months of revenue being collected from staff's recommended interim rates over the utility's current authorized rates shown on Schedule No. 1.

The owner/president provided the most recent three years of his personal financial net worth. Staff reviewed the confidential personal financial information provided by the owner/president.³ Staff believes that in this circumstance the owner/president has demonstrated the financial ability and wherewithal to guarantee the interim refund in this rate increase, if necessary. Further, the owner/president provided a personal guarantee in the amount of \$14,286, in this docket.⁴

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.

Accordingly, the appropriate security to guarantee the funds collected subject to refund is a corporate undertaking.

³Document No. 04598-2019 (Confidential), in Docket No. 20190114-WU.

⁴Document No. 05084-2019, in Docket No. 20190114-WU.

Issue 4: Should this docket be closed?

Recommendation: No. The docket should remain open pending the Commission's final action on the utility's requested rate increase. (DuVal)

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

GATOR WATERWORKS, INC.		SCHEDULE NO. 1	
TEST YEAR ENDED MARCH 31, 2019		DOCKET NO. 20190114-WU	
MONTHLY WATER RATES		CURRENT	STAFF
		RATES	RECOMMENDED
			INTERIM
<u>Residential and General Service</u>			
Base Facility Charge			
All Meter Sizes		\$6.94	\$9.76
Charge per 1,000 gallons		\$0.92	\$1.29
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparisons</u>			
3,000 Gallons		\$9.70	\$13.63
6,000 Gallons		\$12.46	\$17.50
10,000 Gallons		\$16.14	\$22.66