

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: November 26, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Sibley, Hudson) *MS*
Division of Accounting and Finance (Wilson, T. Brown) *ESD*
Division of Engineering (Doehling, Phillips) *MS*
Office of the General Counsel (Weisenfeld) *MS* *MC* *KAW* *JD* *BP* *AW* *TL*

RE: Docket No. 20190146-WS – Petition for limited alternative rate increase in Lake County by Lakeside Waterworks, Inc.

AGENDA: 12/10/19 – Regular Agenda – Proposed Agency Action – Except Issue No. 3 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Polmann

CRITICAL DATES: 12/18/19 – 90 day deadline Pursuant to Rule 25-30.457(11), F.A.C.

SPECIAL INSTRUCTIONS: None

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Case Background

Lakeside Waterworks, Inc. (Lakeside or utility) is a Class C utility serving approximately 183 water customers in Lake County. The utility's last approved rate increase was in 2017.¹

On July 25, 2019, Lakeside filed an application for a limited alternative rate increase (LARI) pursuant to Rule 25-30.457, Florida Administrative Code (F.A.C). On August 20, 2019, staff notified the utility that it met the initial requirements of Rule 25-30.457, F.A.C. Therefore, pursuant to Rule 25-30.457(4), F.A.C., the official date of filing was established as September

¹ Order No. PSC-2017-0428-PAA-WS, issued November 7, 2017, in Docket No. 20160195-WS, *In re: Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.*

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19, 2019, and the 90-day time frame for the Florida Public Service Commission (Commission) to render a decision began on that date.

As stated above, the Commission last set rates for Lakeside in 2017. In that rate case, the Commission found the utility's overall quality of service to be satisfactory. Since the Commission's vote in the last rate case, staff has identified no water quality complaints filed with the Commission, five complaints filed with the Florida Department of Environmental Protection (DEP), and ten complaints received by the utility pertaining to DEP secondary standards. A customer meeting was held on October 16, 2019, in Leesburg, Florida. Fifteen customers attended and four customers addressed concerns with the quality of Lakeside's product. Staff notes that the most recent DEP secondary standard test results, dated January 30, 2018, indicate that the utility is currently passing secondary standards.

The Commission has jurisdiction pursuant to Sections 367.0814(9) and 367.121(1), Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Should the Commission approve Lakeside Waterworks, Inc.'s application for a LARI?

Recommendation: Yes. The Commission should approve Lakeside's application for a LARI in the amount of 20 percent. This equates to an increase of \$13,097. Pursuant to Rule 25-30.457(12), F.A.C., the utility should be required to hold any revenue increase granted subject to refund with interest for a period of 15 months after the filing of its annual report for the year the adjustment in rates was implemented. If overearnings occur, such overearnings, up to the amount held subject to refund, with interest, should be disposed of for the benefit of the customers. After the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should be required to file reports with the Office of Commission Clerk no later than the 20th of every month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed must also indicate the status of the security being used to guarantee repayment of any potential refund. (Wilson, T. Brown)

Staff Analysis: Pursuant to Rule 25-30.457, F.A.C., any utility eligible to file for a staff-assisted rate case (SARC) may petition the Commission for a rate increase of up to 20 percent applied to metered or flat recurring rates as an alternative to a rate case. This Rule was designed to streamline the rate increase process for qualifying small water or wastewater companies, by establishing an abbreviated procedure for a limited rate increase that is less time consuming and thus less costly for utilities, their customers, and the Commission. This Rule is similar to the rules governing price index and pass-through increases in that neither an engineering review nor a financial audit of the utility's books and records is required.

Rule 25-30.457, F.A.C., was adopted on March 15, 2005. The Rule was amended in 2008, 2014, and 2018. Under provisions of this Rule, the Commission has previously approved six LARI applications: two in 2006,² and four in 2019.³ Staff has undertaken rulemaking in regard to the LARI Rule, and expects to bring a recommendation before the Commission in the first half of 2020. The most recent LARI rulemaking workshop was conducted on October 30, 2019.

On July 25, 2019, Lakeside filed its application requesting a LARI of 20 percent pursuant to Rule 25-30.457, F.A.C. The application met the initial requirements of the Rule, and September 19, 2019, was established as the official filing date.

Staff reviewed the utility's application pursuant to the criteria listed in Rule 25-30.457(5), F.A.C., and recommends that Lakeside qualifies for staff assistance pursuant to subsection (1) of

² Order No. PSC-06-0444-PAA-WU, issued May 22, 2006, in Docket No. 20050880-WU, *In re: Petition for limited alternative rate increase in Lake County by Brendenwood Water System, Inc.*; and Order No. PSC-06-0822-PAA-WU, issued October 6, 2006, in Docket No. 20060416-WU, *In re: Petition for limited alternative rate increase in Polk County by Pinecrest Ranches, Inc.*

³ Order No. PSC-2019-0141-PAA-WS, issued April 22, 2019, in Docket No. 20180215-WS, *In re: Petition for limited alternative rate increase in Highlands County by LP Waterworks, Inc.*; Order No. PSC-2019-0142-PAA-WU, issued April 22, 2019, in Docket No. 20180216-WU, *In re: Petition for limited alternative rate increase in Lake County by Lake Idlewild Utility Company*; Order No. PSC-2019-0145-PAA-WS, issued April 23, 2019, in Docket No. 20180217-WS, *In re: Petition for limited alternative rate increase in Sumter County by Jumper Creek Utility Company*; and Order No. PSC-2019-0459-PAA-WU, issued October 24, 2019, in Docket No. 20190124-WU, *In re: Petition for limited alternative rate increase in Lake County by Raintree Waterworks, Inc.*

this Rule, and, the utility's books and records appear to be organized consistent with Rule 25-30.110, F.A.C. Staff also verified that the utility is current on the filing of regulatory assessment fees and annual reports. The utility has been in operation over a year and filed additional relevant information in support of eligibility.

According to the utility, for the 12-month period ended May 31, 2019, the net operating income was approximately \$1,423, which represents an approximate rate of return of 0.68 percent. The Commission approved an overall rate of return of 8.45 percent in Lakeside's last SARC Order.⁴ Based on its calculations, Lakeside believes that it may be entitled to approximately a 22.71 percent increase if it filed for a SARC.⁵ Since rate base was last established, Lakeside has expended capital in its water plant in the amount of \$70,405 from March 30, 2016 through May 31, 2019. Staff notes that a large portion of that amount appears to have been added in 2018 alone. In addition, operating expenses have increased by approximately 5 percent since the utility's last SARC.

Despite the fact that the utility received a rate increase less than two years from the date of filing of its petition, Lakeside's water system was under earning based on information provided in the utility's 2017 and 2018 Annual Reports. Staff also notes that at the time the last rate case was addressed by this Commission, a utility representative indicated that the utility had an additional \$40,000 worth of pro forma plant investment that was not included in the rate case. It was also noted that additional projects remained and the utility would likely need to file a limited proceeding within the year. No limited proceeding was filed by the utility in 2018 or 2019. Based on the information described above, staff recommends approval of the utility's petition.

The data presented in the application was based upon annualized revenues by customer class and meter size for the 12-month period ended May 31, 2019. Based on annualized revenues of \$65,679, a 20 percent increase would result in an annual increase in revenues of \$13,097. This produces total annual service revenues of \$78,776.

Pursuant to Rule 25-30.457(12), F.A.C., the utility is required to hold any revenue increase granted subject to refund with interest in accordance with Rule 25-30.360, F.A.C., for a period of 15 months after the filing of its 2020 Annual Report as it is the year the adjustment in rates will be implemented.

After the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility must file reports with the Office of Commission Clerk no later than the 20th of every month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed must also indicate the status of the security being used to guarantee repayment of any potential refund.

Staff reviewed the personal financial statements of the primary shareholder, who is the president of Lakeside Waterworks, Inc.⁶ The president has provided a personal guarantee of any rate

⁴ Order No. PSC-2017-0428-PAA-WS, issued November 7, 2017, in Docket No. 20160195-WS, *In re: Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.*

⁵ The utility's calculation utilized the most recently approved leverage formula for 2019.

⁶ Document No. 10861-2019 (Confidential), filed November 12, 2019.

increase approved in this docket.⁷ Based on the above, staff believes that in this circumstance the company's president has demonstrated the financial ability to guarantee the refund, if necessary.

To ensure overearnings will not occur due to the implementation of this rate increase, the Commission will conduct an earnings review of the Lakeside's annual report for the year the adjustment in rates was implemented. If overearnings occur, such overearnings, up to the amount held subject to refund, with interest, will be disposed of for the benefit of the customers.

⁷ Document No. 10709-2019, filed November 4, 2019.

Issue 2: What are the appropriate monthly service rates for Lakeside Waterworks, Inc.?

Recommendation: The existing service rates for Lakeside should be increased by 20 percent in accordance with Rule 25-30.457, F.A.C. The appropriate service rates are shown on Schedule No. 1. The utility should file tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Sibley)

Staff Analysis: Based on staff's recommended approval of the utility's LARI in Issue 1, the existing service rates for Lakeside should be increased by 20 percent in accordance with Rule 25-30.457, F.A.C. Therefore, staff calculated rates by applying the 20 percent increase across-the-board to the existing base facility and gallonage charges. The utility's existing water rates and the staff recommended rates are shown on Schedule No. 1. The utility should file tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

Issue 3: Should the recommended rates be approved for Lakeside Waterworks, Inc. on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

Recommendation: Yes. Pursuant to Rule 25-30.457(15), F.A.C., in the event of a protest of the Proposed Agency Action (PAA) Order by a substantially affected person other than the utility, Lakeside should be authorized to implement the rates established in the LARI PAA Order on a temporary basis subject to refund upon the utility filing a staff-assisted rate case application within 21 days of the date the protest is filed.

The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. If the recommended rates are approved on a temporary basis, the incremental increase collected by the utility will be subject to the refund provisions outlined in Rule 25-30.360, F.A.C. Pursuant to Rule 25-30.457(17), F.A.C., if the utility fails to file a SARC application within 21 days in the event there is a protest, the application for a LARI will be deemed withdrawn. (Wilson) (Final Agency Action)

Staff Analysis: This recommendation proposes an increase in water 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 Rule 25-30.457(15), F.A.C., in the event of a protest of the PAA Order by a substantially affected person other than the utility, Lakeside should be authorized to implement the rates established in the LARI PAA Order on a temporary basis subject to refund upon the utility filing a SARC application within 21 days of the date the protest is filed.

The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. If the recommended rates are approved on a temporary basis, the incremental increase collected by the utility will be subject to the refund provisions outlined in Rule 25-30.360, F.A.C. Pursuant to Rule 25-30.457(17), F.A.C., if the utility fails to file a SARC application within 21 days in the event there is a protest, the application for a LARI will be deemed withdrawn.

Issue 4: Should this docket be closed?

Recommendation: No. In the event of a protest, Lakeside Waterworks may implement the rates established in the PAA Order on a temporary basis, subject to refund with interest, upon the utility's filing of a SARC application within 21 days of the date the protest is filed. If Lakeside Waterworks fails to file a SARC within 21 days, the utility's petition for a LARI will be deemed withdrawn pursuant to Rule 25-30.457(17), F.A.C. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the PAA Order, a Consummating Order should be issued. The docket should remain open for staff's verification that the revised tariff sheets which reflect the Commission-approved rates, and the customer notice, have been filed by Lakeside Waterworks and approved by staff, and so that staff may conduct an earnings review of the utility pursuant to Rule 25-30.457(12), F.A.C. Upon staff's approval of the tariff and completion of the earnings review process as set forth in Rule 25-30.457(12)-(14), F.A.C., this docket should be closed administratively. (Weisenfeld)

Staff Analysis: In the event of a protest, Lakeside Waterworks may implement the rates established in the PAA Order on a temporary basis, subject to refund with interest, upon the utility's filing of a SARC application within 21 days of the date the protest is filed. If Lakeside Waterworks fails to file a SARC within 21 days, the utility's petition for a LARI will be deemed withdrawn pursuant to Rule 25-30.457(17), F.A.C. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the PAA Order, a Consummating Order should be issued. The docket should remain open for staff's verification that the revised tariff sheets which reflect the Commission-approved rates, and customer notice, have been filed by Lakeside Waterworks and approved by staff, and so that staff may conduct an earnings review of the utility pursuant to Rule 25-30.457(12), F.A.C. Upon staff's approval of the tariff and completion of the earnings review process as set forth in Rule 25-30.457(12)-(14), F.A.C., this docket should be closed administratively.

**Lakeside Waterworks, Inc.
 Monthly Water Rates**

	Existing Rates	Staff Recommended Rates
Residential, General, and Irrigation Service*		
Base Facility Charge by Meter Size		
5/8" x 3/4"	\$14.86	\$17.83
3/4"	\$22.29	\$26.75
1"	\$37.15	\$44.58
1 1/2"	\$74.30	\$89.15
2"	\$118.88	\$142.64
3"	\$237.75	\$285.28
4"	\$371.50	\$445.75
6"	\$743.00	\$891.50
Gallage Charge – Residential and Irrigation Service		
Charge Per 1,000 gallons		
0 - 4,000 gallons	\$4.48	\$5.37
4,001 – 10,000 gallons	\$5.68	\$6.81
Over 10,000 gallons	\$9.94	\$11.92
Gallage Charge - General Service		
Charge Per 1,000 gallons	\$5.85	\$7.02
*Irrigation Service Customers DO NOT pay a separate BFC.		
Typical Residential 5/8" x 3/4" Meter Bill Comparison		
3,000 Gallons	\$28.30	\$33.94
6,000 Gallons	\$44.14	\$52.93
10,000 Gallons	\$66.86	\$80.17