

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: September 24, 2020

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Bruce, Bethea, Sibley, Hudson) *JGH*
Division of Accounting and Finance (D. Brown, Richards) *ALM*
Division of Engineering (Maloy, Knoblauch, Ramos) *TB*
Office of the General Counsel (Passidomo, Weisenfeld) *LCT*

RE: Docket No. 20200152-WS – Application for a limited alternative rate increase proceeding in Polk and Marion Counties, by Alturas Water, LLC, Sunrise Water, LLC, Pinecrest Utilities, LLC, and East Marion Utilities, LLC.

AGENDA: 10/06/20 – Regular Agenda – Proposed Agency Action – Except Issue Nos. 3 and 4 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brown

CRITICAL DATES: 10/12/20 – 90 day deadline Pursuant to Rule 25 - 30.457(11), F.A.C.

SPECIAL INSTRUCTIONS: None

Case Background

On May 28, 2020, Florida Utility Services 1, LLC (FUS1) filed an application for a limited alternative rate increase (LARI) for Alturas Water, LLC. (Alturas); Charlie Creek Utilities, LLC (Charlie Creek); Crestridge Utilities, LLC (Crestridge); East Marion Utilities, LLC (East Marion); Holiday Gardens Utilities, LLC (Holiday Gardens); Lake Yale Utilities, LLC (Lake Yale); McLeod Gardens Utilities, LLC (McLeod Gardens); Orange Land Utilities, LLC (Orange Land); Pinecrest Utilities, LLC (Pinecrest); and Sunrise Water, LLC (Sunrise). However, on June 12, 2020, in accordance with Rule 25-30.457(2)(1), Florida Administrative Code, (F.A.C.), staff determined that McLeod Gardens was ineligible for a LARI due to its last rate case being in 2002, and that Lake Yale was ineligible due to never having had a rate proceeding before the Commission.¹ Subsequently, on June 19, 2020, McLeod Gardens and Lake Yale each filed for a staff-assisted rate case (SARC).²

After the withdrawal of McLeod Gardens and Lake Yale, the applications met the initial requirements of the Rule, and staff established July 13, 2020, as the official filing date. However, following the establishment of the official filing date, staff's review of the 2019 Annual Report for Charlie Creek, Crestridge, Holiday Gardens, and Orange Land showed that they may be overearning and are not eligible for a LARI. Therefore, on August 20, 2020, FUS1 withdrew the LARI applications for Charlie Creek, Crestridge, Holiday Gardens, and Orange Land and requested a refund of the appropriate filing fees. As a result, only Alturas, East Marion, Pinecrest, and Sunrise (utilities) remain in this proceeding. The following table reflects the number of customers, 2019 Annual Report gross revenues and operating expenses, and the rate proceedings in which rates were last established for the remaining utilities.

Customers, Revenues, Operating Expenses and Last Proceedings Establishing Rates

Utility	Customers	Gross Revenues	Operating Expenses	Order	Issuance Date
Alturas	55	\$23,880	\$28,893	PSC-2016-0128-PAA-WU	03/29/16
East Marion – w	106	\$32,799	\$38,844	PSC-2017-0107-PAA-WS	03/24/17
East Marion - ww	94	\$43,310	\$46,671	PSC-2017-0107-PAA-WS	03/24/17
Pinecrest	142	\$62,864	\$60,120	PSC-2013-0320-PAA-WU	07/15/13
Sunrise	257	\$62,700	\$75,966	PSC-2016-0126-PAA-WU	03/28/16

Source: 2019 Annual Report and Commission Orders

By Order No. PSC-2019-0503-PAA-SU, issued November 25, 2019, in Docket No. 20180202-SU, the Commission approved an allocation of common costs from FUS1 to West Lakeland Wastewater, LLC, a sister utility. The utilities' purpose for filing this request is to recover an allocated portion of common costs based on the Commission-approved FUS1 common costs in the aforementioned Order. Furthermore, the request is for the utilities' recovery of their allocated portion of increased FUS1 common costs and the inclusion of a Compliance Technician position.

¹ Document No. 03165-2020, filed June 18, 2020.

² Docket No. 20200168-WU, *In re: Application for staff-assisted rate case in Polk County, and request for interim rate increase, by McLeod Gardens Utilities, LLC.*; and Docket No. 20200169-WS, *In re: Application for staff-assisted rate case in Lake County, and request for interim rate increase, by Lake Yale Utilities, LLC.*

Docket No. 20200152-WS

Date: September 24, 2020

FUS1 selected the test year ended December 31, 2019, for this proceeding. 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 FUS1's application for a limited alternative rate increase for Alturas, East Marion, Pinecrest, and Sunrise?

Recommendation: Yes. The Commission should approve the aforementioned utilities' application for a limited alternative rate increase with staff's modifications. The increase for each utility is listed in the table below. Pursuant to Rule 25-30.457(7), F.A.C., the utilities are required to hold any revenue increase granted subject to refund with interest. To ensure overearnings will not occur because of these rate increases, Commission staff will conduct earning reviews of the twelve-month period following the implementation of the revenue increase. If overearnings occur, such overearnings, up to the amount held subject to refund, with interest, must be disposed of for the benefit of the customers. If Commission staff determines that a utility did not exceed the range of its last authorized return on equity, the revenue increase will no longer be held subject to refund.

System Name	Percent Increase	Revenue Increase
Alturas Water	14.05%	\$3,466
East Marion (water)	8.71%	\$2,717
East Marion (wastewater)	5.88%	\$2,586
Pinecrest	6.67%	\$4,046
Sunrise Water	20.00%	\$11,731

(Richards, D. Brown, Knoblauch, Maloy)

Staff Analysis: Pursuant to Rule 25-30.457, F.A.C., any utility eligible to file for a 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 stream-line the rate increase process for qualifying 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.

As discussed in the case background, only Alturas, East Marion, Pinecrest, and Sunrise remain in this proceeding. Staff reviewed the filing regarding the remaining utilities pursuant to the criteria listed in Rule 25-30.457(5), F.A.C., and recommends that they qualify for staff assistance pursuant to subsection (1) of this Rule. Staff also verified that the utilities are current on their filing of regulatory assessment fees and annual reports. Each of the four utilities have had rates established within the last seven years, pursuant to Rule 25-30.457(2)(1), F.A.C., and are under earning based on information provided in their 2019 Annual Reports. Additionally, the utilities' books and records appear to be organized consistent with Rule 25-30.110, F.A.C. The filing

contained additional relevant information in support of their application. This information is detailed below.

Secondary Water Standards

Pursuant to Section 367.0812(1), F.S., “in fixing rates that are just, reasonable, compensatory, and not unfairly discriminatory, the commission shall consider the extent to which the utility provides water service that meets secondary water quality standards as established by the Department of Environmental Protection (DEP).” As such, staff analyzed the current compliance with secondary standards and other quality of service items for the utilities.

In their last rate cases, the Commission determined the overall quality of service to be satisfactory for both East Marion³ (2015, water and wastewater) and Pinecrest⁴ (2012, water). In the last rate cases of Alturas⁵ (2014, water) and Sunrise⁶ (2014, water), the Commission found the overall quality of service to be unsatisfactory and ordered a 25 percent penalty be applied to the officers’ salaries. Subsequent to its last rate case, Sunrise and Alturas were transferred to the current owner in June 2018, whereas, the East Marion and Pinecrest systems were transferred to the current owner, prior to their last rate cases, in 2015 and 2011, respectively.

Based on the DEP’s most recent Sanitary Survey for the East Marion water treatment plant (WTP), conducted on October 2, 2019, the DEP determined the system was out of compliance with the DEP’s rules and regulations. This was due to inadequate chlorine levels, a leaking valve, missing a monthly operating report, no security for the tank system, and lack of a flushing plan on site. In addition, the utility is required to submit annual and biannual testing of certain contaminants. The DEP issued the utility a consent order for failure to monitor contaminant levels in 2019. Subsequently, the utility entered into a settlement agreement with the DEP on July 31, 2020. Secondary standards were last tested, on November 29, 2018. East Marion passed all 14 secondary standards and will next be tested for secondary standards in 2021. On July 24, 2019, the DEP conducted a compliance inspection on the East Marion wastewater treatment plant (WWTP) and determined it to be out of compliance with the DEP’s rules and regulations due to permitting and monitoring violations. Since the compliance inspection, the utility has worked to correct the issues for its WWTP and on March 9, 2020, the DEP determined the facility resolved its issues and is now in compliance.

Based on the DEP’s most recent Sanitary Surveys for Sunrise, conducted on June 22, 2020, the DEP determined the system was in compliance with the DEP’s rules and regulations. The last secondary standards testing for Sunrise was performed on August 2, 2018, and reported excess

³ Order No. PSC-2015-0576-PAA-WS, issued December 21, 2015, in Docket No. 20150091-WS, *In re: Application for approval of transfer of Certificate Nos. 490-W and 425-S from East Marion Sanitary Systems, Inc. to East Marion Utilities, LLC. in Marion County.*

⁴ Order No. PSC-2012-0475-PAA-WU, issued September 18, 2012, in Docket No. 20110311-WU, *In re: Application for staff-assisted rate case in Polk County by Pinecrest Utilities, LLC.*

⁵ Order No. PSC-2019-0304-PAA-WU, issued July 29, 2019, in Docket No. 20180175-WU, *In re: Application to transfer facilities and Certificate No. 628-W in Polk County from Alturas Utilities, L.L.C. to Alturas Water, LLC.*

⁶ Order No. PSC-2019-0303-PAA-WU, issued July 29, 2019, in Docket No. 20180174-WU, *In re: Application to transfer facilities and Certificate No. 627-W in Polk County from Sunrise Utilities, L.L.C. to Sunrise Water, LLC.*

foaming agent levels. The next secondary standards testing will occur in 2021. The DEP conducted a sanitary survey for the Pinecrest system on September 19, 2017, and deemed the system out of compliance due to the utility’s failure to obtain the proper permit before beginning a project. Additionally, Pinecrest was tested for secondary standards on July 17, 2018, and passed all secondary standards. The next test for this system will occur in 2021. The DEP conducted a sanitary survey for the Alturas system on July 30, 2018. The DEP determined the system to be out of compliance due to an expired tank inspection. On August 29, 2018, the Alturas system had its secondary standards tested, which indicated excess iron levels.

Staff analyzed the complaint records of the Commission, the DEP, and the utility for each of the systems since 2015. The results are shown in Table 1-1.

Table 1-1
Quality of Service Complaints by System (2015-2020)

System	Commission	DEP	Utility
East Marion	32 (water) 0 (wastewater)	8 (water) 1 (wastewater)	5 (water) 0 (wastewater)
Pinecrest	0	0	6
Sunrise	10	7	1
Alturas	0	0	0

Source: Complaint records of the Commission’s Consumer Activity Tracking System, the DEP, and the utility

Since the transfer of Sunrise and East Marion to the current owner, the complaints filed with the DEP and the Commission have decreased. Specifically, for the Sunrise system, post-transfer, two complaints were filed with the DEP and zero complaints were filed with the Commission. For the East Marion system, post-transfer, zero complaints were filed with the DEP and two complaints were filed with the Commission.

Due to travel restrictions implemented by the Department of Management Services, a customer meeting was not held.⁷ However, all customers received a Notice for the Solicitation of Comments (Notice) that provided a summary of the rate case, the current and proposed rates, detailed instructions on how comments may be filed with the Commission prior to the Commission Conference, and instructions if a customer wished to comment at the Commission Conference. Also, attached to the Notice was a customer comment card that customers could complete and mail to the Commission. As of September 21, 2020, 14 customers submitted comments. Two customers (one from Sunrise and one from East Marion) expressed concern regarding the proposed rate increase and 12 expressed concern regarding water quality issues (two customers for Sunrise, seven customers for East Marion, and three customers for Pinecrest).

⁷ Department of Management Services, Travel Guidance for Employees of the State Personnel System, posted March 1, 2020, https://www.dms.myflorida.com/content/download/148251/989599/Travel_Guidance_for_Employees_of_the_State_Personnel_System.pdf

East Marion and Pinecrest are currently in compliance with secondary standards. Sunrise and Alturas are not currently meeting secondary standards based upon tests taken within a few months of the systems being transferred to the current owner. The rates of Sunrise and Alturas currently include a financial penalty, which will remain in place until their next SARC, at which time quality of service will be evaluated. Additionally, as a part of this proceeding, FUS1 requested a new Compliance Technician position, which is discussed in greater detail below. This position will assist in permitting and regulatory reporting for the utilities, which appears to be a contributing factor as to why the utilities are not compliant with the DEP. Therefore, staff does not believe any additional action is necessary at this time.

FUS1 Allocation

The utilities' application requested recovery of FUS1's allocated common costs for each of the systems referenced above, based on the allocated common costs approved in Docket No. 20180202-SU.⁸ The operations and maintenance (O&M) common costs are allocated among all of the utilities in the FUS1 system based on number of customers. Table 1-2 below shows the allocation used for the four utilities in the present docket.

Table 1-2
FUS1 Utility Allocation

	Alturas	East Marion ⁹	Pinecrest	Sunrise	Non-LARI Utilities	FUS1 Total
Customers	55	106	142	257	2,826	3,386
Allocation	2%	3%	4%	8%	83%	100%

Source: Document No. 02809-2020, Exhibit E.

The O&M common costs allocated to each FUS1 utility include:

- Salaries and Wages – Employees (601/701)
- Salaries and Wages – Officers (603/703)
- Employee Benefits (604/704)
- Materials and Supplies (620/720)
- Contractual Services – Professional (631/731)
- Contractual Services – Other (636/736)
- Rents (640/740)
- Transportation (650/750)
- Insurance (655/755)
- Miscellaneous Expenses (675/775)

Table 1-3 illustrates the adjustments made to the reported amounts for 2019 in order to achieve the Commission-approved FUS1 O&M common costs.

⁸ Order No. PSC-2019-0503-PAA-SU, filed on November 25, 2019, in Docket No. 20180202-SU, *In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC.*

⁹ The allocation is shared equally between the water and wastewater systems for East Marion.

**Table 1-3
 Allocated O&M Common Costs**

Utility	2019 Amount	Adjustment To Meet Allocation	Approved Allocation
Alturas	\$10,274	\$986	\$11,260
East Marion	\$15,412	\$1,478	\$16,890
Pinecrest	\$23,090	(\$571)	\$22,519
Sunrise	\$41,097	\$3,941	\$45,038
Non-LARI Systems	<u>\$423,841</u>	<u>\$43,427</u>	<u>\$467,268</u>
Total FUS1	<u>\$513,714</u>	<u>\$49,261</u>	<u>\$562,975</u>

Source: Document 02809-2020, Exhibit F.

Payroll Taxes

In addition to O&M common costs, the Commission approved payroll taxes of \$23,910 for the FUS1 utilities in Docket No. 20180202-SU. Table 1-4 illustrates the adjustments made to the reported payroll tax amounts for 2019 in order to achieve the amount approved by the Commission.

**Table 1-4
 Allocated Payroll Taxes**

Utility	2019 Amount	Adjustment To Meet Allocation	Approved Allocation
Alturas	\$402	\$76	\$478
East Marion	\$602	\$114	\$716
Pinecrest	\$905	\$51	\$956
Sunrise	\$1,608	\$305	\$1,913
Non-LARI Systems	<u>\$16,579</u>	<u>\$3,268</u>	<u>\$19,847</u>
Total FUS1	<u>\$20,096</u>	<u>\$3,814</u>	<u>\$23,910</u>

Source: Document No. 02809-2020, Exhibit F.

Pro Forma Expenses

As part of their application, the utilities also requested the recovery of pro forma FUS1 common costs that have increased significantly since FUS1 allocated common costs were approved in the West Lakeland Water proceeding, and include the addition of a Compliance Technician position. These items are discussed in additional detail below.

Salaries and Wages – Employees (601/701)

As shown in Table 1-5 below, the Commission approved \$301,366 for FUS1 employee salaries and wages in 2018. In their application, the utilities requested additional salaries and wages of

\$83,502. This amount included salary increases for eight positions and the addition of one new position. In support of their request, the utilities provided an explanation for the increase associated with each position and referenced the 2018 American Water Works Association (AWWA) Compensation Survey.

A portion of the utilities' requested salary increases reflect index increases of \$7,112 and \$5,522 for 2019 and 2020, respectively.¹⁰ Staff notes that all four utilities seeking increases in this docket implemented 2019 index increases between June and December 2019. Additionally, three of the four have implemented 2020 index increases.¹¹ Only Pinecrest has not filed for a 2020 index increase.¹² Because FUS1's common costs are allocated to each of the utilities, allocated common costs such as salaries are already included in the O&M expense used to calculate the index increase applicable to each utility. While the amount allocated to each utility would have been determined during each utility's last rate case, some allocation for FUS1 salaries is currently imbedded in O&M for each utility. By applying 2019 and 2020 index increases to the FUS1 salaries approved in West Lakeland, staff believes that at least some portion of the increase would result in double recovery for the utilities. Given the abbreviated nature of LARI proceedings, the potential for double recovery, and considering that the rate increases recommended here will be applied to rates that already reflect 2019 and 2020 index increases at the utility level, staff believes it would be inappropriate to include the FUS1 index increases included in the application.

In its application, FUS1 also requested approval of a new Compliance Technician position with an annual salary of \$45,000. The duties for the position would include developing compliance programs and maintaining environmental compliance for FUS1's water and wastewater systems in areas such as permitting and regulatory reporting. The utility stated that these duties are currently being performed by the President of FUS1. However, with the number of systems now managed by FUS1, a full-time position is needed to effectively perform these responsibilities. Additionally, the Compliance Technician would also perform emergency response duties, such as initiating and maintaining contact with vendors and contractors, as well as managing an inventory of emergency assets.

In total, FUS1 manages 12 water and/or wastewater utilities regulated by the Commission, and two utilities which are not regulated by the Commission.¹³ Considering the total number of systems and that regulatory compliance duties are currently being handled by the President, staff believes that the establishment of a new Compliance Technician position is reasonable. Furthermore, given the number of recent storm events that have impacted the state, sufficient emergency preparation and response is needed. Therefore, staff recommends approval of the requested Compliance Technician position.

Staff's recommended salary increases are reflected in Table 1-5.

¹⁰ The index increase was 2.36 percent in 2019 and 1.79 percent in 2020.

¹¹ The 2020 index increases for Alturas, East Marion, and Sunrise had an effective date of June 5, 2020.

¹² Pinecrest is eligible to apply for a 2020 index increase as long as it does so before March 31, 2021.

¹³ Suwannee Valley Utilities, LLC and College Manor Utilities, LLC are regulated by Columbia County but their customer base is included in common cost calculations in this docket.

**Table 1-5
 Recommended Salary Increase**

Position	Commission Approved (20180202-SU)	FUS1 Requested Increase	FUS1 Requested Salary	Staff Recom. Increase	Recom. FUS1 Salary
CFO	\$54,366	\$2,279	\$56,645	\$0	\$54,366
Office Manager	\$39,500	\$4,500	\$44,000	\$2,844	\$42,344
Customer Service	\$34,000	\$1,425	\$35,425	\$0	\$34,000
Billing	\$20,800	\$4,200	\$25,000	\$3,328	\$24,128
Operations Sup.	\$39,000	\$13,999	\$52,999	\$12,364	\$51,364
Maintenance	\$37,900	\$12,099	\$49,999	\$10,510	\$48,410
Maintenance	\$37,900	\$0	\$37,900	\$0	\$37,900
Maintenance	\$37,900	\$0	\$37,900	\$0	\$37,900
Compliance	\$0	\$45,000	\$45,000	\$45,000	\$45,000
Total	<u>\$301,366</u>	<u>\$83,502</u>	<u>\$384,868</u>	<u>\$74,046</u>	<u>\$375,412</u>

Source: Document No. 02809-2020, Exhibit G-1 and staff calculations.

Contractual Services – Other (636/736)

FUS1 requested recovery of the cost to replace the air conditioning system at its New Port Richey offices. Item No. 3 of the building lease makes FUS1 responsible for “all cost and expenses whatsoever kind, character, nature or description concerning . . . all HVAC.”¹⁴ According to FUS1, the system was original to the building and could not be repaired. Since FUS1 has no real property interest in the building, the lease and all associated costs with the lease are expensed through the common cost allocation method for FUS1. Two bids were obtained for air conditioning systems, totaling \$6,650 and \$7,200.¹⁵ The utility selected the lower bid of \$6,650, which also offered a longer warranty than the higher cost air conditioning system bid. The system was installed in February 2020. Staff reviewed the invoice and believes the air conditioning system’s cost of \$6,650 should be amortized over five years. As such, staff believes \$1,330 ($\$6,650 \div 5$ years) should be included in FUS1 common costs and allocated to all FUS1 utilities.

Insurance Expenses (655/755)

FUS1 reported auto insurance expense of \$13,283 and workman’s compensation insurance of \$9,000 for 2019. This represents total insurance expense of \$22,283 ($\$13,283 + \$9,000$) for the year. In its application, the utilities requested an increase of \$6,930 for auto insurance based on the premium for the policy period November 2019 through November 2020, reflected on the Progressive Insurance declaration page.¹⁶ The utilities also requested an increase of \$200 for workman’s compensation based on the estimated premium for the policy period November 2019 through November 2020. The estimate was calculated using the final premium audit amounts paid in 2018 and 2019. As such, staff believes the utilities have supported the inclusion of the pro forma insurance expense increase of \$7,130 ($\$6,930 + \200) for purposes of this LARI.

¹⁴ Document No. 03663-2020, filed July 8, 2020.

¹⁵ Document No. 02809-2020, filed May 28, 2020, and Document No. 03663-2020, filed July 8, 2020.

¹⁶ Document No. 02809-2020.

Payroll Taxes

In addition to the salary increase request discussed above, the utilities also requested recovery of the associated payroll taxes. Staff utilized a payroll tax rate of 7.65 percent based on the 2020 FICA tax rate. When applied to the recommended salary increase of \$74,046 as described above, staff recommends a pro forma increase to payroll taxes of \$5,665 ($\$74,046 \times 0.0765$).

Pro Forma Summary

Staff's recommended pro forma increases, allocated to the various FUS1 systems, are provided in Table 1-6.

**Table 1-6
 Allocated Pro Forma Increases**

Utility	Salaries	Contractual Services	Insurance Expenses	Payroll Taxes	System Total
Alturas	\$1,481	\$27	\$143	\$113	\$1,764
East Marion (water)	\$1,111	\$20	\$107	\$85	\$1,323
East Marion (wastewater)	\$1,111	\$20	\$107	\$85	\$1,323
Pinecrest	\$2,962	\$53	\$285	\$227	\$3,527
Sunrise	\$5,924	\$106	\$570	\$453	\$7,053
Non-LARI Systems	<u>\$61,457</u>	<u>\$1,104</u>	<u>\$5,918</u>	<u>\$4,702</u>	<u>\$73,181</u>
Total FUS1	<u>\$74,046</u>	<u>\$1,330</u>	<u>\$7,130</u>	<u>\$5,665</u>	<u>\$88,171</u>

Source: Document No. 02809-2020 and staff calculations.

Rate Case Expense

The utilities paid a combined filing fee \$4,500 on July 6, 2020. The utilities did not include any rate case expense in its filing. By Rule 25-22.0407, F.A.C., the utility is required to mail notices of the rate case overview, notices of final rates, and notices of four-year rate reduction to its customers. For these notices, staff estimated \$924 for postage expense, \$392 for printing, and \$84 for envelopes, resulting in noticing expense of \$1,400 ($\$924 + \$392 + \84).

The utilities expect to incur \$4,180 in legal fees to complete this LARI. The utilities provided invoices from Dean Mead Attorneys at Law (Dean Mead) through August 15, 2020, reflecting actual expenses associated with the rate case totaling \$1,900, and estimated an additional \$2,280 to complete the case.¹⁷ These amounts included 5 hours of actual time and 6 hours of time to complete the LARI. No adjustments were made to legal fees.

Additionally, the utilities expect to incur \$3,990 in accounting fees to complete the current docket. The utilities provided invoices from OCBOA Consulting, LLC. (OCBOA) through August 15, 2020, reflecting actual expenses of \$3,681, and estimated an additional \$309 to

¹⁷ Document No. 04735-2020, filed on August 19, 2020.

complete the case.¹⁸ These amounts included 38.75 hours of actual time and 3.25 hours of time to complete the LARI. Staff made no adjustments to accounting fees.

Due to the current restrictions on travel and large gatherings, no in-person customer meetings were conducted, and the October 6, 2020, Agenda Conference will take place via teleconference. As such, no travel expense was included in rate case expense. The noticing costs and consulting fees were allocated among the four utilities in this docket based on the number of customers as shown in Table 1-7 below.

Based on the information above, staff recommends total rate case expense of \$14,070 (\$4,500 + \$1,400 + \$4,180 + \$3,990), which amortized over four years results in a rate case expense of \$3,517 (\$14,070 ÷ 4).

**Table 1-7
 Allocated Rate Case Expense**

Utility	Allocation ¹⁹	Filing Fee ²⁰	Noticing Costs	Legal Fees	Accounting Fees	Total RCE
Alturas	10%	\$1,000	\$138	\$410	\$392	\$1,940
East Marion (water)	9%	\$1,000	\$132	\$396	\$378	\$1,906
East Marion (wastewater)	9%	\$500	\$132	\$396	\$377	\$1,405
Pinecrest	25%	\$1,000	\$355	\$1,060	\$1,012	\$3,427
Sunrise	47%	\$1,000	\$643	\$1,918	\$1,831	\$5,392
Total	100%	\$4,500	\$1,400	\$4,180	\$3,990	\$14,070

Source: Utility filings and staff calculations.

**Table 1-8
 Amortized Rate Case Expense**

Utility	Total RCE	Amortized RCE
Alturas	\$1,940	\$485
East Marion (water)	\$1,906	\$477
East Marion (wastewater)	\$1,405	\$351
Pinecrest	\$3,427	\$857
Total	\$8,678	\$2,170

Source: Staff Calculations.

While all four LARI utilities were included for purposes of determining the allocations and the rate case expense applicable to each system, no rate case expense is included in the increase

¹⁸ Document No. 04735-2020.

¹⁹ Rate case expense allocations are based on the number of customers for Alturas, East Marion water system, East Marion wastewater system, Pinecrest, and Sunrise only.

²⁰ Filing fees are based on the capacity of each utility's water and wastewater system, not by allocation.

calculated for Sunrise. The calculated increase for Sunrise is greater than the 20 percent allowed by Rule 25-30.457(1), F.A.C.²¹ As such, staff capped Sunrise’s increase at 20 percent. Accordingly, no four-year rate reduction (Issue 4) would be required for Sunrise. The total rate case expense for the other systems should be amortized over four years. The appropriate amortized rate case expense for each system is reflected in Table 1-8.

Conclusion

The data presented in the application was based on annualized revenues by customer class and meter size for the period ended December 31, 2019, the most recent 12-month period. Table 1-9 summarizes staff’s recommended adjustments for each utility. Table 1-10 displays the annualized revenues, the percent increase, and the resulting annual increase in revenues that produce the total annual service revenues for each system and include staff’s adjustments. Staff’s annualized revenues reflect the 2020 index increases for Alturas, East Marion, and Sunrise, which had an effective date of June 5, 2020.

**Table 1-9
 Summary of Adjustments**

Utility	Allocated O&M Adj.	Allocated Payroll Adj.	Pro Forma Increase	RCE	Adj. for RAF	Increase Capped At 20%	Total Increase
Alturas	\$986	\$76	\$1,763	\$485	\$156	\$0	\$3,466
East Marion (water)	\$739	\$57	\$1,323	\$476	\$122	\$0	\$2,717
East Marion (wastewater)	\$739	\$57	\$1,323	\$351	\$116	\$0	\$2,586
Pinecrest	(\$571)	\$51	\$3,527	\$857	\$182	\$0	\$4,046
Sunrise	\$3,941	\$305	\$7,054	\$1,348	\$596	(\$1,512)	\$11,731

Source: Staff calculations

**Table 1-10
 Staff Recommended Increase**

Utility	Annualized Revenue	Percentage Increase	Revenue Increase	Total Annual Service Revenue
Alturas	\$24,666	14.05%	\$3,466	\$28,132
East Marion (water)	\$31,213	8.71%	\$2,717	\$33,930
East Marion (wastewater)	\$43,976	5.88%	\$2,586	\$46,562
Pinecrest	\$60,640	6.67%	\$4,046	\$64,686
Sunrise	\$58,656	20.00%	\$11,731	\$70,387

Source: Document No. 02809-2020 and staff calculations.

²¹ As filed, Sunrise requested an increase of 22.92 percent.

Pursuant to Rule 25-30.457(7), 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(4), F.A.C.

To ensure overearnings will not occur because of these rate increases, staff will conduct earning reviews of the twelve-month period following the implementation of the revenue increase. At the end of the twelve-month period, each utility has 90 days to complete and file Form PSC 1025 (03/20), entitled "Limited Alternative Rate Increase Earnings Review." In the event a utility needs additional time to complete the form, that utility may request an extension of time supported by a statement of good cause that must be filed with Commission staff within seven days prior to the 90-day deadline. If staff's earnings review demonstrates that the utility exceeded the range of its last authorized rate of return on equity, such overearnings, up to the amount held subject to refund, with interest, shall be disposed of for the benefit of the customers. If staff determines that the utility did not exceed the range of its last authorized return on equity, the revenue increase will no longer be held subject to refund.

Based on the information described above, staff recommends approval of the utilities' application with the modifications discussed above.

Issue 2: What are the appropriate monthly service rates for Alturas, East Marion, Pinecrest, and Sunrise?

Recommendation: The existing service rates for the utilities should be increased as shown below to generate the recommended revenue increase in accordance with Rule 25-30.457, F.A.C.

Utility	% Rate Increase
Alturas	14.05%
East Marion (water)	8.71%
East Marion (wastewater)	5.88%
Pinecrest	6.67%
Sunrise	20.00%

The appropriate staff recommended service rates are shown on Schedule No. 1. The utilities 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 utilities should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bethea, Sibley, Bruce)

Staff Analysis: Based on staff's recommended approval of the utilities' LARI in Issue 1, the existing service rates for the utilities should be increased by the individual percentage rate increases shown in Table 2-1, which are in accordance with Rule 25-30.457, F.A.C.

Table 2-1
Staff Recommended Percentage Rate Increase

Utility	% Rate Increase
Alturas	14.05%
East Marion (water)	8.71%
East Marion (wastewater)	5.88%
Pinecrest	6.67%
Sunrise	20.00%

Source: Staff Calculations

Therefore, staff calculated rates by applying the percentage rate increases across-the-board to the existing base facility and gallonage charges for each utility. The appropriate staff recommended service rates are shown on Schedule No. 1. The utilities 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 utilities should provide proof of the date notice was given no less than 10 days after the date of the notice.

Issue 3: What is the appropriate amount by which the rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.081(8), F.S.?

Recommendation: The rates should be reduced, as shown in Schedule No. 1, to remove rate case expenses grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period, pursuant to Section 367.081(8), F.S. Alturas, East Marion, and Pinecrest should be required to file revised tariffs and proposed customer notices setting forth the lower rates and the reason for the reductions no later than one month prior to the actual date of the required rate reductions. If this reduction is filed in conjunction with price index or pass-through rate adjustments, separate data should be filed for the price index and/or pass-through increase or decrease and the reductions in the rates due to the amortized rate case expenses. (Bruce, Richards, D. Brown) (Procedural Agency Action)

Staff Analysis: Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the recovery period by the amount of the rate case expenses previously included in rates. These reductions will reflect the removal of revenue associated with the amortization of rate case expenses and the gross-up for RAFs. The total reductions for each system are listed in Table 4-1 below.

**Table 3-1
Four-Year Rate Reduction**

Utility	Reduction
Alturas	\$508
East Marion (water)	\$499
East Marion (wastewater)	\$368
Pinecrest	\$897

Source: Staff calculations.

Staff recommends that the rates should be reduced, as shown in Schedule No. 1, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period, pursuant to Section 367.081(8), F.S. Alturas, East Marion, and Pinecrest should be required to file revised tariffs and proposed customer notices setting forth the lower rates and the reason for the reductions no later than one month prior to the actual date of the required rate reductions. If this reduction is filed in conjunction with price index or pass-through rate adjustments, separate data should be filed for the price index and/or pass-through increases or decreases and the reductions in the rates due to the amortized rate case expenses.

Issue 4: Should the recommended rates be approved for Alturas, East Marion, Pinecrest, and Sunrise 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(9), F.A.C., in the event of a protest of the Proposed Agency Action (PAA) Order by a substantially affected person other than one of the aforementioned utilities, the utilities should be authorized to implement the rates established in the LARI PAA Order on a temporary basis subject to refund upon filing a SARC application within 21 days from the date the protest is filed.

Each utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The 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(9), F.A.C., if a 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. (Richards, D. Brown) (Procedural Agency Action)

Staff Analysis: This recommendation proposes an increase in rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue for the aforementioned utilities. Therefore, pursuant to Rule 25-30.457(9), F.A.C., the utilities should be authorized to implement the rates established in the LARI PAA Order on a temporary basis subject to refund upon filing a SARC application within 21 days from the date the protest is filed.

Each utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The 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(9), F.A.C., if a 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 5: Should this docket be closed?

Recommendation: No. In the event of a protest, the utilities 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 the utilities fail to file a SARC within 21 days, the utility's petition for a LARI will be deemed withdrawn pursuant to Rule 25-30.457(9), 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 reflecting the Commission-approved rates, and the customer notice, have been filed by the utilities and approved by staff, so that staff may conduct an earnings review of the utility pursuant to Rule 25-30.457(8), 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(8), F.A.C., this docket should be closed administratively. (Passidomo, Weisenfeld)

Staff Analysis: In the event of a protest, the utilities 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 the utilities fail to file a SARC within 21 days, the utility's petition for a LARI will be deemed withdrawn pursuant to Rule 25-30.457(9), 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 reflecting the Commission-approved rates, and the customer notice, have been filed by the utilities and approved by staff, so that staff may conduct an earnings review of the utility pursuant to Rule 25-30.457(8), 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(8), F.A.C., this docket should be closed administratively.

Alturas Water, LLC.		Schedule No. 1		
Test Year Ended 12/31/19		Docket No. 20200152-WS		
Water Rates				
	UTILITY'S EXISTING RATES	UTILITY'S PROPOSED RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>				
Base Facility Charge by Meter Size				
5/8" x 3/4"	\$13.11	\$14.61	\$14.95	\$0.27
3/4"	\$19.67	\$21.91	\$22.43	\$0.41
1"	\$32.78	\$36.52	\$37.38	\$0.68
1 1/2"	\$65.55	\$73.05	\$74.75	\$1.35
2"	\$104.88	\$116.87	\$119.60	\$2.16
3"	\$209.76	\$233.75	\$239.20	\$4.32
4"	\$327.75	\$365.23	\$373.75	\$6.75
6"	\$655.50	\$730.46	\$747.50	\$13.50
Charge per 1,000 gallons	\$5.91	\$6.59	\$6.74	\$0.12
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
2,000 Gallons	\$24.93	\$27.79	\$28.43	
4,000 Gallons	\$36.75	\$40.97	\$41.91	
6,000 Gallons	\$48.57	\$54.15	\$55.39	

East Marion Utilities, LLC.			Schedule No. 1	
Test Year Ended 12/31/19			Docket No. 20200152-WS	
Water Rates				
	UTILITY'S EXISTING RATES	UTILITY'S PROPOSED RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>				
Base Facility Charge by Meter Size				
5/8" x 3/4"	\$12.77	\$13.55	\$13.88	\$0.20
3/4"	\$19.16	\$20.33	\$20.82	\$0.30
1"	\$31.93	\$33.88	\$34.70	\$0.50
1 1/2"	\$63.85	\$67.75	\$69.40	\$1.00
2"	\$102.16	\$108.40	\$111.04	\$1.60
3"	\$204.32	\$216.80	\$222.08	\$3.20
4"	\$319.25	\$338.76	\$347.00	\$5.00
6"	\$638.50	\$677.51	\$694.00	\$10.00
Charge per 1,000 gallons - Residential				
0 - 10,000 gallons	\$2.68	\$2.84	\$2.91	\$0.04
Over 10,000 gallons	\$4.01	\$4.26	\$4.36	\$0.06
Charge per 1,000 gallons - General Service				
	\$3.13	\$3.32	\$3.40	\$0.05
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
2,000 Gallons	\$18.13	\$19.23	\$19.70	
4,000 Gallons	\$23.49	\$24.91	\$25.52	
6,000 Gallons	\$28.85	\$30.59	\$31.34	

East Marion Utilities, LLC.		Schedule No. 1		
Test Year Ended 12/31/19		Docket No. 20200152-WS		
Wastewater Rates				
	UTILITY'S EXISTING RATES	UTILITY'S PROPOSED RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential Service</u>				
All Meter Sizes	\$17.52	\$18.33	\$18.55	\$0.15
Charge per 1,000 gallons 10,000 gallon cap	\$5.34	\$5.59	\$5.65	\$0.04
<u>General Service</u>				
Base Facility Charge by Meter Size				
5/8" x 3/4"	\$17.52	\$18.33	\$18.55	\$0.15
3/4"	\$26.28	\$27.51	\$27.83	\$0.23
1"	\$43.80	\$45.84	\$46.38	\$0.38
1 1/2"	\$87.60	\$91.67	\$92.75	\$0.75
2"	\$140.16	\$146.67	\$148.40	\$1.20
3"	\$280.32	\$293.33	\$296.80	\$2.40
4"	\$438.00	\$458.33	\$463.75	\$3.75
6"	\$876.00	\$916.66	\$927.50	\$7.50
Charge per 1,000 gallons	\$6.41	\$6.71	\$6.79	\$0.05
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
2,000 Gallons	\$28.20	\$29.51	\$29.85	
4,000 Gallons	\$38.88	\$40.69	\$41.15	
6,000 Gallons	\$49.56	\$51.87	\$52.45	

Pinecrest Utilities, LLC.			Schedule No. 1	
Test Year Ended 12/31/19			Docket No. 20200152-WS	
Water Rates				
	UTILITY'S EXISTING RATES	UTILITY'S PROPOSED RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>				
Base Facility Charge by Meter Size				
5/8" x 3/4"	\$16.36	\$17.14	\$17.45	\$0.24
3/4"	\$24.54	\$25.72	\$26.18	\$0.36
1"	\$40.90	\$42.86	\$43.63	\$0.60
1 1/2"	\$81.80	\$85.70	\$87.25	\$1.20
2"	\$130.88	\$137.12	\$139.60	\$1.92
3"	\$261.76	\$274.24	\$279.20	\$3.84
4"	\$409.00	\$428.50	\$436.25	\$6.00
6"	\$818.00	\$857.00	\$872.50	\$12.00
Charge per 1,000 gallons	\$4.93	\$5.16	\$5.26	\$0.07
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
2,000 Gallons	\$26.22	\$27.46	\$27.97	
4,000 Gallons	\$36.08	\$37.78	\$38.49	
6,000 Gallons	\$45.94	\$48.10	\$49.01	

Sunrise Water, LLC.		Schedule No. 1	
Test Year Ended 12/31/19		Docket No. 20200152-WS	
Water Rates			
	UTILITY'S EXISTING RATES	UTILITY'S PROPOSED RATES	STAFF RECOMMENDED RATES
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$10.50	\$12.65	\$12.60
3/4"	\$15.75	\$18.98	\$18.90
1"	\$26.25	\$31.63	\$31.50
1 1/2"	\$52.50	\$63.24	\$63.00
2"	\$84.00	\$101.18	\$100.80
3"	\$168.00	\$202.37	\$201.60
4"	\$262.50	\$316.20	\$315.00
6"	\$525.00	\$632.40	\$630.00
Charge per 1,000 gallons - Residential			
0 - 5,000 gallons	\$3.35	\$4.03	\$4.02
5,001-10,000 gallons	\$3.68	\$4.44	\$4.42
Over 10,000 gallons	\$7.36	\$8.86	\$8.83
Charge per 1,000 gallons - General Service	\$3.81	\$4.58	\$4.57
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$20.55	\$24.74	\$24.66
6,000 Gallons	\$30.93	\$37.24	\$37.12
8,000 Gallons	\$38.29	\$46.12	\$45.96