

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 20, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Engineering (Thompson, Ellis)
Division of Accounting and Finance (D. Buys, Cicchetti, Richards)
Division of Economics (Bruce)
Office of the General Counsel (Murphy)

Handwritten notes:
TT, PaG, TB, MZ, CRR, DRB, CRRS, ALM, ST, ES, 9/21, TA

RE: Docket No. 20180138-SU – Application for staff-assisted rate case in Volusia County by North Peninsula Utilities Corporation.

AGENDA: 10/03/19 – Proposed Agency Action – Except for Issue Nos. 11, 12, and 13 - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Polmann

CRITICAL DATES: 12/16/19 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

Table of Contents

Case Background	1
Issue 1 Quality of Service	2
Issue 2 Operating Conditions.....	5
Issue 3 Used and Useful.....	6
Issue 4 Average Test Year Rate Base	8
Issue 5 Rate of Return.....	13
Issue 6 Test Year Revenues	14
Issue 7 Operating Expense.....	15
Issue 8 Operating Ratio Methodology	25
Issue 9 Revenue Requirement.....	26
Issue 10 Appropriate Rate Structure	27
Issue 11 Four-Year Rate Reduction.....	29
Issue 12 Temporary Rates.....	30
Issue 13 Book Adjustments	32
Issue 14 Docket Closure	33
Attachment A Quarterly Update for the Dept. of Environmental Protection Consent Order.....	34
Schedule No. 1-A Schedule of Wastewater Rate Base.....	47
Schedule No. 1-B Adjustments to Rate Base.....	48
Schedule No. 2 Schedule of Capital Structure.....	49
Schedule No. 3-A Schedule of Wastewater Operating Income	50
Schedule No. 3-B Adjustments to Operating Income.....	51
Schedule No. 3-C Analysis of Wastewater Operation and Maintenance Expense.....	53
Schedule No. 4 Monthly Wastewater Rates	54
Schedule No. 5 Plant, Accum. Depreciation, CIAC, & CIAC Amortization Balances.....	55

Case Background

North Peninsula Utilities Corporation (NPUC or Utility) is a Class B wastewater only utility serving approximately 428 residential and 5 general service customers in Volusia County. The Florida Public Service Commission (Commission) granted the transfer of Certificate No. 249-S from Shore Utility Corporation to NPUC, effective the date of the Commission vote on December 5, 1989.¹ The Utility's rates were last established in 2000 during an investigation of possible overearnings conducted by the Commission.² However, this is NPUC's first staff-assisted rate case (SARC). On November 21, 2016, the Commission issued an order approving in part and denying in part a proposed territory expansion by the Utility.³

On July 6, 2018, the Department of Environmental Protection (DEP) issued a Consent Order to NPUC, following the DEP's March 20, 2018, inspection for failing to properly maintain its wastewater treatment facility. The Consent Order requires NPUC to immediately implement preventative measures to ensure system failure does not occur due to deteriorating facility components while reconstruction is under way.

On July 20, 2018, NPUC filed its application for a SARC. Pursuant to Section 367.0814(2), Florida Statutes (F.S.), the official filing date of the SARC has been determined to be September 14, 2018. The 12-month period ended June 30, 2018, was selected as the test year for the instant case. NPUC is requesting recovery of costs associated with the improvements mandated by the Consent Order, as well as other improvements necessary for the upkeep of its wastewater treatment facility. According to NPUC's 2018 Annual Report, its total operating revenue was \$261,335 and its net operating income was a loss of \$15,175. The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, and 367.091, F.S.

¹Order No. 22345, issued December 27, 1989, in Docket No. 19891016-SU, *In re: Application of North Peninsula Utilities Corporation for transfer of Certificate No. 249-S from Shore Utility Corporation in Volusia County.*

²Order No. PSC-00-1676-PAA-SU, issued September 19, 2000, in Docket No. 20000715-SU, *In re: Investigation of possible overearnings by North Peninsula Utilities Corporation in Volusia County.*

³Order No. PSC-16-0522-PAA-SU, issued November 21, 2016, in Docket No. 20130209-SU, *In re: Application for expansion of certificate (CIAC) (new wastewater line extension charge) by North Peninsula Utilities Corp.*

Discussion of Issues

Issue 1: Is the quality of service provided by North Peninsula Utilities Corporation satisfactory?

Recommendation: Yes. NPUC has been responsive to customer complaints, and intends to complete the pro forma plant improvements discussed in Issue 4 to be in compliance with the DEP, and to help ensure customer satisfaction. Therefore, staff recommends that the quality of service be considered satisfactory. (Thompson)

Staff Analysis: Pursuant to Section 367.081(2)(a)1, F.S., and Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in wastewater rate cases, the Commission shall determine the overall quality of service provided by the utility. For a wastewater only utility, the determination is made from an evaluation of the utility's attempt to address customer satisfaction. The Rule further states that outstanding citations, violations, and consent orders on file with the DEP and the county health department, along with any DEP and county health department officials' testimony concerning quality of service shall be considered. In addition, any customer testimony, comments, or complaints received by the Commission are also reviewed. The operating condition of the wastewater system is addressed in Issue 2.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the complaints filed in the Commission's Consumer Activity Tracking System (CATS), filed with the DEP, and received by the Utility from July 1, 2013, through June 30, 2018. Staff has also performed a supplemental review of the complaints filed in CATS and with the DEP during the course of this docket, and following the customer meeting held on May 8, 2019. Table 1-1 shows the number of complaints reviewed by source and subject.

**Table 1-1
Number of Complaints by Source and Subject**

Subject of Complaint	CATS Records	DEP Records	Utility Records	Total
Overflows Outside Utility Property	2	1	9	12
Plant Noise	1	2	4	7
Plant Odor	1	3	5	9
Plant Fencing	-	-	1	1
Equipment State	1	1	1	3
Other	-	-	1	1
Total*	5	7	21	33

*A single customer complaint may be counted multiple times if it fits into multiple categories.

One complaint was filed in CATS during the specified timeframe on September 15, 2017. The customer reported that wastewater had overflowed into several front yards in the neighborhood. The Utility's response stated that the problem was caused by losing power during Hurricane Irma. Once the storm subsided, the Utility pumped down the lift station until power was restored. When the storm and river water receded from the customer's property, the Utility pumped out

the swale and disinfected the area to resolve the issue. Two additional complaints have been received during the course of this docket. One complaint was from the same customer and they again reported that wastewater had overflowed into their yard. They stated that this has happened five times since 2006, and that the Utility has not upgraded its equipment to resolve this issue. They stated that the Utility did not respond to the issue for over 24 hours; therefore, lime became caked onto their new pavers. The Utility's response stated that a power surge appeared to damage the alarm system that advises the Utility of issues. The Utility hired an electrician to repair this issue. Regarding the customer's statement about NPUC taking over 24 hours to respond to the issue, the Utility stated that the septic company's truck broke down on the way to clean the customer's area. The Utility asserted that the customer did not want an employee from the Utility to clean their pavers; therefore, a septic company cleaned them at a later date. The other complaint was related to pump noise and odor. The Utility requested that a Volusia County Environmental Specialist test the noise levels at the facility, and the Utility was determined to be in compliance with the Volusia County noise ordinance. Regarding the odor, the Utility stated that it could have been caused by periodic pumping of sludge, which is a part of normal operation, or equipment failures which are repaired as quickly as possible. These complaints have been closed.

The Utility received a total of 16 customer complaints during the specified timeframe and two during the course of this docket. The majority of complaints received were related to overflows, odor, and noise. NPUC stated that overflows outside the Utility property have been few, but those that occurred were due to electrical power failures, mechanical problems, or storms/hurricanes. The Utility has replaced parts for the control system to the lift stations and installed surge protectors for control panels, and it intends to continue to make upgrades to its electrical system and mechanical equipment through pro forma plant improvements discussed in Issue 4. Regarding plant odor, the Utility stated that this is due to periodic sludge pumping as previously noted or mechanical problems which are repaired as soon as possible. Staff did not notice any excessive odors during the site visit; however, as noted by the Utility, the odor does tend to be more prominent in the direction of the wind. Regarding plant noise, NPUC is in compliance with the Volusia County noise ordinance as stated above. However, the Utility has installed sound deadening fences to help with this issue. Other complaints received and resolved by the Utility include a fallen fence, a damaged manhole, and depression in a customer's yard due to a cracked clay pipe. The DEP provided four complaints during this timeframe related to odor, noise and equipment state, and one during the course of this docket related to an overflow. The complaint received related to an overflow overlapped one of the complaints received by the Utility during the course of this docket. The DEP investigated these issues, and the complaints were closed.

A customer meeting was held on May 8, 2019. Sixteen customers were in attendance and six customers provided oral comments. At the meeting, customers expressed concerns regarding the issues discussed above as well as rate concerns. The customers discussed the necessity of plant equipment improvements to control plant noise, odor, and overflows. The condition of the wastewater facility will be addressed in Issue 2.

Conclusion

NPUC has been responsive to customer complaints, and intends to complete the pro forma plant improvements discussed in Issue 4 to be in compliance with the DEP, and to help ensure customer satisfaction. Therefore, staff recommends that the quality of service be considered satisfactory.

Issue 2: Are the infrastructure and operating conditions of North Peninsula Utilities Corporation's wastewater system in compliance with DEP regulations?

Recommendation: NPUC is not currently in compliance with the DEP, but is working to address the issues noted in the DEP Consent Order through the pro forma plant improvements discussed in Issue 4. The Utility also plans to address other plant improvements necessary to ensure that its facilities and equipment are in safe, efficient, and proper condition. (Thompson)

Staff Analysis: Rule 25-30.225(2), F.A.C., requires each wastewater utility to maintain and operate its plant and facilities by employing qualified operators in accordance with the rules of the DEP. Rule 25-30.433(2), F.A.C., requires consideration of whether the infrastructure and operating conditions of the plant and facilities are in compliance with Rule 25-30.225, F.A.C. In making this determination, the Commission must consider testimony of the DEP and county health department officials, compliance evaluation inspections, citations, violations, and consent orders issued to the utility, customer testimony, comments, and complaints, and utility testimony and responses to the aforementioned items.

Wastewater System Operating Condition

NPUC's wastewater system is an existing 210,000 gallons per day (gpd) design capacity and 181,000 gpd annual average daily flow (AADF) permitted capacity domestic wastewater treatment plant (WWTP). Staff reviewed NPUC's compliance evaluation inspections conducted by the DEP to determine the Utility's overall wastewater facility compliance. A review of the March 7, 2017 inspection, indicated that NPUC's wastewater treatment facility was in compliance with the DEP's rules and regulations. However, as a result of the March 20, 2018, inspection NPUC was issued a Consent Order from the DEP to address noted discrepancies. The Consent Order requires NPUC to immediately implement preventative measures to ensure system failure does not occur due to deteriorating facility components while reconstruction is under way. This includes but is not limited to: (1) repairing the holes and corrosion in the tanks; (2) repairing the travelling bridge at Plant #3; (3) repairing or replacing the damaged splitter box; and (4) repairing the clarifier skimmer at Plant #3. The Utility is working to address the deficiencies noted in the Consent Order from the DEP through the pro forma plant improvements discussed in Issue 4. NPUC is required to provide quarterly progress updates to the DEP, and the most recent update is included as Attachment A. As of now, the work completed by NPUC to address noted deficiencies includes having partially repaired holes in the tanks, and having repaired the damaged splitter box.

Conclusion

NPUC is not currently in compliance with the DEP, but is working to address the issues noted in the DEP Consent Order through the pro forma plant improvements discussed in Issue 4. The Utility also plans to address other plant improvements necessary to ensure that its facilities and equipment are in safe, efficient, and proper condition.

Issue 3: What are the used and useful (U&U) percentages of North Peninsula Utilities Corporation's WWTP and collection system?

Recommendation: NPUC's WWTP and collection system should both be considered 100 percent U&U. Additionally, staff recommends no adjustment to purchased power and chemicals should be made for excessive infiltration and inflow (I&I). (Thompson)

Staff Analysis: NPUC's wastewater system was constructed in 1979. As stated in Issue 2, NPUC's wastewater facility is permitted by the DEP as a 181,000 gpd AADF facility. The collection system is composed of vitrified clay pipes (VCP) and polyvinyl chloride (PVC) pipes, and there are two lift stations in the service area. NPUC's wastewater collection system comprises 5,420 feet of 6 inch PVC force mains, 10,305 feet of 8 inch VCP collecting mains, and 10,777 feet of 8 inch PVC collecting mains. There are approximately 87 manholes in the service area.

Rates were last established for NPUC in Docket No. 20000715-SU, and the Utility's U&U for its WWTP and collection system were last determined in that docket as well.⁴ In that docket, the Commission determined the Utility's WWTP and collection system to be 100 percent U&U.

Infiltration and Inflow

Infiltration typically results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas, inflow results from water entering a wastewater collection system through manholes or lift stations. By convention, the allowance for infiltration is 500 gpd per inch diameter pipe per mile, and an additional 10 percent of residential water billed is allowed for inflow. Rule 25-30.432, F.A.C., provides that in determining the WWTP amount of U&U, the Commission will consider I&I.

Since all wastewater collection systems experience I&I, the conventions noted above provide guidance for determining whether the I&I experienced at a WWTP is excessive. Staff calculates the allowable infiltration based on system parameters, and calculates the allowable inflow based on water sold to customers. The sum of these amounts is the allowable I&I. Staff next calculates the estimated amount of wastewater returned from customers. The estimated return is determined by summing 80 percent of the water sold to residential customers with 90 percent of the water sold to non-residential customers. Adding the estimated return to the allowable I&I yields the maximum amount of wastewater that should be treated by the wastewater system without incurring adjustments to operating expenses. If this amount exceeds the actual amount treated, no adjustment is made. If it is less than the gallons treated, then the difference is the excessive amount of I&I.

The allowance for infiltration was calculated as 6,953,527 gallons per year. However, as discussed in Issue 10, the Utility has a flat rate billing structure, and the format of the metered water data provided would require a significant amount of time to determine the water usage per customer. Therefore, staff was unable to determine the allowance for inflow and thus the total allowable I&I, or the maximum amount of wastewater allowed to be treated.

⁴Order No. PSC-00-1676-PAA-SU, issued September 19, 2000, in Docket No. 20000715-SU, *In re: Investigation of possible overearnings by North Peninsula Utilities Corporation in Volusia County.*

Used and Useful Percentages

As noted above, the Commission previously found both the WWTP and collection system to be 100 percent U&U. The Utility has not increased the capacity of its WWTP, but it has expanded its territory since rates were last established. The Utility has currently only connected four new customers since the territory amendment, but has additional connection capacity of 288 equivalent residential connections (ERCs). However, the Utility has not built additional facilities to address the increased capacity of its collection system. Therefore, consistent with the Commission's previous decision, staff recommends the Utility's WWTP and collection system be considered 100 percent U&U.

Conclusion

NPUC's WWTP and collection system should be considered 100 percent U&U. Additionally, staff recommends no adjustment to purchased power and chemicals should be made for excessive I&I.

Issue 4: What is the appropriate average test year rate base for North Peninsula Utilities Corporation?

Recommendation: The appropriate average test year rate base for the Utility is \$232,047. (Richards, Thompson)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service (UPIS), land, accumulated depreciation, contributions-in-aid-of-construction (CIAC), accumulated amortization of CIAC, and working capital. The last proceeding that established balances for rate base was Docket No. 20000715-SU.⁵ Staff selected the test year ended June 30, 2018, for the instant rate case. A summary of each component and the recommended adjustments follows.

Utility Plant in Service (UPIS)

The Utility recorded \$960,499 for UPIS. Staff recommends a UPIS balance of \$892,604 which represents a reduction of \$67,895. The staff audit identified several adjustments resulting in a net decrease to UPIS of \$77,595 to reflect the appropriate balances and additions that were not booked. Staff increased UPIS by \$1,462 for the connection of a new customer. Staff also made an averaging adjustment to decrease UPIS by \$5,409. Staff made an adjustment increasing UPIS by \$47,088 to reflect pro forma plant additions offset by a decrease of \$33,441 to reflect pro forma plant retirement. Staff recommends an average UPIS balance of \$892,604 ($\$960,499 - \$77,595 + \$1,462 - \$5,409 + \$47,088 - \$33,441$).

Pro Forma Plant Additions

Table 4-1 shows NPUC's pro forma plant projects, some of which were explicitly mandated by the DEP Consent Order. Other projects are plant improvements necessary for the Utility to continue to provide reliable service to its customers, consistent with the DEP Consent Order and Rule 25-30.225, F.A.C. The wastewater treatment facility is located on a narrow peninsula between the Atlantic Ocean and the Halifax River in Ormond Beach, Florida. According to the Utility, weather and saltwater conditions have led to the corrosion of the wastewater facility. The Utility asserts that the area frequently experiences strong storms, and that the facility has dealt with two major hurricanes in recent years. During the site visit, staff corroborated the corrosive condition of the facility.

⁵Order No. PSC-2000-1676-PAA-SU, issued September 19, 2000, in Docket No. 20000715-SU, *In re: Investigation of possible overearnings by North Peninsula Utilities Corporation in Volusia County*.

As contemplated by Section 367.081(2)(a)2, F.S., staff has included pro forma items that have been completed or are anticipated to be completed by June 30, 2020, 24 months after the end of the test year. The Replace Travelling Bridge Return at Plant #3 was explicitly mandated for completion in the DEP Consent Order. The other items mandated for completion by the DEP are operation and maintenance (O&M) pro forma items; therefore, these and other O&M pro forma expense items are included in Table 7-3 in Issue 7. Table 4-2 is a cost breakdown of the pro forma plant projects.

**Table 4-1
 Pro-Forma Plant Items**

Project	Acct. No.	Amount	Retirement
Replace Lift Station #1 Panel and New Electrical Equipment	371	\$8,000	(\$6,000)
New Sludge Return Troughs in Plant #1	380	\$7,911	(\$5,933)
Repaired and Replaced Parts for Control Systems to Lift Station	371	\$1,670	(\$1,253)
Replace Air Supply Lines in Clarifiers	380	\$3,447	(\$2,585)
Installed New Motors for the Treatment Plant and Lift Station #2	371	\$2,360	(\$1,770)
Two New Mechanical Gear Drives	380	\$8,105	(\$6,079)
Installed New Ultrasonic Flow Meter	364	\$2,500	(\$0)
Installed Surge Protectors for Control Panels	380	\$686	(\$515)
Replaced Main Circuit Board and Flying Lead Transformer	380	\$315	(\$236)
Replaced Bad Wire to Subpanel and All Damaged Components	380	\$3,660	(\$2,745)
Rebuilt Pump for Lift Station #2	371	\$1,315	(\$986)
Installed New Magnetic Contactor	380	\$468	(\$351)
Replace Travelling Bridge Return at Plant #3*	380	\$5,275	(\$3,956)
Replaced Entrance Gate	354	\$1,375	(\$1,031)

Source: Responses to staff data requests. *DEP mandated item.

**Table 4-2
 Pro Forma Plant**

Acct.	Addition	Retirement	Dep Exp.	Net Plant	A/D Adj.
354	\$1,375	\$1,031	\$13	\$331	\$1,019
364	\$2,500	\$0	\$500	\$2,000	(\$500)
371	\$13,345	\$10,009	\$223	\$3,114	\$9,786
380	\$29,868	\$22,401	\$498	\$6,969	\$21,903
	<u>\$47,088</u>	<u>\$33,441</u>	<u>\$1,233</u>	<u>\$12,414</u>	<u>\$32,207</u>

Source: Responses to staff data requests.

Although the DEP explicitly mandated certain items for completion in the Consent Order, it required NPUC to “Immediately implement preventative measures to ensure system failure does not occur due to deteriorating facility components while the process of reconstruction is under way, including but not limited to . . .” those specific items. Also, Rule 25-30.225, F.A.C.,

requires each wastewater utility to construct, maintain, and operate its plant in such a way that ensures all of the utility's facilities and equipment are in proper condition for rendering safe and adequate service. The items requested in addition to the DEP mandated items are also necessary for the upkeep of the facility. Table 4-3 shows the status of completion for each pro forma project.

**Table 4-3
 Pro Forma Project Status of Completion**

Project	Completed	To Be Completed by 12/31/2019	To Be Completed by 1/31/2020
Replace Lift Station #1 Panel and New Electrical Equipment		X	
New Sludge Return Troughs in Plant #1		X	
Repaired and Replaced Parts for Control Systems to Lift Station	X		
Replace Air Supply Lines in Clarifiers		X	
Installed New Motors for the Treatment Plant and Lift Station #2	X		
Two New Mechanical Gear Drives		X	
Installed New Ultrasonic Flow Meter	X		
Installed Surge Protectors for Control Panels	X		
Replaced Main Circuit Board and Flying Lead Transformer	X		
Replaced Bad Wire to Subpanel and All Damaged Components	X		
Rebuilt Pump for Lift Station #2	X		
Installed New Magnetic Contactor	X		
Replace Travelling Bridge Return at Plant #3*		X	
Replaced Entrance Gate	X		
Repair Holes in Tank*		X	
Repaired Splitter Box*	X		
Repair Clarifier Skimmer at Plant #3*		X	
Sanitary Manhole Repair			X
Repair Holes in Bulkhead & Sidewall of Plant #1		X	

Source: Responses to staff data requests. *DEP mandated item.

As stated in Issue 2, the work completed by NPUC to address the deficiencies noted in the DEP Consent Order includes having partially repaired holes in the tanks, and having repaired the damaged splitter box. Work is currently under way to complete the remaining projects mandated by the DEP, and the Utility intends to have each completed by the end of December 2019 as shown in Table 4-3.

Staff requested that all bids received be provided for each requested pro forma project. Two bids were provided for the Sanitary Manhole Repair, Replace Lift Station #1 Panel and New Electrical Equipment, and Replaced Entrance Gate projects, and the least cost bidder was selected. For the DEP mandated items, New Sludge Return Troughs in Plant #1, Two New Mechanical Gear Drives, Replace Air Supply Lines in Clarifiers, and Repair Holes in Bulkhead & Sidewall of Plant #1 pro forma projects, the Utility stated that additional bids were requested; however, other vendors were unwilling to provide bids against a vendor that is familiar with the facility. The Utility asserts that the vendor completing these projects has worked with the facility since operations began and has a thorough understanding of the needed improvements.

All other projects listed in Table 4-3 were emergency items requiring immediate attention; therefore, the Utility did not have time to request multiple bids. Due to the deadline of January 23, 2020, contemplated in the DEP Consent Order for the completion of all mandated items, and the requirements of Rule 25-30.225, F.A.C., staff recommends that these project costs are appropriate.

Land & Land Rights

The Utility recorded a test year land value of \$46,800. Based on staff's review, no adjustments are necessary. Therefore, staff recommends that the land and land rights balance remain \$46,800.

Accumulated Depreciation

The Utility recorded an accumulated depreciation balance of \$926,024. Staff recommends an accumulated depreciation balance of \$735,029, which represents a reduction of \$190,995. Staff recalculated the accumulated depreciation balance using the prescribed depreciation rates set forth in Rule 25-30.140, F.A.C., and included depreciation associated with plant additions and retirements. Staff has decreased accumulated depreciation by \$158,547 to reflect the appropriate test year starting balance of \$767,477. Staff's balance includes adjustments the Utility should have recorded, and adjustments to correct accounts that the Utility continued to depreciate past the life of the asset. Staff increased accumulated depreciation by \$21 for the connection of a new customer. Staff also made an averaging adjustment to accumulated depreciation that resulted in a decrease of \$262. Further, staff made corresponding adjustments to accumulated depreciation based on the pro forma plant additions and retirements resulting in an additional decrease of \$32,207. Staff's adjustments result in an accumulated depreciation balance of \$735,029 ($\$926,024 - \$158,547 + \$21 - \$262 - \$32,207$).

Contributions In Aid of Construction (CIAC)

The Utility recorded a CIAC balance of \$640,994. Staff recommends a CIAC balance of \$641,725, which represents an increase of \$731. In June 2018, a new customer was connected to the Utility's force main, however, the Utility did not reflect a customer connection during the test year. As a result, staff increased CIAC by \$1,462 (\$762 main extension charge and a \$700 inspection fee). Additionally, staff decreased CIAC by \$731 to reflect an averaging adjustment. Staff recommends the appropriate CIAC balance is \$641,725 ($\$640,994 + \$1,462 - \731).

Accumulated Amortization of CIAC

The Utility recorded accumulated amortization of CIAC of \$640,994. Staff recommends accumulated amortization of CIAC of \$641,015, which represents an increase of \$21. Prior to

adding the new customer connection, CIAC was fully amortized in the year ended 2007. Staff increased accumulated amortization of CIAC by \$21 to reflect the new connection. Staff recommends accumulated amortization of CIAC balance of \$641,015 ($\$640,994 + \21).

Working Capital Allowance

Working capital is defined as the short-term funds that are necessary to meet operating expenses of the Utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the O&M expense formula approach for calculating the working capital allowance. Staff also removed the unamortized balance of rate case expense of \$1,147 ($\$4,589 \div 4$) pursuant to Section 367.081(9), F.S.⁶ Applying this formula, staff recommends a working capital allowance of \$28,381 ($\$227,050 \div 8$), based on the adjusted O&M expense of \$227,050 ($\$228,197 - \$1,147$).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$232,047. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

⁶Section 367.081(9), F.S., states, "A utility may not earn a return on the unamortized balance of the rate case expense. Any unamortized balance of rate case expense shall be excluded in calculating the utility's rate base."

Issue 5: What is the appropriate return on equity and overall rate of return for North Peninsula Utilities Corporation?

Recommendation: The appropriate return on equity (ROE) is 10.55 percent with a range of 9.55 percent to 11.55 percent. The appropriate rate of return is 6.70 percent. (Richards)

Staff Analysis: The Utility has negative common equity of \$940,160 on its 2018 annual report due to a negative retained earnings balance. In accordance with Commission practice, staff set the negative common equity to zero.⁷ The Utility does not have any customer deposits on its books. The Utility also recorded a long-term debt balance of \$1,093,091.

The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE for the Utility is 10.55 percent based upon the Commission-approved leverage formula currently in effect.⁸ Staff recommends an ROE of 10.55 percent with a range of 9.55 percent to 11.55 percent, and an overall rate of return of 6.70 percent. The overall rate of return is the Utility's weighted average cost of long-term debt. The long-term debt is comprised of multiple notes at different rates, which equates to a weighted average of 6.70 percent, as detailed in Table 5-1. The ROE and overall rate of return are shown on Schedule No. 2.

**Table 5-1
 Long-Term Debt – Weighted Average**

Loan	Amount	% of Total	Int.Rate	Weighted Cost
Intracoastal Bank	\$727,307	66.54%	6.70%	4.46%
Line of Credit – PNC	17,136	1.57%	10.29%	0.16%
Business Card – PNC	13,696	1.25%	14.58%	0.18%
SeaCoast Bank	68,896	6.30%	6.08%	0.38%
Intracoastal Bank	218,968	20.03%	6.08%	1.22%
Pro Forma Project Loan	47,088	4.31%	7.00%	0.30%
Total	<u>\$1,093,091</u>	<u>100.00%</u>		<u>6.70%</u>

Source: Audit Report and Utility responses to staff data requests.

⁷Order Nos. PSC-2016-0537-PAA-WU, issued November 23, 2016, in Docket No. 20150181-WU, *In re: Application for staff-assisted rate case in Duval County by Neighborhood Utilities, Inc.*; PSC-2015-0535-PAA-WU, issued November 19, 2015, in Docket No. 20140217-WU, *In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.*; PSC-2013-0140-PAA-WU, issued March 25, 2013, in Docket No. 20120183-WU, *In re: Application for staff-assisted rate case in Lake County by TLP Water, Inc.*

⁸Order No. PSC-2019-0267-PAA-WS, issued July 1, 2019, in Docket No. 20190006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

Issue 6: What are the appropriate test year revenues for North Peninsula Utilities Corporation?

Recommendation: The appropriate test year revenues for NPUC's wastewater system are \$243,777. (Bruce)

Staff Analysis: NPUC does not keep a formal general ledger, but rather an excel spreadsheet of the check register. As a result, staff used the regulatory assessment fee (RAF) form as a basis for the test year revenues. The RAF forms reflected test year revenues of \$242,291. Staff also evaluated the billing determinants and the number of miscellaneous occurrences during the test year. The Utility had a price index increase subsequent to the test year. The Utility's billing determinants and the rates that became effective after the test year result in annualized test year service revenues of \$241,705. In addition, the Utility had 306 test year late payment occurrences. Applying the Utility's approved miscellaneous service charges to the number of occurrences during the test year result in miscellaneous revenues of \$2,072. Thus, test year revenues should be \$243,777 ($\$241,705 + \$2,072$). Staff made an adjustment of \$1,486 ($\$243,777 - \$242,291$) to reflect the appropriate test year revenues. Based on the above, staff recommends that the appropriate test year revenues for NPUC's wastewater system are \$243,777.

Issue 7: What is the appropriate test year operating expense for North Peninsula Utilities Corporation?

Recommendation: The appropriate amount of operating expense for the Utility is \$254,765. (Richards)

Staff Analysis: The Utility recorded total operating expense of \$322,537. The test year O&M expenses have been reviewed by staff, including invoices and other supporting documentation. Staff has made the following adjustments to the Utility's operating expenses as discussed below.

O&M Expenses

Sludge Removal (711)

The Utility recorded sludge removal expense of \$22,860. Staff reviewed invoices provided by the Utility and agrees with the amount. Staff recommends no adjustment to sludge removal expense.

Purchased Power (715)

The Utility recorded purchased power expense of \$12,245. Staff decreased purchased power expense by \$949 to remove out of test year amounts. Staff also decreased this amount by \$33 to reflect removal of late fees. Therefore, staff recommends purchased power expense of \$11,263 (\$12,245 – \$949 – \$33).

Chemicals (718)

The Utility recorded chemicals expense of \$5,776. Staff decreased chemicals expense by \$389 to remove out of test year amounts. Therefore, staff recommends chemicals expense of \$5,387 (\$5,776 – \$389).

Materials and Supplies (720)

The Utility recorded materials and supplies expense of \$613 for two orders of File Cards. Staff believes these cards are for billing the customers. Staff reviewed the invoices provided by the Utility in response to staff's second data request and agrees with this amount; therefore, staff recommends no adjustment to materials and supplies expense.⁹

Contractual Services – Engineering (731)

The Utility recorded contractual services – engineering expense of \$800. The Utility retained the services of Cadenhead Environmental Engineering Services, Inc. (Cadenhead) to prepare a Florida Department of Environmental Protection (FDEP) permit renewal application. In response to staff's fifth data request, the Utility paid Cadenhead \$1,600 to prepare and submit the renewal application to FDEP, which was paid in two installments of \$800.¹⁰ The application fee due to FDEP was \$3,000 paid on March 2, 2018. The permit covers a five-year period. Staff increased engineering expense by \$120 to reflect the total expense of \$4,600 (\$1,600 + \$3,000) amortized over five years. Therefore, staff recommends contractual services – engineering expense of \$920 (\$4,600 / 5).

⁹Document No. 01029-2019, filed February 15, 2019.

¹⁰Document No. 03239-2019, filed March 20, 2019.

Contractual Services – Accounting (732)

The Utility recorded contractual services – accounting expense of \$4,500. In response to staff's second data request, the Utility stated that Martin, Klayer and Associates provided bookkeeping and accounting services for \$1,350 plus \$750 for preparation of the Utility's tax return, IRS Form 1120S.¹¹ The bookkeeping and accounting services provided by Martin, Klayer and Associates took place outside of the test year and appear duplicative of the services provided by Willdan Financial Services, therefore staff recommends removing \$1,350.

The Utility contracts with Willdan Financial Services to provide the following services at a cost of \$2,400:

- Prepare the Annual Report for the year in an Excel compatible format for submission to the Florida Public Service Commission.
- Coordinate with Utility staff to prepare and submit the required Annual Report paperwork and copies to the Commission.
- Prepare any necessary true-up journal entries to be posted by the Utility to its accounting records.
- Prepare any necessary monthly journal entries including those for depreciation and amortization expense.
- Prepare Annual Indexing application and file with the Commission.

Staff recommends contractual services – accounting expense of \$3,150 (\$750 + \$2,400)

Contractual Services – Legal (733)

The Utility recorded contractual services – legal expense of \$1,030. This expense was for a one time legal matter. Staff removed this amount due to lack of supporting documentation from the Utility. In response to staff's seventh data request the Utility stated it contracts with Doran Sims Wolfe & Ciocchetti for legal expenses which relate to collection activities on behalf of NPUC.¹² On average, the Utility pays \$150 for these collection activities four times a year. Therefore, staff recommends contractual services – legal expense of \$600 (\$150 × 4).

Contractual Services – Management Fees (734)

The Utility recorded Contractual Services – management fee of \$135,487. This expense is paid to Peninsula Management Incorporated (PMI) based on a contract between NPUC and PMI to handle the administrative and management functions of the Utility. The President and Vice President of the Utility are also the owners of PMI. The first time an expense was approved for the PMI contract by the Commission was in Docket No. 19960984-SU.¹³ The approved amount was \$20,000. The PMI contract consists of two parts; Overhead and Administration, and a Management Fee. The Management Fee is compensation for the President and Vice President of NPUC who are also the owners. Staff recommends \$29,812 for the Overhead and Administration

¹¹Document No. 01029-2019, filed February 15, 2019.

¹²Document No. 03571-2019, filed April 8, 2019.

¹³Order No. PSC-1997-0263-FOF-SU, issued March 11, 1997, in Docket No. 19960984-SU, *In re: Investigation of possible overearnings in Volusia County by North Peninsula Utilities Corporation.*

portion of the contract, plus \$62,273 for the Officer Salary portion of the contract, for a total Management Fee of \$92,085 (\$29,812 + \$62,273).

Overhead and Administration

The Utility recorded \$33,960 for the overhead and administration portion of the PMI contract. In attachment 4 of the Utility's response to staff's second data request, the Utility provided a list of the services and costs included in the PMI contract classified as Overhead and Administration.¹⁴ Staff recommends two adjustments to the overhead and administration expense: a reduction of \$3,600 for Miscellaneous Expenses and a reduction of \$548 to Vehicle Expense. Table 7-1 summarizes the overhead and administration costs included in the PMI contract and staff's adjusted amounts.

Table 7-1
PMI Contract – Overhead and Administration

Service	Per Utility	Staff Adj.	Per Staff
Office Rental	\$6,600	\$0	\$6,600
Employee Salary	\$12,960	\$0	\$12,960
Utilities, Insurance, Supplies & Equipment	\$4,800	\$0	\$4,800
Miscellaneous Expenses	\$3,600	(\$3,600)	\$0
Auto Expense	\$6,000	(\$548)	\$5,452
Total:	\$33,960	(\$4,158)	\$29,812

Source: Staff's second and fifth data requests.

Office Rental

The Utility shares office space with HW Peninsula, LLC which is also owned by NPUC's owners. In response to staff's fifth data request, the Utility provided a copy of the office lease dated December 1, 2009, which is currently in effect.¹⁵ According to the Utility, NPUC's portion of the office rental is \$6,600 per year. Staff believes this amount for office rental is reasonable and therefore, recommends no adjustment to the office rental portion of the contract with PMI.

Employee Salary

There is one employee who is paid through the PMI contract. This employee is responsible for many of the daily administrative duties necessary for NPUC such as billing, customer service, customer receipts and accounts receivable. In addition, the employee is responsible for setting up new customer accounts and closing cancelled customer accounts. The Utility, through PMI, pays an annual salary of \$12,960 for this employee. Staff believes this amount as a salary for one employee is reasonable, and therefore, recommends no adjustment to the employee salary portion of the contract with PMI.

¹⁴Document No. 01029-2019, filed February 15, 2019, p. 78.

¹⁵Document No. 03239-2019, filed March 20, 2019.

Utilities, Insurance, Supplies and Equipment

According to the Utility, the annual costs for office utilities, insurance, supplies, equipment, accounting and office up-keep is \$4,800. Staff believes this amount is reasonable for a business this size, and therefore, recommends no adjustment to NPUC's office utilities, insurance, supplies and equipment portion of the contract with PMI.

Miscellaneous Expenses

PMI charges the Utility \$3,600 to cover miscellaneous expenses. In response to staff's fifth data request, the Utility stated that miscellaneous expenses include, "various miscellaneous expenses incurred throughout the year including printing supplies (ink and toner), small equipment purchases (i.e. dot-matrix printer for bills, laptops), incidentals, office supplies, etc."¹⁶ Staff believes the \$3,600 for miscellaneous expenses is duplicative of what is included in supplies and equipment above and unsupported, therefore staff recommends removing the \$3,600 for miscellaneous expense.

Auto Expense

The Utility does not own any vehicles. NPUC/PMI owners and its employee use their personal vehicles for Utility purposes. PMI charges NPUC \$6,000 per year for vehicle expense. In response to staff's first data request, the Utility logs approximately 9,400 miles of travel annually.¹⁷ The Internal Revenue Service (IRS) standard mileage rate for 2019 is \$0.58 per mile driven for business use. Based on the IRS standard, staff believes the appropriate vehicle expense is 9,400 miles times \$0.58 per mile, or \$5,452 annually. Therefore, staff decreased the vehicle expense by \$548 (\$6,000 – \$5,452).

Management Fee

The management fee portion of the PMI contract is the combined compensation paid to the President and Vice President of NPUC. During the test year ended June 30, 2018, PMI billed NPUC \$101,527 for the compensation portion of the management fee. The amount is determined on a per ERC basis and is currently based on 603 ERCs. The most recent PMI contract includes a management fee of \$14.18 per ERC which was last increased in 2017. In response to staff's seventh data request, NPUC stated that in a typical month, the President works an average of 100 hours and the Vice President works an average of 15 hours on Utility matters, for a total of 115 hours per month.¹⁸ Based on a typical work month of approximately 173 hours, 115 hours equates to 66 percent of one full-time officer. Staff believes compensation of \$101,527 for two officers that collectively work 115 hours per month is unreasonable.

Using the 2018 American Water Works Association (AWWA) Small Utility Survey, staff determined the position of Small System General Manager with a salary range of \$64,143 to \$93,680 was representative of the duties performed by NPUC's President and Vice President as described in the Utility's response to staff's seventh data request.¹⁹ A salary range for a President and Vice President was not listed in the 2018 AWWA Small Utility Survey. Considering that NPUC's President and Vice President combine to contribute 66 percent of one full-time officer,

¹⁶Document No. 03239-2019, filed March 20, 2019.

¹⁷Document No. 06745-2018, filed October 23, 2018, p. 79.

¹⁸Document No. 03571-2019, filed April 8, 2019.

¹⁹*Id.*

a reasonable salary range would be between \$42,638 (\$64,143 X 0.66) and \$62,273 (\$93,680 X 0.66). The Commission has approved president/owner salaries of \$78,709,²⁰ \$72,704,²¹ and \$63,200,²² in recent SARC dockets similar to this rate case. Accordingly, staff believes compensation of \$62,273 for the President and Vice President combined is reasonable and recommends a reduction of \$38,804 to the Utility's requested amount of \$101,527.

Contractual Services – Testing (735)

The Utility recorded a contractual services' – testing fee of \$12,588. The Utility contracts with Wetherell Treatment Systems to perform state required tests as detailed in Table 7-2 below totaling \$10,288. The Utility also contracts with Pace Analytical Services for other EPA regulated testing totaling \$2,300. Staff agrees with this amount and therefore recommends no adjustment to contractual services – testing expense.

Table 7-2
State Required Tests performed by Wetherell Treatment Systems

Description	Amount
Effluent CBOD and TSS Tests	\$4,248
Fecal Coliform Tests	\$1,540
Nitrate Tests	\$1,080
TDS and Chloride Analysis	\$1,680
Nitrogen Tests	\$1,020
Phosphorus Tests	\$720
Total	\$10,288

Source: Utility response to staff data requests

Contractual Services – Other (736)

The Utility recorded contractual services – other of \$34,788. The Utility contracts outside individuals for the supervision and repairs of the treatment plant, in addition to the operation of the plant. The Utility recorded \$25,317 for supervision and repairs of the plant. Staff reviewed all of the invoices and verified the expenses. Staff increased this amount by \$95 to reflect the total amount reflected on the invoices. Staff recommends a total of \$25,412 (\$25,317 + \$95) for plant supervision and repairs.

The plant operator generally works 12 hours per week. In an email to staff, the Utility advised that they entered into a new agreement with the plant operator, which increased the pay rate from \$9,471 (\$15.18 hourly) to \$12,480 (\$20.00 hourly) in order to more closely reflect the average pay rate for a state licensed plant operator.²³ This increase represents an additional \$3,009

²⁰Order No. PSC-2019-0362-PAA-SU, issued August 26, 2019, in Docket No. 20180218-SU, *In re: Application for staff-assisted rate case in Brevard County by TKCB, Inc.*

²¹Order No. PSC-2017-0107-PAA-WS, issued March 24, 2017, in Docket No. 20150257-WS, *In re: Application for staff-assisted rate case in Marion County, by East Marion Utilities, LLC.* p. 12.

²²Order No. PSC-2017-0383-PAA-SU, issued October 4, 2017, in Docket No. 20160165-SU, *In re: Application for staff-assisted rate case in Gulf County by ESAD Enterprises, Inc. d/b/a Beaches Sewer System, Inc.* p. 12.

²³Document No. 07227-2019, filed August 9, 2019.

(\$12,480 – \$9,471) annually. Staff believes the increased pay rate of \$12,480 is reasonable and therefore recommends an increase of \$3,009.

Staff also increased this amount by \$3,715 to reflect expenses amortized over five years associated with pro forma projects shown in Table 7-3 below.

**Table 7-3
 Pro Forma O&M Items**

Project	Acct. No.	Amount
Repair Holes in Tank*	380	\$4,606
Repair Splitter Box*	380	\$1,675
Repair Clarifier Skimmer at Plant #3*	380	\$1,826
Sanitary Manhole Repair	363	\$2,468
Repair Holes in Bulkhead & Sidewall of Plant #1	380	\$8,000
Total	-	\$18,575

Source: Responses to staff data requests. *DEP mandated item.

Table 7-4 details the services provided by contractual services – other. Staff recommends contractual services – other expense of \$41,607 (\$25,412 + \$12,480 + \$3,715).

**Table 7-4
 Services Provided in Contractual Services – Other**

Description	Amount
Treatment Plant Supervision and Repairs	\$25,412
Salary for Treatment Plant Operator	\$12,480
Pro forma Expenses	\$3,715
Total	\$41,607

Source: Utility response to staff data requests.

Insurance – General Liability (757)

The Utility recorded insurance – general liability expense of \$2,252. Staff decreased this amount by \$30 to reflect removal of late fees charged to the Utility. Therefore, staff recommends insurance – general liability expense of \$2,222 (\$2,252 – \$30).

Rate Case Expense (766)

The Utility paid a filing fee of \$1,000 on September 5, 2018. The Utility, in its SARC filing, did not record any rate case expense. By Rule 25-22.0407, F.A.C., the Utility is required to mail notices of the customer meeting, notices of final rates in this case, and notices of four-year rate reduction to its customers. For these notices, staff has estimated \$714 for postage expense, \$346 for printing expense, and \$65 for envelopes, resulting in a noticing expense of \$1,125 (\$714 + \$346 + \$65).

Staff estimated \$200 for lodging expense for the Utility to send a representative to the Commission Conference. The distance from Ormond Beach to Tallahassee is 456 miles round trip.²⁴ Using the 2019 IRS approved business travel rate of \$0.58 per mile, mileage expense is \$264 (456 x \$0.58). Total travel expense to attend the Commission Conference is estimated to be \$464 (\$200 + \$264).

The Utility has retained the services of Willdan Financial Services to assist with this rate case and submitted three invoices each for \$1,000 dated February 11, 2019; April 17, 2019; and July 1, 2019.²⁵ Florida Statute 367.0814 F.S. states:

The Commission may award rate case expenses for attorney fees or fees of other outside consultants if such fees are incurred for the purpose of providing consulting or legal services to the Utility after the initial staff report is made available to customers and the Utility.

The Staff Report was filed on April 9, 2019, therefore only the costs incurred on the April 17, and July 1 invoices are eligible for recovery through rates.²⁶ Staff recommends a consultant fee of \$2,000.

Based on the above, staff recommends total rate case expense of \$4,589 (\$1,000 + \$1,125 + \$464 + \$2,000), which amortized over four years results in a rate case expense of \$1,147 (\$4,589 ÷ 4).

Regulatory Commission Expense – Other (767)

The Utility incurred expenses in a previous Service Territory Expansion in Docket No. 20130209-SU which have not been recovered through rates. The expansion was due, in part, to a DEP plan to move residents living on the peninsula off of their current septic tank system and on to a sewage system. In December of 2015, Volusia County enacted an ordinance that requires mandatory connection to municipal or investor owned wastewater facilities within five years when such facilities become available.²⁷ Rule 25-30.433, F.A.C., states that non-recurring expenses shall be amortized over a five-year period unless a shorter or longer period can be justified. Staff believes using a four-year amortization period is appropriate as the expenses were incurred over a four-year period from 2013 to 2016. If a longer amortization period were to be used, full recovery of the expenses would not be realized until after 2023.

In response to an inquiry by staff, the Utility reported a cost of \$145,481, which amortized over four years, equates to \$36,370 annually for legal and engineering expenses related to Docket No. 20130209-SU.²⁸ The Utility retained the services of GAI Consultants and Hartman Consultants, LLC to provide engineering services. Additionally, the Utility retained Holland & Knight and Dean Mead to provide legal services. Staff has verified invoices for GAI Consultants and agrees

²⁴Florida Department of Transportation Official Highway Mileage Viewer.

²⁵Document No. 05903-2019, filed July 23, 2019.

²⁶Document No. 03588-2019, filed April 9, 2019.

²⁷Order No. PSC-2016-0522-PAA-SU, issued November 21, 2016, in Docket No. 20130209-SU, *In re: Application for expansion of certificate (CIAC) (new wastewater line extension) by North Peninsula Utilities Corporation.*

²⁸Document No. 05903-2019, filed July 23, 2019.

with the invoiced amount of \$24,721. Staff also verified invoices for Hartman Consultants, LLC in the amount of \$38,440.²⁹

In reference to the \$52,605 billed by Holland & Knight, the Utility indicated NPUC has an outstanding balance of \$25,459 for the services provided by Holland & Knight. The Utility advised staff it has been in discussions with Holland & Knight to write-off all or a portion of the outstanding balance. As of December 31, 2018, there is an outstanding balance due to Holland & Knight of \$25,459. Therefore, staff recommends allowing only the paid portion to Holland & Knight of \$27,146 (\$52,605 – \$25,459) be eligible for recovery. The Utility reported a cost of \$29,714 for legal services provided by Dean Mead.

Staff recommends a total amount of \$120,022 (\$24,721 + \$38,440 + \$27,146 + \$29,714) be amortized over four years for an annual amount of \$30,005 (\$120,022 ÷ 4). This amount represents an adjustment of \$6,365.

Miscellaneous Expense (775)

The Utility recorded miscellaneous expense of \$7,067. In response to staff's fifth data request, staff discovered that a \$1,000 payment to the City of Ormond Beach was a one-time deposit necessary for the Utility to provide water to a worksite in response to Hurricane Irma.³⁰ This amount was nonrecurring and the Utility received a refund of the deposit. Staff recommends removing the \$1,000.

The Utility uses Roto-Rooter at various times throughout the year to help clear lines and perform other services as necessary. Two invoices were submitted by the Utility for work performed at residential addresses, one for \$604 which was work performed due to Hurricane Irma including a \$9 interest payment for a past due amount, and \$650 for root clearing from a customer's wastewater lines. These invoices totaled \$1,254 (\$604 + \$650). Staff removed the \$9 interest payment and amortized the remaining \$1,245 (\$1,254 – \$9) over five years for an annual amount of \$249 (\$1,245 ÷ 5).

In response to staff's second data request, the Utility submitted an invoice for Woody's Septic Tank for \$1,313.³¹ According to the invoice, the services provided by Woody's Septic Tank fell outside of the test year. Staff recommends removing the full amount of \$1,313.

The Utility records \$2,555 annually for postage as part of their billing expenses. With 433 customers, this amount equates to approximately \$0.49 (\$2,555 ÷ 12 ÷ 433) per customer per month. Staff agrees with this postage rate per customer. Staff agrees with all other costs associated with miscellaneous expense as detailed in Table 7-4. Therefore, staff recommends miscellaneous expense of \$3,749 (\$7,067 – \$1,000 – \$1,005 – \$1,313)

²⁹Document Nos. 05903-2019, filed July 23, 2019, and 08103-2019, filed August 15, 2019.

³⁰Document No. 03239-2019, filed March 20, 2019.

³¹Document No. 01029-2019, filed February 15, 2019.

**Table 7-4
 Miscellaneous Expenses**

Description	Per Utility	Staff Adj	Per Staff
City of Ormond Beach (Hydrant Meter Deposit)	\$1,000	(\$1,000)	\$0
Roto-Rooter	\$1,254	(\$1,005)	\$249
Woody's Septic Tank	\$1,313	(\$1,313)	\$0
Postage	\$2,555	\$0	\$2,555
Annual Billing Software License	\$520	\$0	\$520
Tools and Supplies	\$275	\$0	\$275
Florida Department of State (Corporation Renewal)	\$150	\$0	\$150
Total	<u>\$7,067</u>	<u>(\$3,318)</u>	<u>\$3,749</u>

Source: Utility response to staff data requests.

O&M Expenses Summary

The Utility recorded O&M expenses of \$276,376 for the test year. Based on the above adjustments, staff recommends that the O&M expense balance be decreased by \$48,179, resulting in a total O&M expense of \$228,197 (\$276,376 - \$48,179). Staff's recommended adjustments to O&M expenses are shown on Schedule 3-C.

Depreciation Expense

The Utility recorded depreciation expense of \$27,508 for the test year. Staff determined that the Utility continued to depreciate plant accounts after they had been fully depreciated. Staff recalculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. and reduced depreciation expense by \$22,910. Staff also removed depreciation expense of \$41 from account 352 – Franchises which appeared to become fully depreciated after the end of the test year. Further, staff increased depreciation expense by \$1,233 associated with pro forma plant additions. Based on the above, staff recommends a test year depreciation expense of \$5,791 (\$27,508 – \$22,910 - \$41 + \$1,233).

Taxes Other Than Income (TOTI)

The Utility recorded TOTI of \$18,653. Staff increased this amount by \$67 to reflect the appropriate RAFs based on corrected Utility test year revenues. Staff increased TOTI by \$888 to reflect the increased property taxes due to pro forma plant additions.³² Staff increased TOTI by \$1,169 to reflect the appropriate RAFs associated with the recommended revenue increase. Staff is therefore recommending TOTI of \$20,777 (\$18,653 + \$67 + \$888 + \$1,169).

Income Tax

The Utility is a Subchapter S Corporation and therefore did not record any income tax expense for the test year. NPUC has shown a net loss for the last several years in its Annual Reports. Staff recommends no adjustment to income tax expense.

³²Volusia County 2018 Real Estate bill, millage rate of 20.17250.

Operating Expenses Summary

The application of staff's recommended adjustments to North Peninsula's test year operating expenses result in operating expense of \$254,765. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

Issue 8: Should the Commission utilize the operating ratio methodology as an alternative method of calculating the wastewater revenue requirements for NPUC, and, if so, what is the appropriate margin?

Recommendation: Yes. As required by rule, the Commission must utilize the operating ratio methodology for calculating the revenue requirement for NPUC. The margin should be 12 percent of O&M expense, capped at \$15,000. (Richards)

Staff Analysis: Rule 25-30.4575(2), F.A.C., requires that the Commission use the operating ratio methodology if the utility's rate base is below 125 percent of O&M expenses. The rule states the Commission will apply a margin of 12 percent when determining the revenue requirement, up to \$15,000. The operating ratio methodology will be applied when the utility's rate base is no greater than 125 percent of O&M expenses. The use of the operating ratio methodology does not change the utility's qualification for a staff assisted rate case under Rule 25-30.455(1), F.A.C.

The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the Utility's rate base, the revenue requirement is based NPUC's total O&M expenses plus a margin of \$15,000. This methodology has been applied in cases in which the traditional calculation of the revenue requirement would not provide sufficient revenue to protect against potential variances in revenues and expenses. As discussed in Issues 4 and 7, staff has recommended a rate base of \$232,047 and O&M expenses of \$228,197. Based on recommended amounts, NPUC's rate base is 102 percent of total O&M expenses. Furthermore, the application of the operating ratio methodology does not change the Utility's qualification for a SARC. As such, NPUC meets the criteria for the operating ratio methodology established in Rule 25-30.4575(2), F.A.C. Therefore, staff recommends the application of the operating ratio methodology at a margin of 12 percent of O&M expenses with a cap of \$15,000 for determining the wastewater revenue requirement.

Issue 9: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$269,765, resulting in an annual increase of \$25,988 (10.66 percent). (Richards)

Staff Analysis: NPUC should be allowed an annual increase of \$25,988 (10.66 percent). The calculations are shown in Table 9-1.

Table 9-1
Revenue Requirement

Adjusted O&M Expense	\$228,197
Operating Margin (%)	<u>12.00%</u>
Operating Margin (\$27,384 capped at \$15,000 Cap)	\$15,000
Adjusted O&M Expense	\$228,197
Depreciation Expense (Net)	\$5,791
Taxes Other Than Income	\$20,777
Income Taxes	<u>0</u>
Revenue Requirement	<u>\$269,765</u>
Less Test Year Revenues	<u>243,777</u>
Annual Increase	<u>\$25,988</u>
Percent Increase	10.66%

Issue 10: What is the appropriate rate structure and rates for North Peninsula Utilities Corporation's wastewater systems?

Recommendation: The recommended rate structure and monthly wastewater rates are shown on Schedule No. 4. 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 sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until 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: NPUC is located in Volusia County within the St. Johns River Water Management District. The Utility provides wastewater service to 428 residential single family homes, four condominium associations, and a restaurant. Water service is provided by the City of Ormond Beach. The Utility's current wastewater rates consist of a monthly flat rate per ERC for the residential and general service classes, which was approved in 1985.³³ A residential single family home and condominium unit are billed as one ERC. However, the restaurant is billed as 14 ERCs.³⁴ For the condominium associations, the Utility sends one bill to each condominium association based on the respective number of ERCs.

In order to evaluate alternative rate structures, staff requested the Utility provide metered water data. The Utility provided 12 months of metered water data from the City of Ormond Beach (City); however, due to the format of the data, it would take a significant amount of administrative time to identify and isolate the water usage for each customer. The Utility also expressed concern that it would incur additional costs, on a prospective basis, for obtaining the monthly metered water usage data from the City for billing purposes. Therefore, staff does not believe that it is cost effective to bill based on the metered water usage. Staff recommends that the Utility continue the current flat rate structure based on ERCs. As a result, staff calculated 7,200 ERCs for wastewater as shown on Table 10-1. Staff's recommended flat rates are shown on Schedule No. 4. Because a single bill is sent to each condominium association, staff recommends bulk flat rates based on the respective ERCs.

³³ Order No. 16184, in Docket No. 850121-SU, issued June 4, 1986, *In re: Application of Shore Utility Corporation for a staff-assisted rate case in Volusia County, Florida.*

³⁴ Order No. PSC-09-0420-TRF-SU, in Docket No. 090040-SU.

**Table 10-1
 Staff's Calculated ERCs**

Wastewater Customers	Number of Units	Monthly ERCs	Annual ERCs
<u>Residential</u>			
Single Family Residential Homes	428	428	5,136
<u>General Service</u>			
Las Olas Townhomes	6	6	72
Ocean Air	17	17	204
Seabridge North	65	65	780
Seabridge South	70	70	840
Restaurant	1	14	168
Total ERCs		600	7,200

The recommended rate structures and monthly wastewater rates are shown on Schedule No. 4. 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 sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until 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 11: What is the appropriate amount by which rates should be reduced in four years after the published effective date to reflect the removal of the amortized rate case expense?

Recommendation: In four years, the wastewater rates should be reduced, as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.081(8), F.S. NPUC should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Bruce, Richards) (Final Agency Action)

Staff Analysis: Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense and the gross-up for RAFs. This results in a reduction of \$1,201.

The wastewater rates should be reduced, as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.081(8), F.S. NPUC should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 12: Should the recommended rates be approved for North Peninsula Utilities Corporation on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the utility. NPUC 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. Prior to implementation of any temporary rates, the utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Richards) (Final Agency Action)

Staff Analysis: This recommendation proposes an increase in wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. NPUC 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. The recommended rates collected by the utility should be subject to the refund provisions discussed below.

NPUC should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$17,558. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

- 1) The Commission approves the rate increase; or,
- 2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

If the utility chooses a letter of credit as a security, it should contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect, and,

- 2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions should be part of the agreement:

- 1) The Commission Clerk, or his or her designee, must be a signatory to the escrow agreement; and,
- 2) No monies in the escrow account may be withdrawn by the utility without the prior written authorization of the Commission Clerk, or his or her designee;
- 3) The escrow account shall be an interest bearing account;
- 4) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 5) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility;
- 6) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 7) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 8) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;
- 9) The account must specify by whom and on whose behalf such monies were paid.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as a result of the rate increase should be maintained by the utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

Should the recommended rates be approved by the Commission on a temporary basis, NPUC should maintain a record of the amount of the security, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 13: Should North Peninsula Utilities Corporation be required to notify the Commission within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) associated with the Commission approved adjustments?

Recommendation: Yes. The Utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. NPUC should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) primary accounts, as shown on Schedule No. 5, have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided not less than seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Richards) (Final Agency Action)

Staff Analysis: The Utility should be required to notify the Commission, in writing that it has adjusted its books in accordance with the Commission's decision. NPUC should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided not less than seven days prior to deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Issue 14: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively. (Murphy)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively.

Cadenhead Environmental Engineering Services, Inc.



1982 SR 44, #201, New Smyrna Beach, Florida 32168
Phone: (904) 307-6824 (cell) Email Address: mark_cadenhead@bellsouth.net

July 23, 2019

Dr. Phil Kane
Department of Environmental Protection
Domestic Wastewater Section
3319 Maguire Boulevard, Suite 232
Orlando, Florida 32803-3767

Dear Dr. Kane:

Re: North Peninsula Utilities WWTF (fka Scabridge WWTF)
Facility I.D. No.: FLA011188
Consent Agreement No.: 18-0258: Fourth Quarterly Report

In accordance with item 5.g of the subject Consent Agreement, a quarterly report is due by July 30, 2019. The following information is provided to meet that requirement. As supplement, please see the attached tracking document that is being maintained by the Respondent and the Professional Engineer.

The following items have been completed (or partially completed) during the past quarter:

1. 5.a.i: Evaluate the Facility including effluent disposal system, associated collection system and groundwater monitoring plan, to discover the cause or potential causes of the non-compliance. *(Discussions with the groundwater monitoring group indicated that the wells purge and develop properly and that there appear to be no physical issues with the wells. Salt water intrusion continues to be considered an issue with the wells for TDS. Monitoring will continue on schedule of quarterly. There were no exceedances of standards in the 2nd quarter 2019 monitoring.)*
2. 5.b.: Respondent shall submit a complete application for the Dept. wastewater permit to construct and or implement the modifications and monitoring plan revisions developed pursuant to Subparagraph 5.a.)ii.. *(Permit determination received January 23, 2019. For planned work, no permit is required at this time.)*
3. 5.d.i.: Repair holes in the tanks: *(Partially completed; more done during the most recently past quarter. Additional work planned by December 31, 2019.)*
4. 5.e.: Quarterly monitoring of groundwater performed on June 4, 2019. *All samples were compliant.*
5. 5.f.: Sodium was sampled in all wells. *(Please see the submitted 4th quarter 2018, 1st and 2nd quarters 2019 groundwater monitoring reports. Sodium was elevated in some wells but not above the groundwater standard. The indications remain that there most likely is saltwater intrusion.)*

DEP Central District

JUL 26 2019

RECEIVED

North Peninsula Utilities WWTF
Consent Agreement No.: 18-0258
Fourth Quarterly Report
July 23, 2019
Page 2

6. 5. d.) iii. Repair or replace the damaged splitter box. *(Repaired January 14, 2019. Additional work was done, and more is planned as part of the final agreement with the PSC.)*

The following items were unanticipated expenditures during the past three (3) months based on operational issues at the plant creating a situation where funds must be redirected:

1. Continued work with Bayshore Electric to rewire some components at the lift stations.
2. New pump in the lift station at John Anderson.

The following items are proposed or scheduled to be completed within the upcoming 12-month period:

1. 5.a.i.: Based on future quarterly groundwater reports, continue to evaluate the groundwater monitoring plan and address such items as sodium in the wells and chlorides. Total Dissolved Solids continues to be elevated in most wells but were compliant for the June 4, 2019 sampling event.
2. 5.a.i.: Continue evaluation of the collection system and address any issues as necessary.
3. Based on the results of the PSC review of the proposed rate increase, either repairs will be made to the metal plants or the items as they relate to submitting a permit for modifications or work at the plant will be made as required by the Consent Agreement. Current work in progress has received a permit determination that no permit is required. The PSC has completed their preliminary review and made an initial rate increase proposal; sent additional questions and correspondence in May 2019 with response provided immediately. The proposal continues to be negotiated. A plant site visit and customer meeting involving the PSC was also conducted in May 2019. A final case evaluation should be completed and under review by the PSC during the upcoming quarter; and the final rate increase determination, following public comment period, *may* be set in September 2019. The dates are tentative for the final rate increase determination but based on the most current information available.
4. 5.c.: Complete the work that is required to extend the life of the plant by metal repairs or replacement. The concrete plant is in good condition. Much of that work is scheduled to be completed by December 31, 2019.
5. 5.d.: Complete all items listed as needing immediate attention. Some have already been addressed. The next quarterly report, due October 30, 2019 will give an update of all work completed.

North Peninsula Utilities WWTF
Consent Agreement No.: 18-0258
Fourth Quarterly Report
July 23, 2019
Page 3

Mr. Hillman has been working with the PSC extensively to obtain a rate increase to further extend work at the facility. Once the decision on the rate increase has been settled, a budget will be set to make funds available to complete the items of the Consent Agreement in a timely manner. The agency will be updated on any major advancements of the process but will also receive an additional quarterly report in October 2019.

If you have any questions, you may reach me at the letterhead address or at (904) 307-6824.

Sincerely,



Mark Cadenhead, P. E., MBA, President
Cadenhead Environmental Engineering Services, Inc.

cc: Mr. Robert Hillman, President, North Peninsula Utilities w/o attachments

DEP Central District

JUL 26 2019

RECEIVED

Reporting:	Date Due	Date Submitted	Items completed and items to be completed within 12-month period.
<p>5. g.) Every calendar quarter after the effective date of the C.O. submit in writing a report containing status of progress of projects being completed under the C.O., info as to compliance or noncompliance with the applicable requirements of the C.O., including construction requirements and effluent limitations and any reasons for noncompliance. Include projection of the work to be performed pursuant to the Order during the 12-month period which will follow the report. Due within 30 days following the end of the quarter.</p>			

RECEIVED
JUL 1 2019
FRESH WATER DIVISION

1st Quarterly	Tuesday, October 30, 2018	Thursday, October 25, 2018	
			<p>Completed: Paid penalty. Contracted with a P.E. Submitted 2nd quarter gw report with Sodium as part of the monitoring. Met with engineer and contractor at site to discuss upcoming work to be performed. Provided cost of work to be performed as itemized in C.O. Surveyed the clean outs; evaluated the pond(s); began repairs of holes in plant and other C.O. Items noted such as traveling bridge returns and splitter box. Anticipated upcoming work next 12-months: Complete repairs at plant per the itemized list; add others as discussions with the PSC continue. Make repairs to the manhole that is allowing inflow. Provide another, updated report concerning work to be done to extend the life of the metal plants. Obtain permit determination from the agency once the scope of work following PSC decision is made for increase in rate(s).</p>

2nd Quarterly	Wednesday, January 30, 2019	Monday, January 28, 2019	<p>Completed or partially completed: Splitter box was repaired per the Respondent on January 14, 2019. GW monitoring conducted on October 31, 2018 and included sampling for Sodium. Sodium was elevated in some wells. The groundwater monitoring plan was discussed with the sampling group. The wells are in sufficient condition to purge and develop properly. Groundwater monitoring results will be reviewed and further evaluated as more data is available during future quarterly monitoring events. A permit determination was requested and received concerning the proposed work at the plant. No permits, based on the current proposed scope of work, will be required. Holes in the plant continue to be addressed when and if they occur. Anticipated work during next 12 months: All work required by the Agreement must be completed by January 23, 2020.</p>
3rd Quarterly	Tuesday, April 30, 2019	Tuesday, April 30, 2019	<p>Submitted via email with original mailed 5/1/2019. Completed or partially completed: Additional work on the splitter box completed. Further work planned as part of PSC rate increase budgeting. 1st Qtr groundwater monitoring completed and submitted. Sodium was detected in wells but not above the limit. Any "holes" or deterioration needing immediate attention have been addressed. The flow meter had to be replaced and represented an unanticipated expense. Additional electrical work was needed at the lift stations and at the plant. Anticipated work during next 12 months: All work required by the Agreement must be completed by January 23, 2020.</p>

4th Quarterly	Tuesday, July 30, 2019	Tuesday, July 30, 2019 Submitted 3rd Quarterly Report timely. Completed or partially completed: Additional work on the splitter box completed. Further work planned as part of PSC rate increase budgeting. 2nd Qtr 2019 groundwater monitoring completed and submitted. Sodium was detected in wells but not above the limit. Any "holes" or deterioration needing immediate attention have been addressed. Additional work is contracted to Wetherell's to complete by end of December 2019. The fludge return and clarifier sweep gear drives of Plant #1 were completed. New gate was installed for security. Lift station electrical work completed by Bayshore Electric. New pumps installed by Wetherell's including in lift station but also in the plant area. North Peninsula increased some monitoring and operator oversight for a short period of time as construction is advancing. Wetherell's completed some additional steel work and repairing of holes. Repairs to manhole(s) in collection system completed and new pump in John Anderson lift station was installed. Air supply lines are in progress of being repaired. Anticipated work during next 12 months: All work required by the Agreement must be completed by January 23, 2020.
5th Quarterly	Wednesday, October 30, 2019	
Completion of Work and final report	Thursday, January 23, 2020	

North Peninsula Utilities (Seabridge) Consent Agreement: OGC File NO.: 18-0258

Date of execution of C.O.: July 27, 2018.

Friday, July 27, 2018

Per Item 6, all corrective actions are to be completed and full compliance within 545 days of the effective date:

Thursday, January 23, 2020

Findings of the agency:

- a. On March 20, 2018 an inspection noted that the plant was not properly operated and maintained. (Violation of F.A.C. 62-620.610(7).)
- i. Numerous holes were noted in integral components of the WWTPs.
- ii. Plant #3 had a broken inoperable travelling bridge.
- iii. The splitter box for the combined facility exhibited potential failure characteristics.
- b. Failed to submit groundwater monitoring reports for 3rd and 4th quarters 2017. (Violation of F.A.C. 62-600.680(1)(e).)
- c. Failed to monitor for Sodium in the wells as required by Condition III.1., 2. and 5.
- d. Failed to properly address chloride exceedances in the monitoring wells as required by Condition II.B.1., 2., and 5.

C.O. Item	Trigger Date	Due Date	Date Completed
S.a) Within 30 days of the effective date of the order retain the services of a professional engineer.	Friday, July 27, 2018	Sunday, August 26, 2018	Tuesday, August 7, 2018
S. a) i. Evaluate the Facility including effluent disposal system, associated collection system and groundwater monitoring plan, to discover the cause or potential causes of the non-compliance.			
S. a) ii. Design modification of the Facility including effluent disposal system, collection systems and monitoring plan to ensure the Facility will function in full and consistent compliance with all applicable rules of the Department.			Currently determined that a permit modification is not needed.
S. a) iv. Oversee the construction of any modifications to the Facility.			Currently determined that a permit modification is not needed.
S. a) v. Submit to the Department a Cert. of Completion prepared by P.E. stating that modifications to all areas including disposal and collection systems were in accordance with the provisions of the permit modifications.			Currently determined that a permit modification is not needed.

Comment	Responsible Party
Completed.	Mark and Bob.
Discuss scope and video of collection system. Check any clean outs that might be compromised. Review gw data and see if Plan is sufficient. If background issues for gw, then make proposals concerning changing limits based on background results.	Mark, Bob and WTS Sales.
If the evaluation of the plant requires design changes, a permit modification will be needed. What are the issues with the "disposal system" outside needing to clean the ponds? Are there parameters contributing to the gw issues?	Mark, Bob, WTS Sales and Pece Lab.
"Modifications" may not be needed depending on the results of renovation of the plant. A new splitter box for example is a part of maintenance and does not require a modification. We will ask for a permit determination for any work and get buy in from the agency.	Mark, Bob and WTS Sales.
If a permit is required, the COC form will be prepared. If just renovation and maintenance work are required, a signed and sealed report will be prepared.	Mark

5. a.) vi. Contact Dr. Phil Kane before initiating the treatment system evaluation described in Subparagraph(s) 5(a).j).			Done.
5. a.) vi. In the event the Dept. requires additional info to process the permit (RAI), a written response containing the response shall be submitted within 30 days of the request.			Currently determined that a permit modification is not needed.
5. b.) Within 180 days of the effective date of the C.O. Respondent shall submit a complete application for the Dept. wastewater permit to construct and/or implement the modifications and monitoring plan revisions developed pursuant to Subparagraph 5.a.)ii.	Friday, July 27, 2018	Wednesday, January 23, 2019	Wednesday, January 23, 2019
5. c.) Within 365 days of the effective date of the wastewater permit issued in accordance with 5(b) complete construction of the modifications developed pursuant to 5(a) and submit the CDC form prepared by a P.E. stating that modifications including to disposal and collection systems were constructed in accordance with the permit. (My language on the evaluation report provided to the agency as part of item 5(b) above.)			
5. d.) Immediately implement preventative measures to ensure system failure does not occur while the reconstruction is under way, including but not limited to:			
5. d.) i. Repair the holes and corrosion in the tanks.			Ongoing.
5. d.) ii. Repair the travelling bridge at plant #3.			In progress.
5. d.) iii. Repair or replace the damaged splitter box.			Repairs done. Ongoing.
5. d.) iv. Repair the clarifier skimmer at plant #3.			In progress.

RECEIVED
 JAN 24 2019
 OPERATIONS UNIT

Once the evaluation is completed, contact Dr. Kane via phone and email concerning the proposed steps to address issues at the plant.	Mark with input from Bob and WTS Sales.
30 days to submit a response is a short turnaround but should be doable.	Mark with input from Bob and WTS Sales.
If it is determined from the evaluation and the Permit Determination request from DEP that a permit is not needed, a report should still be sent to the agency with dates to complete renovation and maintenance work.	DEP issued a permit determination that based on the proposed work to be done; no change in process; and no increase in capacity; that a permit would not be required.
If permit is issued or the date that the evaluation report is provided to the agency and approved, the "Due Date" column will be modified to provide the 365 days of construction allowance time. The agency issued a determination that based on the planned construction a permit is not needed. No capacity change and no added treatment.	Mark
	WTS Sales and Bob with Mark tracking.
Work began prior to September 11, 2018 and continues awaiting rate increase determination by PSC.	Bob and WTS Sales. Mark or others to provide photos of completed work.
Not completed. Work scheduled and/or in progress.	Bob and WTS Sales. Mark or others to provide photos of completed work.
Splitter box was repaired, per information obtained from the Respondent, on January 14, 2019. Further work completed in 2nd Quarter 2019.	Bob and WTS Sales. Mark or others to provide photos of completed work.
Not completed. Work scheduled and/or in progress.	Bob and WTS Sales. Mark or others to provide photos of completed work.

<p>5. e.) Beginning immediately, submit quarterly groundwater monitoring reports by the due date established in the permit. By the 28th of the month following the quarter of monitoring, i.e. October 28, 2018 for 3rd quarter of 2018.</p>			
<p>5. f.) Immediately begin sampling and reporting Sodium in all ground water monitoring reports as required by the Facility's Permit.</p>			<p>Done. 2nd quarter 2019 DMWR and Sodium sampling began Tuesday, September 11, 2018 and is being conducted quarterly per the permit.</p>
<p>5. g.) Every calendar quarter after the effective date of the C.O. and continuing until all corrective actions are completed, submit a written report containing status and progress; info on compliance and non-compliance with the Order including construction or effluent limitation violations and reasons for non-compliance. The reports must also give projection of the work to be performed in the upcoming 12-month period. SEE TAB FOR QUARTERLY REPORTS.</p>			
<p>6. Notwithstanding the time periods described in the paragraphs above, complete all corrective actions within 545 days of the effective date of the C.O.</p>	<p>Friday, July 27, 2018</p>	<p>Thursday, January 23, 2020</p>	
<p>7. Within 90 days of the effective date of the Order, a written estimate of the total cost of the corrective actions must be submitted to the Dept. The estimate should provide (itemized: etc) info on what was relied upon to provide the estimate.</p>	<p>Friday, July 27, 2018</p>	<p>Thursday, October 25, 2018</p>	<p>Monday, October 22, 2018</p>
<p>8. Pay stipulated penalties of \$500.00 within 60 days of the executed date of the Order.</p>	<p>Friday, July 27, 2018</p>	<p>Tuesday, September 25, 2018</p>	<p>Friday, July 20, 2018</p>

Pace Lab and North Peninsula Utilities will provide the engineer the groundwater monitoring reports by the 10th of the month following the month of operation for review and comment.	N. Peninsula and Pace Lab to provide info to Mark.
3rd quarter of 2018 [this quarter] was allowed by DEP to be the beginning of sampling but Sodium MUST be included. Quarterly monitoring of sodium continues per the requirements of the permit.	N. Peninsula and Pace Lab to provide info to Mark.
The spreadsheet may be updated and provided as part of the tracking for the report. A supplement should be added giving the projected work for the next 12-month period. The TAB for Quarterly Reports has a comment column that includes the Projected Work so these two pages may be submitted with a cover letter to meet the requirements of the Consent Agreement.	Mark to co with input from Bob and WTS Sales or Bob to do with input from Mark and WTS Sales.
	Report that all work is completed will be submitted by Mark using info from Bob, WTS Sales and Pace Lab.
The information provided to the PSC can also be used to help give a cost to bring the facility into compliance.	Bob and WTS Sales to provide information to Mark. Mark to prepare the info with the itemized items and submit.
Date is estimated based on the return of the signed C.O. to the Department.	Bob.

NORTH PENINSULA UTILITIES CORPORATION		SCHEDULE NO. 1-A	
TEST YEAR ENDED 06/30/2018		DOCKET NO. 20180138-SU	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$960,499	(\$67,895)	\$892,604
2. LAND & LAND RIGHTS	46,800	0	46,800
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. ACCUMULATED DEPRECIATION	(926,024)	190,995	(735,029)
5. CIAC	(640,994)	(731)	(641,725)
6. ACCUMULATED AMORTIZATION OF CIAC	640,994	21	641,015
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>28,381</u>	<u>28,381</u>
8. WASTEWATER RATE BASE	<u>\$81,275</u>	<u>\$150,772</u>	<u>\$232,047</u>

NORTH PENINSULA UTILITIES CORPORATION		SCHEDULE NO. 1-B
TEST YEAR ENDED 06/30/2018		DOCKET NO. 20180138-SU
ADJUSTMENTS TO RATE BASE		
		<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>		
1.	To reflect appropriate plant in service.	(\$77,595)
2.	To reflect addition of new customer.	1,462
3.	To reflect an averaging adjustment.	(5,409)
4.	To reflect pro forma addition.	47,088
5.	To reflect pro forma retirement	<u>(33,441)</u>
	Total	<u>(\$67,895)</u>
<u>ACCUMULATED DEPRECIATION</u>		
1.	To reflect appropriate accumulated depreciation.	\$158,547
2.	To reflect addition of new customer.	(21)
3.	To reflect an averaging adjustment.	262
4.	To reflect pro forma adjustment.	<u>32,207</u>
	Total	<u>\$190,995</u>
<u>CIAC</u>		
1.	To reflect addition for new customer.	(\$1,462)
2.	To reflect an averaging adjustment.	731
	Total	<u>(\$731)</u>
<u>ACCUMULATED AMORTIZATION OF CIAC</u>		
	To reflect addition of new customer.	<u>\$21</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
	To reflect 1/8 of test year O&M expenses.	<u>\$28,381</u>

NORTH PENINSULA UTILITIES CORPORATION							SCHEDULE NO. 2			
TEST YEAR ENDED 06/30/2018							DOCKET NO. 20180138-SU			
SCHEDULE OF CAPITAL STRUCTURE										
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE AFTER ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST		
1. COMMON STOCK	\$100	(\$100)	\$0	\$0	\$0	0.00%			0.00%	
2. RETAINED EARNINGS	(\$940,660)	\$940,660	\$0	\$0	\$0	0.00%			0.00%	
3. PAID IN CAPITAL	\$400	(\$400)	\$0	\$0	\$0	0.00%			0.00%	
4. OTHER COMMON EQUITY	\$0	\$0	\$0	\$0	\$0	0.00%			0.00%	
TOTAL COMMON EQUITY	<u>(\$940,160)</u>	<u>\$940,160</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	10.55%		0.00%	
5. LONG-TERM DEBT	\$1,093,091	\$0	\$1,093,091	(\$861,044)	\$232,047	100.00%	6.70%		6.70%	
6. SHORT-TERM DEBT	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%		0.00%	
7. PREFERRED STOCK	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%		0.00%	
TOTAL LONG TERM DEBT	<u>\$1,093,091</u>	<u>\$0</u>	<u>\$1,093,091</u>	<u>(\$861,044)</u>	<u>\$232,047</u>	<u>100.00%</u>	<u>6.70%</u>		<u>6.70%</u>	
8. CUSTOMER DEPOSITS	\$0	\$0	\$0	\$0	\$0	0.00%	2.00%		0.00%	
9. TOTAL	<u>\$152,931</u>	<u>\$940,160</u>	<u>\$1,093,091</u>	<u>(\$861,044)</u>	<u>\$232,047</u>				<u>6.70%</u>	
RANGE OF REASONABLENESS							LOW	HIGH		
RETURN ON EQUITY							9.55%	11.55%		
OVERALL RATE OF RETURN							6.70%	6.70%		

NORTH PENINSULA UTILITIES CORPORATION			SCHEDULE NO. 3-A		
TEST YEAR ENDED 06/30/2018			DOCKET NO. 20180138-SU		
SCHEDULE OF WASTEWATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJ. TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQ.
1. OPERATING REVENUES	<u>\$242,292</u>	<u>\$1,485</u>	<u>\$243,777</u>	<u>\$25,988</u> 10.66%	<u>\$269,765</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$276,376	(\$48,179)	\$228,197		\$228,197
3. DEPRECIATION (NET)	27,508	(21,717)	5,791		5,791
4. AMORTIZATION	0	0	0		0
5. TAXES OTHER THAN INCOME	18,653	955	19,608	1,169	20,777
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>		<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$322,537</u>	<u>(\$68,942)</u>	<u>\$253,595</u>		<u>\$254,765</u>
8. OPERATING INCOME/(LOSS)	<u>(\$80,245)</u>		<u>(\$9,818)</u>		<u>\$15,000</u>
9. WASTEWATER RATE BASE	<u>\$81,275</u>		<u>\$232,047</u>		<u>\$232,047</u>
10. OPERATING MARGIN					6.46%

NORTH PENINSULA UTILITIES CORPORATION		SCHEDULE 3-B
TEST YEAR ENDED 06/30/2018		DOCKET NO. 20180138-SU
ADJUSTMENTS TO OPERATING INCOME		PAGE 1 OF 2
	WASTEWATER	
OPERATING REVENUES		
1.	To reflect the appropriate test year revenue.	<u>\$1,485</u>
OPERATION AND MAINTENANCE EXPENSES		
1.	Purchased Power (715)	
	a. To reflect removal of out of test year amounts.	(\$949)
	b. To reflect removal of late fees.	(33)
	Subtotal	<u>(\$982)</u>
2.	Chemicals (718)	
	To reflect removal of out of test year amounts.	<u>(\$389)</u>
3.	Contractual Services - Engineering (731)	
	To reflect DEP permit and filing amortized over five years.	<u>\$120</u>
4.	Contractual Services - Accounting (732)	
	To reflect removal of out of test year amounts.	<u>(\$1,350)</u>
5.	Contractual Services - Legal (733)	
	a. To reflect removal due to lack of supporting documentation.	(\$1,030)
	b. To reflect average expenses related to collection activities.	600
	Subtotal	<u>(\$430)</u>
6.	Contractual Services - Mgt. Fees (734)	
	a. To reflect removal of miscellaneous expenses from contract.	(\$3,600)
	b. To reflect 2019 IRS adjustment to auto expense.	(548)
	c. To reflect reduced management compensation portion of contract.	(39,254)
	Subtotal	<u>(\$43,402)</u>
7.	Contractual Services - Other (736)	
	a. To reflect adjustments to repairs per invoice.	\$95
	b. To reflect increased pay rate for plant operator.	3,009
	c. To reflect pro forma plant expenses amortized over five years.	<u>3,715</u>
	Subtotal	<u>\$6,819</u>
8.	Insurance - General Liability (757)	
	To reflect removal of late fees.	<u>(\$30)</u>
9.	Rate Case Expense (766)	
	Allowance for rate case expense amortized over four years.	<u>\$1,147</u>
10.	Regulatory Commission Expense - Other (767)	
	To reflect removal of amount written off amortized over four years.	<u>(\$6,365)</u>

NORTH PENINSULA UTILITIES CORPORATION		SCHEDULE 3-B
TEST YEAR ENDED 06/30/2018		DOCKET NO. 20180138-SU
ADJUSTMENTS TO OPERATING INCOME		PAGE 2 OF 2
		<u>WASTEWATER</u>
11.	Miscellaneous Expenses (775)	
	a. To reflect removal of refunded deposit to City of Ormond Beach.	(\$1,000)
	b. To reflect removal of late payment to Roto-Rooter.	(9)
	c. To reflect five year amortization of Roto-Rooter expense.	(996)
	d. To reflect removal of out of test year amount to Woody's Septic Tank.	<u>(1,313)</u>
	Subtotal	<u>(\$3,318)</u>
	TOTAL OPERATION AND MAINTENANCE ADJUSTMENTS	<u>(\$48,179)</u>
	DEPRECIATION EXPENSE	
1.	To reflect the appropriate test year depreciation expense.	(\$22,910)
2.	To reflect Account 352 - Franchises being fully depreciated.	(\$41)
3.	To reflect depreciation expense of new customer.	21
4.	To reflect the amortization of CIAC for new customer.	(21)
5.	To reflect pro forma additions.	<u>1,233</u>
	Total	<u>(\$21,717)</u>
	TAXES OTHER THAN INCOME	
1.	To reflect appropriate test year RAFs.	\$67
2.	To reflect property taxes associated with pro forma plant additions.	<u>888</u>
	Total	<u>\$955</u>
	TOTAL OPERATING EXPENSE	<u>(\$68,942)</u>

NORTH PENINSULA UTILITIES CORPORATION		SCHEDULE NO. 3-C		
TEST YEAR ENDED 06/30/2018		DOCKET NO. 20180138-SU		
ANALYSIS OF WASTEWATER O&M EXPENSE				
Acct. #	Description	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
711	Sludge Removal	\$22,860	\$0	\$22,860
715	Purchased Power	12,245	(982)	11,263
718	Chemicals	5,776	(389)	5,387
720	Materials and Supplies	613	0	613
731	Contractual Services - Engineering	800	120	920
732	Contractual Services - Accounting	4,500	(1,350)	3,150
733	Contractual Services - Legal	1,030	(430)	600
734	Contractual Services - Mgt. Fees	135,487	(43,402)	92,085
735	Contractual Services - Testing	12,588	0	12,588
736	Contractual Services - Other	34,788	6,819	41,607
757	Insurance - General Liability	2,252	(30)	2,222
766	Rate Case Expense (RCE)	0	1,147	1,147
767	Regulatory Commission Expense - Other	36,370	(6,365)	30,005
775	Miscellaneous Expense	<u>7,067</u>	<u>(3,318)</u>	<u>3,749</u>
	Total O & M Expense	<u>\$276,376</u>	<u>(\$48,179)</u>	<u>\$228,197</u>
	Working Capital is 1/8 of O&M Less RCE			\$28,381

NORTH PENINSULA UTILITIES CORPORATION		SCHEDULE NO. 4	
TEST YEAR ENDED 6/30/2018		DOCKET NO. 20180138-SU	
MONTHLY WASTEWATER RATES			
	CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential Flat Rate</u>			
Single Family Residential Homes	\$33.57	\$37.47	\$0.17
<u>General Service Flat Rate</u>			
Las Olas Townhomes	\$201.42	\$224.82	\$1.00
Ocean Air	\$570.69	\$636.99	\$2.84
Seabridge North	\$2,182.05	\$2,435.55	\$10.84
Seabridge South	\$2,349.90	\$2,622.90	\$11.68
Restaurant	\$469.98	\$524.58	\$2.34

NORTH PENINSULA UTILITIES CORPORATION		SCHEDULE NO. 5	
TEST YEAR ENDED 06/30/2018		DOCKET NO. 20180138-SU	
PLANT, ACCUM. DEPRECIATION, CIAC, & CIAC AMORTIZATION BALANCES			
<u>ACCOUNT</u>	<u>DESCRIPTION</u>	PLANT 6/30/2018 (DEBIT)	ACCUM. DEP 6/30/2018 (CREDIT)
352	Franchises	\$6,310	\$6,269
353	Land and Land Rights	46,800	N/A
354	Structures & Improvements	166,919	156,857
360	Collection Sewers - Force	322,603	318,363
361	Collection Sewers - Gravity	5,410	3,317
363	Services to Customers	29,870	29,150
364	Flow Measuring Devices	2,500	500
370	Receiving Wells	1,278	1,127
371	Pumping Equipment	42,652	1,756
380	Treatment and Disposal - Equipment	<u>\$315,062</u>	<u>\$217,692</u>
	TOTAL INCLUDING LAND	<u>\$939,404</u>	<u>\$735,029</u>
		CIAC AMORT 6/30/2018 (DEBIT)	CIAC 6/30/2018 (CREDIT)
		<u>\$641,015</u>	<u>\$641,725</u>