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: April 23, 2020

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (D. Andrews, Blocker, Norris, Thurmond)
Division of Economics (Bruce, Hudson)
Division of Engineering (Knoblauch, Ramos)
Office of the General Counsel (Schrader)

RE: Docket No. 20190118-WU – Application for increase in water rates in Gulf County by Lighthouse Utilities Company, Inc.

AGENDA: 05/05/20 – Regular Agenda – Proposed Agency Action – Except for Issue Nos. 19 and 20 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Clark

CRITICAL DATES: 05/05/20 (5-Month Effective Date Waived)

SPECIAL INSTRUCTIONS: None

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Case Background

Lighthouse Utilities Company, Inc. (Lighthouse or Utility) is a Class B utility serving approximately 1,897 customers in Gulf County. Rates were last established for this Utility by Order No. PSC-11-0268-PAA-WU (2010 Rate Case Order).[1]

On September 26, 2018, Lighthouse petitioned the Commission for a limited proceeding to increase its water rates.[2] On October 10, 2018, Hurricane Michael destroyed or damaged substantial portions of the Utility's water distribution system. Lighthouse wanted to include the monetary impact of Hurricane Michael in the limited proceeding, but was unable to reach an agreement with the Office of Public Counsel (OPC) that a limited proceeding was the appropriate procedure for seeking rate relief under those circumstances. To avoid any further delay and expense, Lighthouse withdrew its application for a limited proceeding and on July 12, 2019, filed a full rate case in the instant docket. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure. Lighthouse initially requested interim rates but withdrew this request in a letter dated August 13, 2019.

The Utility's rate case application did not meet the minimum filing requirements (MFRs). On August 8, 2019, staff sent Lighthouse a letter identifying deficiencies in the filing of its MFRs. The Utility filed a response to staff's first deficiency letter on September 30, 2019. However, Lighthouse's response did not satisfy all of the deficiencies, and on October 17, 2019, staff sent a second letter identifying the outstanding deficiencies. On October 30, 2019, the Utility filed a response to staff's second deficiency letter correcting its remaining deficiencies, and thus the official filing date was established as October 30, 2019, pursuant to Section 367.083, Florida Statutes (F.S.).

A substantial portion of the expenses, costs, and investment that are part of this rate case are "environmental compliance costs" that will be incurred by the Utility in order to comply with a consent order and other requirements and conditions of the Florida Department of Environmental Protection (DEP). Another substantial portion of the costs, expenses, and investment that are part of this rate case are related to storm restoration and repair costs that the Utility has incurred, and will continue to incur, as a result of Hurricane Michael.

The test year established for final rates is the simple-average period ended December 31, 2018. Lighthouse requested final rates designed to generate annual revenues of $984,348. This represents a revenue increase of $284,800, or 40.71 percent.

The intervention of OPC was acknowledged by Order No. PSC-2019-0236-PCO-WU, issued June 18, 2019.

By letter dated February 18, 2020, the Utility waived the statutory 5-month deadline for this case through May 5, 2020. This recommendation addresses Lighthouse's requested final rates. The Commission has jurisdiction pursuant to Section 367.081, F.S.

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[1] Order No. PSC-11-0368-PAA-WU, issued September 1, 2011, in Docket No. 20100128-WU, *In re: Application for increase in water rates in Gulf County by Lighthouse Utilities Company, Inc.*
[2] Docket No. 20180179-WU, *In re: Application for limited proceeding rate increase in Gulf County, by Lighthouse Utilities Company, Inc.*

Discussion of Issues

Issue 1: Is the quality of service provided by Lighthouse satisfactory?

Recommendation: Yes. Lighthouse has been responsive to customer complaints, and is working to address the issues noted in the DEP Consent Order through the pro forma plant improvements discussed in Issue 4. Therefore, staff recommends that the overall quality of service for Lighthouse be considered satisfactory. (Knoblauch)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission, in every rate case, shall make a determination of the quality of service provided by the utility by evaluating the quality of the utility's product (water) and the utility's attempt to address customer satisfaction (water and wastewater). The rule states that the most recent chemical analyses, 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 shall also be considered.

Quality of the Utility's Product

In evaluating the quality of Lighthouse's product, staff reviewed the Utility's compliance with the DEP's primary and secondary drinking water standards. Primary standards protect public health, while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water. As provided in Lighthouse's MFRs, the Utility entered into a Consent Order with the DEP on July 9, 2018, which was amended on May 23, 2019, for exceedances of the maximum contaminant levels (MCLs) for disinfection byproducts. In order to address the MCL exceedances outlined in the Consent Order, the Utility plans to install tank aerators and ventilators in its ground storage tanks, along with a chlorinator at its booster station. The Utility stated that its plans and permit application were submitted to the DEP on January 14, 2020. These pro forma plant additions are discussed in more detail in Issue 4.

Lighthouse has no other outstanding citations or violations on file with the DEP. Additionally, the most recent chemical analyses for all other contaminants, as required by the DEP, were completed in 2017, and were in compliance with the DEP's drinking water standards. The Utility's next chemical analyses are due to be completed in 2020.

Staff held a noticed customer meeting on January 23, 2020, to receive customer comments regarding the quality of service. At the meeting, seven customers spoke, two of which provided comments on the water quality. One customer remarked positively about the water, and the second customer stated that their ice was cloudy. As stated above, staff reviewed Lighthouse's most recent chemical analyses, including secondary standards which would affect the color, and all results were below the MCLs. The other comments made at the customer meeting are discussed below.

The Utility's Attempt to Address Customer Satisfaction

Table 1-1 is a summary of the complaints made at the customer meeting, as well as complaints from the Commission's complaint tracking system, the DEP, and Lighthouse over the past five years.

Table 1-1
Number of Complaints by Type and Source

Complaint Type	Customer Meeting	Commission Records	DEP Records	Utility Records
No Service	0	0	0	4
Water Pressure	4	2	0	0
Water Quality	2	0	1	0
Boil Water Notice	1	0	2	0
Repairs	0	1	0	0
Billing	0	1	0	0
Rate Case/Increase	3	0	0	0
Total*	11	4	3	4

*A single customer complaint may be counted more than once if it fits into multiple categories

Customer Meeting

The majority of the customers at the customer meeting spoke about low water pressure issues and inquired about the infrastructure improvements that the Utility requested in this rate proceeding. Three customers made comments regarding the rate case, including the Utility's rate structure and general questions. Additionally, one customer voiced a desire for the Utility to issue boil water notices electronically, instead of its current method of issuing notices through the mail or via a newspaper publication. The customer stated that this could better ensure all customers received the boil water notices. At this time, Lighthouse has not requested cost recovery for implementing a new noticing system, and it appears that the Utility is issuing boil water notices in accordance with DEP requirements.

Following the customer meeting, Lighthouse indicated that the Utility made contact with multiple customers who spoke at the meeting to explain the status of the pro forma project, as well as address the water pressure concerns that were raised. As stated above, Lighthouse is actively working with the DEP to address the requirements outlined in the Consent Order. As part of its pro forma request in this rate proceeding, the Utility is seeking to install tank aerators and ventilators to resolve the disinfection byproducts exceedances. In addition, the Utility also plans to replace the high service pumps at one of its water treatment plant (WTP) sites, which should help to improve the water pressure.

Complaints

A review of the Commission's complaint tracking system revealed four complaints in the previous five-year period. Two of the complaints were made in 2018, one related to low water pressure and one related to billing. The Utility responded that the low pressure was due to a mechanical failure, and the billing complaint was closed after the customer's meter was tested. The other two complaints were made in 2019, with one customer filing a complaint that they were unable to access a shut off valve, and a second customer experiencing low water pressure. For the shut off valve complaint, the customer was informed that the valve was for Utility use, but a shut off valve could be installed on the customer's side of the meter for personal use. Regarding the low water pressure complaint, the customer was contacted and Lighthouse explained the planned improvements for the system, which should help with the low-pressure issues. Additionally, no customer correspondence was filed in the docket.

The Utility provided six complaints, two of which were the 2018 complaints received by the Commission and are discussed above. The other four complaints were made in 2018 following Hurricane Michael, regarding service outages. All of these were initially received by the PSC as consumer contacts, and were forwarded to the Utility for resolution.

Furthermore, staff contacted the DEP requesting complaints regarding Lighthouse for the prior five years, and three complaints were provided. One of the complaints was a complaint received by the Commission in 2019 for low water pressure and is discussed above. The other two complaints were made in 2017 and 2018, regarding instances where boil water notices were not issued. The DEP stated that the customer in 2017 was informed that boil water rescission notifications may have inadvertently been sent to some customers that were not affected by the boil water notice. For the second complaint, the Utility advised the DEP that construction had taken place in the area, but pressure was never lost in the system and no boil water notice was issued.

Conclusion

Lighthouse has been responsive to customer complaints and is working to address the issues noted in the DEP Consent Order through the pro forma plant improvements discussed in Issue 4. Therefore, staff recommends that the overall quality of service for Lighthouse be considered satisfactory.

Issue 2: Are the infrastructure and operating conditions of Lighthouse's water system in compliance with DEP regulations?

Recommendation: Yes. Lighthouse’s water treatment facility is currently in compliance with DEP regulations. (Knoblauch)

Staff Analysis: Rule 25-30.225(2), F.A.C., requires each water 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, sanitary surveys, citations, violations, and consent orders issued to the utility, customer testimony, comments, and complaints, and utility testimony and responses to the aforementioned items.

Water System Infrastructure and Operating Conditions

Lighthouse has two wells with a combined pumping capacity up to 810 gallons per minute (gpm). However, one of the wells is out of service due to storm damage, leaving the remaining well with a pumping capacity rated up to 410 gpm. The Utility has one ground storage tank with an aerator, a ground booster tank, a hydropneumatic tank, and a booster hydropneumatic tank.

As discussed in Issue 1, the Utility will be installing tank aerators and ventilators in its ground-storage tanks, and a chlorinator at one of its water treatment plants to address the exceedances noted in the DEP Consent Order. Staff reviewed Lighthouse’s most recent sanitary survey, which determines the Utility’s overall water facility compliance and is conducted by the DEP. A review of the sanitary survey dated August 29, 2018, indicated that Lighthouse’s water treatment facility was in compliance with the DEP’s rules and regulations.

Conclusion

Lighthouse’s water treatment facility infrastructure and operating conditions are currently in compliance with DEP rules and regulations.

Issue 3: What adjustments, if any, should be made to account for the audit adjustments related to rate base?

Recommendation: Based on the audit adjustments agreed to by the Utility, the following adjustments should be made to rate base and net operating income as set forth in staff's analysis below.

Plant	$136,039
Accumulated Depreciation	($148,937)
CIAC	$41,275
Accum. Amortization of CIAC	($5,256)
Depreciation Expense	$6,396
CIAC Amortization Expense	$1,303

(Norris, Thurmond)

Staff Analysis: Staff's audit report was filed on February 3, 2020. In its response to the staff audit report, Lighthouse agreed to the audit adjustments as set forth in the tables below.

Table 3-1

Audit Finding	Description of Adjustment
Audit Finding No. 1	This finding is due largely to the following: 1) to reflect Commission-ordered adjustments (COAs) from the last rate case, 2) to reflect reclassifications from O&M expenses to plant, 3) to remove amounts due to lack of support documentation, and 4) to reflect plant retirements.
Audit Finding No. 2	This finding primarily reflects corresponding adjustments to Audit Finding No. 1
Audit Finding No. 3	This finding reflects unsupported additions to contributions in aid of construction (CIAC), along with recalculated adjustments to Accumulated Amortization of CIAC and CIAC amortization.

Source: Staff audit report

In response to Audit Finding No. 1, the Utility disagreed with the inclusion of a COA adjustment to Account 304 – Structures and Improvements, as it maintained that the adjustment had already been made, and provided documentation for adjustments made to Account 333 – Services to reflect unsupported plant additions. Additionally, in further correspondence related to Audit Finding No. 2, the Utility subsequently responded that an agreed upon retirement for its booster station was a mischaracterization and that the asset should not have been retired. Lighthouse also provided a response to Audit Finding No. 3 disagreeing with the total amount of CIAC documentation and included additional documentation for an unsupported addition. Upon review of the Utility's explanations and support, staff agrees with the Utility's proposed adjustments to staff's audit report.

Staff's recommended adjustments to rate base and corresponding adjustments to depreciation and CIAC amortization expense are reflected in the table below.

Table 3-2
Audit Adjustments

Audit Finding	Plant	Accum. Depr.	CIAC	Accum. Amort. of CIAC	Depreciation Expense	CIAC Amortization Expense
1	$136,039					
2		($148,937)			$6,396	
3			$41,275	($5,256)		$1,303

Source: Staff audit report and Utility response

Issue 4: What adjustments, if any, should be made to the Utility's pro forma plant?

Recommendation: No adjustments are necessary to the Utility's pro forma plant request. However, adjustments should be made to decrease both pro forma accumulated depreciation and depreciation expense by $19,272. Additionally, pro forma property taxes should be increased by $13,522. (Knoblauch, D. Andrews)

Staff Analysis: Lighthouse originally provided a cost estimate for pro forma plant additions totaling $383,600.[3] The Utility stated that it sought bids through a news publication and received one bid for the project from an engineering firm. The engineering firm was awarded the project, and an evaluation of Lighthouse's existing water system and alternatives for future improvements was completed by the firm. However, this improvement plan was prepared in April 2018, and the Utility was subsequently impacted by Hurricane Michael in October 2018. As a result, the plant additions being requested by Lighthouse in this rate proceeding do not address all of the improvements delineated in the improvement plan. Instead, the Utility's request is limited to addressing DEP compliance issues and restoring Lighthouse's system to pre-hurricane conditions.

To address the DEP Consent Order, the Utility will be installing tank aerators and ventilators in its ground-storage tanks to address the disinfection byproducts exceedances. Additionally, a chlorinator would be installed at the booster station to aid in resolving the exceedance issue. In order to restore the system to pre-hurricane conditions, the Utility provided cost estimates for repair and replacing equipment that was damaged by Hurricane Michael, including a new 8 inch well and high service pumps. Furthermore, the addition of the new well and pumps should help to address the low water pressure problems that were voiced by customers, as discussed in Issue 1.

In response to a staff data request and deficiency letter, the Utility updated its request from $383,600 to $994,000. This was a result of the Utility determining that the well, which was damaged during the hurricane, could not be repaired and a new well would need to be installed. Lighthouse stated that it expected construction for the improvements to begin once funding was secured in the first quarter of 2020. Additionally, the Utility stated that "substantial portions of the improvement project are anticipated to be completed and in service by December 31, 2020."[4] Subsequently, the Utility provided an updated schedule showing that the DEP Consent Order plant additions and the new well are estimated to be completed in the fourth quarter of 2020.[5] The remaining improvements are estimated to be completed by the end of the second quarter of 2021, which exceeds 24 months from the end of the historic test year. However, pursuant to Section 367.081(2)(a)2., F.S., the Commission has the authority to approve a longer period for pro forma consideration. Based on the totality of the Utility's circumstances since its initial limited proceeding filing, staff recommends the inclusion of all the Utility's requested pro forma plant projects be recognized in this proceeding.

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[3] Document No. 05489-2019, filed on July 12, 2019.
[4] Document No. 11463-2019, filed on December 23, 2019.
[5] Document No. 01276-2020, filed on March 5, 2020.

As such, staff recommends no adjustments be made to the Utility's pro forma plant projects. However, the Utility incorrectly calculated the accumulated depreciation and depreciation expense associated with some of the pro forma plant projects. Based on the useful life for plant accounts prescribed by Rule 25-30.140(2)(a), F.A.C., staff recommends decreasing both accumulated depreciation and depreciation expense by $19,272. Additionally, the Utility did not include pro forma property taxes in its filing. Therefore, pro forma property taxes should be increased by $13,522.

Issue 5: What are the used and useful (U&U) percentages of Lighthouse's WTP, storage, and distribution system?

Recommendation: Staff recommends Lighthouse's WTP, storage, and distribution system be considered 100 percent U&U. Staff recommends that a 6.8 percent adjustment to operating expenses for chemicals and purchased power should be made for excessive unaccounted for water (EUW). (Knoblauch)

Staff Analysis: Lighthouse's WTP has two wells with a combined pumping capacity of up to 810 gpm. However, one of the wells is out of service due to storm damage, leaving the remaining well pumping capacity rated up to 410 gpm. The Utility has one ground storage tank with an aerator, which has a capacity of 316,000 gallons, along with a ground booster tank with a capacity of 209,000 gallons. Also in service are a hydropneumatic tank with a capacity of 5,000 gallons, and a booster hydropneumatic tank with a capacity of 10,000 gallons. The distribution system is comprised of varying sizes of polyvinyl chloride (PVC) pipes.

The U&U for Lighthouse's WTP, storage, and distribution system were last determined in the 2010 Rate Case Order. In that Order, the Commission found Lighthouse's WTP water and storage to be 100 percent U&U. For the distribution system, the Commission determined the U&U to be 82 percent.

Water Treatment Plant Storage Used and Useful

As noted above, the Commission found both the WTP and the storage to be 100 percent U&U in the prior rate proceeding. The Utility is currently only able to utilize one of its wells, and pursuant to Rule 25-30.4325(4), F.A.C., a water treatment system is considered 100 percent U&U if the system is served by a single well. However, as discussed in Issue 4, a new well with a pumping capacity of 450 gpm is included as part of Lighthouse's requested pro forma plant projects. In determining the WTP U&U, staff has imputed the addition of the new well.

Rule 25-30.4325, F.A.C., addresses the method by which the U&U of a water system is determined. The formula for calculating U&U for the WTP is given by [Peak Demand – EUW + Fire Flow + Growth] / Firm Reliable Capacity. Peak demand is based on a peak day for a water treatment system with storage capacity. Peak day demand is the single maximum day in the test year where there is no unusual occurrence on that day, such as a fire or line break. Based on the Monthly Operating Reports that the Utility files with the DEP, the single maximum day in the test year was 701,200 gpd. As discussed below, the EUW was calculated to be 6.8 percent or 28,953 gpd.

The fire flow requirement is 60,000 gpd, and the Utility did not request a growth allowance. The firm reliable capacity assumes loss of the largest capacity well and is therefore 410 gpm or 393,600 gpd, based on 16 hours of pumping for systems with storage capacity. This calculation results in a U&U greater than 100 percent; as such, staff recommends the WTP be considered 100 percent U&U.

Lighthouse has two ground storage tanks with a combined usable storage capacity of 525,000 gallons. Pursuant to Rule 25-30.4325, F.A.C., usable storage capacity less than or equal to the peak day demand shall be considered 100 percent U&U; thus, the Utility's storage is 100 percent

U&U. Therefore, consistent with the Commission's previous decision, staff recommends the Utility's WTP and storage be considered 100 percent U&U.

Excessive Unaccounted for Water (EUW)

Rule 25-30.4325(1)(e), F.A.C., defines EUW as "unaccounted for water in excess of 10 percent of the amount produced." Unaccounted for water is all water produced that is not sold, metered, or accounted for in the records of the utility. In determining whether adjustments to plant and operating expenses are necessary in accordance with Rule 25-30.4325(10), F.A.C., staff considers several factors. These include (1) the causes of EUW, (2) any corrective action taken, or (3) the economic feasibility of a proposed solution. EUW is calculated by subtracting both the gallons sold to customers and the gallons used for other services, such as flushing, from the total gallons pumped for the test year.

The Monthly Operating Reports indicate that the Utility pumped 154,498,000 gallons during the test year, and purchased 2,187,000 gallons from the City of Port St. Joe. In response to data requests, the Utility indicated that it estimated 25,100,000 gallons for other uses, such as flushing, overflow of the aerators, and extinguishing four fires that occurred in the test year. Based on staff's analysis, the Utility sold 105,199,000 gallons of water for the test year. When both the gallons sold and water used for other uses is subtracted from the total gallons pumped and purchased, 26,386,000 gallons are unaccounted for. The formula for unaccounted for water is given by [gallons of unaccounted for water / (total gallons pumped + gallons purchased)]. The resulting unaccounted for water is 16.8 percent; therefore, the excessive unaccounted for water is 6.8 percent. Accordingly, staff recommends that a corresponding adjustment to operating expenses for purchased power and chemical expenses be made.

Water Distribution System Used and Useful

In the 2010 Rate Case Order, the Commission found the Utility's distribution system to be 82 percent U&U. The order stated that the "U&U analysis for the water distribution system is typically based on a comparison of the lots connected to the distribution system with the total number of lots within the distribution system." However, it was determined that the number of lots that could potentially connect to the distribution system could not be identified due to the nature of the service territory. The service territory consists of dispersed small developments, as well as coastal areas that are not intended to be developed. Instead, the capacity of the WTP was used as a proxy to estimate the capacity of the lines in the distribution system, which was compared to the number of connections being served.

In the present case, the Utility is proposing to use this same method with its current number of connections and WTP capacity. In its MFRs, the Utility provided that the current number of connections it is able to serve is 1,994 connections. This value was developed by an engineering consultant, which was the same consultant utilized in the prior rate case. The number of active customer connections at the end of the test year was 1,883 connections. This results in a distribution system U&U of 94 percent. However, the Utility asserted that all of the distribution system assets and equipment are in use and any potential connections are dispersed through the system, thus the distribution system should be considered 100 percent U&U.

Consistent with the Commission's prior decision, staff agrees with utilizing the same method for calculating the U&U of the distribution system. Based on a review of Lighthouse's system maps, there appears to be vacant lots interspersed throughout the distribution system. However, due to the nature of the service area and the location of the various developments served by the Utility, the distribution lines appear to be in use and needed to serve the existing customers. Additionally, while the Utility did not request a growth allowance, there does appear to be potential growth in the area. In its MFRs, the Utility provided the number of residential customers over the past five years, which increased from 1,625 at the end of 2014 to 1,865 in 2018. Therefore, staff recommends the distribution system be considered 100 percent U&U.

Conclusion

Staff recommends Lighthouse's WTP, storage, and distribution system be considered 100 percent U&U. The excessive unaccounted for water was calculated to be 6.8 percent, thus staff recommends that a corresponding adjustment be made to operating expenses for purchased power and chemical expenses.

Issue 6: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is $72,127. As such, working capital should be decreased by $8,954. (D. Andrews)

Staff Analysis: Rule 25-30.433(3), F.A.C., requires that Class B utilities use the formula method, or one-eighth of operation and maintenance (O&M) expenses, to calculate the working capital allowance. The Utility properly calculated working capital using the formula method. However, as discussed in subsequent issues, staff is recommending adjustments to Lighthouse's O&M expenses. As a result, staff recommends working capital of $72,127. This reflects a decrease of $8,954 to the Utility's requested working capital allowance of $81,081.

Issue 7: What is the appropriate rate base for the test year ended December 31, 2018?

Recommendation: Consistent with staff's other recommended adjustments, the appropriate rate base for the test year ended December 31, 2018, is $1,535,766. (D. Andrews)

Staff Analysis: Consistent with other recommended adjustments in this Recommendation, the appropriate simple average rate base for the test year ended December 31, 2018, is $1,535,766. Staff's recommended schedule for rate base is shown on Schedule No. 1-A and the adjustments are shown on Schedule No. 1-B.

Issue 8: What is the appropriate return on equity?

Recommendation: Based on the Commission leverage formula currently in effect, the appropriate return on equity (ROE) is 10.55 percent with an allowed range of plus or minus 100 basis points. (D. Andrews)

Staff Analysis: The Utility requested a ROE of 10.55 percent. Consistent with Commission practice, staff has set the Utility's negative common equity balance to zero. Based on the Commission leverage formula currently in effect, the appropriate ROE is 10.55 percent.[6] Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

[6] Order No. PSC-2019-0267-PAA-WS, issued July 7, 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 9: What is the appropriate weighted average cost of capital, including the proper components, amounts, and cost rate associated with the capital structure for the test year ended December 31, 2018?

Recommendation: The appropriate weighted average cost of capital for the test year ended December 31, 2018 is 8.01 percent. (D. Andrews)

Staff Analysis: In its filing, Lighthouse requested an overall cost of capital of 8.01 percent. The Utility's capital structure consists of debt. In its filing, Lighthouse reflected a cost rate of 8.01 percent for debt. The Utility was unable to provide any loan documentation for the purpose of the debt in time for the staff audit to review. In response to the audit, the Utility provided promissory notes for loans from four of its five lenders. All five of the lenders are listed as directors of the Utility. Lighthouse indicated that it believes the last promissory note was lost as a result of Hurricane Michael. Staff has reviewed the available promissory notes associated with these loans.

In its filing for a limited proceeding, Lighthouse was planning to fund the pro forma projects through the Florida's Drinking Water State Revolving Fund (Fund). However, the Utility's request for funding through the Fund was eventually denied. Lighthouse has indicated that it has attempted to obtain funding through bank loans. However, the Utility was unable to secure bank loans, in part due to the COVID-19 pandemic. Subsequently, Lighthouse has indicated that it will obtain additional loans from its directors in order to fund the additions to pro forma plant at the same cost rate as the existing loans. Staff recommends that the appropriate cost rate for debt is 8.01 percent.

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2018, staff recommends a weighted average cost of capital of 8.01 percent. Schedule No. 2 details staff's recommended overall cost of capital.

Issue 10: What are the appropriate test year revenues for Lighthouse's water system?

Recommendation: The appropriate test year revenues are $757,270, which is an increase of $57,722 to the Utility's adjusted test year revenues. (Bruce)

Staff Analysis: In its revised MFRs, Lighthouse's adjusted test year revenues were $699,548. The adjusted test revenues were the result of the Utility applying a four percent reduction to its per book balance of $728,696, which resulted in a decrease of $29,148. The Utility reduced test year revenues to account for the decrease in customers due to storm related damage from Hurricane Michael in 2018.

At the noticed customer meeting, attendees commented that some customers had returned to the service area, and there was new construction. As a result, staff requested the Utility provide billing data for the year ended December 31, 2019. The billing data indicated that the billing determinants were more in line with pre-Hurricane Michael billing determinants. Prior to filing its file and suspend rate request, the Utility filed a limited proceeding, in 2018,[7] which was pre-Hurricane Michael. The billing determinants provided in the limited proceeding docket were based on the year ended December 31, 2017. In comparing the test year usage in this docket (year ended December 31, 2018) to the 2017 data, the usage decreased by approximately five percent from 2017 to 2018.[8] However, when comparing 2017 usage to 2019 usage, it was relatively the same.[9] Therefore, staff believes the 2019 billing data would reflect a more accurate depiction of test year revenues post-Hurricane Michael.[10]

The Utility had a price index increase that became effective November 6, 2019. Staff annualized the rate increase using the 2019 billing determinants and determined service revenues should be $753,373. Staff did not make adjustments to the miscellaneous revenues of $3,897, which are reflected in the Utility's MFRs. Based on the above, the appropriate test year revenues are $757,270 ($753,373 + $3,897), which is an increase of $57,722 ($757,270 - $699,548) to the Utility's adjusted test year revenues.

[7] The limited proceeding request was withdrawn in order to file a more comprehensive filing in the instant docket.
[8] 2017 usage from limited proceeding filing – 110,578,000 gallons; 2018 usage from instant docket – 105,199,000 gallons
[9] 2019 usage data – 110,693,000 gallons
[10] It should be noted that the customer count was 1,884 in 2017, 1,911 in 2018, and 1,890 in 2019.

Issue 11: What adjustments, if any, should be made to the account for the audit adjustments related to operating expenses?

Recommendation: Based on the audit adjustments agreed to by Lighthouse, O&M expense should be decreased by $38,285 and taxes other than income (TOTI) should be reduced by $2,294. (D. Andrews)

Staff Analysis: In its response to the staff audit report, Lighthouse agreed to adjustments to reduce O&M expense by $15,546. The Utility suggested that the remaining adjustments of $28,423 were related to Hurricane Michael and should be capitalized and amortized. In a recent order, the Commission amortized nonrecurring expenses incurred due to a hurricane over five years.[11] Through subsequent correspondence, the Utility agreed that amortizing the expenses related to Hurricane Michael over five years is appropriate. This results in test year expenses related to Hurricane Michael of $5,685 ($28,423 / 5). Therefore, staff recommends a decrease to O&M expense of $43,970 ($15,546 + $28,423) to reflect the audit adjustments and an increase of $5,685 to reflect the amortization of Hurricane Michael expenses, for a net reduction to O&M expenses of $38,285.

Additionally, in its response to the staff audit report, Lighthouse agreed with the recommended adjustment to TOTI. The adjustments were comprised of a decrease of $1,294 to correct regulatory assessment fees (RAFs) in the test year and a $1,000 decrease to remove the filing fee for the instant docket. Therefore, TOTI should be decreased by $2,294 ($1,294 + $1,000).

[11] Order No. PSC-2018-0446-FOF-SU, issued September 4, 2018, in Docket No. 20170141-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

Issue 12: What adjustments, if any, should be made to the Utility's test year O&M expenses?

Recommendation: An adjustment should be made to decrease purchased power expense by $3,498 and reduce chemicals expense by $557. Rent expense should be increased by $1,547. Additionally, miscellaneous expense should be increased by $2,290. (D. Andrews, Knoblauch)

Staff Analysis: Based on its review of test year O&M expenses, staff recommends several adjustments to the Utility's O&M expenses as summarized below.

Excessive Unaccounted for Water

As discussed in Issue 5, staff is recommending an EUW adjustment of 6.8 percent. Based on adjustments reflected in Issues 11 and 14, staff is recommending purchased power expense of $56,221 and chemicals expense of $8,190. However, as discussed in Issues 5 and 14, EUW applies to purchased power only for the well and booster station. Staff is recommending purchased power expense for the well of $51,439. As such, staff recommends reducing purchased power expense by $3,498 (6.8 percent x $51,439) and chemicals expense by $557 (6.8 percent x $8,190).

Rent Expense

In its filing, the Utility recorded rent expense of $14,625. Lighthouse's rent expense consisted of rent associated with an office building, at $1,922 per month, and a storage facility, at $749 per month, both of which the Utility splits evenly with an affiliated real estate company. The Utility also has a one-time expense of $144 related to a P.O. Box with the United States Postal Service included in rent expense.

Due to Hurricane Michael, the Utility did not record rent expense for the office for two months during the test year. Therefore, staff recommends increasing rent expense by $1,922 to reflect a full year of rent. There was also an out of period expense associated with the storage facility recorded in the test year. Therefore, staff recommends reducing rent expense by $375 ($749 / 2). As a result of the adjustments above, staff recommends an adjustment to increase rent expense by $1,547 ($1,922 - $375).

Amortized Permit Renewal Expense

The staff audit reclassified $22,901 from plant in service as deferred debits for expense associated with renewing a consumptive use permit. The Utility argued, in its response to the audit, that the amortization expense associated with this permit renewal should be included in O&M expense. The application for the permit was completed in 2013 and runs through 2023. Staff believes this expense should be amortized over 10 years and should be included in miscellaneous expense. As such, staff recommends an adjustment to increase miscellaneous expense by $2,290 ($22,901 / 10).

Issue 13: What adjustments, if any, should be made to the Utility's salaries and wages expense?

Recommendation: An adjustment should be made to reduce salaries and wages - officers expense by $40,000. (D. Andrews)

Staff Analysis: In its filing, the Utility recorded salaries and wages – officers expense of $130,408. Lighthouse recorded $76,000 for directors' fees during the test year. This represents $750 per month for eight directors and an extra $500 per director in December as a bonus. This represents an annual compensation of $9,500 per director. In its last rate case, the Utility was allowed recovery for four directors with an annual compensation of $6,000 per director.

In response to a staff data request,[12] Lighthouse indicated that its President's salary of $54,408 is well below the range for a general manager of a small water system according the 2019 American Water Works Association (AWWA Survey). Further, the Utility suggested that taking four director salaries and adding them to the President's salary of $54,408 results in a total management cost well within the range of standard salaries for a general manager in the AWWA Survey. Staff recommends limiting the Utility to recovery for four directors, consistent with the last rate case. Further, staff believes it is not prudent to give annual bonuses to each director beyond their monthly compensation, and thus recommends eliminating the annual bonuses. As such, the total recommended directors' fees are $36,000 ($750 x 12 x 4). The duties have not changed for the President or the directors since the last rate case.

As discussed above, staff recommends an adjustment to decrease salaries and wages – officers expense by $38,000 ($9,500 x 4) to reduce the number of directors to four. Additionally, staff recommends an adjustment to reduce salaries and wages – officers expense by $2,000 ($500 x 4) to eliminate the bonus for each director. This results in a total reduction to salaries and wages – officers expense of $40,000 ($38,000 + $2,000).

[12] Document No. 08995-2019, filed on September 23, 2019.

Issue 14: Should any adjustments be made to account for the Utility's pro forma expense?

Recommendation: Yes. Adjustments should be made to increase purchased power expense by $4,572 and to increase chemicals expense by $2,295. (Knoblauch, D. Andrews)

Staff Analysis: Based on its review of test year O&M expenses, staff recommends several adjustments to the Utility's O&M expenses as summarized below.

Purchased Power

The Utility estimated that its test year purchased power expense would double, based on the pro forma plant additions. As discussed in Issue 4, the Utility is planning to add a new 8 inch well and new high service pumps. During the test year, the Utility was almost entirely limited to one well and recorded $51,649 for purchased power, which included power for the well, pumps, and offices. Based on staff's audit, the amount of purchased power for only the operation of the well and pumps was $46,867 for the test year. In view of the new well, which will have a larger pumping capacity of 450 gpm compared to the existing well's pumping capacity of 410 gpm, the amount of purchased power will likely increase. However, staff does not believe that the additions will cause the purchased power expense to double, since the Utility did not provide support showing the customer demand would double. Except for two months during the test year when Lighthouse purchased water from the City of Port St. Joe, the Utility was able to meet demand utilizing its one well. Staff believes that an increase to purchased power expense proportional to the increase in well pumping capacity is more appropriate. Therefore, based on the increased well pumping capacity, staff recommends a purchased power expense amount of $51,439 (450/410 x 46,867) for the operation of the wells and pumps, an increase of $4,572.

Chemicals

The Utility estimated that chemicals expense would increase by one-third based on the pro forma plant additions. As discussed in Issue 4, the Utility is planning to add a chlorinator at its booster station in part to address DEP compliance issues. During the test year, the Utility recorded $6,884 for chemicals. In view of the new chlorinator, the amount of chemicals required will increase; however, the exact quantity and cost of chemicals needed will not likely be known until the chlorinator is in service. Considering the chlorinator will be added at a booster station, the amount of chemicals used is expected to be less than what would be required at the WTP. Therefore, staff believes a one-third increase to chemicals is reasonable to account for the new chlorinator, thus staff recommends an increase of $2,295 to chemicals expense.

Conclusion

Based on the adjustments above, staff recommends that purchased power expense be increased by $4,572 and that chemicals expense be increased by $2,295.

Issue 15: What is the appropriate amount of rate case expense and over what period should it be amortized?

Recommendation: The appropriate amount of rate case expense is $96,040. This expense should be recovered over four years for an annual expense of $24,010. Therefore, annual rate case expense should be increased by $373 from the expense included in the MFRs. (Blocker)

Staff Analysis: In its MFRs, Lighthouse requested $94,547 for current rate case expense. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On March 5, 2020, the Utility submitted its last revised estimate of rate case expense, through completion of the PAA process, which totaled $114,473. A breakdown of the Utility's requested rate case expense is as follows:

Table 15-1
Lighthouse Initial and Revised Rate Case Expense Report

Description	MFR Estimated	Actual	Additional Estimated	Revised Total
Legal Fees				
Holland & Knight, LLP	$45,650	$46,562	$8,075	$54,637
Accounting Fees				
Roberson & Associates, P.A.	31,950	22,620	3,236	25,856
Engineering Fees				
Dewberry Engineers, Inc.	0	987	4,916	5,903
Customer Notices	16,947	843	0	843
Limited Proceeding – Legal Fees	0	21,024	0	21,024
Limited Proceeding – Accounting Fees	0	6,210	0	6,210
Total	**$94,547**	**$98,246**	**$16,227**	**$114,473**

Source: MFR Schedules B-3 and B-10, along with Utility responses to staff data requests

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on its review, staff believes the following adjustments to Lighthouse's requested rate case expense are appropriate.

Holland & Knight LLP (H&K)

In its MFRs, the Utility included $45,650 in legal fees to complete the rate case. The Utility provided documentation detailing this expense through February 11, 2020. The actual fees and costs totaled $46,562 with an estimated $8,075 to complete the rate case, totaling $54,637.

According to invoices, H&K identified and billed the Utility $8,795 related to the correction of MFR deficiencies. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs. Consequently, staff recommends an adjustment to reduce H&K's actual legal fees by $8,795.

H&K's estimate to complete the rate case includes fees for 19 hours at $425 an hour, totaling $8,075. Staff believes the full amount of the estimate to complete, $8,075, is reasonable. Based on the above, staff recommends that the total legal fees from H&K be reduced by $8,795.

Roberson & Associates, P.A. (R&A)

In its MFRs, the Utility included $31,950 in accounting fees to complete the rate case. The Utility provided documentation detailing this expense through December 31, 2019. The actual fees total $22,620 with an estimated $3,236 to complete the rate case, totaling $25,856. Staff reviewed supporting documentation and found 68.75 hours related to correcting deficiencies. As stated previously, the Commission has disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs. As such, staff recommends that R&A's actual accounting consultant fees be reduced by $6,749.

R&A's estimate to complete the rate case includes fees for 26 hours at $120. According to R&A's summary, the consultant estimated the following:

Table 15-2
R&A's Estimate Hours to Complete Case

Estimated Hours	Activity
4.00	Attend customer meeting in Gulf County; pre- and post-meeting conferences with client.
10.00	Review Staff and Field Auditors recommendations, correspondence with client and consultants, respond to recommendations and resulting conference staff and client.
9.00	Travel to and from Tallahassee; Prepare for and attend Agenda conference; Discuss Agenda with client and staff.
2.00	Review PAA Order; conference with client and consultants regarding PAA order.
1.00	Prepare revised tariffs.
26.00	Total

Source: Utility's response to staff's third data request

At the time the above estimate was provided to staff, the Commission Conference had not been changed to a teleconference format in response to COVID-19. As such, estimated costs associated with travel to attend the Commission Conference are no longer necessary. Staff recommends that estimated cost to complete be reduced by four hours for travel, or $480 (4 hrs. x $120/hr.). Also, the $116 of estimated travel expenses associated with attending the Commission Conference should be removed.

Based on the above, staff recommends that the total accounting fees for R&A be reduced by $7,345 ($6,749 + $480 + $116).

Dewberry Engineers, Inc. (DEI)

In its MFRs, the Utility did not include any engineering fees to complete the rate case. The Utility provided documentation detailing this expense through February 10, 2020. The actual fees total $987 with an estimated $4,916 to complete the rate case, totaling $5,903.

DEI estimates that a total of 20 hours is needed to complete the case. According to DEI's summary, the consultant estimated the following:

Table 15-3
DEI's Estimate Hours to Complete Case

Estimated Hours	Activity
5.00	Respond to Staff requests for documentation, including research and correspondence and other information to answer each point in requests.
4.00	Attend customer meeting in Gulf County; pre- and post-meeting conferences with client.
9.00	Travel to and from Tallahassee; Prepare for and attend Agenda conference; Discuss Agenda with client and staff.
2.00	Review PAA Order; conference with client and consultants regarding PAA Order.
20.00	Total

Source: Utility's response to staff's third data request

At the time the above estimate was provided to staff, the customer meeting had already occurred and was not attended by a representative from DEI. As such, staff recommends that the estimated cost to complete be reduced by two hours or $480 (2 hrs. x $240/hr.) to reflect a reasonable amount of time that would have been allotted to attend the customer meeting. Additionally, at the time the above estimate was provided to the staff, the Commission Conference had not been changed to a teleconference format, as previously discussed. Costs associated with travel to attend the Commission Conference are no longer necessary. As such, staff recommends that the estimated cost to complete be reduced by an additional four hours or $960 (4 hrs. x $240/hr.). Also, the $116 of estimated travel expenses associated with attending the agenda meeting should be removed.

Based on the above, staff recommends that the total engineering fees for DEI be reduced by $1,556 ($480 + $960 + $116).

Customer Notice

In its MFRs, Lighthouse included $16,947 of expenses associated with customer notices. The Utility provided documentation detailing the actual expense through January 9, 2020. The actual costs total $843 for one notice. An estimate to complete was not provided by the Utility. Staff believes it is reasonable to include the cost for two additional notices: a notice to customers regarding final rates and a notice reflecting the four-year rate case expense reduction. Using the Utility's actual cost for the one notice previously issued in this case results in additional noticing costs of $1,685 ($843 x 2). Accordingly, staff recommends that customer notices, printing, and shipping fees be increased by $1,685.

Limited Proceeding

Lighthouse originally petitioned the Commission for a limited proceeding to increase its water rates in order to bring its water system into compliance with applicable water quality standards. Two weeks after the Utility's filing, the service area was greatly affected by damage caused by Hurricane Michael, destroying or damaging large portions of Lighthouse's distribution system and substantially impacting its customer base. Additionally, the Utility and OPC were still continuing to discuss whether a limited proceeding was the appropriate process for seeking rate relief based on its circumstances. To avoid any further delay and expense, Lighthouse withdrew its application for a limited proceeding and subsequently filed a full rate case.

In its update to actual rate case expense, Lighthouse included documentation to support $27,234 in rate case expense from the limited proceeding docket. This case differs from the circumstances in the Commission's decision in Order No. PSC-16-0525-PAA-WS, issued November 21, 2016, In re: Application for increase in water rates in Lee County and wastewater rates in Pasco County by Ni Florida, LLC (Ni Florida). In Ni Florida, the Commission did not allow for the recovery of rate case expense from another docket where the utility had withdrawn the corresponding application on its own motion. In Ni Florida, the utility's withdrawal of its application was, in part, due to deficiencies in its own application, changes in ownership, and changes in the status of certain capital improvements. These were all circumstances over which the utility had some control.

In the instant docket, however, the circumstances are different. Here, the previous limited proceeding for which the Utility had applied was essentially "folded" into this proceeding and the application fee paid in that proceeding applied to this proceeding. Secondly, circumstances well beyond the control of the Utility (Hurricane Michael) were at least a partial factor in moving from a limited proceeding to a full rate case. Based on the above, staff believes the Utility's request to recover rate case expense associated with the limited proceeding docket is reasonable. Adjustments to the Utility's request are discussed below.

Legal Fees

Lighthouse provided documentation supporting $21,024 of legal fees charged by H&K associated with the limited proceeding. Staff reviewed the supporting documentation and determined that 5.7 hours, or $2,423 (5.7 x $425/hr.), were related to correcting deficiencies. Accordingly, staff recommends that legal fees related to the limited proceeding should be reduced by $2,423.

Accounting Fees

The Utility provided documentation supporting $6,210 of accounting fees charged by R&A associated with the limited proceeding. Staff reviewed supporting documentation and believes that all expenses are reasonable. A breakdown of limited proceeding rate case expense is reflected in the table below.

Table 15-4
Limited Proceeding Rate Case Expense

Description	Actual	Staff Adjustments	Recommended Total
Limited Proceeding – Legal Fees	$21,024	($2,423)	$18,602
Limited Proceeding – Accounting Fees	6,210	0	6,210
Total	$27,234	$(2,423)	$24,812

Source: Utility's responses to staff data requests

Conclusion

Based upon the adjustments discussed above, staff recommends that Lighthouse's revised rate case expense of $114,473 be decreased by $18,434. A breakdown of staff's recommended rate case expense of $96,040 is as follows:

Table 15-5
Recommended Rate Case Expense

Description	MFR Estimated	Utility Revised Act. & Est.	Staff Adjustments	Recom. Total
Legal Fees	$45,650	$54,637	($8,795)	$45,842
Accounting Fees	31,950	25,856	(7,345)	18,511
Engineering Fees	0	5,903	(1,556)	4,347
Customer Notices	16,947	843	1,685	2,528
Limited Proceeding - Legal Fees	0	21,024	(2,423)	18,602
Limited Proceeding - Accounting Fees	0	6,210	0	6,210
Total	$94,547	$114,473	($18,434)	$96,040

Source: MFR Schedules B-3 and B-10, along with Utility responses to staff data requests

In its MFRs, the Utility requested total rate case expense of $94,547. When amortized over four years, this represents an annual expense of $23,637. The recommended total rate case expense of $96,040 should be amortized over four years, pursuant to Section 367.081(8), F.S., as the Utility did not request or justify a longer amortization period. This represents an annual expense of $24,010. Based on above, staff recommends that annual rate case expense be increased by $373 ($24,010 - $23,637) relative to the Utility's original filing.

Issue 16: What is the appropriate revenue requirement for the test year ended December 31, 2018?

Recommendation: The following revenue requirement should be approved.

Test Year Revenues	$ Increase	Revenue Requirement	% Increase
$757,270	$154,963	$912,233	20.46%

(D. Andrews)

Staff Analysis: In its filing, Lighthouse requested a revenue requirement to generate annual revenue of $984,348. This requested revenue requirement represents a revenue increase of $284,800 or approximately 40.71 percent.

Consistent with staff's recommendations concerning rate base, cost of capital, and operating income issues, staff recommends approval of rates designed to generate a revenue requirement of $912,233. Staff's recommended revenue requirement of $912,233 is $154,963 greater than staff's adjusted test year revenue of $757,270. This results in an increase of 20.46 percent. Staff's recommended revenue requirement will allow the Utility the opportunity to recover its expenses and earn an 8.01 percent return on its investment in rate base.

Issue 17: What are the appropriate rate structures and rates for Lighthouse's water system?

Recommendation: The recommended rate structures and monthly water 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 sheet 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: Lighthouse is located in Gulf County in the Northwest Water Management District. The Utility provides water service to approximately 1,837 residential customers and 60 general service customers including multi-family units, recreational areas, a state park, and governmental properties. Typically, staff evaluates the seasonality of the Utility customers based on the percentage of bills at zero gallons, which is 13 percent in this case. However, based on billing data, it appears that the customers are in residence periodically throughout each month and there are also vacation rentals. Therefore, staff believes it is appropriate to evaluate the seasonality based on the percentage of bills at the 1,000 gallon level, which is 35 percent. As a result, it appears that the customer base is seasonal. The average residential water demand is 4,199 per month. The average residential demand excluding zero-gallon bills is 4,825 gallons per month. Currently, the Utility's water rate structure consists of a monthly base facility charge (BFC) and uniform gallonage charge for residential and general service customers.

As discussed in Issue 10, staff used 2019 billing determinants to calculate test year revenues. The 2019 usage billing determinants are five percent greater than the usage reflected in the 2018 billing determinants. By designing rates using the Utility's 2018 billing determinants reflected in the MFRs, revenues in excess of staff's recommended revenue requirement would be generated immediately upon the rates becoming effective. Staff believes that 2019 billing determinants should be used to design rates on a prospective basis in order to reflect known and measurable post-Hurricane Michael changes in billing determinants.

Staff performed an analysis of the Utility's billing data in order to evaluate the appropriate rate structure for the residential water customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the Utility's customers; (3) establish the appropriate non-discretionary usage threshold for restricting repression; and (4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

It has been Commission practice to recover no more than 40 percent of the revenues to be generated from the BFC. However, due to the seasonality of the customer base, staff recommends that 50 percent of the water revenues be generated from the BFC.[13] This will provide revenue stability while customers are out of residence. The average people per household served by the water system is approximately 2.5; therefore, based on the number of people per household, 50 gallons per day per person, and the number of days per month, the non-

[13] Order No. PSC-17-0209-PAA-WU, issued May 30, 2017, in Docket No. 20160065-WU, *In re: Application for increase in water rates in Charlotte County by Bocilla Utilities, Inc.*

discretionary usage threshold should be 4,000 gallons per month.[14] Staff recommends a traditional BFC with separate rate blocks for non-discretionary and discretionary usage for residential water customers. The rate blocks are: (1) 0-4,000 gallons and (2) all usage in excess of 4,000 gallons. This rate structure restricts repression at non-discretionary levels of consumption. General service customers should be billed based on a BFC and uniform gallonage charge.

Based on staff's recommended revenue increase of 20.6 percent, which excludes miscellaneous revenues, the residential consumption can be expected to decline by 2,069,000 gallons resulting in anticipated average residential demand of 4,106 gallons per month. Based on staff's evaluation of the billing data, a larger decrease in consumption may seem reasonable due to the amount of discretionary usage. However, as discussed above, Lighthouse customers are not all fulltime owner-occupied homes, but instead some are vacation rental properties. As is the case with the general service class, these homeowners may pass along increases to their customers. Therefore, to reflect this expected relative insensitivity to price changes, staff believes a price elasticity of demand should be -0.2 instead of -0.4, which is normally used to calculate repression adjustments. Staff's recommended elasticity indicates our belief that many of the Utility's customers will simply pass the increase in cost to their renters instead of reducing their consumption. Based on the above, staff recommends a 2.2 percent reduction in test year residential gallons for ratesetting purposes and corresponding reductions of $986 for purchased power, $204 for purchased water, $143 for chemicals, and $63 for RAFs to reflect the anticipated repression. These adjustments result in a post repression revenue requirement of $906,941.

The recommended rate structures and monthly water 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 sheet 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

[14] Average person per household was obtained from www.census.gov/quickfacts/gulfcountyflorida.

Issue 18: What are the appropriate initial customer deposits for Lighthouse's water system?

Recommendation: The appropriate initial customer deposit should be $67 for the residential 5/8 inch by 3/4 inch meter size. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water. The approved initial customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding. (Bruce)

Staff Analysis: Rule 25-30.311, F.A.C., provides the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. An initial customer deposit ensures that the cost of providing service is recovered from the cost causer. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.[15] Currently, the Utility's initial deposit for residential and general service water is $25 for the 5/8 inch x 3/4 inch and 1 inch meter sizes and $50 for the 1 1/2 inch and 2 inch meter sizes. However, these amounts do not cover two months' average bills based on staff's recommended rates. The Utility's average monthly residential water usage after repression is 4,106 gallons per customer. Therefore, the average residential monthly bill based on staff's recommended rates is approximately $33.25.

Staff recommends the appropriate initial customer deposits should be $67 for the residential 5/8 inch x 3/4 inch meter size for water. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water. The approved initial customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding.

[15] Order Nos. PSC-2017-0428-PAA-WS, issued November 7, 2017, in Docket No. 20160195-WS, *In re: Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.* and PSC-17-0113-PAA-WS, issued March 28, 2017, in Docket No. 20130105-WS, *In re: Application for certificates to provide water and wastewater service in Hendry and Collier Counties, by Consolidated Services of Hendry & Collier, LLC.*

Issue 19: What is the appropriate amount by which rates should be reduced to reflect the removal of the amortized rate case expense, as required by Section 367.081(8), F.S.?

Recommendation: The water rates should be reduced, as shown on Schedule No. 4, to remove the annual amortization of rate case expense grossed-up for RAFs. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. Lighthouse 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, Norris)

Staff Analysis: The water rates should be reduced, as shown on Schedule No. 4, to remove the annual amortization of rate case expense grossed-up for RAFs. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period, pursuant to Section 367.081(8), F.S. Lighthouse 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 20: Should the Utility be required to notify, within 90 days of an effective order finalizing this docket, that is 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. Lighthouse 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 within seven days prior to deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (D. Andrews)

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. Lighthouse 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 within 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 21: Should this docket be closed?

Recommendation: No. 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, and the Utility has notified staff that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket should be closed administratively. (Schrader)

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, and the Utility has notified staff that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket should be closed administratively.

Lighthouse Utilities Company, Inc.
Schedule of Water Rate Base
Test Year Ended 12/31/18

Schedule No. 1-A
Docket No. 20190118-WU

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Staff Adjust-ments	Staff Adjusted Test Year
1	Plant in Service	$3,540,547	$994,000	$4,534,547	$136,039	$4,670,586
2	Land and Land Rights	0	0	0	0	0
3	Non-used and Useful Components	0	0	0	0	0
4	Accumulated Depreciation	(1,808,062)	(66,366)	(1,874,428)	(129,665)	(2,004,093)
5	CIAC	(2,482,733)	0	(2,482,733)	41,275	(2,441,458)
6	Amortization of CIAC	1,243,859	0	1,243,859	(5,256)	1,238,603
7	Working Capital Allowance	81,081	0	81,081	(8,954)	72,127
8	**Rate Base**	$574,692	$927,634	$1,502,326	$33,440	$1,535,766

Lighthouse Utilities Company, Inc. **Adjustments to Rate Base** **Test Year Ended 12/31/18**		**Schedule No. 1-B** **Docket No. 20190118-WU**
	Explanation	**Water**
	Plant In Service	
	To reflect audit adjustment to UPIS.	$136,039
	Accumulated Depreciation	
1	To reflect audit adjustments to accumulated depreciation.	($148,937)
2	To reflect appropriate pro forma accumulated depreciation.	19,272
	Total	($129,665)
	CIAC	
	To reflect audit adjustments to CIAC.	$41,275
	Accumulated Amortization of CIAC	
	To reflect audit adjustments to accumulated amortization of CIAC.	($5,256)
	Working Capital	
	To reflect the appropriate amount of working capital.	($8,954)

Lighthouse Utilities Company, Inc. **Schedule No. 2**
Capital Structure-Simple Average **Docket No. 20190118-WU**
Test Year Ended 12/31/18

	Description	Total Capital	Specific Adjust-ments	Subtotal Adjusted Capital	Prorata Adjust-ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility									
1	Debt	$843,383	$0	$843,383	$658,942	$1,502,325	100.00%	8.01%	8.01%
2	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
3	Common Equity	(401,976)	401,976	0	0	0	0.00%	0.00%	0.00%
4	Customer Deposits	0	0	0	0	0	0.00%	0.00%	0.00%
5	**Total Capital**	$441,407	$401,976	$843,383	$658,942	$1,502,325	100.00%		8.01%
Per Staff									
6	Debt	$843,383	$994,000	$1,837,383	($301,617)	$1,535,766	100.00%	8.01%	8.01%
7	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
8	Common Equity	(401,976)	401,976	0	0	0	0.00%	10.55%	0.00%
9	Customer Deposits	0	0	0	0	0	0.00%	0.00%	0.00%
10	**Total Capital**	$441,407	$1,395,976	$1,837,383	($301,617)	$1,535,766	100.00%		8.01%

	LOW	HIGH
RETURN ON EQUITY	9.55%	11.55%
OVERALL RATE OF RETURN	8.01%	8.01%

Lighthouse Utilities Company, Inc.
Statement of Water Operations
Test Year Ended 12/31/18

Schedule No. 3-A
Docket No. 20190118-WU

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Staff Adjust-ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$728,696	$255,652	$984,348	($227,078)	$757,270	$154,963 20.46%	$912,233
	Operating Expenses							
2	Operation & Maintenance	$648,651	$23,638	$672,289	($71,263)	$601,026	$0	$601,026
3	Depreciation	32,434	66,366	98,800	(11,573)	87,227	0	87,227
4	Amortization	0	0	0	0	0	0	0
5	Taxes Other Than Income	66,738	26,244	92,982	1,009	93,991	6,973	100,964
6	Income Taxes	0	0	0	0	0	0	0
7	**Total Operating Expense**	747,823	116,248	864,071	(81,827)	782,244	6,973	789,218
8	**Operating Income**	($19,127)	$139,404	$120,277	($145,251)	($24,974)	$147,989	$123,015
9	**Rate Base**	$574,692		$1,502,326		$1,535,766		$1,535,766
10	**Rate of Return**	(3.33%)		8.01%		(1.63%)		8.01%

Lighthouse Utilities Company, Inc. **Schedule 3-B**
Adjustment to Operating Income **Docket No. 20190118-WU**
Test Year Ended 12/31/18

	Explanation	Water
	Operating Revenues	
1	Remove requested final revenue increase.	($284,800)
2	To reflect the appropriate amount of annualized revenues.	57,722
	Total	($227,078)
	Operation and Maintenance Expense	
1	To reflect audit adjustments.	($43,970)
2	To reflect amortization of hurricane expenses.	5,685
2	To reflect amortization of permit renewal expense.	2,290
3	To reflect EUW adjustment to purchased power.	(3,498)
4	To reflect EUW adjustment to chemicals.	(557)
5	To reflect 12 months of rent.	1,547
6	To reduce number of directors to four.	(40,000)
7	To increase purchased power in relation to pro forma projects.	4,572
8	To increase chemicals in relation to pro forma projects.	2,295
9	To reflect appropriate rate case expense for current docket.	373
	Total	($71,263)
	Depreciation Expense - Net	
1	To reflect audit adjustments to depreciation expense.	$6,396
2	To reflect audit adjustments to CIAC amortization expense.	1,303
3	To reflect appropriate pro forma depreciation expense.	(19,272)
	Total	($11,573)
	Taxes Other Than Income	
1	RAFs on revenue adjustments above.	($10,219)
2	To reflect audit adjustment to RAFs.	(1,294)
3	To reflect audit adjustments to remove filing fee.	(1,000)
4	To reflect property taxes on pro forma plant.	13,522
	Total	$1,009

LIGHTHOUSE UTILITIES COMPANY, INC.					Schedule No. 4
TEST YEAR ENDED 12/31/2018					DOCKET NO. 20190118-WU
MONTHLY WATER RATES					
	RATES AT TIME OF FILING (A)	UTILITY CURRENT RATES (A) (1)	UTILITY PROPOSED RATES (A)	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
Residential and General Service					
Base Facility Charge by Meter Size					
5/8" x 3/4"	$14.72	$14.99	$19.90	$19.28	$0.54
3/4"	N/A	N/A	N/A	$28.92	$0.81
1"	$22.09	$22.50	$29.87	$48.20	$1.34
1-1/2"	$36.82	$37.50	$49.79	$96.40	$2.68
2"	$73.62	$74.99	$99.54	$154.24	$4.29
3"	$117.80	$119.99	$159.28	$308.48	$8.59
4"	$235.60	$239.98	$318.56	$482.00	$13.42
6"	$368.12	$374.97	$497.75	$964.00	$26.84
8"	$1,325.24	$1,349.89	$1,791.90	$1,735.20	$48.31
10"	$2,135.10	$2,174.81	$2,886.93	$2,795.60	$194.30
Charge per 1,000 Gallons - Residential and General Service	$3.60	$3.67	$4.87		
Charge per 1,000 Gallons - Residential					
0-4,000 gallons				$3.36	$0.09
Over 4,000 gallons				$5.04	$0.14
Charge per 1,000 gallons - General Service				$4.17	$0.12
Typical Residential 5/8" x 3/4" Meter Bill Comparison					
2,000 Gallons	$21.92	$22.33	$29.64	$26.00	
4,000 Gallons	$29.12	$29.67	$39.38	$32.72	
6,000 Gallons	$36.32	$37.01	$49.12	$42.80	

(A) The rates for the one inch through six inch meter sizes are incorrect due to meter factors. This error was made in the Utility's last rate case and has been corrected on a prospective basis with staff's recommended rates.

(1) The Utility's current rates are a result of a price index effective November 6, 2019.