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DANIEL PEREZ
*Speaker of the House of
Representatives*

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VIA: ELECTRONIC FILING

Adam Teitzman
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Docket No. 20250075-WU – Application for staff-assisted rate case in Citrus County, by Citrus Waterworks, Inc. (CWI or Utility).

Dear Mr. Teitzman:

The intent of this letter is to advise the Commission Staff of the Office of Public Counsel's (OPC) observations and recommendations, based on a review of the Staff Report issued September 30, 2025, and the Staff Audit Report issued July 17, 2025.

Issue 3 – Excessive Unaccounted for Water

On page 7 of the Staff Report, it states, in pertinent part, the following:

Staff recommends that there is 23.1 percent excessive unaccounted for water (EUW). However, staff's recommendation is preliminary; therefore, no adjustment for EUW is being recommended at this time.

The OPC would note that a 23.1% EUW adjustment to purchase power and chemical would be a reduction of \$1,470 and \$27, respectively. Correspondingly, it would reduce working capital by \$187.

Issue 7 – Salaries and Wages - Employees Expense

On page 29, Schedule No. 3-C reflects \$2,500 for Account 601 – Salaries and Wages – Employees. As reflected on Schedule F-2 of the Utility's 2024 Annual Report, the \$2,500 amount

is actually the salary for CWI's President and Owner which should be recorded in Account 603 – Salaries and Wages – Officers, Directors, and Majority Stockholders as shown on Schedule W-3 of the same annual report. Based on a prior Commission decision, this salary level is overstated. By Order No. PSC-2024-0046-PAA-WS,¹ this Commission set the total owner's salary for all U.S. Water-affiliated systems of \$159,034. According to Royal Waterworks, Inc.'s response dated December 18, 2023, to Staff's Fourth Data Request in Docket No. 20230081-WS, the breakdown of the ERCs for all jurisdictional and non-jurisdictional systems by the Owner was provided.² This information reflected that CWI had 149.5 ERCs and total ERCs for all systems was 12,643. As such, CWI's 1.18% (149.5/12,643) share of the \$159,034 amount is \$1,881. Applying the Commission's 2024 Price Index 3.24% to the \$1,881 yields \$1,941. Based on the above, the President's and Owner's salary should be reduced by \$559 (\$2,500 - \$1,941). Correspondingly, the working capital allowance should be reduced by \$70.

Also, as reflected on Schedule F-4 of the Utility's 2024 Annual Report, Account 241.6 – Officer Salaries' balance of \$208 should be reduced accordingly. Further, to the extent any amount in this account was treated as common equity, common equity should be reduced as well.

Issue 7 – Bad Debt Expense

On pages 13-14 of the Staff Report, it states, in pertinent part, the following:

Bad Debt Expense (670)

Citrus recorded a bad debt expense of \$2,040 for the test year. Staff notes that it is Commission practice to calculate bad debt expense using a three-year average when the information is available. In response to staff's second data request, the Utility provided the bad debt amounts of (\$292), \$757, and \$2,040 for 2022, 2023, and 2024, respectively. Based on this information, Staff calculated a three-year average bad debt expense \$521, which represents a decrease of \$1,205. Therefore, staff recommends a bad debt expense of \$835.

(Footnotes omitted and Underlined emphasis added) The OPC would note that the three-year average of the bad debt amounts of (\$292), \$757, and \$2,040 for 2022, 2023, and 2024, respectively, is \$835 not the \$521 amount reflected on page 14 of the Staff Report.

Rule 25-30.115, Florida Administrative Code (F.A.C.), states, the following:

¹ See Order No. PSC-2024-0046-WS, pages 14-15, issued February 22, 2024, in Docket No. 20230081-WS, *In re: Application for increase in water and wastewater rates in Broward County by Royal Waterworks, Inc.* This PAA Order become final and effective through Consummating Order No. PSC-2024-0070-CO-WS, issued March 18, 2024.

² Document No. 06645-2023 - <https://www.floridapsc.com/pscfiles/library/filings/2023/06645-2023/06645-2023.pdf>.

25-30.115 Uniform System of Accounts for Water and Wastewater Utilities.

Water and wastewater utilities shall, effective January 1, 1998, maintain their accounts and records in conformity with the 1996 NARUC Uniform Systems of Accounts adopted by the National Association of Regulatory Utility Commissioners, which is incorporated by reference in this rule. All inquiries related to the interpretation of these uniform systems of accounts shall be submitted to the Commission's Division of Accounting and Finance in writing. Note: The National Association of Regulatory Utility Commissioners published separate uniform systems of accounts for three classes of water and wastewater utilities: Class A (defined as those having annual water or wastewater operating revenues of \$1,000,000 or more); Class B (defined as those having annual water or wastewater operating revenues of \$200,000 or more but less than \$1,000,000); Class C (defined as those having annual water or wastewater revenues of less than \$200,000). Copies of these systems of accounts may be purchased from the office of said Association, Publications, National Association of Regulatory Utility Commissioners, 1101 Vermont Avenue, N.W., Suite 200, Washington, D.C. 20005, at (202)898-2200, or at <http://www.naruc.org/about.cfm?c=staff>.

Rulemaking Authority 367.121(1)(b), (f) FS. Law Implemented 367.121(1)(b) FS. History—New 2-3-70, Amended 9-12-74, 1-2-79, 8-21-79, 9-25-85, Formerly 25-10.04, 25-10.004, Amended 8-17-96.

(Underlined emphasis added)

As reflected in the Official Audit Workpaper 6.1, Preliminary Fieldwork Procedure B is to “[determine if the utility uses the USOA for the proper class utility.” (Underline emphasis added) On page 2 of the Staff Audit Report, it states, in pertinent part, the following:

...

Definitions

Utility refers to Citrus Waterworks, Inc.

The test year for this proceeding is the historical twelve months ended December 31, 2024.

NARUC refers to the National Association of Regulatory Utility Commissioners.

USoA refers to the NARUC Uniform System of Accounts as adopted by Rule 25-30.115 Uniform System of Accounts for Water and Wastewater Utilities, Florida Administrative Code (F.A.C.)

....

Utility Books and Records

Objectives: The objective was to determine whether the Utility maintains its books and records in conformity with the NARUC USOA.

Procedures: We reviewed the Utility's accounting system by examining the records provided for this proceeding and determined that the Utility's books are in substantial compliance with the NARUC USOA. The Utility is a Class C utility, but utilizes the USOA Class B accounts, which are more detailed and are acceptable by the Commission.

(Underlined emphasis added)

First, it is the OPC's understanding that neither the Commission nor its Staff can waive Rule 25-30.115, F.A.C. or any other Commission rule on their own. To the extent this aspect of the report and audit are modifying or waiving conformity with this rule, it would be improper. Second, there are numerous accounting instructions and chart of accounts differences between the NARUC USOA for a Class B and Class C water utility. For example, the capitalization threshold for a Class B and Class C water utility is \$400 and \$150, respectively. As such, the Utility could have expensed items from \$150 to \$399.99, which should have been capitalized and that might not have been on the Audit Staff's radar given their acquiescence to the Utility's utilization of the NARUC USOA for Class B water utility.

As to the treatment of bad debt expense, fortunately, the Class B and Class C USOA for Bad Debt Expense -Account 670 is the identical and as follows:

670. Bad Debt Expense

This account shall be charged with amounts sufficient to provide for losses from uncollectible utility revenues. Concurrent credits shall be made to account 143.

Given the NARUC USOA above, the bad debt expense for any given year can never be negative. The Utility could have collected a certain amount of previously charged off bad debt from a prior period and recorded enough credit to make Account 670 a negative. For the collection of a certain amount of previously charged off from a prior period, the correct journal entry should be a debit to Cash – Account 131 and a credit to Retained Earnings – Account 215. Thus, the negative \$292 amount for 2022 used in the Staff's average is inappropriate as discussed above. Also, by doing so, it would capture activity from 2021 and thus skew the three-year average further.

The OPC recognizes that the Commission's practice has relied on a 3-year year average for bad debt expense but also recognizes the Commission has used alternative methods to determine a reasonable rate setting level for bad debt expense. The OPC would note that the Commission has excluded similar anomalous amounts in a three-year average to determine bad debt expense.³ Also, the OPC would note that the Commission has previously approved 1% of total revenues to determine bad debt expense for water and wastewater utilities.⁴ The average bad debt to sales in 2022 for the utility industry was 0.41%.⁵ Further to this point, as reflected on page 19 of the Staff Report, customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. With the initial customer deposit ensuring that the cost of providing service is recovered from the cost causer and with any approved rate increases in this case, the resulting customer deposit increases should minimize the level of bad debt expense in the future.

As calculated by Staff already in the "Bad Debt" tab of Excel file named "Citrus SARC Worksheet Staff Report," the OPC recommends that bad debt expense be reduced by \$1,474, which is the difference between the Utility's test year amount of \$2,040 and \$566 (1% of test year revenues). The \$1,474 adjustment represents an additional reduction of \$269 to the Staff Report reduction of \$1,205.

Schedule Nos. 1-A and 3-A

The per Utility book amounts should not deviate from the Staff Audit Report and the Staff Report in a SARC. The OPC would note the per Utility capital structure amount in Schedule No. 2 on page 26 of the Staff Report matches the amount in Exhibit 2 on page 13 from the Staff Audit Report issued July 17, 2025. However, the per Utility rate base and NOI amounts in Schedule Nos. 1-A and 3-A, respectively, on pages 24 and 27 of the Staff Report do not match the rate base and NOI amounts in Exhibits 1 and 3, respectively, on pages 12 and 14 of the Staff Audit Report. For rate base, the specific non-rounding rate base component discrepancy is with the amount for CIAC, whereas Schedule No. 1-A reflects (\$24,313) and Exhibit 1 reflects (\$25,178). For NOI, the specific non-rounding NOI component discrepancy is with the amount for taxes other than income (TOTI), whereas Schedule No. 3-A reflects \$2,925 and the Exhibit 3 reflects \$2,951. For transparency purposes, the OPC urges the Commission Staff to provide reconciliatory explanation for the difference in its per Utility rate base and NOI amounts in its recommendation scheduled to be filed on December 23, 2025.

³ See Order No. PSC-2010-0168-PAA-SU, p. 10, issued March 23, 2010, in Docket No. 20090182-SU, *In re: Application for increase in wastewater rates in Pasco County by Ni Florida, L.L.C.*

⁴ See Order Nos. PSC-2020-0168-PAA-WS, p. 18, issued May 22, 2020, in Docket No. 20190166-WS, *In re: Application for increase in water rates in Highlands County by HC Waterworks, Inc.*, and PSC-2017-0334-PAA-WS, p. 16, issued August 23, 2017, in Docket No. 20160222-WS, *In re: Application for staff-assisted rate case in Highlands County by LP Waterworks, Inc.*

⁵ <https://www.highradius.com/finsider/how-good-is-bad-debt/#:~:text=Bad%20debt%20across%20utility%20companies,face%20pressure%20on%20their%20receivables.>

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Conclusion

In conclusion, the OPC respectfully requests the Commission Staff and the Commission consider the observations and recommendations noted above.

Respectfully submitted,

/s/ *Bart Fletcher*

Bart Fletcher
Legislative Analyst