

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 22, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Vogel, Mouring)
Division of Economics (Thompson, Hudson)
Division of Engineering (Watts, King)
Office of the General Counsel (Tan)

Handwritten initials and signatures: "ALM", "TDS", "AT", and various other initials in blue and purple ink.

RE: Docket No. 140147-WS – Application for staff-assisted rate case in Sumter County by Jumper Creek Utility Company.

AGENDA: 10/02/14 – Regular Agenda – Decision on Interim Rates – Participation is at the Discretion of the Commission

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: 10/05/14 (60-Day Suspension Date)

SPECIAL INSTRUCTIONS: None

Case Background

Jumper Creek Utility Company (Jumper Creek or Utility) is a Class C utility providing water and wastewater service to approximately 43 water and wastewater customers in Sumter County. Effective June 5, 2014, Jumper Creek was granted water Certificate No. 667-W and wastewater Certificate No. 570-S.¹ Jumper Creek's rates have never been established for ratemaking purposes by the Commission.

On August 6, 2014, Jumper Creek filed its application for a staff-assisted rate increase. In its application, the Utility requested a test year ended June 30, 2014 for purposes of interim and final rates purposes.

This recommendation addresses the Utility's interim rates. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

¹ See Order No. PSC-14-0299-PAA-WS, issued June 11, 2014, in Docket No. 130176-WS, In re: Application for approval of transfer of certain water and wastewater facilities and Certificate Nos. 507-W and 441-S of Aqua Utilities Florida, Inc. to Jumper Creek Utility Company in Sumter County.

Discussion of Issues

Issue 1: Should any interim revenue increases be approved?

Recommendation: Yes, Jumper Creek should be authorized to collect annual revenues as indicated below:

	Adjusted Test Year Revenues	\$ Increase	Revenue Requirement	% Increase
Water	\$13,078	\$10,942	\$24,020	83.67%
Wastewater	\$18,624	\$374	\$18,998	2.01%

(Vogel)

Staff Analysis: On August 6, 2014, Jumper Creek filed rate base, cost of capital, and operating statements to support an interim increase in water and wastewater rates. While Jumper Creek provided this financial data, it is not required for a Class C utility seeking interim relief. Pursuant to Section 367.082(1), F.S., in order to establish a prima facie entitlement for interim relief, the utility shall demonstrate that it is earning outside the range of reasonableness on its rate of return. Pursuant to Section 367.081(2)(a), F.S., in a proceeding for an interim increase in rates, the Commission shall authorize, within 60 days of the filing for such relief, the collection of rates sufficient to earn the minimum of the range of rate of return. Based on the Utility's filing, staff believes that Jumper Creek has demonstrated a prima facie entitlement in accordance with Section 367.082(1), F.S.

Pursuant to Section 367.082(5)(b)1, F.S., the achieved rate of return for interim purposes must be calculated by applying appropriate adjustments consistent with those made in a utility's most recent rate proceeding. As mentioned in the case background, Jumper Creek's rates have never been established by the Commission. The Utility's reported rate bases are negative for both water and wastewater. Staff has attached accounting schedules to illustrate the calculated rate bases, capital structure, and test year operating income amounts. Rate bases for water and wastewater are labeled as Schedule Nos. 1-A and 1-B, and capital structure is labeled as Schedule No. 2. Operating incomes for water and wastewater are labeled as Schedule Nos. 3-A and 3-B.

In a proceeding for an interim increase in rates, the Commission shall authorize, within 60 days of the filing for such relief, the collection of rates sufficient to earn the minimum of the range of rate of return calculated in accordance with Section 367.082(5)(b)2, F.S. The Utility requested the use of the operating ratio methodology. Due to the negative rate bases, staff believes the increase in interim rates should result in an increase of revenues only to cover the operating expenses incurred. Thus, staff recommends the appropriate interim revenue requirement should be \$24,020 for water and \$18,998 for wastewater. This represents an interim increase in revenues of \$10,942 (or 83.67 percent) for water and \$374 (or 2.01 percent) for wastewater. This increase will allow the Utility the opportunity to recover its operating expenses.

Issue 2: What are the appropriate interim water and wastewater rates?

Recommendation: The existing service rates for Jumper Creek should be increased by 93.16 percent for water and 2.01 percent for wastewater to generate the recommended revenue increase for the interim period. The rates, as shown on Schedule Nos. 4-A and 4-B, should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code (F.A.C.). The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. In addition, the approved rates should not be implemented until the required security has been filed, 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. (Thompson, Vogel)

Staff Analysis: Staff recommends that interim service rates for Jumper Creek be designed to allow the utility the opportunity to generate annual operating revenues of \$24,020 for water and \$18,998 for wastewater. Before removal of miscellaneous revenues, this would result in an increase of \$10,942 (83.67 percent) for water and \$374 (2.01 percent) for wastewater. To determine the appropriate increase to apply to the service rates, miscellaneous revenues should be removed from the test year revenues. There are no miscellaneous revenues for wastewater. The calculation is as follows:

Table 3-1

	<u>Water</u>	<u>Wastewater</u>
1 Total Test Year Revenues	\$13,078	\$18,624
2 Less: Miscellaneous Revenues	<u>\$1,332</u>	<u>\$0</u>
3 Test Year Revenues from Service Rates	\$11,746	\$18,624
4 Revenue Increase	<u>\$10,942</u>	<u>\$374</u>
5 % Service Rate Increase (Line 4/Line 3)	93.16%	2.01%

The interim rate increase of 93.16 percent for water and 2.01 percent for wastewater should be applied as an across-the-board increase to the existing 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. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved interim rates. In addition, the approved rates should not be implemented until the required security has been filed, 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 3: What is the appropriate security to guarantee the interim increase?

Recommendation: The Utility should be required to open an escrow account or secure a surety bond or letter of credit to guarantee any potential refund of revenues collected under interim conditions. If the security provided is an escrow account, the Utility should deposit \$944 into the escrow account each month. Otherwise, the surety bond or letter of credit should be in the amount of \$7,546. Pursuant to Rule 25-30.360(6), F.A.C., the Utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and in accordance with Rule 25-30.360, F.A.C. (Vogel, Archer)

Staff Analysis: Pursuant to Section 367.082, F.S., revenues collected under interim rates shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by the Commission. As recommended in Issue 1, the interim increase for water and wastewater is \$11,316. In accordance with Rule 25-30.360, F.A.C., staff calculated the potential refund of revenues and interest collected under interim conditions to be \$7,546. This amount is based on an estimated eight months of revenue being collected under the recommended interim rates shown on Schedule No. 4.

The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Jumper Creek was purchased in 2013,² and the Utility only has one year of financial statements. Staff requires three years of financial statements for determining if the Utility has the financial capability to support a corporate undertaking. Staff recommends Jumper Creek be required to secure a surety bond, letter of credit, or escrow agreement to guarantee any potential refunds of water and wastewater revenues.

If the security provided is an escrow account, said account should be established between the Utility and an independent financial institution or the Division of Treasury for the Florida Department of Financial Services pursuant to a written escrow agreement. The Commission should be a party to the written escrow agreement and a signatory to the escrow account. The written escrow agreement should state the following: the account is established at the direction of the Commission for the purpose set forth above; no withdrawals of funds shall occur without the prior approval of the Commission through the Commission Clerk, Office of Commission Clerk; the account shall be interest bearing; information concerning that escrow account shall be available from the institution to the Commission or its representative at all times; the amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt; and, pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla 3d DCA 1972), escrow accounts are not subject to garnishments.

If the security provided is an escrow account, the Utility should deposit \$944 into the escrow account each month. The escrow agreement should also state that if a refund to the

² See Order No. PSC-14-299-PAA-WS, issued June 11, 2014, in Docket No. 130176-WS, In re: Application for approval of Transfer of certain water and wastewater facilities and Certificate Nos. 507-W and 441-S of Aqua Utilities Florida, Inc. to Jumper Creek Utility Company in Sumter County.

customers is required, all interest earned on the escrow account should be distributed to the customers, and if a refund to the customers is not required, the interest earned on the escrow account should revert to the Utility.

If the security provided is a surety bond or a letter of credit, said instrument should be in the amount of \$7,546. If the Utility chooses a surety bond as security, the surety bond should state that it will be released or terminated only upon subsequent order of the Commission. If the Utility chooses to provide a letter of credit as security, the letter of credit should state that it is irrevocable for the period it is in effect and that it will be in effect until a final Commission order is rendered releasing the funds to the Utility or requiring a refund.

Regardless of the type of security provided, the Utility should keep an accurate and detailed account of all monies it receives. Pursuant to Rule 25-30.360(6), F.A.C., the Utility should provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, F.A.C.

In no instance should maintenance and administrative costs associated with any refund be borne by the customers. Such costs are the responsibility of, and should be borne by, the Utility.

Issue 4: Should this docket be closed?

Recommendation: No. The docket should remain open pending the Commission's final action on the Utility's requested rate increase. (Tan)

Staff Analysis: The docket should remain open pending the Commission's final action on the Utility's requested rate increase.

JUMPER CREEK UTILITY COMPANY		SCHEDULE NO. 1-A	
TEST YEAR ENDED 06/30/2014		DOCKET NO. 140147-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$511,881	\$0	\$511,881
LAND & LAND RIGHTS	2,272	0	2,272
NON-USED AND USEFUL COMPONENTS	(59,655)	0	(59,655)
ACCUMULATED DEPRECIATION	(151,208)	0	(151,208)
CIAC	(157,236)	0	(157,236)
AMORTIZATION OF CIAC	38,790	0	38,790
ACQUISITION ADJUSTMENT	(208,895)	0	(208,895)
ACCUMULATED DEPRECIATION - AA	20,066	0	20,066
WORKING CAPITAL ALLOWANCE	<u>2,436</u>	<u>(17)</u>	<u>2,419</u>
WATER RATE BASE	<u>(\$1,549)</u>	<u>(\$17)</u>	<u>(\$1,566)</u>

JUMPER CREEK UTILITY COMPANY		SCHEDULE NO. 1-B	
TEST YEAR ENDED 06/30/2014		DOCKET NO. 140147-WS	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$389,284	\$0	\$389,284
LAND & LAND RIGHTS	18,722	0	18,722
NON-USED AND USEFUL COMPONENTS	(128,851)	0	(128,851)
ACCUMULATED DEPRECIATION	(126,101)	0	(126,101)
CIAC	(221,828)	0	(221,828)
AMORTIZATION OF CIAC	54,724	0	54,724
ACQUISITION ADJUSTMENT	(104,855)	0	(104,855)
ACCUMULATED DEPRECIATION - AA	1,139	9,376	10,515
WORKING CAPITAL ALLOWANCE	<u>3,055</u>	<u>(17)</u>	<u>3,038</u>
WASTEWATER RATE BASE	<u>(\$105,335)</u>	<u>(\$17)</u>	<u>(\$105,352)</u>

JUMPER CREEK UTILITY COMPANY ADJUSTMENTS TO RATE BASE TEST YEAR ENDED 06/30/2014		SCHEDULE NO. 1-C DOCKET NO. 140147-WU	
Explanation		Water	Wastewater
<u>Amortization of Acquisition Adjustment</u>			
To reflect appropriate amount of amortization.		<u>\$0</u>	<u>\$9,376</u>
<u>Working Capital Allowance</u>			
To reflect 1/8 of test year O&M expenses.		<u>(\$17)</u>	<u>(\$17)</u>

JUMPER CREEK UTILITY COMPANY SCHEDULE OF CAPITAL STRUCTURE TEST YEAR ENDED 6/30/2014						SCHEDULE NO. 2 DOCKET NO. 140147-WS		
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 Long-term Debt	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	22,379	0	22,379	(125,751)	(103,372)	96.72%	8.74%	8.45%
5 Customer Deposits	760	0	760	(4,271)	(3,511)	3.28%	2.00%	0.07%
6 Deferred Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
7 Total Capital	<u>\$23,139</u>	<u>\$0</u>	<u>\$23,139</u>	<u>(\$130,022)</u>	<u>(\$106,883)</u>	<u>100.00%</u>		<u>8.52%</u>
Per Staff								
8 Long-term Debt	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
9 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11 Common Equity	22,379	0	22,379	(125,784)	(103,405)	96.71%	8.74%	8.45%
12 Customer Deposits	760	0	760	(4,273)	(3,513)	3.29%	2.00%	0.07%
13 Deferred Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
14 Total Capital	<u>\$23,139</u>	<u>\$0</u>	<u>\$23,139</u>	<u>(\$130,057)</u>	<u>(\$106,918)</u>	<u>100.00%</u>		<u>8.52%</u>
						LOW	HIGH	
RETURN ON EQUITY						<u>7.74%</u>	<u>9.74%</u>	
OVERALL RATE OF RETURN						<u>7.55%</u>	<u>9.49%</u>	

JUMPER CREEK UTILITY COMPANY SCHEDULE OF WATER OPERATING INCOME TEST YEAR ENDED 6/30/2014				SCHEDULE NO. 3-A DOCKET NO. 140147-WS	
Description	Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$13,078</u>	<u>\$0</u>	<u>\$13,078</u>	<u>\$10,942</u> 83.67%	<u>\$24,020</u>
Operating Expenses					
2 Operation & Maintenance	\$19,353	\$0	\$19,353	\$0	\$19,353
3 Depreciation	27,094	0	27,094	0	27,094
4 Amortization	(27,447)	0	(27,447)	0	(27,447)
5 Taxes Other Than Income	4,528	0	4,528	492	5,020
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7 Total Operating Expense	<u>\$23,528</u>	<u>\$0</u>	<u>\$23,528</u>	<u>\$492</u>	<u>\$24,020</u>
8 Operating Income	<u>(\$10,450)</u>		<u>(\$10,450)</u>		<u>\$0</u>
9 Rate Base	<u>(\$1,566)</u>		<u>(\$1,566)</u>		<u>(\$1,566)</u>
10 Operating Ratio					<u>0.00%</u>

JUMPER CREEK UTILITY COMPANY SCHEDULE OF WASTEWATER OPERATING INCOME TEST YEAR ENDED 6/30/2014				SCHEDULE NO. 3-B DOCKET NO. 140147-WS	
Description	Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$18,624</u>	<u>\$0</u>	<u>\$18,624</u>	<u>\$374</u> 2.01%	<u>\$18,998</u>
Operating Expenses					
2 Operation & Maintenance	\$24,302	\$0	\$24,302	\$0	\$24,302
3 Depreciation	12,467	0	12,467	0	12,467
4 Amortization	(21,843)	0	(21,843)	0	(21,843)
5 Taxes Other Than Income	4,055	0	4,055	17	4,072
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7 Total Operating Expense	<u>\$18,981</u>	<u>\$0</u>	<u>\$18,981</u>	<u>\$17</u>	<u>\$18,998</u>
8 Operating Income	<u>(\$357)</u>		<u>(\$357)</u>		<u>\$0</u>
9 Rate Base	<u>(\$105,352)</u>		<u>(\$105,352)</u>		<u>(\$105,352)</u>
10 Operating Ratio					<u>0.00%</u>

JUMPER CREEK UTILITY COMPANY TEST YEAR ENDED JUNE 30, 2014 MONTHLY WATER RATES		SCHEDULE NO. 4-A DOCKET NO. 140147-WS
	UTILITY EXISTING RATES	STAFF RECOMMENDED INTERIM
<u>Residential and General Service</u>		
Base Facility Charge - All Meter Sizes	\$25.25	\$48.77
Charge per 1,000 Gallons - Residential and General Service		
0-10,000 Gallons	\$0.00	\$0.00
Over 10,000 Gallons	\$2.52	\$4.87
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>		
3,000 Gallons	\$25.25	\$48.77
5,000 Gallons	\$25.25	\$48.77
10,000 Gallons	\$25.25	\$48.77

JUMPER CREEK UTILITY COMPANY TEST YEAR ENDED JUNE 30, 2014 MONTHLY WASTEWATER RATES		SCHEDULE NO. 4-B DOCKET NO. 140147-WS
	UTILITY EXISTING RATES	STAFF RECOMMENDED INTERIM
<u>Residential and General Service</u>		
Flat Rate	\$40.44	\$41.25
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>		
3,000 Gallons	\$40.44	\$41.25
5,000 Gallons	\$40.44	\$41.25
10,000 Gallons	\$40.44	\$41.25