

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: November 29, 2018

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Bethea, Hudson)
Division of Accounting and Finance (Brown, Wilson)
Division of Engineering (Graves, Lewis)
Office of the General Counsel (Murphy, DuVal)

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RE: Docket No. 20180063-WS – Application for limited proceeding rate increase in Polk County by Orchid Springs Development Corporation.

AGENDA: 12/11/18 – Regular Agenda – Proposed Agency Action – Except Issue Nos. 3 and 4 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Polmann

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

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Case Background

Orchid Springs Development Corporation (Orchid Springs or utility) is a Class C utility providing service to approximately 336 water and wastewater customers in Polk County. Effective July 7, 1998, Orchid Springs was granted Certificate Nos. 600-W and 516-S.¹ The utility's rates and charges were last approved in a staff-assisted rate case (SARC) in 2015.² The utility has filed two index and pass-through applications since its last rate case. According to

¹Order No. PSC-98-0918-FOF-WS, issued July 7, 1998, in Docket No. 970158-WS, *In re: Application for grandfather certificate to operate a water and wastewater utility in Polk County, by Orchid Springs Development Corporation.*

²Order No. PSC-15-0569-PAA-WS, issued December 16, 2015, in Docket No. 140239-WS, *In re: Application for staff-assisted rate case in Polk County by Orchid Springs Development Corporation.*

Docket No. 20180063-WS

Date: November 29, 2018

Orchid Springs' 2017 annual report, total gross revenues were \$101,959 for water and \$210,342 for wastewater. Total operating expenses were \$104,567 for water and \$238,576 for wastewater.

On May 11, 2018, Orchid Springs filed for a limited proceeding to avoid costs associated with a full rate proceeding. The utility is seeking to include additional plant investment and recover additional operation and maintenance costs that have occurred since its last rate case. A customer meeting was held June 19, 2018, in Winter Haven, Florida. Approximately 65 customers were in attendance, including Orchid Springs representatives. Nine customers spoke at the meeting and several customer comments were received after the meeting. On June 27, 2018, Orchid Springs filed a document that responded to all customer concerns from the meeting.

This recommendation addresses Orchid Springs' proposed rates. The Commission has jurisdiction pursuant to Sections 367.081 and 367.0822, Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Should the Commission approve the utility's request for a limited proceeding?

Recommendation: The Commission should approve the utility's request for a limited proceeding rate increase as modified by staff. Orchid Springs should be allowed an annual increase of \$7,822 (8.35 percent) for water, resulting in an adjusted revenue requirement of \$101,489. For wastewater, the utility should be allowed an annual increase of \$23,837 (11.73 percent), resulting in an adjusted revenue requirement of \$227,066. The adjusted revenue requirements are reflected on Schedule Nos. 3-A and 3-B. (Brown, Lewis, Wilson)

Staff Analysis: Limited proceedings generally address specific or significant changes that would adversely affect the normal operating income of the utility and are usually narrow in scope. Staff believes that Orchid Springs' case as filed is sufficiently narrow in scope to qualify for a limited proceeding. Staff also believes that Orchid Springs has met all the minimum filing requirements as set forth in Rule 25-30.445, Florida Administrative Code (F.A.C.).

Secondary Water Quality Standards

Pursuant to Rule 25-30.445(4)(o), F.A.C., utilities are required to provide a copy of all customer complaints that it received regarding Florida Department of Environmental Protection (DEP) secondary water quality standards during the past five years as well as a copy of the utility's most recent secondary water quality standards test results. The utility did not receive any customer complaints regarding DEP secondary water quality standards during the past five years. Additionally, documentation provided by Orchid Springs indicates that the utility is currently passing secondary standards.

Staff also reviewed complaints received by the Commission for the period January 1, 2013 through November 28, 2018. For the stated period, the Commission received three customer complaints. None of the complaints received by the Commission addressed the quality of Orchid Springs' product.

A customer meeting was held June 19, 2018, in Winter Haven, Florida. At the customer meeting, a total of nine customers spoke. Three of the customers expressed displeasure with the taste or smell of the water. Other concerns raised at the meeting addressed the requested rate increase. As of November 28, 2018, four customers filed written comments in this docket. All four customers expressed concern with the rate increase. One of the four comments additionally addressed a billing concern as well as an odor, present during a time when the utility was working in the area, that lasted less than two hours.

As previously discussed, Orchid Springs has provided the necessary information to comply with Rule 25-30.445(4)(o), F.A.C. Based on review of the information provided by the utility, as well as additional information gathered throughout the course of this docket, staff does not believe any actions need to be taken with respect to secondary standards. Staff additionally notes, the overall quality of service for the Orchid Springs' water system was considered satisfactory in the utility's last rate case. Because this review is part of a limited proceeding, staff would likely recommend initiating a subsequent proceeding, i.e., a show cause proceeding, if further action was warranted.

Rate Base

Since its last SARC, the utility made several capital improvements to its water and wastewater systems and requested that they be included in rate base as part of this proceeding. The appropriate plant additions, as well as corresponding adjustments to accumulated depreciation, depreciation expense, and taxes other than income (TOTI) are reflected below. The staff-recommended additions to plant are supported by invoices for the completed work. In addition, as a result of recommended changes to operating expense, the utility’s working capital allowance should also be updated.

Plant Additions

In its initial filing, Orchid Springs requested consideration of several capital additions to its water and wastewater systems. In response to a staff data request, the utility stated that both the water and wastewater systems are 49 years old and are in need of repairs and refurbishment. Concerns regarding the age of Orchid Springs’ systems and the need for frequent repairs was recognized by the Commission in the 2014 SARC. Based on information provided by the utility, the items requested in this proceeding address equipment that either failed or was in need of replacement due to age.

In total, the utility is requesting an increase of \$32,531 for water system additions and \$16,723 for wastewater system additions. Staff reviewed Orchid Springs’ filing, utility responses to data requests, and the 2014 SARC order and recommends that several adjustments to the utility’s requested capital additions are necessary. Table 1-1 summarizes the plant additions requested by the utility and the amount staff recommends be allowed for cost recovery in this proceeding.

**Table 1-1
 Summary of Requested and Recommended Plant Additions**

Project Name	Amount Requested	Amount Recommended
Water:		
Water Meter Replacement	\$13,097	\$8,209
Flow Meter Replacement	3,926	3,926
Fire Hydrant Replacement	4,975	4,975
Well Pump Replacement	<u>10,533</u>	<u>10,533</u>
Total Water	<u>\$32,531</u>	<u>\$27,643</u>
Wastewater:		
Lift Station Pump Repair	\$4,980	\$4,980
Manhole Renovation	10,843	805
Engineering for Collection System	<u>900</u>	<u>0</u>
Total Wastewater	<u>\$16,723</u>	<u>\$5,785</u>
Total Water and Wastewater	<u>\$49,254</u>	<u>\$33,428</u>

Only the lift station pump repair contains a retirement. The adjustment for the retirement is reflected in Schedule No. 1-C. Based on the plant additions described above, staff believes the following corresponding adjustments should also be made.

**Table 1-2
Corresponding Adjustments**

System	Accum. Dep.	Dep. Expense	TOTI
Water	(\$1,458)	\$1,458	\$498
Wastewater	\$3,620	\$115	\$37

Staff's adjustments to accumulated depreciation are shown in Schedule No. 1-C, while adjustments for depreciation expense and TOTI are reflected in Schedule No. 3-C.

As previously stated, staff's review considered the utility's 2014 SARC. In the 2014 SARC, the utility requested and was granted recovery of \$69,170 for wastewater pro forma plant. Of the \$69,170, approximately \$10,000 was for miscellaneous repairs that occurred in the first five months of 2015. With respect to the miscellaneous repairs, Commission Order No. PSC-15-0569-PAA-WS, specifically states:

All of the work included in this category was performed in the first five months of 2015, and included manhole repairs, parts for lift stations, stump removal and backfilling, and repairs to wastewater collection lines.

Thus, staff believes that wastewater costs that were incurred within the first five months of 2015 should not be recovered in this proceeding. Excluding recovery of these costs prevents the potential allowance of costs already being recovered by the utility. Disallowance of these costs is reflected in staff's recommended amount for the Engineering for Collection System and the Manhole Renovation projects. For the remaining items, staff's recommended amount is based on invoices provided by the utility. Staff notes that the summation of the actual invoice amounts for the meter replacements was less than the amount requested by the utility.

Working Capital Allowance

Working capital is defined as the short-term, investor-supplied funds that are necessary to meet operating expenses of the utility. Consistent with Rule 25-30.433(3), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Staff recommended several adjustments to O&M expense which result in increases to O&M expenses of \$5,235 for water and \$21,262 for wastewater. These adjustments are discussed in the "Operating Expense" section of this recommendation. Staff also removed the unamortized balance of rate case expense pursuant to Section 367.081(9), F.S.³ Applying the formula, staff recommends a working capital allowance of \$9,526 (\$76,211/8) for water, based on the adjusted O&M expense of \$76,211 (\$80,059 - \$3,848). Further, staff recommends a working capital allowance of \$23,132 (\$185,059/8) for wastewater, based on the adjusted O&M expense of \$185,059 (\$188,501 - \$3,442). These amounts represent incremental increases of \$173 for water and \$2,227 for wastewater.

³Section 367.081(9), F.S., which became effective July 1, 2016, states, "A utility may not earn a return on the unamortized balance of the rate case expense. Any unamortized balance of rate case expense shall be excluded in calculating the utility's rate base." Therefore, staff excluded rate case expense from the working capital calculations.

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate rate base is \$61,055 for water and \$118,837 for wastewater. Rate base is shown on Schedule Nos. 1-A and 1-B. The related adjustments are shown on Schedule No. 1-C.

Rate of Return

The capital structure used to determine the cost of capital in this docket is consistent with the capital structure used in the utility's last rate case. Rule 25-30.445(4)(e), F.A.C., requires that the weighted average cost of capital be calculated based on the most recent 12-month period and include all of the appropriate capital structure components. Staff used the equity cost rate of 9.38 percent from the utility's last rate case as well as the minimum 2.00 percent cost rate for customer deposits pursuant to Rule 25-30.311(4)(a), F.A.C. Staff notes that the utility's 2017 Annual Report reflects negative retained earnings of \$492,629. Staff reviewed the conditions during the utility's last rate case and identified the existence of negative retained earnings in that docket. In that docket, staff removed negative retained earnings from its calculations. Consistent with the utility's last rate case, staff has removed that amount for purposes of calculating the utility's rate of return. Staff anticipates that in subsequent rate cases, the appropriateness of including any negative retained earnings and netting this amount against the utility's other equity components will be addressed.

The utility's capital structure has been reconciled with staff's recommended rate bases. Staff recommends a return on equity (ROE) of 9.38 percent, with a range of 8.38 percent to 10.38 percent, and an overall rate of return of 8.03 percent. The ROE and overall rate of return are shown on Schedule No. 2.

Operating Expense

Orchid Springs requested that the Commission approve increased operating expenses related to land maintenance, purchased wastewater treatment, purchased emergency water, and salaries. The utility also requested recovery of rate case expense. Staff has addressed each of the utility's requests below. Staff has also included corresponding adjustments to depreciation expense and TOTI based on the plant additions recommended in "Rate Base." The corresponding adjustments are reflected in Schedule No. 3-C.

Land Maintenance

In its application, Orchid Springs included a request for the recovery of \$6,000 per year (\$500 per month) associated with maintenance of land occupied by the utility's decommissioned wastewater plant. The utility currently pays \$6,000 per year for 12 months of land maintenance. The utility is required to maintain the land per county Ordinance No. 08-047 and Section 223 of the Polk County Land Development Code. The utility indicated that it is unable to sell the land in its current condition. In order to sell the land, rehabilitation costs would be incurred. The utility asserts that those rehabilitation costs would exceed the land's potential value.⁴

⁴Document No. 04990-2018, filed July 31, 2018.

In response to a staff data request, the utility provided a bid from Prince & Sons, Inc. to illustrate the reasonableness of the \$6,000 being requested.⁵ The bid reflects yearly maintenance expense of \$15,000 (\$1,500/month x 10 months). While staff believes it is appropriate for the utility to recover the costs associated with maintaining this land with its current provider, it does not agree with the frequency of the maintenance. A review of the utility’s test year ledger revealed that the utility paid for eleven months of land maintenance in 2017 and, during the first six months of 2018, paid for five months. In addition, the Prince & Sons, Inc. bid reflected that land maintenance would occur only ten times during the year. As such, staff believes that the land maintenance expense should occur ten times throughout the year. Accordingly, staff recommends land maintenance expense of \$5,000 (\$500/month x 10 months), which is reflected in wastewater Account No. 763 (Repairs and Maintenance).

Purchased Wastewater Treatment Service

The utility purchases wastewater treatment service from the City of Winter Haven. In the utility’s prior SARC, \$117,987 was included for purchased wastewater expense during the test year. According to the utility, the City of Winter Haven’s wastewater treatment rates are typically adjusted in October, but the Commission did not adjust test year expenses for the 2015 known change. Purchased wastewater treatment costs for 2015 were \$130,975, as reflected in the utility’s annual report. While the utility has filed its index and pass-through rate adjustments in 2016 and 2017, the utility asserts the adjustment in bulk rates must be addressed here. Staff notes that the utility’s annual reports reflect purchased wastewater treatment expense of \$142,226 in 2016 and \$141,989 in 2017. As such, the utility argued that it continues to experience a substantial shortfall on recovery of purchased wastewater treatment costs and requested additional wastewater treatment service expense of \$17,976. The utility’s calculations are shown in Table 1-3.

**Table 1-3
 Requested Purchased Wastewater Treatment Adjustment**

Approved in last rate case	\$117,987
Add: 2016 Pass-Through	\$3,648
2017 Pass-Through	<u>\$2,378</u>
Total	<u>\$124,013</u>
Expense (2017 Annual Report)	<u>\$141,989</u>
Utility's requested adjustment	<u>\$17,976</u>

While staff believes an adjustment to purchased wastewater treatment service should be made, staff disagrees with the utility’s calculation. Staff reviewed the utility’s SARC increases as well as City of Winter Haven billing for 2017. Staff calculated the utility’s 2017 purchased wastewater treatment expense as \$137,778 using 2017 actual billing. As such, staff believes purchased wastewater treatment expense from the last rate case should be increased by \$13,765 as reflected in Table 1-4 below.

⁵Document No. 05051-2018, filed August 2, 2018.

**Table 1-4
 Recommended Purchased Wastewater Treatment Adjustment**

Approved in last rate case	\$117,987
Add: 2016 Pass-Through	\$3,648
2017 Pass-Through	<u>\$2,378</u>
Total	<u>\$124,013</u>
Expense (Actual 2017)	<u>\$137,778</u>
Staff's recommended adjustment	<u>\$13,765</u>

Purchased Emergency Water

The utility operates a water plant with one well and has an interconnect with the City of Winter Haven to provide backup water supply as needed. The utility initially requested recovery of purchased water cost when it became necessary to operate the interconnection during the failure of the well pump in 2017. The City of Winter Haven, the contract operator of the water and wastewater systems, was able to order a new pump and ultimately replace it. According to the utility, the well was out of service during August and September 2017, during which time approximately 1,602,506 gallons of water was purchased at a cost of \$9,373.

In response to a staff data request, the utility noted two additional events during the first half of 2018 when the utility was required to purchase water from the City of Winter Haven through the emergency interconnect for a few days in January and in June. On January 20, 2018, the well was required to be taken offline to repair a damaged pressure switch. The switch was repaired and placed back in service on January 24, 2018. The utility was required to purchase 407,000 gallons of water, at a cost of \$2,463, during this period to allow for the repair. On June 2, 2018, there was an electrical issue which burned up a starter and required that the well be taken offline. This was repaired and placed back in service on June 5, 2018. The utility was required to purchase 321,000 gallons of water, at a cost of \$1,937, during this period to allow for the repair. As such, the utility has requested recovery of purchased water expense of \$13,773. The utility used a 5-year amortization period, resulting in purchased water expense of \$2,755 as shown in Table 1-5.

**Table 1-5
 Requested Purchased Emergency Water Adjustment**

Date	Cost
08/08/17 - 09/06/17	\$9,373
01/20/18 - 01/24/18	\$2,463
06/02/18 - 06/05/18	<u>\$1,937</u>
Total	<u>\$13,773</u>
Amortized Expense (\$13,773/5 years)	<u>\$2,755</u>

Source: Document Nos. 02162-2018 and 04990-2018.

As part of the utility's response to a staff data request in October, the utility altered its request to amortize purchased emergency water over five years and opted instead to request that the

average expense for the years 2010 through 2018 be utilized in this case.⁶ The resulting average purchased water expense is \$4,063. The utility claims that using the average “provides a more accurate picture of the expected average expense in the future for rate setting.”⁷ While staff sees the value of utilizing a multi-year average, the utility did not appear to make an argument to average purchased water expense in its last rate case. If it had done so at that time, the average expense for a five-year period from 2010 through 2014, or some portion of that period, could have been discussed. Instead, the Commission approved purchased water expense of \$1,082, which reflected recorded purchased water for 2014, less a 5.8 percent excessive unaccounted for water (EUW) adjustment. Staff believes that the appropriate period for review in the instant docket is 2015 through 2018.

Based on the discussion above, the utility’s emergency water purchases were each related to unique events associated with failed equipment which has since been replaced. Therefore, staff does not believe that the emergency water purchases during 2017 and 2018 are necessarily indicative of emergency water purchases going forward. Staff notes that since the last repair was made in June 2018, the utility has not had any additional purchased emergency water.⁸ As such, staff believes that emergency purchased water should be recovered and amortized over a five-year period. As stated previously, the Commission approved purchased water expense of \$1,082 per year in the utility’s last rate case. Any adjustment here would need to take into account what the Commission included for purchased water in the last rate case. In that docket, the Commission also applied an adjustment of 5.8 percent for excessive unaccounted for water which would also need to be applied to any additional purchased emergency water recommended here. According to the prior order, the utility purchases water from the City of Winter Haven for emergency purposes only. Using the billing data provided by the utility, staff notes that the purchased water associated with the 2017 outage was \$10,310, not the \$9,373 originally proposed by the utility. Staff also verified the purchased water associated with the 2018 outages and noted no changes. Actual billing data reflected total purchased water of \$10,536 for 2017 and \$4,639 for the first six months of 2018. These amounts include the emergency purchased water discussed above. Staff’s calculations appear in the table below.

**Table 1-6
 Recommended Purchased Emergency Water Adjustment**

Description	2017	2018 (YTD)	Total
Actual Purchased Water	\$10,536	\$4,639	
Less: Purchased Water from Last Rate Case	<u>(1,082)</u>	<u>(1,082)</u>	
Appropriate Add’l Purchased Water	<u>\$9,454</u>	<u>\$3,557</u>	
Less: EUW (5.8%)	<u>(548)</u>	<u>(206)</u>	
Recommended Add’l Purchased Water	<u>\$8,906</u>	<u>\$3,351</u>	<u>\$12,257</u>
Amortized (5 years)	<u>\$1,781</u>	<u>\$670</u>	<u>\$2,451</u>

Source: Staff workpapers, Order No. PSC-15-0569-PAA-WS, and utility responses to data requests.

⁶Document No. 06966-2018, filed November 2, 2018.

⁷Document No. 06966-2018.

⁸Document No. 06966-2018.

Staff recommends purchased emergency water expense of \$12,257 which, amortized over five years, would be \$2,451 per year.

Salaries

In its filing, the utility requested a salary of \$40,000 for the manager and \$30,000 for the president of Orchid Springs Development Corporation. The utility argues that while salary was addressed in its last rate case, the salary approved by the Commission is insufficient to compensate for work performed managing the day to day operation of the utility, especially given the age and condition of the systems. Moreover, the utility alleges that Commission staff is inconsistent in the methodology it uses to establish salary levels for utility managers and presidents.

Staff notes that the requested salary increases represent an increase of 159 percent for the manager and 188 percent for the president from salaries approved in the last rate case. In the instant docket, the utility was asked by staff to address what job duties and requirements have changed for the positions since the last rate case. According to the utility, the following changes support the increases in salaries:

1. Because of the age of the system and as a result of work done in 2016, the manager and president have spent a great deal of time determining how to keep the system viable.
2. The sewer collection system is beyond the end of its useful life and will require a significant investment in capital. In its current condition and age, it already requires significantly higher maintenance cost incurred and overseen by these individuals daily to keep utility in compliance with DEP regulations.
3. The manager and president are working on putting together a phased capital improvement plan which will require close collaboration with a civil engineer to design each phase and provide specifications for each phase in order to put the jobs out to bid.
4. The manager and president also will be required to work with financial institutions to put financing in place as well as work with choosing a utility contractor in order to institute a long-term, phased rehabilitation plan.⁹

Staff reviewed the position descriptions provided by the utility in the last rate case and believes that many of the “new” duties were actually part of the position descriptions reviewed previously. In addition, staff believes the age and condition of the systems do not represent new information. In fact, an argument can be made that the age and condition referenced by the utility are what necessitated the interconnection for wastewater services with the City of Winter Haven as well as the \$69,170 in pro forma plant approved by the Commission in the last rate case. Similarly, staff believes that the job descriptions associated with previously approved salaries already encompass the additional job functions used to support the salary increase here. Staff notes that the job description for Officer (president) in the last rate case included the following: determine operating and capital expenditures, coordinate and implement long range strategic planning of both water and sewer capital improvements, and acquire funding for the utility as needed.¹⁰ The description associated with the Operations Manager in the last rate case included

⁹Document No. 04990-2018.

¹⁰Document No. 04731-2015, filed July 28, 2015.

those for a project manager of renovations (schedule, supervise, and perform testing of sewer lines; evaluate testing, and meet with civil engineer).¹¹ It is also important to note that the City of Winter Haven provides system maintenance and repairs for the water and wastewater systems, performs all wastewater treatment, and provides emergency purchased water.

In a letter summarizing the utility's response to customers, the utility stated,

The utility has not sought any increases in salaries. It has requested only that it be allowed to recover the existing costs for the reasonable salaries of necessary employees. The utility requests recognition of salaries for a small number of employees whose salaries are directly related to the work necessary to continue to operate the utility in an efficient manner in conformance with many state, county and federal standards. The Florida PSC must review these proposed costs based on customary salaries for similar positions at other companies in our area.¹²

In the same letter, Orchid Springs also stated, "the utility cannot reasonably be compared to other utilities as there are significant differences between utilities including, but not limited to, age of plant and equipment, the number of customers, and capacity." While the utility was addressing a comparison of its rates to those of the City of Winter Haven, staff believes the same argument can be made for the comparison of salaries across utilities. In fact, staff believes there is no one size fits all when it comes to establishing the appropriate level of water and wastewater salaries. There are numerous factors that need to be addressed, including what job duties and responsibilities are being fulfilled by utility employees as well as by others contracted by the utility. It is also important to look at the operations of each system to determine the level of contractual services used and whether the utility performs its own treatment services or if it is a reseller. In Orchid Springs' case, the utility has interconnected with the City of Winter Haven for emergency water service and all of its wastewater treatment. Under this contract, the City of Winter Haven functions as the contract operator for the water and wastewater systems and performs some system maintenance and repairs for both systems.

Staff does not follow the utility's claim that requested salary adjustment is not an increase. Staff notes that the Commission-authorized salaries were set in the last rate case only after careful review of the utility's operating conditions. In that docket, the Commission reviewed salaries in light of the duties and responsibilities at that time, as well as the utility's change in operations. These considerations were part of the very analysis performed by the Commission in the utility's SARC that led to the salaries currently in place. Staff believes that the conditions that existed then remain unchanged. Based on the discussion above, staff does not believe that the utility has provided sufficient justification for increasing salaries at this time.

Rate Case Expense

Orchid Springs initially submitted \$15,000 in rate case expense, with an annual amortization expense of \$3,750.¹³ In response to a staff data request, the utility provided updated rate case

¹¹Document No. 04731-2015.

¹²Document No. 06114-2018, filed September 18, 2018.

¹³Document No. 02162-2018, filed March 7, 2018.

expense showing actual rate case expense and an estimate of expenses through the completion of the docket.¹⁴ The update reflected actual expenses of \$9,695 for legal and \$2,050 for the utility’s rate consultant through June 2018 with an additional \$10,495 in estimated rate case expense. The breakdown of fees is shown below.

**Table 1-7
 Actual and Estimated Rate Case Expense**

Expense	Utility Actual	Utility Estimated	Total Actual & Est. RCE
Legal Services & Fees (Sundstrom & Mindlin)	\$9,695	\$6,675	\$16,370
Consulting Services	2,050	3,500	5,550
Travel	<u>0</u>	<u>320</u>	<u>320</u>
Total	<u>\$11,745</u>	<u>\$10,495</u>	<u>\$22,240</u>

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

Legal Services

The first adjustment relates to the utility’s legal fees. Orchid Springs included \$16,370 in legal fees and costs to complete this limited proceeding. The utility provided invoices from Sundstrom & Mindlin, LLP (Sundstrom) through June 2018, showing actual expenses associated with the rate case totaling \$9,695, and estimated an additional \$6,675 to complete. These amounts included 27.7 hours of actual time and an estimate that an additional 17.5 hours would be required to complete the limited proceeding. Staff’s adjustments to legal fees focus on Sundstrom’s estimate to complete, which included 3.5 hours to “review the audit report and assist client and consultant in preparing response to issues raised” and \$550 for copying and miscellaneous costs and fees.¹⁵ Since no audit was conducted in this docket and no corresponding response would have been necessary, staff believes that 3.5 hours, or \$1,225 (3.5 hrs. x \$350/hr.) should be removed from the estimate to complete. Staff recommends 14 hours (17.5 hours – 3.5 hours) for the attorney’s estimate to complete. No additional detail was provided to explain what miscellaneous costs and fees might be expected through completion of the docket. As such, staff believes \$550 in estimated costs and fees should also be removed for lack of support. Accordingly, staff believes that the appropriate amount of legal fees is \$14,595, a total reduction of \$1,775 (\$1,225 + \$550).

Consulting Services

The next adjustment relates to the utility’s consulting fees. The utility requested actual consulting services expense of \$2,050 for services rendered by Gary Morse through June 2018, and requested an additional \$3,500 as part of the consultant’s estimate to complete. In support of its

¹⁴Document No. 04990-2018, filed July 31, 2018, and support documentation included in Document No. 05051-2018, filed August 2, 2018.

¹⁵Document No. 05051-2018.

actual costs, the utility provided four invoices.¹⁶ Staff notes that the submitted invoices provided the actual hours worked, a brief description of the activities that took place, and reflected the resulting amount due. Based on the support provided, staff believes that the actual expense is reasonable. However, staff believes that adjustments to the estimate to complete are necessary. The consultant's estimate to complete includes 35 hours at \$100 per hour. Staff believes that the requested number of hours is excessive, especially since the attorney's estimate to complete included only 17.5 hours. In addition, the estimate to complete includes time "to review inquiries from auditors and staff" and for "review of the audit report and assist in responding to same and preparation of documents for such response." As noted above, no staff audit was conducted in this docket and no audit report was produced. As such, a response from the utility would not be necessary. While there was an outstanding data request when the estimate to complete was provided, staff anticipates that the utility and its attorney, not the consultant, would be responsible for the bulk of any required response. In the absence of a detailed breakdown by hour and task, staff believes the consultant's estimated hours should be limited to the same number of hours recommended for the attorney above. Staff reduced the utility's requested amount for consulting services by 21 hours, or \$2,100 (21 hours x \$100/hr.). Accordingly, staff believes that the appropriate amount of consulting fees is \$3,450, a reduction of \$2,100.

Travel

Staff made no adjustments to the requested travel expense of \$320 as it appears reasonable. The requested travel expense reflects hotel costs for two people for one night each and meals for each person to attend the Commission Conference. The utility has estimated hotel costs of \$125 per room per person and \$35 for meals per person. Staff believes the room rate is reasonable and notes that the amount requested for meals is in line with the allowance provided for State of Florida employees.

Noticing Costs & Filing Fee

Orchid Springs did not reflect the \$2,000 filing fee or the costs associated with copying and mailing the required notices. According to the docket file, the utility paid the \$2,000 filing fee (\$1,000 for water and \$1,000 for wastewater) on April 19, 2018.¹⁷ The utility is required by Rule 25-30.446, F.A.C., to provide notices of the customer meeting and notices of final rates in this case to its customers. Staff is also recommending that the utility be required to provide notice of the four-year rate reduction to its customers when the rates are reduced to remove the amortized rate case expense. For noticing, staff estimated \$465 for postage expense, \$248 for printing expense, and \$47 for envelopes. This results in \$760 (\$465 + \$248 + \$47) for the noticing requirement.

Rate Case Summary

In summary, staff believes that Orchid Springs' total rate case expense should be decreased by \$3,875 for unsupported and unreasonable rate case expense. Staff also believes that rate case expense should be increased by \$2,000 to reflect the filing fee paid by the utility and by \$760 to reflect the costs associated with noticing requirements. Given these adjustments, the appropriate total rate case expense should be \$21,125, which amortized over four years would be \$5,281 per

¹⁶Document No. 05051-2018.

¹⁷Document No. 03060-2018, filed April 19, 2018.

year. Staff has allocated the annual rate case expense to the water and wastewater systems based on the equivalent residential connections, resulting in annual rate case expense of \$2,784 for water and \$2,497 for wastewater. A breakdown of rate case expense is as follows:

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

Expense	Utility Act. & Est.	Staff Adjustment	Staff Rec. Total RCE
Legal Services & Fees (Sundstrom & Mindlin)	\$16,370	(\$1,775)	\$14,595
Consulting Services	5,550	(2,100)	3,450
Travel	320	0	320
Noticing Costs & Filing Fee	0	2,760	2,760
Total	<u>\$22,240</u>	<u>(\$1,115)</u>	<u>\$21,125</u>

Operating Expenses Summary

Staff's recommended adjustments result in operating expenses of \$93,836 for water and \$217,523 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The adjustments are shown on Schedule No. 3-C.

Operating Margin

In Docket No. 140239-WS, the Commission found that the application of the operating ratio methodology at a margin of 10.00 percent of O&M expense was appropriate for determining the water revenue requirement.¹⁸ Staff believes the same conditions continue to exist in the current docket. The utility has a water rate base of \$61,055 and net water O&M expenses of \$76,526,¹⁹ and therefore is a candidate for the operating ratio method of calculating revenue requirement for water. Orchid Springs is a Class C utility and the recommended water revenue requirement of \$101,489 is substantially below the threshold level for Class B status (\$200,000 per system). The utility is built out and there is no potential for future growth. Therefore, the utility will not become a Class B utility in the foreseeable future.

In addition, the overall quality of service for the Orchid Springs' water system was considered satisfactory in the utility's last rate case. Based on review of the information provided by the utility, as well as additional information gathered throughout the course of this docket, staff does not believe any actions need to be taken with respect to secondary standards. While the current utility owner is a developer, staff notes that being developer-owned does not, in itself, disqualify a utility from the operating ratio method. The system is built out and was originally placed into service in 1972. In the last rate case, the Commission determined that there is no potential for future growth. Finally, Orchid Springs owns its water treatment plant, but interconnects with the City of Winter Haven for emergency back-up service.

¹⁸Order No. PSC-15-0569-PAA-WS, pp. 17-20.

¹⁹Staff is recommending O&M expense of \$80,059, but that amount was reduced by \$3,533 related to purchased water expense because it is not eligible for the operating margin. The \$3,533 is comprised of the \$1,082 approved in the last rate case and staff's recommended adjustment of \$2,451.

Staff calculated the revenue requirement and believes that the operating ratio method of revenue requirement calculation for the water system and the return on rate base revenue requirement calculation for the wastewater system place the utility in the best posture to cover the expenses necessary to provide reliable, quality service going forward. This methodology is consistent with the utility's last rate case.

Revenue Requirement

Staff recommends that the operating ratio method should be used to calculate the water revenue requirement. Using this methodology, Orchid Springs will have an operating margin of 10.00 percent, resulting in an annual increase of \$7,822 for water. Staff's water revenue requirement calculation is shown in Table 1-9 below:

**Table 1-9
Water Revenue Requirement**

Adjusted O&M Expense	\$76,526 ²⁰
Operating Margin (%)	<u>x 10.00%</u>
Operating Margin	\$7,653
O&M Expense	80,059
Depreciation Expense	6,741
Amortization	0
Taxes Other Than Income	<u>7,036</u>
Revenue Requirement	\$101,489
Less Adjusted Test Year Revenues	<u>93,667</u>
Annual Increase	<u>\$7,822</u>
Percent Increase	8.35%

²⁰The adjusted O&M expense amount was reduced by \$3,533 related to purchased water expense because it is not eligible for the operating margin.

Using the return on rate base methodology, staff believes an annual increase of \$23,837 (11.73 percent) for wastewater is appropriate. This will allow the utility the opportunity to recover its expenses and earn an 8.03 percent return on its wastewater investment. Staff's wastewater revenue requirement calculation is shown in Table 1-10 below:

Table 1-10
Wastewater Revenue Requirement

Adjusted Rate Base	\$118,837
Rate of Return	<u>x 8.03%</u>
Return on Rate Base	\$9,543
Adjusted O&M Expense	188,501
Depreciation Expense	3,650
Amortization	12,225
Taxes Other Than Income	<u>13,146</u>
Revenue Requirement	\$227,066
Less Adjusted Test Year Revenues	<u>203,229</u>
Annual Increase	<u>\$23,837</u>
Percent Increase	11.73%

Issue 2: What are the appropriate water and wastewater rates for Orchid Springs?

Recommendation: Staff recommends that the rate increase of 8.35 percent for water and 11.73 percent for wastewater should be applied as an across-the-board increase monthly to service rates. 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), 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 staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date that notice was given within 10 days of the date of the notice. (Bethea)

Staff Analysis: In the utility's last rate case, the revenue requirement increase was so minimal (.23 percent), the Commission found it appropriate from a rate stability perspective to maintain the existing water rate structure and rates until a future proceeding.²¹ The existing water rate structure consists of a base facility charge (BFC) and a uniform gallonage charge. The water BFC generates approximately 56 percent of the utility's existing water revenues. It has been Commission practice to set the BFC allocation no greater than 40 percent for water, unless there is seasonality and a concern for revenue stability. In addition, BFC allocations are lowered in order to design gallonage charges that send pricing signals to target discretionary usage. In order to assess the seasonality and usage patterns of a utility's customer base, staff relies on a billing analysis, which is a compilation of the utility's test year bills at each consumption level. In a limited proceeding docket, a billing analysis is not a filing requirement and was not provided.

In the utility's 1998 SARC, the approved BFC generated approximately 50 percent of the revenue requirement.²² In the 2014 SARC, the rate structure was not changed; however, the resulting BFC generated approximately 52 percent of the utility's revenues. In that case, the billing analysis reflected a seasonal customer base. In this proceeding, the BFC generates approximately 56 percent of the revenues. There appears to be an upward trend in the amount of revenues generated from the BFC, which further indicates a seasonal customer base. As a result, staff believes the existing BFC allocation is reasonable for water. In addition, the wastewater BFC generates approximately 49 percent of the revenues and is consistent with Commission practice. Therefore, in order to maintain revenue stability, staff recommends, remaining consistent with prior limited proceedings, an across-the-board increase should be applied to water and wastewater rates to produce additional service revenues of \$7,822 or a 8.35 percent increase for water and \$23,837 or a 11.73 percent increase for wastewater.

Based on the above, staff recommends that the rate increase of 8.35 percent for water and 11.73 percent for wastewater should be applied as an across-the-board increase monthly to service rates. 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), F.A.C. The utility should file revised tariff sheets and a proposed customer notice to reflect the

²¹Order No. PSC-15-0569-PAA-WS, issued December 16, 2016, in Docket No. 140239-WS, *In re: Application for staff-assisted rate case in Polk County by Orchid Springs Development Corporation.*

²²Order PSC-98-1579-FOF-WS, issued November 25, 1998, in Docket No. 980441-WS, *In re: Application for staff-assisted rate case in Polk County by Orchid Springs Development Corporation.*

Commission-approved rates. 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 that notice was given within 10 days of the date of the notice.

Issue 3: What is the appropriate amount by which rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense?

Recommendation: The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed-up for regulatory assessment fees (RAFs) and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.081(8), F.S. The utility 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 Orchid Springs 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. (Bethea, Brown, Wilson)

Staff Analysis: Orchid Springs' water and wastewater rates should be reduced immediately following the expiration of the four-year rate case expense recovery period by the amount of the rate case expense previously included in the rates, pursuant to Section 367.081(8), F.S. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs, which is \$2,915 for water and \$2,615 for wastewater. Using the utility's current revenues, expenses, and customer base, the reduction in revenues will result in the rate decrease shown on Schedule Nos. 4-A and 4-B. It should be noted that, in the utility's 2014 SARC, the Commission approved rate case expense grossed up for RAFS of \$1,125 for water and \$999 for wastewater. These amounts are still included in the balance of unamortized rate case expense in the current docket and are scheduled to be removed in January 2020.

Orchid Springs should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction. If Orchid Springs 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 4: Should the recommended rates be approved for Orchid Springs on a temporary basis, subject to refund, in the event of a protest filed by a substantially affected person or party?

Recommendation: Yes. The recommended rates should be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a substantially affected person or party. 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 temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the Commission Clerk's office no later than the 20th of every month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Brown, Wilson)

Staff Analysis: This recommendation proposes an increase in rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.081(2), F.S., which requires the Commission to “fix rates which are just, reasonable, compensatory, and not unfairly discriminatory,” and consistent with prior Commission orders,²³ in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. 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 temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by the utility should be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$21,421. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

²³Order No. PSC-2016-0505-PAA-WS, issued October 31, 2016, in Docket No. 150269-WS, *In re: Application for a limited proceeding water rate increase in Marion, Pasco, and Seminole Counties, by Utilities, Inc. of Florida*; Order No. PSC-09-0651-PAA-SU, issued September 28, 2009, in Docket No. 090121-SU, *In re: Application for limited proceeding rate increase in Seminole County by Alafaya Utilities, Inc.*; and Order No. PSC-10-0682-PAA-WS, issued November 15, 2010, in Docket No. 090349-WS, *In re: Application for limited proceeding rate increase in Polk County by Cypress Lakes Utilities, Inc.*

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

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

1. The letter of credit is irrevocable for the period it is in effect.
2. The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

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

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

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

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

Issue 5: Should this docket be closed?

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

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

ORCHID SPRINGS DEVELOPMENT CORPORATION		SCHEDULE NO. 1-A	
TEST YEAR ENDED 12/31/17		DOCKET NO. 20180063-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER 2014 SARC	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$282,444	\$27,643	\$310,087
LAND & LAND RIGHTS	1,682	0	1,682
ACCUMULATED DEPRECIATION	(258,783)	(1,458)	(260,241)
CIAC	(171,516)	0	(171,516)
AMORTIZATION OF CIAC	171,516	0	171,516
WORKING CAPITAL ALLOWANCE	<u>9,353</u>	<u>173</u>	<u>9,526</u>
WATER RATE BASE	<u>\$34,696</u>	<u>\$26,359</u>	<u>\$61,055</u>

ORCHID SPRINGS DEVELOPMENT CORPORATION		SCHEDULE NO. 1-B	
TEST YEAR ENDED 12/31/17		DOCKET NO. 20180063-WS	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER 2014 SARC	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$560,385	\$2,050	\$562,435
LAND & LAND RIGHTS	0	0	0
ACCUMULATED DEPRECIATION	(470,351)	3,620	(466,731)
CIAC	(302,109)	0	(302,109)
AMORTIZATION OF CIAC	302,109	0	302,109
WORKING CAPITAL ALLOWANCE	<u>20,905</u>	<u>2,227</u>	<u>23,132</u>
WASTEWATER RATE BASE	<u>\$110,940</u>	<u>\$7,897</u>	<u>\$118,837</u>

ORCHID SPRINGS DEVELOPMENT CORPORATION		SCHEDULE NO. 1-C	
TEST YEAR ENDED 12/31/17		DOCKET NO. 20180063-WS	
ADJUSTMENTS TO RATE BASE			
	<u>WATER</u>	<u>WASTEWATER</u>	
<u>UTILITY PLANT IN SERVICE</u>			
1. To reflect appropriate plant additions.	\$27,643	\$5,785	
2. To reflect retirement associated with plant additions.	<u>0</u>	<u>(3,735)</u>	
Total	<u>\$27,643</u>	<u>\$2,050</u>	
<u>ACCUMULATED DEPRECIATION</u>			
To reflect acc. dep. associated with plant additions.	<u>(\$1,458)</u>	<u>\$3,620</u>	
<u>WORKING CAPITAL ALLOWANCE</u>			
To reflect 1/8 of test year O & M expenses.	<u>\$173</u>	<u>\$2,227</u>	

ORCHID SPRINGS DEVELOPMENT CORPORATION							SCHEDULE NO. 2		
TEST YEAR ENDED 12/31/17							DOCKET NO. 20180063-WS		
SCHEDULE OF CAPITAL STRUCTURE									
CAPITAL COMPONENT	PER UTILITY	STAFF ADJUST-MENTS	TEST YEAR BALANCE PER STAFF	ADJUSTMENTS TO RECONCILE TO RATE BASE	RECONCILED CAPITAL STRUCTURE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON EQUITY	\$521,049	\$0	\$521,049	(\$384,393)	\$136,656	75.97%	9.38%	7.13%	
2. LONG-TERM DEBT	\$116,799	\$0	\$116,799	(\$86,166)	30,633	17.03%	4.50%	0.77%	
3. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%	
4. PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%	
5. CUSTOMER DEPOSITS	12,603	0	12,603	0	12,603	7.01%	2.00%	0.14%	
6. DEFERRED INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
7. TOTAL	<u>\$650,451</u>	<u>\$0</u>	<u>\$650,451</u>	<u>(\$470,559)</u>	<u>\$179,892</u>	<u>100.00%</u>		<u>8.03%</u>	
RANGE OF REASONABLENESS						LOW	HIGH		
RETURN ON EQUITY						<u>8.38%</u>	<u>10.38%</u>		
OVERALL RATE OF RETURN						<u>7.27%</u>	<u>8.79%</u>		

ORCHID SPRINGS DEVELOPMENT CORPORATION				SCHEDULE NO. 3-A		
TEST YEAR ENDED 12/31/17				DOCKET NO. 20180063-WS		
SCHEDULE OF WATER OPERATING INCOME						
	APPROVED IN 2014 SARC	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE		REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$93,667</u>	<u>\$0</u>	<u>\$93,667</u>	<u>\$7,822</u> 8.35%		<u>\$101,489</u>
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$74,824	\$5,235	\$80,059	\$0		\$80,059
3. DEPRECIATION	5,283	1,458	6,741	0		6,741
4. AMORTIZATION	0	0	0	0		0
5. TAXES OTHER THAN INCOME	6,186	498	6,684	352		7,036
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>		<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$86,293</u>	<u>\$7,191</u>	<u>\$93,484</u>	<u>\$352</u>		<u>\$93,836</u>
8. OPERATING INCOME/(LOSS)	<u>\$7,374</u>		<u>\$183</u>			<u>\$7,652</u>
9. WATER RATE BASE	<u>\$34,696</u>		<u>\$61,055</u>			<u>\$61,055</u>
10. OPERATING MARGIN	<u>10.00%</u>					<u>10.00%</u>

ORCHID SPRINGS DEVELOPMENT CORPORATION		SCHEDULE NO. 3-B				
TEST YEAR ENDED 12/31/17		DOCKET NO. 20180063-WS				
SCHEDULE OF WASTEWATER OPERATING INCOME						
	APPROVED IN 2014 SARC	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$203,229</u>	<u>\$0</u>	<u>\$203,229</u>	<u>\$23,837</u> 11.73%	<u>\$227,066</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$167,239	\$21,262	\$188,501	\$0	\$188,501	
3. DEPRECIATION (NET)	3,535	115	3,650	0	3,650	
4. AMORTIZATION	12,225	0	12,225	0	12,225	
5. TAXES OTHER THAN INCOME	12,037	37	12,074	1,073	13,146	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$195,036</u>	<u>\$21,414</u>	<u>\$216,450</u>	<u>\$1,073</u>	<u>\$217,523</u>	
8. OPERATING INCOME/(LOSS)	<u>\$8,193</u>		<u>(\$13,211)</u>		<u>\$9,543</u>	
9. WASTEWATER RATE BASE	<u>\$110,940</u>		<u>\$118,837</u>		<u>\$118,837</u>	
10. RATE OF RETURN	<u>7.39%</u>		<u>(11.13%)</u>		<u>8.03%</u>	

ORCHID SPRINGS DEVELOPMENT CORPORATION		SCHEDULE NO. 3-C	
TEST YEAR ENDED 12/31/17		DOCKET NO. 20180063-WS	
ADJUSTMENTS TO OPERATING INCOME			
	<u>WATER</u>	<u>WASTEWATER</u>	
OPERATION AND MAINTENANCE EXPENSES			
1. Purchased Water (610)			
a. To reflect appropriate amount of amort. emerg. purchased water.	<u>\$2,451</u>		<u>\$0</u>
2. Purchased Wastewater Treatment (710)			
a. To reflect appropriate purchased wastewater expense.	<u>\$0</u>	<u>\$13,765</u>	
3. Repairs and Maintenance (663/763)			
a. To reflect appropriate mowing expense for WWTP.	<u>\$0</u>	<u>\$5,000</u>	
4. Regulatory Commission Expense (665/765)			
To reflect appropriate amortized rate case expense.	<u>\$2,784</u>	<u>\$2,497</u>	
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$5,235</u>	<u>\$21,262</u>	
DEPRECIATION EXPENSE			
To reflect net depreciation expense associated with plant additions.	<u>\$1,458</u>	<u>\$115</u>	
TAXES OTHER THAN INCOME			
To reflect appropriate taxes associated with plant additions.	<u>\$498</u>	<u>\$37</u>	

ORCHID SPRINGS DEVELOPMENT CORPORATION		SCHEDULE NO. 4-A	
TEST YEAR ENDED 12/31/17		DOCKET NO. 20180063-WS	
MONTHLY WATER RATES			
	RATES AT TIME OF FILING	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$9.96	\$10.79	\$0.31
3/4"	\$14.94	\$16.19	\$0.47
1"	\$24.90	\$26.98	\$0.78
1-1/2"	\$49.80	\$53.95	\$1.55
2"	\$79.68	\$86.32	\$2.48
3"	\$159.36	\$172.64	\$4.96
4"	\$249.00	\$269.75	\$7.75
6"	\$498.00	\$539.50	\$15.50
Charge per 1,000 gallons - Residential and General Service	\$1.81	\$1.96	\$0.06
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
4,000 Gallons	\$17.20	\$18.63	
6,000 Gallons	\$20.82	\$22.55	
8,000 Gallons	\$24.44	\$26.47	

ORCHID SPRINGS DEVELOPMENT CORPORATION		SCHEDULE NO. 4-B	
TEST YEAR ENDED 12/31/17		DOCKET NO. 20180063-WS	
MONTHLY WASTEWATER RATES			
	RATES AT TIME OF FILING	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential</u>			
Base Facility Charge - All Meter Sizes	\$24.64	\$27.53	\$0.32
Charge Per 1,000 gallons			
6,000 gallon cap	\$5.88	\$6.57	\$0.08
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$24.64	\$27.53	\$0.32
3/4"	\$36.96	\$41.30	\$0.48
1"	\$61.60	\$68.83	\$0.79
1-1/2"	\$123.20	\$137.65	\$1.59
2"	\$197.12	\$220.24	\$2.54
3"	\$394.24	\$440.48	\$5.07
4"	\$616.00	\$688.25	\$7.93
6"	\$1,232.00	\$1,376.50	\$15.85
Charge per 1,000 gallons	\$7.00	\$7.82	\$0.09
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
4,000 Gallons	\$48.16	\$53.81	
6,000 Gallons	\$59.92	\$66.95	
8,000 Gallons	\$59.92	\$66.95	