

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in
Marion County, by East Marion Utilities, LLC.

DOCKET NO. 150257-WS
ORDER NO. PSC-17-0107-PAA-WS
ISSUED: March 24, 2017

The following Commissioners participated in the disposition of this matter:

JULIE I. BROWN, Chairman
ART GRAHAM
RONALD A. BRISÉ
JIMMY PATRONIS
DONALD J. POLMANN

NOTICE OF PROPOSED AGENCY ACTION ORDER
APPROVING RATE INCREASE FOR EAST MARION UTILITIES, LLC
AND
FINAL ORDER ON RECOVERY OF RATE CASE EXPENSES,
TEMPORARY RATES AND ACCOUNTING ADJUSTMENTS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission (Commission) that the actions discussed herein, except for the granting of temporary rates in the event of protest, the four year rate reduction, and proof of adjustment of books and records, are preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.). The granting of temporary rates in the event of a protest, the four year rate reduction, and the proof of adjustment of books and records are final agency actions and subject to reconsideration and appeal as described below under the heading, "NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW."

BACKGROUND

East Marion Utilities, LLC (East Marion or Utility) is a Class C utility serving approximately 103 water customers and 92 wastewater customers in Marion County. According to East Marion's 2014 annual report, East Marion had water and wastewater operating revenues of \$23,750 and \$35,522, respectively, and operating expenses of \$31,504 and \$37,071, respectively, resulting in net operating losses of \$7,754 and \$1,550. The last rate case for East

Marion was in 2002.¹ East Marion was transferred to new ownership by Order No. PSC-15-0576-PAA-WS.²

East Marion was originally certificated in 1987.³ In 1990 and 1997, there were transfers of majority organizational control.⁴ Currently, East Marion is owned by Mr. Michael Smallridge. Mr. Smallridge owns multiple small, Class C utilities in Florida. Florida Utility Services 1, LLC (FUS1) manages all of Mr. Smallridge's utilities.

In the instant docket, East Marion filed its application for a Staff Assisted Rate Case (SARC) on December 3, 2015. February 1, 2016 was established as the official filing date in this case.

We have jurisdiction in this case pursuant to Sections 367.011, 367.0812, 367.0814, 367.0816, 367.091, 367.101, and 367.121, F.S.

DECISION

Quality of Service

Pursuant to Rule 25-30.433(1), F.A.C., we must determine the overall quality of service provided by a utility in water and wastewater rate cases. In determining overall quality of service, we must evaluate three separate components of a utility's operations: (1) the quality of the utility's product; (2) the operating conditions of the utility's plant and facilities; and (3) the utility's attempt to address customer satisfaction. Rule 25-30.433, F.A.C., further provides that we consider sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department over the preceding three-year period. Input from DEP, health department officials, and customer comments or complaints are also considered. Additionally, Section 367.0812(1)(c), F.S., requires that we consider the extent to which the utility provides water service that meets secondary water quality standards as established by the DEP.

¹ Order No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS, *In re: Application for staff-assisted rate case in Marion County by East Marion Sanitary Systems, Inc.*

² Order No. PSC-15-0576-PAA-WS, issued December 21, 2015, in Docket No. 150091-WS, *In re: Application for approval of transfer of Certificate Nos. 490-W and 425-S from East Marion Sanitary Systems, Inc. to East Marion Utilities, LLC, in Marion County.*

³ Order No. 17837, issued July 7, 1987, in Docket No. 870389-WU, *In re: Application of East Marion Water Distribution, Inc. for a certificate to operate a water utility in Marion County, Florida.*

⁴ Order No. 24553, issued May 20, 1991, in Docket No. 900603-WS, *In re: Application for transfer of majority organizational control of East Marion Water Distribution, Inc. and East Marion Sanitary Systems, Inc. in Marion County from Penelope A. Wagner, trustee for the Estate of Eric E. Wagner, to Forest Lake Village – Del American Ltd., and Order No. PSC-98-0928-FOF-WS, issued July 7, 1998, in Docket No. 971269-WS, In re: Application for transfer of majority organizational control of East Marion Sanitary Systems, Inc. and East Marion Water Distribution, Inc. in Marion County from Del-American/First Federal of Osceola to Herbert Hein, and change in name on Certificate No. 490-W from East Marion Water Distribution, Inc. to East Marion Sanitary Systems, Inc.*

Quality of East Marion's Product

Our evaluation of East Marion's water quality consisted of a review of the Utility's compliance with the DEP primary and secondary drinking water standards and customer complaints regarding the water quality. Primary standards protect public health, while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water.

Our review of the most recent chemical analyses for East Marion's system, which was conducted on November 2, 2015, indicates that all results complied with DEP primary and secondary standards. Our staff also requested complaints filed with the DEP against East Marion for the test year and four years prior. DEP reported that no complaints regarding the quality of East Marion's product during the period requested. In addition, a review of this Commission's complaint records found no complaints regarding the quality of East Marion's product.

Based on our review, giving consideration to East Marion's current compliance with DEP standards, as well as the lack of customer complaints, we find that the quality of East Marion's product to be satisfactory.

Operating Conditions of East Marion's Plant and Facilities

Our evaluation of East Marion's facilities included a review of the Utility's compliance with DEP standards of operation. East Marion's water treatment system has one well rated at 250 gallons per minute (gpm). The water treatment processing sequence is to pump raw water from the aquifer, treat the water by injecting chlorine, pump it into a 6,000 gallon hydropneumatic pressurizing tank, and then through the distribution system which is composed of PVC pipe. For the water system, we reviewed East Marion's most recent DEP sanitary survey reports. DEP found no deficiencies and determined the system to be in compliance with its rules and regulations.

East Marion's wastewater treatment plant (WWTP), which has a rating of 50,000 gallons per day (gpd), uses extended aeration to treat wastewater. Effluent is disposed of through reuse to three rapid infiltration basins. DEP conducted an inspection on July 21, 2016, and reported deficiencies including discharge monitoring reports with missing, incomplete, or inconsistent data, a clarifier and contact chamber surfaces covered with sludge, and an infiltration basin containing excessive solids and vegetation. The operator subsequently resolved each of these deficiencies by August 25, 2016. DEP's compliance inspection report dated August 31, 2016, states that the operator is now in compliance.

At this time, we have not identified any issues or concerns with the operating condition of East Marion's water and wastewater treatment plants or its distribution and collection systems. Therefore, we find the operating condition of East Marion's plant and facilities to be satisfactory.

East Marion's Attempt to Address Customer Satisfaction

The final component of the overall quality of service that we must assess is customer satisfaction. As part of our evaluation of customer satisfaction, our staff held a customer meeting on October 4, 2016, to receive customer comments concerning East Marion's quality of service. Four customers attended the meeting and all spoke. Topics raised by customers included the odor and taste of the water, brown rings caused by the water, water pressure, and delays in a meter replacement.

East Marion stated that, during periods of line flushing, the pressure of the water might be low, as the lines are flushed weekly and the tank is flushed monthly in order to maintain acceptable levels of color and odor. As previously stated, East Marion was acquired by a new owner on January 9, 2015, and we approved the transfer on December 21, 2015.⁵ The new owner is working with the Florida Rural Water Association to determine the best way to address customer concerns relating to odor and taste through the addition of an aeration tank and addressing insufficient turnover in the existing tank. Recovery for the aeration tank addition and replacement of the existing tank, however, are not addressed in the instant case. Lastly, a customer stated that her meter had not been replaced as promised. East Marion replaced the customer's meter on October 25, 2016.

As previously stated above, our staff requested complaints filed against East Marion with DEP for the test year and the prior four years. DEP responded on August 4, 2016, stating that no complaints have been received in the five-year period. Finally, a review of this Commission's complaint records for the test year and the prior four years, did not reveal any complaints against East Marion during this period. Therefore, we find East Marion's attempt to address customer satisfaction to be satisfactory.

Conclusion

Based on our analysis and review described above, we find the overall quality of service provided by East Marion to be satisfactory.

Used & Useful (U&U)

East Marion's water system has one 6-inch diameter well rated at 250 gpm. Water from the well is treated with chlorine and pumped into a 6,000 gallon hydropneumatic tank for pressurization. There are no fire hydrants in East Marion's system. The Utility's distribution system consists of the following lengths and sizes of PVC pipe:

200 linear feet – 6 inch
8,450 linear feet – 4 inch
1,675 linear feet – 2 inch
375 linear feet – 1.5 inch

⁵ Order No. PSC-15-0576-PAA-WS.

East Marion's WWTP is permitted by the DEP for 50,000 gpd on an annual average daily flow basis. According to East Marion, the wastewater collection system includes 35 manholes and 2 lift stations. In addition, the wastewater collection system consists of the following sized components:

- 9,880 linear feet – 6 inch gravity main
- 950 linear feet – 4 inch gravity main
- 950 linear feet – 3 inch gravity main

Water Treatment Plant Used and Useful

Pursuant to Rule 25-30.4325(4), F.A.C., systems served by a single well are considered 100 percent U&U. East Marion has one well providing its water; therefore we find East Marion's water treatment plant to be 100 percent U&U.

Wastewater Treatment Plant Used and Useful

Pursuant to Rule 25-30.432, F.A.C., the U&U analysis of East Marion's wastewater treatment plant is based on the customer demand compared with the permitted plant capacity, with consideration also given for growth over a 5-year statutory period and excessive infiltration and inflow. In the Utility's last rate case, we found East Marion's wastewater treatment plant to be 7.5 percent U&U.⁶

The formula for calculating U&U for the wastewater treatment plant is (average daily flow + growth – excessive I&I) / permitted plant capacity. The average daily flow for East Marion is 12,000 gpd. The growth is calculated to be 0 gpd. As outlined below, there is no excessive infiltration and inflow. The permitted capacity of the plant is 50,000 gpd. Therefore, based upon our analysis, we find East Marion's wastewater treatment plant to be 24.0 percent U&U.

Water Distribution and Wastewater Collection Systems

The analysis of U&U for the water distribution system and wastewater collection system is based on the number of test year connections compared to the capacity of the system, with consideration given for growth over a 5-year statutory period. In its last rate case, we found that East Marion's water distribution and wastewater collection systems were 38.7 percent U&U.⁷

The formula for calculating U&U for the water distribution system is (number of test year connections + growth) / capacity of the system. East Marion had an average number of 101.5

⁶ Order No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS, *In re: Application for staff-assisted rate case in Marion County by East Marion Sanitary Systems, Inc.*

⁷ *Id.*

connections during the test year. Growth is obtained by the product of customer growth for the last five years using regression analysis and the statutory growth period. This calculation yields a growth of 0.7 gallons per minute. The capacity of the system is 179 equivalent residential connections (ERCs).

The formula for calculating U&U for the wastewater collection system is given by (test year connections + growth) / capacity of the system. There were an average of 92 ERCs in the test year. Growth is calculated to be 0 ERCs per year. The capacity of the system is 181 ERCs.

Based on our calculations, we find East Marion's water distribution system to be 58.7 percent U&U and its wastewater collection system to be 50.8 percent U&U.

Excessive Unaccounted for Water (EUW)

Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. When establishing the Rule, we recognized that some uses of water are readily measurable and others are not.⁸ Unaccounted for water is all water that is produced that is not sold, metered or accounted for in the records of the utility. The unaccounted for water is calculated by subtracting both the gallons used for other purposes, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year. Rule 25-30.4325, F.A.C., also provides that to determine whether adjustments to plant and operating expenses, such as purchased electrical power and chemical costs, are necessary, we will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible.

The monthly operating reports filed by East Marion with DEP indicate an unaccounted for water value of less than 10 percent. Therefore, since there appears to be no EUW to consider we find that no adjustments shall be made to operating expenses for chemicals and purchased water due to EUW.

Infiltration and Inflow (I&I)

Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, we must consider I&I. Typically, infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas inflow results from water entering a wastewater collection system through manholes or lift stations. The allowance for infiltration is 500 gpd per inch diameter pipe per mile, and an additional 10 percent of water sold is allowed

⁸ Order No. PSC-93-0455-NOR-WS, issued on March 24, 1993, in Docket No. 911082-WS, *In re: Proposed revisions to Rules 25-22.0406, 25-30.020, 25-30.025, 25-30.030, 25-30.032 through 25-30.037, 25-30.060, 25-30.110, 25-30.111, 25-30.135, 25-30.255, 25-30.320, 25-30.335, 25-30.360, 25-30.430, 25-30.436, 25-30.437, 25-30.443, 25-30.455, 25-30.515, 25-30.565; adoption of Rules 25-22.0407, 25-22.0408, 25-22.0371, 25-30.038, 25-30.039, 25-30.090, 25-30.117, 25-30.432 through 25-30.435, 25-30.4385, 25-30.4415, 25-30.456, 25-30.460, 25-30.465, 25-30.470, 25-30.475; and repeal of Rule 25-30.441, F.A.C., pertaining to water and wastewater regulation*, at p. 102

for inflow. In addition, adjustments to operating expenses, such as chemical and electrical costs, are considered necessary if excessive.

All wastewater collection systems experience I&I. The convention noted above provides guidance for determining whether the I&I experienced at a wastewater treatment plant is excessive. After the allowable I&I is determined, we calculate the estimated amount of wastewater returned to the wastewater treatment plant from customers. The estimated return is determined by summing 80 percent of the water sold to residential customer with 90 percent of the water sold to non-residential customers. Adding the estimated return to the allowable I&I yields the maximum amount of wastewater that should be treated by a wastewater treatment plant without incurring adjustments to operating expenses. If this amount exceeds the actual amount treated, no adjustment is made. If it is less than the gallons treated, then the difference is the excessive amount of I&I.

We performed the calculations to determine the allowable I&I and estimated amount of wastewater to be treated and compared it to the actual total amount of wastewater treated by East Marion during the test year, and the total wastewater treated does not exceed the total wastewater allowed. Therefore, we find no excessive I&I.

Rate Base

East Marion's net book value was last established in its 2015 transfer docket by Order No. PSC-15-0576-PAA-WS.⁹ East Marion's owner, Michael Smallridge, owns and manages several Class C utilities in Florida under the company FUS1. As of January 1, 2015, Mr. Smallridge has been recording common costs on FUS1 books. These costs, which include salaries, transportation, and office supplies, have been allocated among all of the utilities they serve. All allocations are based on customer count. The test year ended December 31, 2015, was used for the instant case. A summary of each water and wastewater rate base component, and recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

East Marion recorded UPIS of \$142,734 for water and \$482,102 for wastewater. East Marion has requested a new turbine water meter as an addition to the current plant. We included this addition to water plant along with retirements. We increased water plant in service by \$894 for the water meter and the retirements associated with the addition. We also capitalized a major pump repair at the wastewater plant originally expensed to Account 636 and 736. The expense was allocated to both water and wastewater. Thus, we increased wastewater plant by \$1,908 and decreased Account 636 and 736 by \$954 each. We also reduced plant by \$447 for water and \$954 for wastewater to reflect an averaging adjustment. Our net adjustments increase UPIS by \$447 for water and \$954 for wastewater. Therefore, we find the appropriate UPIS balances are \$143,181 for water and \$483,056 for wastewater.

⁹ Order No. PSC-15-0576-PAA-WS, issued December 21, 2015, in Docket No. 150091-WS, *In re: Application for approval of transfer of Certificate Nos. 490-W and 425-S from East Marion Sanitary Systems, Inc. to East Marion Utilities, LLC, in Marion County.*

UPIS - Allocated

East Marion did not record a balance in UPIS – Allocated for water or wastewater. Due to East Marion’s relationship with FUS1, we included allocated common plant from FUS1. Our audit included total FUS1 balances for Office Furniture & Equipment, Transportation Equipment, and Tools, Shop, and Garage Equipment of \$21,770. After East Marion’s 5 percent allocation (based on ERCs), we increased UPIS – Allocated by \$1,094, \$547 for water and \$547 for wastewater. we also included an averaging adjustment of \$24 for both water and wastewater. Therefore, we find the appropriate UPIS - Allocated balances are \$523 for water and \$523 for wastewater.

Land & Land Rights

East Marion did not record a test year land balance, as the Utility leases the land. No adjustments are necessary; therefore, we find that Land & Land Rights balances remain \$0.

Non-Used and Useful (non-U&U) Plant

East Marion did not record a test year non-U&U plant balance for water or wastewater. As previously discussed, the WTP shall be considered 100 percent U&U and the wastewater treatment plant shall be considered 24 percent U&U. In addition, East Marion’s water distribution system shall be considered 58.7 percent U&U and wastewater collection system shall be considered 50.8 percent U&U.

Application of the U&U percentage to the average plant balances and associated average accumulated depreciation balances results in increases of \$14,489 and \$51,328 for water and wastewater non-U&U components, respectively. Therefore, we find non-U&U plant balances are \$14,489 for water and \$51,328 for wastewater.

Contributions In Aid of Construction (CIAC)

East Marion recorded CIAC balances of \$39,700 for water and \$77,600 for wastewater. Our audit staff found no additions in the test year, and determined that no adjustments are necessary. We find CIAC balances of \$39,700 and \$77,600 for water and wastewater, respectively.

Accumulated Depreciation

East Marion recorded a test year accumulated depreciation balance of \$99,112 for water and \$390,285 for wastewater. We recalculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and increased water by \$26 and decreased wastewater by \$11,787. We also decreased this account by \$2,656 for the water plant addition and associated retirement. We decreased this account by \$3,261 for water and \$4,094 for wastewater to reflect the simple average. Our total adjustments to this account are a decrease of \$5,891 for water and

\$15,881 for wastewater. Our adjustments to these accounts result in accumulated depreciation balances of \$93,221 for water and \$374,404 for wastewater.

Accumulated Depreciation – Allocated

East Marion did not record a test year water or wastewater balance for Accumulated Depreciation – Allocated. We calculated accumulated depreciation for plant associated with FUS1's common plant that has been allocated to East Marion. We included a new balance of \$20 for both water and wastewater. We also included an averaging adjustment of \$7 for each account. Therefore, our adjustments to these accounts result in Accumulated Depreciation – Allocated balances of \$13 for water and \$13 for wastewater.

Accumulated Amortization of CIAC

East Marion recorded test year Accumulated Amortization of CIAC balances of \$18,101 for water and \$29,279 for wastewater. We recalculated amortization of CIAC by using composite depreciation rates. We decreased this account by \$286 for water and \$421 for wastewater. Also, we decreased this account by \$639 for water and \$659 for wastewater to reflect the simple average. Our adjustments result in a decrease of \$925 for water and \$1,080 for wastewater. Therefore, we find Accumulated Amortization of CIAC balances are \$17,176 for water and \$28,199 for wastewater.

Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(2), F.A.C., we used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, we find a working capital allowance of \$2,742 for water (based on O&M expense of \$21,933/8), and \$3,920 for wastewater (based on O&M expense of \$31,359/8).

Rate Base Summary

Based on the foregoing, we find the appropriate average test year rate base for water is \$16,198 and the average test year rate base for wastewater is \$12,353. Water and wastewater rate bases are shown on Schedule Nos. 1-A and 1-B, attached hereto, respectively. The related adjustments are shown on Schedule No. 1-C.

Rate of Return

According to our staff's audit, East Marion's test year capital structure reflected common equity of negative \$172,102, long term debt of \$90,325, and customer deposits of \$3,625. We increased common equity by \$10,000 to reflect the down payment made by the owner at the time of purchase. The retained earnings for East Marion are negative \$172,102. Since including negative equity would penalize East Marion's capital structure by understating the overall rate of

return, we adjusted the total negative equity to zero. Adjusting negative equity to zero has been this Commission's practice in similar cases.¹⁰ East Marion's capital structure was reconciled with our rate base findings. The appropriate ROE for East Marion is 11.16 percent based upon this Commission's approved leverage formula currently in effect.¹¹ Therefore, we find a ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 5.49 percent. The ROE and overall rate of return are shown on Schedule No. 2, attached hereto.

Test-Year Revenues

East Marion recorded total revenues of \$23,718 for water and \$34,144 for wastewater. The water revenues included \$23,213 of service revenues and \$505 of miscellaneous revenues. The wastewater revenues consisted of service revenues only. During the test year, East Marion had a rate increase as a result of a price index. Therefore, we annualized test year revenues by applying the rates in effect as of October 1, 2015, to the water and wastewater billing determinants. We determined that service revenues shall be \$23,593 for water and \$35,572 for wastewater, which results in increases of \$380 and \$1,428 for water and wastewater, respectively.

We also made several adjustments to miscellaneous revenues for water and wastewater. We increased miscellaneous revenues by \$75 for nonsufficient funds charges and \$90 for two initial connections, which East Marion did not appropriately record during the test year. We decreased miscellaneous revenues by \$30 to reflect credits issued to six customers for duplicate late payment charges. In addition, we decreased miscellaneous revenues by \$20 to remove convenience charges that were collected. East Marion does not have an authorized tariff to charge customers for using their credit or debit card to make a payment. However, as discussed below, we approved a convenience charge and refunds for the collection of the unauthorized convenience charge. For the reasons outlined above, the miscellaneous revenues shall be \$620 ($\$505 + \$75 + \$90 - \$30 - \20). As a result, we increased miscellaneous revenues by \$115 ($\$620 - \505). East Marion allocated all of the miscellaneous revenues to the water system. We find that the miscellaneous revenues shall be equally distributed between the water and wastewater systems.

Based on the above, the appropriate test year revenues for East Marion's water and wastewater system, including miscellaneous service revenues are \$23,903 ($\$23,593 + \310) for water and \$35,882 ($\$35,572 + \310) for wastewater.

Operating Expenses

East Marion recorded operating expense of \$34,401 for water and \$48,884 for wastewater for the test year ended December 31, 2015. We have reviewed the test year Operating and

¹⁰ Order No. PSC-08-0652-PAA-WS, issued October 6, 2008, in Docket No. 070722-WS, *In re: Application for staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.*

¹¹ Order No. PSC-16-0254-PAA-WS, issued June 29, 2016, in Docket No. 160006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

Maintenance (O&M) expenses, including invoices, canceled checks, and other supporting documentation. We also included an allocated portion of FUS1's operating expenses for the test year ending December 31, 2015. We made several adjustments to East Marion's operating expenses as summarized below.

Operating & Maintenance Expenses

Salaries and Wages – Employees (601/701)

East Marion recorded salaries and wages – employees expense of \$4,246 for water and \$4,246 for wastewater. We decreased this expense by \$60 for both water and wastewater to remove a payroll markup. We increased this expense by \$225 for both water and wastewater to reclassify salary expense from Account 636 and 736. We also decreased this expense by \$315 for both water and wastewater to reflect the appropriate payroll tax for the test year. We reallocated these accounts based on an audit response to a related utility in Docket No. 160143-WU.¹² This audit response detailed FUS1's new customer counts based on ERCs including an accurate listing of utilities managed by FUS1. Based on the updated allocations, we increased this account by \$450 for water and \$450 for wastewater.

We received a compensation survey completed by OCBOA Consulting, LLC (OCBOA) regarding the salaries of FUS1 employees. East Marion requested an increase in salaries based on the survey and also requested a new part time position to handle customer billing. We analyzed the results of the compensation survey and properly allocated the salary adjustments for East Marion. Our analysis of salaries is detailed below.

Although the compensation study provided by OCBOA was thorough in its analysis of FUS1 positions and responsibilities for each employee, we find the compensations study's need determination calculation for a part time customer billing position is inaccurate. The total number of FUS1 customers has in fact decreased since 2015 from 2,267 customers to 1,961 customers. However, our staff spoke with customers of FUS1 and who believed that a part-time customer billing position would increase the level of customer service for FUS1 systems. East Marion requested \$8.10 per hour for the part-time position. However, we find that the responsibilities of the position, including customer billing and cut-off noticing, warrant more than minimum wage. Similar positions, for example, Part-Time Senior Clerk employed by the state of Florida, has a base salary of \$10.35 per hour. Therefore, we find a salary of \$10 per hour is more appropriate. We agree that the reclassification of two positions to include Office Manager and Operations Supervisor is reasonable based on the roles those employees now have in the company. In addition, we determined that a Maintenance Technician, an employee of FUS1 shall not be allocated to East Marion, as he works solely on other systems. Therefore, with the adjustments to positions and allocations and the increases in salaries based on the compensation study, a decrease in total employee salaries for East Marion is appropriate. The compensation study was used by East Marion as a basis for a request to increase salaries for

¹² Document No. 08857-16, filed November 17, 2016 in Docket No. 160143-WU.

FUS1. The table below shows the requested amounts for each position, as well as our approved salaries for East Marion.

Adjustments made to Salaries and Wages – Employees

Title	Requested	Current	Current Allocated	Approved	Approved Allocated
Chief Financial Off.	\$55,500	\$53,040	\$2,664	\$54,366	\$2,731
Oper. Supervisor	39,000	33,488	1,682	39,000	1,959
Maintenance Tech	37,900	33,488	1,682	0	0
Office Manager	39,500	37,440	1,881	39,500	1,984
Cust. Serv. Rep.	34,000	30,160	1,515	34,000	1,708
Part-time Billing	8,424	0	0	10,400	522
Total	\$214,324	\$187,616	\$9,424	\$177,266	\$8,904

Source: Compensation Survey from OCBOA

We find the salary levels are appropriate and necessary for East Marion. Therefore, we find a salaries and wages – employees expense of \$8,904 for East Marion, to be allocated \$4,452 to water expense and \$4,452 to wastewater expense.

Salaries and Wages – Officers (603/703)

East Marion recorded salaries and wages – officers expense of \$2,154 for water and \$2,154 for wastewater. We decreased this expense by \$654 for both water and wastewater to remove the salary expense of the former owner.

The compensation survey completed by OCBOA Consulting, LLC (OCBOA) also included a salary recommendation for FUS1’s president. East Marion requested an increase in salary based on the survey. We has analyzed the results of the compensation survey and properly allocated those expenses for East Marion.

The current salary for the president is \$60,000, as approved in a SARC for a sister utility in Docket No. 120269-WU.¹³ The compensation study states, “[t]he maximum average salary range was used for evaluating officers and executive level employees that have obtained and perform the advanced skills required for the respective position.” The owner requested a salary of \$93,800, which is the maximum salary in the compensation study. In the instant case, we considered the last approved salary, along with information regarding the president’s duties, and his level of advanced skills obtained since his salary was last approved. In Docket No. 120269-WU, the requested salary for the president was \$60,000, which at the time was below the average salary range. Since that time, the president has taken steps to increase his expertise in the industry. We find that a more appropriate salary level falls between the minimum and mid average salary range, which, in the 2016 AWWA Compensation Survey, equates to a salary level of \$72,704. This salary level provides the president with an increase that we find appropriate.

¹³ Issued July 12, 2013, in Docket No. 120269-WU, *In re: Application for staff-assisted rate case in Polk County by Pinecrest Utilities, LLC*.

Therefore, East Marion's allocated portion of president salary results in an increase of \$326 for water and \$326 for wastewater.

Our net adjustments result in a decrease of \$328 for water and \$328 for wastewater. Therefore, we find a salaries and wages – officers expense of \$1,826 for water and \$1,826 for wastewater.

Employee Pensions and Benefits (604/704)

East Marion recorded employee pensions and benefits expense of \$0 for water and \$0 for wastewater. We increased this expense by \$512 for both water and wastewater to include the appropriate amount of benefit expense for the test year. We also increased this expense by \$54 for water and \$54 for wastewater to reflect the updated allocations for East Marion from FUS1. Our adjustments result in an increase of \$566 for water and \$566 for wastewater. Therefore, we find employee pensions and benefits expense of \$566 for water and \$566 for wastewater.

Purchased Power (615/715)

East Marion recorded purchased power expense of \$1,267 for water and \$5,158 for wastewater. We increased these expense accounts by \$205 for water and \$56 for wastewater to reflect the appropriate Utility expense for the test year. We also decreased these expenses by \$406 for water and \$376 for wastewater, to reflect proper allocation of East Marion's systems from FUS1. We also removed late fees of \$28 for wastewater. Our net adjustments result in a decrease of \$201 for water and \$348 for wastewater. Therefore, we find a purchased power expense of \$1,066 and \$4,810 for water and wastewater, respectively.

Chemicals (618/718)

East Marion recorded chemicals expense of \$1,189 for water and \$1,189 for wastewater. We decreased water expense by \$347 and increased wastewater expense by \$347 to properly allocate the test year expenses to the correct plant. Our total adjustments result in a decrease of \$347 for water and an increase of \$347 for wastewater. Therefore, we find a chemicals expense of \$842 for water and \$1,536 for wastewater.

Materials & Supplies (620/720)

East Marion recorded materials & supplies expense of \$826 for water and \$808 for wastewater. We decreased these accounts by \$68 for both water and wastewater, to remove purchases outside of the test year. We also decreased these accounts by \$132 for water and \$91 for wastewater to remove items not related to East Marion. To reflect the new allocations to East Marion from FUS1, we increased water expense by \$62 and wastewater expense by \$64. We also decreased these account by \$43 for both water and wastewater to reclassify these amounts to Account 650 and 750, transportation expense. Our total adjustments result in decreases of \$181 for water and \$138 for wastewater. Therefore, we find a materials & supplies expense of \$645 for water and \$670 for wastewater.

Contractual Services - Professional (631/731)

East Marion recorded contractual services – professional expense of \$266 for water and \$66 for wastewater. We decreased water expense by \$100 and increased wastewater expense by \$100 to properly allocate these expenses between systems. We also removed \$66 from both water and wastewater relating to expenses from a lawsuit. Our total adjustments result in a decrease of \$166 for water and an increase of \$34 for wastewater. Therefore, we find a contractual services – professional expense of \$100 for water and \$100 for wastewater.

Contractual Services - Testing (635/735)

East Marion recorded contractual services – testing expense of \$928 for water and \$928 for wastewater. We increased water expense by \$928 and decreased wastewater expense by \$928 to properly allocate the expense to the water plant. Our total adjustments result in an increase of \$928 for water and a decrease of \$928 for wastewater. Therefore, we find a contractual services – testing expense of \$1,856 for water and \$0 for wastewater.

Contractual Services - Other (636/736)

East Marion recorded contractual services – other expense of \$10,755 for water and \$8,801 for wastewater. Our adjustments to contractual services – other are outlined in the table below:

Adjustments made to Contractual Services - Other

	Adjustment Description	Water	Wastewater
1.	To remove expenses outside the test year.	(\$98)	(\$98)
2.	To properly allocate expenses between systems.	(1,779)	1,757
3.	To remove an additional mowing bill.	(225)	0
4.	To include an unrecorded bill.	230	345
5.	To remove a major pump repair and capitalize the project.	(954)	(954)
6.	To amortize non-recurring tree trimming expense.	(420)	(420)
7.	To amortize non-recurring tank cleaning.	(1,440)	0
8.	To reclassify salary expense to Accounts 601 and 701.	(225)	(225)
9.	To remove items not related to the Utility.	(160)	(141)
10.	To reflect the new allocations for East Marion from FUS1.	<u>2</u>	<u>2</u>
	Total	<u>(\$5,069)</u>	<u>\$266</u>

Source: Utility Records and Audit Control No. 15-362-4-1

Based on the adjustments shown above, our net adjustment is a decrease of \$5,069 to water and an increase of \$266 to wastewater. Therefore, we find a contractual services – other expense of \$5,686 for water and \$9,067 for wastewater.

Rent Expense (640/740)

East Marion recorded rent expense of \$5,857 for water and \$2,395 for wastewater. Rent expense is based on the requested land lease for East Marion. We find that the requested rent expense is not reasonable for this Utility. In East Marion’s previous rate case (Order No. PSC-02-1168-PAA-WS¹⁴), we found that, “an annual lease amount of \$7,200 is not reasonable.” Therefore, we decreased rent expense by \$5,448 for water and \$2,043 for wastewater. We found that the maximum lease amount shall be the annual rate of return and original cost of the land when placed in service and approved an annual land lease of \$405 for water and \$582 for wastewater.

We find that the land lease amount shall be increased from the last approved amount by an index factor, which is common practice in land lease agreements, including the lease provided. We used the United States Bureau of Labor Statistics’ Consumer Price Index to increase the land lease amount by \$138 for water expense and \$199 for wastewater expense. We find that these amounts are fair, just, and reasonable to both the land owner and customers.

FUS1 also recorded rent expense to be allocated to East Marion of \$409 for water and \$352 for wastewater for office space. We decreased water rent expense by \$27 and increased wastewater rent expense by \$30 to reflect the appropriate allocated expenses from FUS1. We have also increased these accounts by \$40 for water expense and wastewater expense to reflect the updated allocations to East Marion. Our net adjustments result in a decrease of water rent expense by \$4,892 and a decrease of wastewater expense by \$1,192. Therefore, we find a water rent expense of \$965 and a wastewater rent expense of \$1,203

Transportation Expense (650/750)

East Marion recorded transportation expense of \$512 for water and \$446 for wastewater. We decreased this account by \$33 for water and increased this account by \$33 for wastewater to properly allocate this expense between plants. We decreased both accounts by \$100 to remove a truck loan not related to this Utility. We increased this account by \$114 for both water and wastewater to properly allocate vehicle insurance expense from FUS1. We increased these accounts \$57 for water expense and \$57 for wastewater expense to reflect the updated allocations to East Marion from FUS1. We also increased this expense by \$43 for both water and wastewater to reclassify expenses from Account 620 and 720. Our total adjustments result in an increase of \$81 for water and \$147 for wastewater. Therefore, we find a transportation expense is \$593 for water and \$593 for wastewater.

¹⁴ Issued August 26, 2002, Docket No. 010869-WS, *In re: Application for staff-assisted rate case in Marion County by East Marion Sanitary Systems, Inc.*

Insurance Expense (655/755)

East Marion recorded insurance expense of \$1,671 for water and \$1,639 for wastewater for the test year. We increased this expense by \$21 for both water and wastewater to reflect the appropriate test year expense. We decreased this expense by \$705 for water and \$673 for wastewater to appropriately adjust and reclassify health insurance premiums from FUS1 to Accounts 604 and 704. Our net adjustments decrease insurance expense for water by \$684 and for wastewater by \$652. Therefore, we find an insurance expense for the test year of \$987 for water and \$987 for wastewater.

Regulatory Commission Expense (665/765)

East Marion did not record regulatory commission expense for the test year. By Rule 25-30.0407, F.A.C., a utility is required to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, we estimated \$97 for postage expense, \$72 for printing expense, and \$10 for envelopes. These amounts result in \$179 for postage, printing notices, and envelopes. Additionally, East Marion paid a \$1,000 rate case filing fee. Based on the above, we find a total rate case expense of \$1,179, which amortized over four years is \$294 annually. Therefore, we find a regulatory commission expense of \$147 for water and \$147 for wastewater.

Miscellaneous Expense (675/775)

East Marion recorded miscellaneous expense of \$1,678 for water and \$1,277 for wastewater. We decreased these expenses by \$16 for both water and wastewater to remove overdraft fees. We also decreased water expense by \$70 and increased wastewater expense by \$70 to properly allocate expenses between systems. We also increased both water and wastewater expense accounts by \$338 to reflect the appropriate amount of Utility expense from FUS1. We increased these accounts by \$100 for water and \$702 for wastewater to include the FDEP licensing and permitting expenses and engineering analysis. We increased these accounts by \$172 for water expense and \$172 for wastewater expense to reflect the updated allocations to East Marion from FUS1. Our total adjustments increase water expense by \$524 and wastewater expense by \$1,266. Therefore, we find a miscellaneous expense of \$2,202 for water and \$2,543 for wastewater.

Operation and Maintenance Expenses Summary

Based on the above adjustments, we find that the O&M expense balances for East Marion are \$21,933 for water and \$31,359 for wastewater. Our approved adjustments to O&M expense are shown on Schedule Nos. 3-A through 3-E.

Depreciation Expense (Net of Amortization of CIAC)

East Marion recorded depreciation expense of \$4,616 for water and \$19,975 for wastewater during the test year. We recalculated depreciation expense using the prescribed rates

set forth in Rule 25-30.140, F.A.C. We decreased depreciation expense by \$15 for water and \$11,787 for wastewater, which includes removing expense for fully depreciated accounts to reflect the appropriate depreciation expense. We also calculated depreciation expense for the plant additions and retirements East Marion requested. These additions result in an increase of \$26 for water. We included depreciation expense for the pump repair that is being capitalized; this adjustment results in an increase in wastewater depreciation expense of \$64. Also, we decreased depreciation expense by \$1,254 for water and \$4,468 for wastewater to reflect the non-U&U portion of the test year depreciation expense. East Marion recorded amortization of CIAC expense as \$1,564 for water and \$3,057 for wastewater during the test year. We also recalculated amortization of CIAC expense and increased these accounts by \$286 for water and \$1,739 for wastewater to reflect the appropriate amount of this expense. We increased both water and wastewater accounts by \$86 to include depreciation expense for allocated plant from FUS1. Our net adjustments are decreases of \$871 to water and \$14,366 to wastewater, resulting in a net depreciation expense of \$2,181 ($\$4,616 - \$1,564 - \871) for water and \$2,552 ($\$19,975 - \$3,057 - \$14,366$) for wastewater.

Taxes Other Than Income (TOTI)

East Marion did not record a TOTI balance for water or wastewater. We calculated East Marion's property taxes using updated rates and increased this account \$784 for water and \$784 for wastewater. We also included property tax expense for the plant additions resulting in an increase of \$14 to water and \$30 for wastewater. We increased this account to include payroll taxes of \$447 for both water and wastewater. We increased this account by \$1,076 for water and \$1,615 for wastewater to reflect the appropriate test year Regulatory Assessment Fees (RAFs) based on adjusted test year revenues. We also included decreases of \$252 for water and \$466 for wastewater to include non-used and useful property tax. Our net adjustments are increases of \$2,069 for water and \$2,410 for wastewater.

In addition, as discussed below, revenues have been increased by \$4,685 for water and \$3,744 for wastewater to reflect the change in revenue required to cover expenses and allow the recommended operating margin. As a result, TOTI shall be increased by \$211 for water and \$168 for wastewater to reflect RAFs of 4.5 percent on the change in revenues. Therefore, we find TOTI of \$2,279 and \$2,579 for water and wastewater, respectively.

Operating Expenses Summary

The application of our adjustments to East Marion's test year operating expenses results in operating expenses of \$26,394 for water and \$36,490 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B, attached hereto. The related adjustments are shown on Schedule Nos. 3-C, 3-D, and 3-E, attached hereto.

Revenue Requirement Methodology

Section 367.0814(9), F.S., provides that this Commission may, by rule, establish standards and procedures for setting rates and charges of small utilities using criteria other than

those set forth in Sections 367.081(1), (2)(a), and (3), F.S. Rule 25-30.456, F.A.C., provides an alternative to a staff-assisted rate case as described in Rule 25-30.455, F.A.C. Such an alternative includes that utilities with total gross annual operating revenue of less than \$275,000 per system may petition this Commission for staff assistance using alternative rate setting.

Although East Marion did not petition us for alternative rate setting under the aforementioned Rule in the instant proceeding, we find it appropriate to employ the operating ratio methodology to set rates for East Marion in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on East Marion's rate base, the revenue requirement is based East Marion's O&M expenses plus a margin. We have applied this methodology in cases in which the traditional calculation of the revenue requirement would not provide sufficient revenue to protect the utility against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU,¹⁵ we utilized the operating ratio methodology as an alternative means for setting rates for the first time. Our order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expense. We applied the established criteria again in Order No. PSC-97-0130-FOF-SU,¹⁶ and most recently, approved the operating ratio methodology for setting rates in Order No. PSC-16-0126-PAA-WU.¹⁷

As state, this Commission established criteria to determine whether to utilize the operating ratio methodology for those utilities with low or non-existent rate base.¹⁸ The qualifying criteria established and how they apply to East Marion are outlined below.

- 1) Whether the Utility's O&M expense exceeds rate base. The operating ratio method substitutes O&M expense for rate base in calculating the amount of return. A utility generally would not benefit from the operating ratio method if rate base exceeds O&M expense. The decision to use the operating ratio method depends on the determination of whether the primary risk resides in capital costs or operating expenses. In the instant case, East Marion's water and wastewater rate bases are lower than the level of O&M expense, and East Marion's primary risk resides with covering its operating expenses. Based on our findings above, East Marion's adjusted water and wastewater rate bases for the test year are \$16,198 and \$12,353, while the adjusted O&M expenses are \$21,933 for water and \$31,359 for wastewater.
- 2) Whether the Utility is expected to become a Class B utility in the foreseeable future. Pursuant to Section 367.0814(9), F.S., the alternative form of regulation applied in this

¹⁵ Order No. PSC-96-0357-FOF-WU, issued March 13, 1996, in Docket No. 950641-WU, *In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.*

¹⁶ Order No. PSC-97-0130-FOF-SU, issued February 10, 1997, in Docket No. 960561-SU, *In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.*

¹⁷ Order No. PSC-16-0126-PAA-WU, issued March 28, 2016, in Docket No. 140220-WU, *In re: Application for staff-assisted rate case in Polk County by Sunrise Utilities, LLC.*

¹⁸ Order No. PSC-96-0357-FOF-WU.

case only applies to small utilities with gross annual revenue of \$275,000 or less. East Marion is a Class C utility and the recommended revenue requirements of \$28,588 and \$39,626 are substantially below the threshold level for Class B utility status (\$275,000 per system). East Marion's service area has not had any significant growth in the last five years, and East Marion will not become a Class B utility in the foreseeable future.

- 3) Quality of service and condition of plant. As discussed above in "Quality of Service," we found East Marion's quality of service to be satisfactory.
- 4) Whether the Utility is developer-owned. East Marion's current owner is not a developer.
- 5) Whether the Utility operates treatment facilities or is simply a distribution and/or collection system. The issue under this criterion is whether or not purchased water and/or wastewater costs should be excluded in the computation of the operating margin. East Marion operates water and wastewater treatment plants and a collection system.

Based on our review of the Utility's situation in relation to the criteria outlined above, we find East Marion to be a viable candidate for the operating ratio methodology.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, this Commission determined that a margin of 10 percent shall be used, unless unique circumstances justify the use of a greater or lesser margin. The important question is not what the return percentage should be, but what level of operating margin will allow East Marion to provide safe and reliable service and remain a viable entity. The answer to this question requires a great deal of judgment based upon the particular circumstances of East Marion, and several factors must be considered in determining the reasonableness of a margin.

First, the margin must provide sufficient revenue for East Marion to cover its interest expense. We find the 10 percent margin will provide sufficient revenue to cover East Marion's interest expense.

Second, use of the operating ratio methodology rests on the contention that the principal risk to East Marion resides in operating costs. Also, the operating ratio method recognizes that a major issue for small utilities is cash flow; thus, the operating ratio method focuses more on cash flow than on investment. In the instant case, East Marion's primary risk resides with covering its operating expense and a traditional calculation of the revenue requirement may not provide East Marion with sufficient revenue to protect against potential variances in revenues and expenses. Under the rate base methodology, the return to East Marion would be \$888 for water and \$673 wastewater. We do not believe this would not provide the necessary financial cushion to successfully operate East Marion.

Third, if the return on rate base method was applied, a normal return would generate such a small level of revenue that, in the event revenues or expenses vary from our findings, East Marion could be left with insufficient funds to cover operating expenses. Therefore, the 10 percent margin should provide adequate revenue to protect against potential variability in

revenues and expenses. If East Marion's operating expenses increase or revenues decrease, East Marion may not have the funds required for day-to-day operations. Therefore, we find the operating ratio methodology 10 percent margin to be applicable in this case.

In conclusion, we find that the factors outlined above demonstrate that East Marion needs a higher margin of revenue over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide East Marion with adequate cash flow to provide some assurance of safe and reliable service, we find the application of the operating ratio methodology, at a margin of 10 percent of O&M expense for determining the water and wastewater revenue requirements, to be appropriate.

Revenue Requirement

We find East Marion shall be allowed an annual increase of \$4,685 (19.60 percent) for water and an annual increase of \$3,744 (10.44 percent) for wastewater. This will allow East Marion the opportunity to recover its expenses as well as a 10 percent margin on O&M expenses for its water and wastewater systems. Our calculations are shown in the respective water and wastewater tables below:

Water Revenue Requirement

Adjusted O&M Expense	\$21,933
Operating Margin (%)	<u>10.00%</u>
Operating Margin (\$)	\$2,193
Adjusted O&M Expense	21,933
Depreciation Expense (Net)	2,181
Taxes Other Than Income	2,069
Test Year RAFs	<u>211</u>
Revenue Requirement	\$28,588
Less Adjusted Test Year Revenues	<u>23,903</u>
Annual Increase	<u>\$4,685</u>
Percent Increase	<u>19.60%</u>

Wastewater Revenue Requirement

Adjusted O&M Expense	\$31,359
Operating Margin (%)	<u>10.00%</u>
Operating Margin (\$)	\$3,136
Adjusted O&M Expense	31,359
Depreciation Expense (Net)	2,552
Taxes Other Than Income	2,410
Test Year RAFs	<u>168</u>
Revenue Requirement	\$39,626
Less Adjusted Test Year Revenues	<u>35,882</u>
Annual Increase	<u>\$3,744</u>
Percent Increase	<u>10.44%</u>

Rate Structure*Water Rates*

East Marion is located in Marion County within the St. Johns River Water Management District (SJRWMD), and provides water service to approximately 94 residential customers, of which 9 have a separate meter for irrigation. There are no general service customers. Approximately eight percent of the residential customer bills during the test year had zero gallons, indicating a non-seasonal customer base. The average residential water demand is 3,973 gallons per month and the average residential water demand excluding zero gallon bills is 4,300 per month. East Marion's current water system rate structure for residential customers consists of a base facility charge (BFC) and two-tier inclining block rate structure. The rate blocks are: (1) 0-10,000 gallons and (2) all usage in excess of 10,000 gallons per month. The general service rate structure consists of a BFC and uniform gallonage charge.

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

For East Marion's preliminary interim rates, we designed a more conservation-oriented rate structure. For the final rates, however, we find it appropriate to apply an across-the-board increase to East Marion's rates, as they existed prior to filing the rate increase application, due to the low revenue requirement percentage increase. In addition, we do not find a significant repression is anticipated. To determine the appropriate percentage increase to apply to the service rates, we removed miscellaneous revenues from the test year revenues, which results in a 19.86 percent increase in East Marion's water service rates.

Wastewater Rates

East Marion provides wastewater service to 94 residential customers, and there are no general service customers. Currently, the residential wastewater rate structure consists of a uniform BFC for all meter sizes and a gallonage charge with a 10,000 gallon cap per month. The general service rate structure consists of a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

As with East Marion's water system, we performed an analysis of the Utility's billing data to evaluate various BFC cost recovery percentages and gallonage caps for the residential customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among East Marion's customers; and (3) implement a gallonage cap that considers approximately the amount of water that may return to the wastewater system.

As discussed with East Marion's water system, we find it appropriate to apply an across-the-board increase to East Marion's existing wastewater rates due to the recommended low revenue requirement percentage increase. To determine the appropriate percentage increase to apply to the service rates, we removed miscellaneous revenues from the test year revenues, which results in a 10.53 percent increase in East Marion's wastewater service rates.

Rate Structure Summary

For the reasons outlined above, we find that no change shall be made to the water and wastewater rate structures. We find that the water rates shall be increased by 19.86 percent, and wastewater rates be increased by 10.53 percent. The approved rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, attached hereto. East Marion shall file revised tariff sheets and a proposed customer notice to reflect our approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. East Marion shall provide proof of the date notice was given within 10 days of the date of the notice.

Convenience Charge

Section 367.091, F.S., authorizes this Commission to establish, increase, or change a rate or charge, other than monthly rates or service availability charges. On August 12, 2016, East Marion requested a \$3.43 credit card convenience charge and provided the requisite justification pursuant to Section 367.091, F.S. The cost analysis breakdown for the requested charge is shown in the table below.

Convenience Charge Cost Justification

<u>Activity</u>	<u>Cost</u>
Labor	\$0.54
Supplies	\$0.06
Credit Card Machines	\$2.83
Total Requested	\$3.43

We Commission recently approved a charge of \$3.00 for customers who opt to pay their bill with debit or credit cards for Charlie Creek Utilities, LLC.¹⁹ The charge was designed to recover the cost of supplies, administrative labor, and equipment. As discussed in the “Operating & Maintenance Expenses” section above, East Marion charged several of its customers a convenience charge of \$2.50, for using their credit or debit card to pay their bill during the test year, which had not been authorized by this Commission. East Marion began assessing the convenience charge on October 5, 2015, and assessed the charge a total of 36 times since that time, resulting in a total collection of \$90. East Marion indicated that charging its customers an unauthorized convenience charge was unintentional. East Marion, along with its sister utilities, are managed by FUS1. The sister utilities have an approved convenience charge and the customer service representative applied the convenience charges to East Marion’s customers, inadvertently.

Although East Marion assessed this unauthorized convenience charge, we do not find that East Marion “willfully” disregarded this Commission’s rules or statutes and believe it was unintentional on East Marion’s part. Based on the above, we find that no enforcement action is warranted at this time. East Marion, however, is required to make a refund to those customers who were assessed the unauthorized convenience charge, in accordance with Rule 25-30.360 F.A.C. In addition, East Marion is put on notice that it may be subject to a show cause proceeding by this Commission, including penalties, if East Marion charges amounts other than those approved by us in the future.

For the reasons discussed above, we approve East Marion’s request for a convenience charge of \$3.43, for customers who opt to pay their bill by credit or debit card. The convenience charge shall be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charge shall not be implemented until our staff has

¹⁹ Order No. PSC-16-0043-PAA-WU, issued January 25, 2016, in Docket No. 150186-WU, *In re: Application for certificate to operate a water utility in Hardee County by Charlie Creek Utilities, LLC.*

approved the proposed customer notice and the notice has been received by the customers. East Marion shall provide proof of the date notice was given within 10 days of the date of the notice.

Finally, East Marion is hereby required to make a refund to the customers who were assessed an unauthorized convenience charge. The refunds shall be made in accordance with Rule 25-30.360 F.A.C., with interest, and completed within 90 days of our order becoming final. East Marion shall make monthly reports on the status of the refund by the 20th of the following month and a report shall be completed within 90 days of the completion of the refund consistent with Rule 25-30.360(7), F.A.C.

Four-Year Rate Reduction

Section 367.0816, F.S., requires that rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. The total reductions for East Marion are \$170 and \$169 for water and wastewater, respectively.

East Marion's water and wastewater rates shall be reduced as shown on Schedule Nos. 4-A and 4-B to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. East Marion shall 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 East Marion files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall 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.

Temporary Rates

This Order approves an increase in water and wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to East Marion. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than East Marion, we find that the rates approved herein are approved as temporary rates. East Marion shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall 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 shall not be implemented until our staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by East Marion shall be subject to the refund provisions discussed below.

East Marion shall be authorized to collect the temporary rates upon our staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security shall be in the form of a bond or letter of credit in the amount of \$5,646. Alternatively, East Marion may establish an escrow agreement with an independent financial institution.

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

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

If East Marion chooses a letter of credit as a security, it shall contain the following conditions:

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

If security is provided through an escrow agreement, the following conditions shall 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; and
- 9) The account must specify by whom and on whose behalf such monies were paid.

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

Because the approved rates herein are approved on a temporary basis, East Marion shall maintain a record of the amount of the security, and the amount of revenues that are subject to

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

Adjustment of Books

East Marion shall be required to notify this Commission, in writing, that it has adjusted its books in accordance with our decision. East Marion shall submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts have been made to East Marion's books and records. In the event East Marion needs additional time to complete the adjustments, notice shall be provided within seven days prior to the deadline. Upon providing good cause, our staff is given administrative authority to grant an extension of up to 60 days.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that East Marion Utilities, LLC's application for an increase in water and wastewater rates and charges is hereby approved as set forth in the body of this Order. It is further,

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further,

ORDERED that all matters contained in the schedules attached hereto are incorporated by reference. It is further,

ORDERED that the overall quality of service provided by East Marion Utilities, LLC is satisfactory. It is further,

ORDERED that East Marion Utilities, LLC's water treatment plant is 100 percent Used & Useful, and its water distribution system is 58.7 percent Used & Useful. East Marion Utilities, LLC's wastewater treatment plant is 24.0 percent Used & Useful, and its wastewater collection system is 50.8 percent Used & Useful.

ORDERED that, since East Marion Utilities, LLC does not have excessive unaccounted for water and no excessive infiltration and inflow, no adjustment is made to East Marion Utilities, LLC's operating expenses for chemicals and purchased power. It is further,

ORDERED that the appropriate average test year rate base for East Marion Utilities, LLC is \$16,198 and the average test year wastewater rate base is \$12,353. It is further,

ORDERED that the appropriate return on equity for East Marion Utilities, LLC is 11.16 percent with a range of 10.16 percent to 12.16 percent. The appropriate overall rate of return is 5.49 percent. It is further,

ORDERED that the appropriate test year revenues for East Marion Utilities, LLC are \$23,903 for its water system and \$35,882 for its wastewater system. It is further,

ORDERED that the appropriate amount of operating expenses for East Marion Utilities, LLC is \$26,394 for water and \$36,490 for wastewater. It is further,

ORDERED that the operating ratio methodology be used for calculating the water and wastewater revenue requirements for East Marion Utilities, LLC, and that the margin shall be 10 percent of O&M expense. It is further,

ORDERED that the appropriate revenue requirement for East Marion Utilities, LLC is \$28,588 for water and \$39,626 for wastewater, resulting in an annual increase of \$4,685 (19.60 percent) for water and an annual increase of \$3,744 (10.44 percent) for wastewater. It is further,

ORDERED that the approved rate structure and monthly water rates for East Marion Utilities, LLC are shown on Schedule No. 4-A and 4-B, attached hereto. East Marion Utilities, LLC shall file revised tariff sheets and a proposed customer notice to reflect the approved rates shown on Schedule 4-A and 4-B. The revised tariff sheets shall be approved upon our staff's verification that the tariff sheets are consistent with our decision herein. It is further,

ORDERED that East Marion Utilities, LLC's approved rates shall 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. It is further,

ORDERED that East Marion Utilities, LLC's approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers as forth in this Order. East Marion Utilities, LLC shall provide documentation to this Commission that the notice was provided to its customers within 10 days of the date of the notice. It is further,

ORDERED that East Marion Utilities, LLC shall be permitted to assess a convenience charge of \$3.43 for customers who opt to pay their bill by credit or debit card is approved. The convenience charge shall be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C., and the approved charge shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. East Marion Utilities, LLC shall provide proof of the date notice was given within 10 days of the date of the notice. It is further,

ORDERED that East Marion Utilities, LLC, shall be required to make a refund to those customers who were assessed the unauthorized convenience charge, in accordance with Rule 25-30.360 F.A.C. The refunds shall be made with interest and completed within 90 days of the a

final order being issued. East Marion Utilities, LLC shall submit monthly reports on the status of the refund by the 20th of the following month and a report shall be completed within 90 days of the completion of the refund consistent with Rule 25-30.360(7), F.A.C. In addition, East Marion Utilities, LLC is hereby put on notice that it may be subject to a show cause proceeding by this Commission, including penalties, in the future if East Marion Utilities, LLC fails to refund the unauthorized charges collected pursuant to Rule 25-30.360 F.A.C. It is further,

ORDERED that, subject to the conditions set forth in the body of this Order, following the expiration of the four-year rate case expense recovery period, East Marion Utilities, LLC's water and wastewater rates shall be reduced as shown on Schedule No. 4-A and 4-B, to remove rate case expense grossed-up for Regulatory Assessment Fees and amortized over a four-year period. It is further,

ORDERED that East Marion Utilities, LLC shall 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. It is further,

ORDERED that, if East Marion Utilities, LLC files this reduction in conjunction with a price index or pass-through rate adjustment, it shall file separate data for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. It is further,

ORDERED that the approved rates shall be approved for East Marion Utilities, LLC on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility, pursuant to Section 367.0814(7), F.S. East Marion Utilities, LLC shall file revised tariff sheets and a proposed customer notice, reflecting the approved temporary rates. The approved temporary rates shall 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. It is further,

ORDERED that prior to implementation of any temporary rates, East Marion Utilities, LLC shall provide appropriate security for the potential refund of \$5,646, as set out in the body of this Order. The temporary rates collected by East Marion Utilities, LLC shall be subject to refund provisions outlined in this Order. East Marion Utilities, LLC may collect the temporary rates upon our staff's approval of an appropriate security for the potential refund and the proposed customer notice. It is further,

ORDERED that, irrespective of the form of the security chosen by East Marion Utilities, LLC, the Utility shall maintain an account of all monies received as a result of the rate increase. It is further,

ORDERED that, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., East Marion Utilities, LLC shall file reports with the Office of the Commission Clerk no later than the 20th of each month, indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report shall also indicate the status of the security being used to guarantee repayment of any potential refund. It is further,

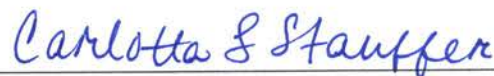
ORDERED that East Marion Utilities, LLC is required to notify this Commission in writing, within 90 days of date of this Order becoming final, that it has adjusted its books for all applicable NARUC USOA primary accounts. Our staff has administrative authority to grant East Marion Utilities, LLC an extension, of up to 60 days, upon the Utility providing good cause, in writing, for additional time to complete the adjustments. It is further,

ORDERED that, except for the granting of temporary rates in the event of protest, the reduction for rate case expense, and the proof of adjustment of books, which are final agency action, the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, F.A.C., is received by the Office of the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further,

ORDERED that, 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 shall be issued. It is further,

ORDERED that this docket shall remain open for our staff to verify that East Marion Utilities, LLC has: (i) filed the required revised tariff sheets and customer notices and they have been approved by our staff; (ii) filed a letter stating it has adjusted its books for all the applicable NARUC USOA primary accounts as outlined in this Order; and (iii) properly refunded all unauthorized convenience fee charges collected and submitted a refund report documenting the completion of the refunds. Once these actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 24th day of March, 2017.



CARLOTTA S. STAUFFER
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

As identified in the body of this order, the actions proposed herein are preliminary in nature, except the decisions regarding (1) the granting of temporary rates in the event of protest, (2) the reduction for rate case expense, and (3) the proof of adjustment to NARUC USOC accounts, which are final agency action. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on April 14, 2017.

If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

EAST MARION UTILITIES, LLC		SCHEDULE NO. 1-A	
TEST YEAR ENDED 12/31/15		DOCKET NO. 150257-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUSTMENTS TO UTIL. BAL.	BALANCE PER COMMISSION
UTILITY PLANT IN SERVICE	\$142,734	\$447	\$143,181
UTILITY PLANT IN SERVICE- ALLOCATED	0	523	523
LAND & LAND RIGHTS	0	0	0
NON-USED AND USEFUL COMPONENTS	0	(14,489)	(14,489)
CIAC	(39,700)	0	(39,700)
ACCUMULATED DEPRECIATION	(99,112)	5,891	(93,221)
ACCUMULATED DEPRECIATION- ALLOCATED	0	(13)	(13)
AMORTIZATION OF CIAC	18,101	(925)	17,176
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>2,742</u>	<u>2,742</u>
WATER RATE BASE	<u>\$22,023</u>	<u>(\$5,825)</u>	<u>\$16,198</u>

EAST MARION UTILITIES, LCC		SCHEDULE NO. 1-B	
TEST YEAR ENDED 12/31/15		DOCKET NO. 150257-WS	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUSTMENTS TO UTIL. BAL.	BALANCE PER COMMISSION
UTILITY PLANT IN SERVICE	\$482,102	\$954	\$483,056
UTILITY PLANT IN SERVICE – ALLOCATED	0	523	523
LAND & LAND RIGHTS	0	0	0
NON-USED AND USEFUL COMPONENTS	0	(51,328)	(51,328)
CIAC	(77,600)	0	(77,600)
ACCUMULATED DEPRECIATION	(390,285)	15,881	(374,404)
ACCUMULATED DEPRECIATION - ALLOCATED	0	(13)	(13)
AMORTIZATION OF CIAC	29,279	(1,080)	28,199
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>3,920</u>	<u>3,920</u>
WASTEWATER RATE BASE	<u>\$43,496</u>	<u>(\$31,143)</u>	<u>\$12,353</u>

EAST MARION UTILITIES, LLC		SCHEDULE NO. 1-C	
TEST YEAR ENDED 12/31/15		DOCKET NO. 150257-WS	
ADJUSTMENTS TO RATE BASE			
	<u>WATER</u>	<u>WASTEWATER</u>	
<u>UTILITY PLANT IN SERVICE</u>			
1. To reflect pro forma plant replacements and retirements.	\$894	\$0	
2. To capitalize a pump repair previously placed in Acct. 636 and 736.	0	1,908	
3. Averaging adjustment.	<u>(447)</u>	<u>(954)</u>	
Total	<u>\$447</u>	<u>\$954</u>	
<u>UTILITY PLANT IN SERVICE – ALLOCATED</u>			
1. To allocated common plant from FUS1.	\$547	\$547	
2. Averaging adjustment.	<u>(24)</u>	<u>(24)</u>	
Total	<u>\$523</u>	<u>\$523</u>	
<u>NON-USED AND USEFUL PLANT</u>			
1. To reflect non-used and useful plant.	(\$45,257)	(\$276,423)	
2. To reflect non-used and useful accumulated depreciation.	30,767	225,096	
Total	<u>(\$14,489)</u>	<u>(\$51,328)</u>	
<u>ACCUMULATED DEPRECIATION</u>			
1. To reflect plant retirements.	\$2,656	\$0	
2. Depreciation adjustment per Rule 25-30.140 F.A.C.	(26)	11,787	
3. Averaging adjustment.	<u>3,261</u>	<u>4,094</u>	
Total	<u>\$5,891</u>	<u>\$15,881</u>	
<u>ACCUMULATED DEPRECIATION – ALLOCATED</u>			
1. To reflect the appropriate Accumulated Depreciation – Allocated.	(\$20)	(\$20)	
2. Averaging adjustment.	<u>7</u>	<u>7</u>	
Total	<u>(\$13)</u>	<u>(\$13)</u>	
<u>AMORTIZATION OF CIAC</u>			
1. To reflect the appropriate amount of amortization.	(\$286)	(\$421)	
2. To reflect an averaging adjustment.	<u>(639)</u>	<u>(659)</u>	
Total	<u>(\$925)</u>	<u>(\$1,080)</u>	
<u>WORKING CAPITAL ALLOWANCE</u>			
To reflect 1/8 of test year O&M expenses.	<u>\$2,742</u>	<u>\$3,920</u>	

EAST MARION UTILITIES, LLC
TEST YEAR ENDED 12/31/15
SCHEDULE OF CAPITAL STRUCTURE

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER COMMISSION	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON EQUITY	\$0	\$10,000	\$10,000	\$0	\$0	0.00%	11.16%	0.00%
2. RETAINED EARNINGS	(172,102)	162,102	(10,000)	0	0	0.00%	0.00%	0.00%
3. LONG-TERM DEBT	(6,675)	97,000	90,325	(65,398)	24,927	87.30%	6.00%	5.24%
4. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
5. PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%
6. CUSTOMER DEPOSITS	3,493	132	3,625	0	3,625	12.70%	2.00%	0.25%
7. TOTAL	<u>(\$175,284)</u>	<u>\$269,234</u>	<u>\$93,950</u>	<u>(\$65,398)</u>	<u>\$28,552</u>	<u>100.00%</u>		<u>5.49%</u>

RANGE OF REASONABLENESS

RETURN ON EQUITY

OVERALL RATE OF RETURN

LOW

10.16%

5.49%

HIGH

12.16%

5.49%

EAST MARION UTILITIES, LLC TEST YEAR ENDED 12/31/15 SCHEDULE OF WATER OPERATING INCOME				SCHEDULE NO. 3-A DOCKET NO. 150257-WS	
	TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$23,833</u>	<u>\$70</u>	<u>\$23,903</u>	<u>\$4,685</u> 19.60%	<u>\$28,588</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$31,349	(\$9,416)	\$21,933	\$0	\$21,933
3. DEPRECIATION (NET)	3,052	(871)	2,181	0	2,181
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	0	2,069	2,069	211	2,279
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$34,401</u>	<u>(\$8,218)</u>	<u>\$26,183</u>	<u>\$211</u>	<u>\$26,394</u>
8. OPERATING INCOME/(LOSS)	<u>(\$10,568)</u>		<u>(\$2,280)</u>		<u>\$2,193</u>
9. WATER O&M EXPENSES	<u>\$31,349</u>		<u>\$21,933</u>		<u>\$21,933</u>
10. OPERATING MARGIN					<u>10.00%</u>

EAST MARION UTILITIES, LLC TEST YEAR ENDED 12/31/15 SCHEDULE OF WASTEWATER OPERATING INCOME			SCHEDULE NO. 3-B DOCKET NO. 150257-WS		
	TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$34,144</u>	<u>\$1,738</u>	<u>\$35,882</u>	<u>\$3,744</u> 10.44%	<u>\$39,626</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$31,966	(\$607)	\$31,359	\$0	\$31,359
3. DEPRECIATION (NET)	16,918	(14,366)	2,552	0	2,552
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	0	2,410	2,410	168	2,579
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$48,884</u>	<u>(\$12,562)</u>	<u>\$36,322</u>	<u>\$168</u>	<u>\$36,490</u>
8. OPERATING INCOME/(LOSS)	<u>(\$14,740)</u>		<u>(\$440)</u>		<u>\$3,136</u>
9. WASTEWATER O&M EXPENSES	<u>\$31,966</u>		<u>\$31,359</u>		<u>\$31,359</u>
10. OPERATING RATIO					<u>10.00%</u>

EAST MARION UTILITIES, LLC		SCHEDULE NO. 3-C	
TEST YEAR ENDED 12/31/15		DOCKET NO. 150257-WS	
ADJUSTMENTS TO OPERATING INCOME		Page 1 of 3	
		<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES			
1.	To reflect the appropriate test year revenues.	\$380	\$1,428
2.	To reflect miscellaneous revenues.	<u>(\$310)</u>	<u>310</u>
	Subtotal	<u>\$70</u>	<u>\$1,738</u>
OPERATION AND MAINTENANCE EXPENSES			
1.	Salaries and Wages – Employees (601/701)		
	a. To remove a payroll markup.	(\$60)	(\$60)
	b. To reclassify salary expense from Acct. 636/736.	225	225
	c. To reflect the appropriate payroll tax.	(315)	(315)
	d. To reflect the new allocations.	450	450
	e. To include the new salary information.	<u>(94)</u>	<u>(94)</u>
	Subtotal	<u>\$206</u>	<u>\$206</u>
2.	Salaries and Wages – Officers (603/703)		
	a. To remove former owner’s salary.	(\$654)	(\$654)
	b. To reflect the new salary information.	<u>326</u>	<u>326</u>
	Subtotal	<u>(\$328)</u>	<u>(\$328)</u>
3.	Employee Pension & Benefits (604/704)		
	a. To reflect appropriate amount of benefit expense.	\$512	\$512
	b. To reflect the new allocations.	<u>54</u>	<u>54</u>
	Subtotal	<u>\$566</u>	<u>\$566</u>
4.	Purchased Power (615/715)		
	a. To include appropriate Utility expenses for the test year.	\$205	\$56
	b. To properly allocate expenses between systems.	(406)	(376)
	c. To remove late fees.	<u>0</u>	<u>(28)</u>
	Subtotal	<u>(\$201)</u>	<u>(\$348)</u>
5.	Chemicals (618/718)		
	To properly allocate expenses between systems.	<u>(\$347)</u>	<u>\$347</u>
6.	Materials & Supplies (620/720)		
	a. To remove purchases outside the test year.	(\$68)	(\$68)
	b. To remove items not related to the Utility.	(132)	(91)
	c. To reflect the new allocations.	62	64
	d. To reclassify expenses to Account 650/750).	<u>(43)</u>	<u>(43)</u>
	Subtotal	<u>(\$181)</u>	<u>(\$138)</u>
7.	Contractual Services – Professional (631/731)		
	a. To properly allocate expenses between systems.	(\$100)	\$100
	b. To exclude expenses from a lawsuit.	(66)	(66)
	Subtotal	<u>(\$166)</u>	<u>\$34</u>
8.	Contractual Services – Testing (635/735)		
	To properly allocate expenses between systems.	<u>\$928</u>	<u>(\$928)</u>

EAST MARION UTILITIES, LLC
TEST YEAR ENDED 12/31/15
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 150257-WS
Page 2 of 3

	<u>WATER</u>	<u>WASTEWATER</u>
9. Contractual Services - Other (636/736)		
a. To remove expenses outside the test year.	(\$98)	(\$98)
b. To properly allocate expenses between systems.	(1,779)	1,757
c. To remove an additional mowing bill.	(225)	0
d. To include an unrecorded bill.	230	345
e. To remove a major pump repair and capitalize the expense.	(954)	(954)
f. To amortize non-recurring tree trimming expense.	(420)	(420)
g. To amortize non-recurring tank cleaning.	(1,440)	0
h. To reclassify salary expense to Accounts 601 and 701.	(225)	(225)
i. To reflect the new allocations.	2	2
j. To remove items not related to the Utility.	(160)	(141)
Subtotal	<u>(\$5,069)</u>	<u>\$266</u>
10. Rent Expense (640/740)		
a. To reflect appropriate amount and allocation of expenses.	(\$5,448)	(\$2,043)
b. To reflect the land lease established in previous case.	405	582
b. To reflect the inflation adjustment to land lease.	138	199
c. To reflect the new allocations.	40	40
b. To reflect the appropriate allocated expenses from FUS1.	(27)	30
Subtotal	<u>(\$4,892)</u>	<u>(\$1,192)</u>
11. Transportation Expense (650/750)		
a. To reallocate expenses appropriately.	(\$33)	\$33
b. To remove a truck loan not related to the Utility.	(100)	(100)
c. To appropriately allocate expenses to the Utility.	114	114
d. To reflect the new allocations.	57	57
e. To reclassify expenses from Accounts 620 and 720.	43	43
Subtotal	<u>\$81</u>	<u>\$147</u>
12. Insurance Expense (655/755)		
a. To reflect appropriate insurance expense.	\$21	\$21
b. To remove health insurance premiums.	(705)	(673)
Subtotal	<u>(\$684)</u>	<u>(\$652)</u>
13. Regulatory Commission Expense (665/765)		
To include rate case expense.	<u>\$147</u>	<u>\$147</u>
14. Miscellaneous Expense (675/775)		
a. To remove overdraft fees.	(\$16)	(\$16)
b. To reflect the appropriate allocation of expenses.	(70)	70
c. To reflect the appropriate amount of Utility expense from FUS1.	338	338
d. To include FDEP license and permits fees and engineering analysis.	100	702
e. To reflect the new allocations.	172	172
Subtotal	<u>\$524</u>	<u>\$1,266</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$9,416)</u>	<u>(\$607)</u>

EAST MARION UTILITIES, LLC		SCHEDULE NO. 3-C	
TEST YEAR ENDED 12/31/15		DOCKET NO. 150257-WS	
ADJUSTMENTS TO OPERATING INCOME		Page 3 of 3	
	<u>WATER</u>	<u>WASTEWATER</u>	
DEPRECIATION EXPENSE			
1. To reflect test year depreciation calculated per Rule 25-30.140, F.A.C.	(\$15)	(\$11,787)	
2. To include depreciation expense for pro forma plant.	26	0	
3. To include depreciation expense for pump repair.	0	64	
4. To reflect non-used and useful depreciation expense.	(1,254)	(4,468)	
5. To reflect the appropriate amount of amortization expense of CIAC.	286	1,739	
6. To reflect appropriate depreciation expense from allocated plant.	<u>86</u>	<u>86</u>	
Total	<u>(\$871)</u>	<u>(\$14,366)</u>	
TAXES OTHER THAN INCOME			
1. To reflect property taxes.	\$784	\$784	
2. To reflect appropriate property tax for plant additions.	14	30	
3. To reflect payroll taxes.	447	447	
4. To reflect the appropriate test year RAFs.	1,076	1,615	
5. To reflect non-used and useful property tax.	<u>(252)</u>	<u>(466)</u>	
Total	<u>\$2,069</u>	<u>\$2,410</u>	

EAST MARION UTILITIES, LLC		SCHEDULE NO. 3-D	
TEST YEAR ENDED 12/31/15		DOCKET NO. 150257-WS	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	COMMISSION ADJUST- MENTS	TOTAL PER COMMISSION
(601) SALARIES AND WAGES - EMPLOYEES	\$4,246	\$206	\$4,452
(603) SALARIES AND WAGES - OFFICERS	2,154	(328)	1,826
(604) EMPLOYEE PENSIONS AND BENEFITS	0	566	566
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	1,267	(201)	1,066
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	1,189	(347)	842
(620) MATERIALS AND SUPPLIES	826	(181)	645
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	266	(166)	100
(633) CONTRACTUAL SERVICES – TESTING	928	928	1,856
(636) CONTRACTUAL SERVICES - OTHER	10,755	(5,069)	5,686
(640) RENTS	5,857	(4,892)	965
(650) TRANSPORTATION EXPENSE	512	81	593
(655) INSURANCE EXPENSE	1,671	(684)	987
(665) REGULATORY COMMISSION EXPENSE	0	147	147
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSE	<u>1,678</u>	<u>524</u>	<u>2,202</u>
	<u>\$31,349</u>	<u>(\$9,416)</u>	<u>\$21,933</u>

EAST MARION UTILITIES, LLC		SCHEDULE NO. 3-E	
TEST YEAR ENDED 12/31/15		DOCKET NO. 150257-WS	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	COMMISSION ADJUST- MENTS	TOTAL PER COMMISSION
(701) SALARIES AND WAGES - EMPLOYEES	\$4,246	\$206	\$4,452
(703) SALARIES AND WAGES - OFFICERS	2,154	(328)	1,826
(704) EMPLOYEE PENSIONS AND BENEFITS	0	566	566
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	2,859	0	2,859
(715) PURCHASED POWER	5,158	(348)	4,810
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	1,189	347	1,536
(720) MATERIALS AND SUPPLIES	808	(138)	670
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	66	34	100
(735) CONTRACTUAL SERVICES - TESTING	928	(928)	0
(736) CONTRACTUAL SERVICES - OTHER	8,801	266	9,067
(740) RENTS	2,395	(1,192)	1,203
(750) TRANSPORTATION EXPENSE	446	147	593
(755) INSURANCE EXPENSE	1,639	(652)	987
(765) REGULATORY COMMISSION EXPENSE	0	147	147
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSE	<u>1,277</u>	<u>1,266</u>	<u>2,543</u>
	<u>\$31,966</u>	<u>(\$607)</u>	<u>\$31,359</u>

**EAST MARION UTILITIES, LLC.
TEST YEAR ENDED DECEMBER 31,
2015**

DOCKET NO. 150257-WS

MONTHLY WATER RATES

	RATES AT TIME OF FILING	APPROVED INTERIM RATES	COMMISSION APPROVED RATES	4 YEAR RATE REDUCTION
<u>Residential, Irrigation, and General Service</u>				
Base Facility Charge by Meter Size				
5/8" x 3/4"	\$10.05	\$11.73	\$12.05	\$0.07
3/4"	\$15.10	\$17.60	\$18.08	\$0.11
1"	\$25.15	\$29.33	\$30.13	\$0.18
1-1/2"	\$50.29	\$58.65	\$60.25	\$0.36
2"	\$80.47	\$93.84	\$96.40	\$0.58
3"	\$160.94	\$187.68	\$192.80	\$1.16
4"	\$251.47	\$293.25	\$301.25	\$1.82
6"	\$502.93	\$586.50	\$602.50	\$3.63
Charge per 1,000 gallons - Residential and Irrigation Service				
0-10,000 gallons	\$2.11	\$2.46	\$2.53	\$0.01
Over 10,000 gallons	\$3.15	\$3.68	\$3.78	\$0.02
Charge per 1,000 gallons - General Service	\$2.46	\$2.87	\$2.95	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
4,000 Gallons	\$18.49	\$21.57	\$22.17	
8,000 Gallons	\$26.93	\$31.41	\$32.29	
10,000 Gallons	\$31.15	\$36.33	\$37.35	

EAST MARION UTILITIES, LLC.		SCHEDULE NO. 4-B	
TEST YEAR ENDED DECEMBER 31, 2015		DOCKET NO. 150257-WS	
MONTHLY WASTEWATER RATES			
	RATES AT TIME OF FILING	COMMISSION APPROVED RATES	4 YEAR RATE REDUCTION
<u>Residential</u>			
Base Facility Charge - All Meter Sizes	\$15.37	\$16.99	\$0.07
Charge Per 1,000 gallons			
10,000 gallon cap	\$4.69	\$5.18	\$0.02
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$15.37	\$16.99	\$0.07
3/4"	\$23.05	\$25.49	\$0.11
1"	\$38.42	\$42.48	\$0.18
1-1/2"	\$76.84	\$84.95	\$0.37
2"	\$122.92	\$135.92	\$0.59
3"	\$245.86	\$271.84	\$1.17
4"	\$384.16	\$424.75	\$1.83
6"	\$768.28	\$849.50	\$3.66
Charge per 1,000 gallons	\$5.63	\$6.22	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
4,000 Gallons	\$34.13	\$37.71	
8,000 Gallons	\$52.89	\$58.43	
10,000 Gallons	\$62.27	\$68.79	