

State of Florida



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

## -M-E-M-O-R-A-N-D-U-M-

---

**DATE:** April 20, 2016

**TO:** Patti Daniel, Bureau Chief, Bureau of Economic Impact and Rate Design

**FROM:** Division of Economics (Hudson, Johnson) *ST* *GT*  
Division of Accounting and Finance (Mouring, Smith) *PS* *BS*  
Division of Engineering (P. Buys, Graves) *PPB* *PEY*  
Office of the General Counsel (Corbari) *KCC*

**RE:** Docket No. 150181-WU – Application for staff-assisted rate case in Duval County by Neighborhood Utilities, Inc.

---

– STAFF REPORT –

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting.

RECEIVED-FPSC  
2016 APR 21 PM 4:11  
COMMISSION  
CLERK

**Table of Contents**

<u>Issue</u>	<u>Description</u>	<u>Page</u>
	Case Background.....	3
1	Quality of Service (P. Buys).....	4
2	Used and Useful (P. Buys) .....	6
3	Rate Base (Smith).....	7
4	Rate of Return (Smith) .....	10
5	Test Year Revenues (Hudson, Johnson).....	11
6	Operating Expenses (Smith).....	12
7	Revenue Requirement (Smith) .....	16
8	Rate Structure and Rates (Hudson, Johnson) .....	17
9	Four-Year Rate Reduction (Hudson, Johnson, Smith).....	19
10	Temporary Rates (Smith) .....	20
11	Miscellaneous Service Charges (Hudson, Johnson).....	22
12	Late Payment Charge (Hudson, Johnson) .....	23
13	Non-Sufficient Funds (NSF) Charge (Hudson, Johnson).....	24
14	Initial Customer Deposits (Hudson, Johnson).....	25
15	Proof of Adjustments (Smith) .....	26
	Schedule No. 1-A Water Rate Base .....	27
	Schedule No. 1-B Adjustments to Rate Base .....	28
	Schedule No. 2 Capital Structure .....	29
	Schedule No. 3-A Water NOI .....	30
	Schedule No. 3-B Adjustments to NOI .....	31
	Schedule No. 3-C Water Operation and Maintenance Expense.....	33
	Schedule No. 4 Monthly Water Rates .....	34

### Case Background

Neighborhood Utilities, Inc. (Neighborhood or utility) is a Class C utility providing service to approximately 441 water customers in Duval County. Neighborhood was granted Certificate No. 430-W in 1984.<sup>1</sup> The utility's rates and charges were last approved in a staff-assisted rate case in 2010.<sup>2</sup> In 2014, the utility's index application was approved and the rates were reduced to reflect the expiration of rate case expense approved in 2010. On August 10, 2015, Neighborhood filed its application for a staff-assisted rate case. Staff selected the test year ended June 30, 2015, for the instant docket. According to Neighborhood's 2014 annual report, total gross revenues were \$133,234 and total operating expenses were \$133,961.

This Staff Report is a **preliminary** analysis of the utility prepared by the Commission staff to give customers and the utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed June 23, 2016, for the July 7, 2016 Agenda Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting. The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.0812, 367.0814, 367.0816, and 367.121, Florida Statutes (F.S.).

---

<sup>1</sup> Order No. 13723, issued September 28, 1984, in Docket No. 840063-WU, *In re: Application of Neighborhood Utilities, Inc. for a certificate to operate a water utility in Duval County, Florida.*

<sup>2</sup> Order No. PSC-10-0024-PAA-WU, issued January 11, 2010, in Docket No. 090060-WU, *In re: Application for staff-assisted rate case in Duval County by Neighborhood Utilities.*

## Discussion of Issues

**Issue 1:** Is the quality of service provided by Neighborhood Utilities, Inc. satisfactory?

**Preliminary Recommendation:** Staff's recommendation regarding quality of service will not be finalized until after the May 18, 2016 customer meeting. (P. Buys)

**Staff Analysis:** Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water and wastewater rate cases, the Commission shall determine the overall quality of service provided by the utility. Overall quality of service is derived from an evaluation of three separate components of the utility operations. These components are: (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. The rule further states that 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 shall be considered. In addition, input from DEP and health department officials and customer comments or complaints over the preceding five-year period shall be considered pursuant to Section 367.0812(1)(c), F.S.

Neighborhood's service area is located near Jacksonville, Florida, in Duval County, and is within the St. Johns River Water Management District (SJRWMD). The water treatment system has one well rated at 350 gallons per minute (gpm). The raw water is treated with liquid chlorine for disinfection purposes. The utility's water system has three storage tanks totaling 62,000 gallons.

### Quality of Utility's Product

Staff's evaluation of Neighborhood's product quality consisted of a review of the utility's compliance with DEP primary and secondary drinking water standards. Primary standards protect public health while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water. Staff reviewed the chemical analysis with samples dated June 17, 2015. All of the contaminants were below the maximum contaminant level set by DEP.

### Operating Condition of the Utility's Plant and Facilities

Staff reviewed the utility's last two DEP Sanitary Survey Reports, dated September 29, 2011 and January 24, 2014. Each report had multiple deficiencies listed. The last report identified the following deficiencies, three of which are repeat deficiencies:

- Well casings are corroded (repeat)
- Aerator screens have not been cleaned
- Tank inspections have not been performed by licensed engineer
- Ground storage tank is corroded (repeat)
- No Operation & Maintenance manual (repeat)

Four of the five deficiencies were corrected by August 2014. The deficiency that has not been corrected is the tank inspection. The utility noted that insufficient funds are the reason for not correcting this deficiency. Neighborhood has asked for the tank inspection to be a pro forma project included in this rate case.

Date: April 20, 2016

### **The Utility's Attempt to Address Customer Satisfaction**

Staff reviewed the Commission's complaint records from January 1, 2009, through March 30, 2016, and found 11 complaints, all of which have been resolved. Two complaints were concerning quality of service and were resolved in 2009. Specifically, the complaints addressed a boil water notice and customer service. The remaining complaints concerned improper bills. Staff also requested copies of complaints filed with the utility during the test year and four years prior to the test year. The utility is working on providing that information to staff. In addition, staff requested complaints from DEP for the test year and the four years prior. DEP indicated that it has received no complaints during the time period in question. All quality of service complaints will be investigated and will be taken into consideration during the preparation of staff's final recommendation.

### **Conclusion**

Quality of service will be determined at a later date, pending review of comments made at the May 18, 2016 customer meeting.

**Issue 2:** What are the used and useful percentages (U&U) of Neighborhood's water treatment plant and distribution system?

**Preliminary Recommendation:** Neighborhood's water treatment plant (WTP) and distribution system should be considered 100 percent U&U. Additionally, there appears to be no excessive unaccounted for water; therefore, at this time, staff is not recommending an adjustment be made to operating expenses for chemicals and purchased power. (P. Buys)

**Staff Analysis:** Neighborhood's water treatment system has one well rated at 350 gallons gpm. The raw water is treated with liquid chlorine for disinfection purposes. The utility's water system has three storage tanks totaling 62,000 gallons. Neighborhood is also interconnected with JEA. The interconnection is used for emergency situations. There are 24 fire hydrants located throughout the service area. The distribution system is a composite mix of PVC pipes of varying sizes. In the utility's last rate case, the Commission determined that both the WTP and distribution system were 100 percent U&U.<sup>3</sup>

#### **Water Treatment Plant and Distribution System Used & Useful**

As noted above, both the WTP and distribution systems were deemed 100 percent U&U during the previous rate case.<sup>4</sup> There has been no change in circumstances; therefore, consistent with the prior Commission decision, staff recommends that the WTP and distribution system should be considered to be 100 percent U&U.

#### **Excessive Unaccounted for Water (EUW)**

Rule 25-30.4325, F.A.C., defines EUW as "unaccounted for water in excess of 10 percent of the amount produced." Unaccounted for water is all water that is produced that is not sold, metered or accounted for in the records of the utility. EUW is calculated by subtracting the gallons used for other services, such as flushing, and the gallons sold to customers from the total gallons pumped and purchased for the test year.

The Monthly Operating Reports that the utility files with DEP indicate that the utility treated 28,132,000 gallons during the test year. The utility's annual reports indicate that it purchased 361,000 gallons of water and used 180,000 gallons for other uses during the test year. According to the staff audit report, the utility sold 27,167,355 gallons of water for the test year. The resulting unaccounted for water is only 4 percent. Therefore, staff is recommending that no adjustment be made to operating expenses for chemicals and purchase power due to EUW.

#### **Conclusion**

Consistent with the prior rate case, Neighborhood's WTP and distribution system should be considered 100 percent U&U. Additionally, since unaccounted for water is only 4 percent, no adjustment should be made to operating expenses for chemicals and purchased power.

---

<sup>3</sup> Id.

<sup>4</sup> Id.

**Issue 3:** What is the appropriate average test year rate base?

**Preliminary Recommendation:** The appropriate average test year water rate base is \$175,793. (Smith)

**Staff Analysis:** Neighborhood's water rate base was last established in its 2009 SARC docket by Order No. PSC-10-0024-PAA-WU.<sup>5</sup> The test year ended June 30, 2015 was used for the instant case. A summary of each rate base component and recommended adjustments are discussed below.

**Utility Plant in Service (UPIS)**

The utility recorded UPIS of \$646,773. The staff audit identified several adjustments resulting in a net increase to UPIS of \$21,591 to reflect the appropriate balances, Commission-ordered adjustments, and additions that were not booked. These adjustments are shown on Table 3-1. Staff also made an averaging adjustment to decrease UPIS by \$188. As shown in Table 3-2, staff made a net adjustment increasing UPIS by \$24,689 for pro forma plant addition items. Therefore, staff recommends an average UPIS balance of \$692,865 (\$646,773 + \$21,591 - \$188 + \$24,689).

**Table 3-1  
Audit Adjustments**

<b>Acct.</b>	<b>Description</b>	<b>Adjustments</b>
302	Franchise	(\$243)
304	Structures & Improvements	7,447
307	Wells & Springs	7,695
309	Supply Mains	1,680
311	Pumping Equip.	674
320	Water Treatment Equip.	1,242
330	Distribution Reservoirs	2,522
331	T&D Mains	(2,570)
333	Services	3,880
334	Meters & Meter Installations	(1,036)
335	Tools, Shop, & Garage Equip.	300
	<b>Total Adjustments</b>	<b>\$21,591</b>

Source: Staff's audit

<sup>5</sup> Id.

**Table 3-2  
 Pro-Forma Plant Items**

<b>Project</b>	<b>Description</b>	<b>Amount</b>
Meter Replacements	Replace 439 meters with touch read meters	\$11,940
Associated Retirement		(8,955)
Meter Boxes and Lids	Replace 50 meters boxes and lids	5,550
Associated Retirement		(4,162)
Generator Switch Gear	Diagnosis and repair the generator switch gear	1,500
Electric Panel Repairs	Rewire and replace the electric panel	14,250
Associated Retirement		5,209)
High Service Pump #1	Replace and upgrade a high service pump	3,977
Associated Retirement		(2,271)
Pump House Roof	Replace the pump house roof	900
Associated Retirement		(331)
Flushing Valve	Install a two-inch flushing valve	7,500
	Net Adjustment	\$24,689

Source: Responses to staff data requests

**Land & Land Rights**

The utility recorded a test year land value of \$1,000. Staff did not make any adjustments to this account.

**Accumulated Depreciation**

The utility recorded an accumulated depreciation balance of \$462,169 on its 2014 Annual Report. The staff auditor calculated accumulated depreciation to be \$459,458 as of June 30, 2015, resulting in a decrease of \$2,711. This balance included Commission-ordered adjustments that the utility did not make. Staff also made an averaging adjustment to accumulated depreciation that resulted in a decrease of \$10,320. Further, staff made adjustments based on pro forma plant additions and retirements resulting in a net decrease of \$18,458. Staff's adjustments result in an accumulated depreciation balance of \$430,680 (\$462,169 - \$2,711 - \$10,320 - \$18,458).

**Contributions In Aid of Construction (CIAC)**

The utility recorded a CIAC balance of \$786,998 as of June 30, 2015. This amount is consistent with the Utility's last rate. However, this puts the utility in a situation in which CIAC is greater than UPIS. The utility was unable to provide sufficient documentation to support this CIAC amount. Even though it would be a departure from a previous Commission order, staff believes it is necessary to impute CIAC pursuant to Rule 25-30.570, F.A.C., which states:

If the amount of CIAC has not been recorded on the utility's books and the utility does not submit competent substantial evidence as to the amount of CIAC, the amount of CIAC shall be imputed to be the amount of plant costs charged to the cost of land sales for tax purposes if available, or the proportion of the cost of the facilities and plant attributable to the water transmission and distribution system and the sewage collection system.



Pursuant to this rule, staff included \$243,607 which is the balance in Account 331 T&D Mains. Staff also recalculated the appropriate amount of meter installation charges and plant capacity charges based on the utility's tariff sheet. Staff increased CIAC by \$39,402 for the meter installation charges and \$421,465 for plant capacity charges. Further, staff reduced CIAC by \$13,118 to reflect meter retirements associated with pro forma meter replacements. Therefore, staff recommends that the appropriate CIAC balance is \$691,357 ( $\$243,607 + \$39,402 + \$421,465 - \$13,118$ ). This results in a net decrease of \$95,642 ( $\$786,998 - \$691,357$ ).

#### **Accumulated Amortization of CIAC**

The utility recorded Accumulated Amortization of CIAC of \$567,803 on its 2014 Annual Report. Staff recalculated this amount based on the imputed balances for CIAC. Based on staff's calculations, the appropriate components of Accumulated Amortization of CIAC are \$145,438 for the T&D Mains, \$33,357 for the Meter Installation Charges, and \$421,465 for the Plant Capacity Charges. Staff also reduced Accumulated Amortization of CIAC by \$13,118 associated with pro forma meter retirements. Further, staff is reducing Accumulated Amortization of CIAC by \$3,459 to reflect an averaging adjustment. Therefore, staff is recommended accumulated amortization of CIAC balance of \$583,683 ( $\$145,438 + \$33,357 + \$421,465 - \$13,118 - \$3,459$ ). This results in a net increase of \$15,880 ( $\$583,683 - \$567,803$ ).

#### **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., staff used the one-eighth of the operation and maintenance expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$20,281.

#### **Rate Base Summary**

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$175,793. Water rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

**Issue 4:** What is the appropriate return on equity and overall rate of return for Neighborhood?

**Preliminary Recommendation:** The appropriate return on equity (ROE) is 11.16 percent with a range of 10.16 percent to 12.16 percent. The appropriate overall rate of return is 6.64 percent. (Smith)

**Staff Analysis:** According to the staff audit, Neighborhood's test year capital structure reflected negative common equity of \$622,743 and customer deposits of \$7,995. In accordance with Commission practice, staff set the negative common equity to zero.<sup>6</sup> Staff increased customer deposits by \$1,338 to reflect the amount on the utility's deposit log and decreased customer deposits by \$1,783 to reflect an averaging adjustment. This results in a net decrease of \$445 in customer deposit. Thus, staff recommends a customer deposit balance of \$7,550 (\$7,995- \$445).

The utility also recorded a long-term debt balance of \$178,919. Staff reduced that amount by \$89,769 to remove two amounts on the utility's books that it says were already paid. Staff also reduced long-term debt by \$82,078 to remove two debts that were on the utility's books that were said to be unenforceable. Further, staff increased long-term debt by \$95,068 to include two promissory notes that were not on the utility's books. Additionally, staff increased long-term debt by \$1,307 to reflect an averaging adjustment. Thus, staff recommends a long-term debt balance of \$103,447 ( $\$178,919 - \$89,769 - \$82,078 + \$95,068 + \$1,307$ ).

The utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE for the utility is 11.16 percent based upon the Commission-approved leverage formula currently in effect.<sup>7</sup> Staff recommends an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 6.64 percent. The ROE and overall rate of return are shown on Schedule No. 2.

---

<sup>6</sup> Order Nos. PSC-15-0535-PAA-WU, issued November 19, 2015, p. 6, in Docket No. 140217-WU, *In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.*; PSC-13-0140-PAA-WU, issued March 25, 2013, p. 6, in Docket No. 120183-WU, *In re: Application for staff-assisted rate case in Lake County by TLP Water, Inc.*

<sup>7</sup> Order No. PSC-15-0259-PAA-WS, issued July 2, 2015, in Docket No. 150006-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.*

Date: April 20, 2016

**Issue 5:** What are the appropriate test year revenues for Neighborhood's water system?

**Preliminary Recommendation:** The appropriate test year revenues for Neighborhood's water system are \$135,133. (Hudson, Johnson)

**Staff Analysis:** Neighborhood recorded total test year revenues of \$135,972. The water revenues included \$134,866 of service revenues and \$1,106 of miscellaneous revenues. Based on staff's review of the utility's billing determinants and the service rates that were in effect during the test year, staff determined test year service revenues should be \$132,143. This results in a decrease of \$2,723 ( $\$134,866 - \$132,143$ ) to service revenues for water.

On a contractual basis, U.S. Water Services Corporation (U.S. Water) provides disconnect and reconnection services to Neighborhood. In order to recover its cost, the utility charged the customer \$20, which is more than its tariffed rate. Based on staff's review of the number of miscellaneous service occurrences during the test year and the utility's approved miscellaneous service charges, staff determined miscellaneous revenues should be \$2,990. This results in an increase of \$1,884 ( $\$2,990 - \$1,106$ ) to miscellaneous revenues for water. Based on the above, the appropriate test year revenues for Neighborhood's water system are \$135,133 ( $\$132,143 + \$2,990$ ).

**Issue 6:** What is the appropriate amount of operating expenses?

**Preliminary Recommendation:** The appropriate amount of operating expense for the utility is \$186,925. (Smith)

**Staff Analysis:** The utility recorded operating expense of \$157,952. The test year Operation and Maintenance expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff made several adjustments to the utility's operating expenses as summarized below.

### **Operation and Maintenance Expenses**

#### **Salaries and Wages - Employees (601)**

The utility recorded salaries and wages - employees expense of \$17,777. Staff increased this account by \$223. This adjustment is to reflect the actual salaries and wages expense paid by the utility. Therefore, staff recommends salaries and wages expenses of \$18,000 (\$17,777 + \$223).

#### **Purchased Power (615)**

The utility recorded purchased power expense of \$5,261. Staff increased purchased power by \$187 to reflect actual purchased power expense. The utility did not record any purchased power expense related to the utility's office. For purposes of this report, staff used a Commission-approved amount for a similarly sized utility and indexed that amount to 2015.<sup>8</sup> This results in an increase to purchased power expense of \$1,705. Therefore, staff recommends purchased power expense of \$7,153 (\$5,261 + \$187 + \$1,705).

#### **Chemicals (618)**

The utility recorded chemicals expense of \$5,339. Staff decreased chemicals expense by \$635 to remove a transaction that was outside the test year. Therefore, staff recommends chemicals expense of \$4,704 (\$5,339 - \$635).

#### **Contractual Services - Billing (630)**

The utility recorded contractual services - billing expense of \$14,326. Staff reduced Contractual Services - Billing expense by \$1,123 to remove several bills that were outside the test year. Therefore, staff recommends contractual services - billing expense of \$13,203 (\$14,326 - \$1,123).

#### **Contractual Services - Testing (635)**

The utility recorded contractual services - testing expense of \$2,632. Staff reduced contractual services - testing expense by \$39 to remove unsupported expenses. Further, staff increased contractual services - testing expense by \$485 to reflect an annualized amount related to DEP required tri-annual contaminants testing that was not performed during the test year. Therefore, staff recommends contractual services - testing expense of \$3,078 (\$2,632 - \$39 + \$485).

---

<sup>8</sup> Order No. PSC-11-0436-PAA-WS, issued September 29, 2011, p. 8, in Docket No. 100472-WS, *In re: Application for staff-assisted rate case in Manatee County by Heather Hills Estates Utilities LLC*.

**Contractual Services – Other (636)**

The utility did not record any contractual services – other expense during the test year. Staff increased contractual services – other expense by \$20,922 to reflect documented expenses that were deemed reasonable. Staff also increased this account by \$1,560 to reflect the cost of lawn maintenance. Staff further increased contractual services – other expense by \$8,585 to reflect pro forma expenses as shown in Table 6-1. Therefore, staff recommends contractual service – other expense of \$31,067 ( $\$20,922 + \$1,560 + \$8,585$ ).

**Table 6-1  
Pro-Forma Expenses Items**

<b>Project</b>	<b>Description</b>	<b>Amount</b>
Tank Inspection	To inspect storage tank per DEP requirements	\$1,385
Fire Hydrant Service	To annually test and service fire hydrants	\$2,700
Valves	To clean and exercise the valves	\$4,500
Total		\$8,585

Source: Responses to staff data requests

**Rental of Building/Property (640)**

The utility did not record any rental of building/property expense. The utility is currently using an office free of charge. However, this situation is temporary, and the utility must find another office. For purposes of this report, staff estimated the utility would need a 750 square foot office. Using a commercial real estate website, staff estimates an average price per square foot of \$1.03 for similar sized offices in the Jacksonville area. Therefore, staff recommends rental of building/property expense of \$9,293 ( $750 \times \$1.03 \times 12$ ).

**Transportation Expense (650)**

The utility recorded transportation expense of \$6,746. The only vehicle used by Neighborhood is a 1998 Honda Accord. The title to this vehicle is in the name of the spouse of the utility's President. There are no lease payments associated with this vehicle. The utility pays for all gas and maintenance on the vehicle. Staff increased transportation expense by \$632 to reflect supported expenses. Therefore, staff recommends transportation expense of \$7,378 ( $\$6,746 + \$632$ ).

**Insurance Expense (655)**

The utility recorded insurance expense of \$4,164. Staff increased this expense by \$1,344 to reflect actual expenses that are supported by documentation. This account consists of property insurance, auto insurance, and life insurance expense of \$1,170, \$993, and \$3,346, respectively. Staff has verified that the utility is the beneficiary of the life insurance. Therefore, staff recommends insurance expense of \$5,508 ( $\$4,164 + \$1,344$ ).

**Regulatory Commission Expense (665)**

Neighborhood did not record any regulatory commission expenses. By Rule 25-22.0407, F.A.C., the utility is required to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, staff estimated \$431 for postage, \$308 for printing, and \$44 for envelopes. Additionally, the utility paid a \$1,000 rate case filing fee. Based on the above,

staff recommends that the total rate case expense is \$1,783 to be amortized over four years which results in a regulatory commission expense of \$446 ( $\$1,783/4$ ).

***Bad Debt (670)***

The utility recorded bad debt expense of \$387. Staff removed that amount due to a lack a supporting documentation. Therefore, staff recommends bad debt expense of \$0.

***Miscellaneous Expense (675)***

The utility recorded miscellaneous expense of \$43,520. Staff decreased miscellaneous expense by \$11,098 to remove expenses that were outside the test year. Staff further decreased miscellaneous expense by \$7,895 to remove expenses that had no supporting documentation. Additionally, staff increased miscellaneous expense by \$5,032 to include expenses that were not recorded on the utility's books. Therefore, staff recommends miscellaneous expense of \$29,559 ( $\$43,520 - \$11,098 - \$7,895 + \$5,032$ ).

**Operation and Maintenance Expenses Summary**

Based on the above adjustments, staff recommends that the O&M expense balance is \$162,249. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-B and 3-C.

**Depreciation Expense**

The utility recorded depreciation expense of \$13,390 for the test year. Staff auditors recalculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. and stated that depreciation expense was understated by \$9,422. Further, staff increased Depreciation Expense by \$1,288 associated with pro forma plant additions. Based on the above, staff recommends a test year depreciation expense of \$24,100 ( $\$13,390 + \$9,422 + \$1,288$ ).

**CIAC Amortization Expense**

The utility did not record any CIAC amortization expense for the test year. The staff auditor calculated CIAC amortization expense for the test year to be \$14,407. Staff decreased this expense by \$772 to reflect retirements related to pro forma meter installations. Based on staff's calculations, the utility's CIAC amortization expense is \$13,635 ( $\$14,407 - \$772$ ).

**Taxes Other Than Income (TOTI)**

The utility recorded TOTI of \$11,550. Staff reduced this amount by \$195 to reflect the appropriate test year property taxes. Staff increased TOTI by \$2,856 to reflect RAFs associated with the revenue increase. Staff is therefore recommending TOTI of \$14,211 ( $\$11,550 - \$195 + \$2,856$ ).

**Income Tax**

The utility did not record any income tax expense for the test year. Neighborhood has shown a net loss for the last several years in its Annual Reports and income tax returns. This tax loss carry forward is in excess of the income tax provision on a going-forward basis, and is expected to continue to be so for at least the next 10 years. In this instance, it is Commission practice to

Date: April 20, 2016

allow no provision for income tax.<sup>9</sup> Therefore, staff recommends no income tax provision for the utility.

### **Operating Expenses Summary**

The application of staff's recommended adjustments to Neighborhood's test year operating expenses result in operating expenses of \$186,925. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

---

<sup>9</sup> Order Nos. PSC-15-0535-PAA-WU, issued November 19, 2015, p. 11, in Docket No. 140217-WU, *In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.*; and PSC-10-0124-PAA-WU, issued March 1, 2010, p. 9, in Docket No. 090244-WU, *In re: Application for staff-assisted rate case in Lake County by TLP Water, Inc.*

**Issue 7:** What is the appropriate revenue requirement?

**Preliminary Recommendation:** The appropriate revenue requirement is \$198,597, resulting in an annual increase of \$63,464 (46.96 percent). (Smith)

**Staff Analysis:** Neighborhood should be allowed an annual increase of \$63,464 (46.96 percent). This will allow the utility the opportunity to recover its prudent expenses and earn a 6.64 percent return on its water system. The calculations are shown in Table 7-1.

**Table 7-1  
Revenue Requirement**

Adjusted Rate Base	\$175,793
Rate of Return	<u>6.64%</u>
Return on Rate Base	\$11,673
Adjusted O&M Expense	162,249
Depreciation Expense (Net)	10,465
Taxes Other Than Income	14,211
Income Taxes	<u>0</u>
Revenue Requirement	\$198,597
Less Adjusted Test Year Revenues	<u>(135,133)</u>
Annual Increase	\$63,464
Percent Increase	46.96%



**Issue 8:** What are the appropriate rate structure and rates for Neighborhood's water system?

**Preliminary Recommendation:** The recommended rate structure and monthly water rates are shown on Schedule No. 4. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice. (Hudson, Johnson)

**Staff Analysis:** Neighborhood is located in Duval County within the SJRWMD. The utility provides water service to approximately 437 residential and 4 general service customers. Approximately one 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 5,065 gallons per month. The utility's current water system rate structure for residential customers consists of a base facility charge (BFC) and a three-tier inclining block rate structure. The rate blocks are: (1) 0-6,000 gallons; (2) 6,001-12,000 gallons; and (3) all usage in excess of 12,000 gallons per month. The general service rate structure includes a BFC based on meter size and a uniform gallonage charge.

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

Currently, the utility's BFC generates approximately 43 percent of the test year revenues. In order to design gallonage charges that will send the appropriate pricing signals to target non-discretionary usage, staff believes 33 percent of the revenue requirement should be recovered through the BFC. In addition, the average people per household served by the water system is three; therefore, based on the number of persons per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 5,000 gallons per month. Staff shifted the third tier to 10,000 gallons and over, rather than 12,000 gallons and over, to provide a greater pricing signal for usage in excess of 10,000 gallons per month. Staff recommends a BFC and a three-tier gallonage charge rate structure, which includes a gallonage charge for non-discretionary usage for residential water customers. The rate tiers should be: (1) 0-5,000 gallons (non-discretionary); (2) 5,001-10,000 gallons; and (3) all usage in excess of 10,000 gallons per month. Staff recommends a BFC and uniform gallonage charge rate structure for general service water customers.

Further, based on the recommended revenue increase of approximately 47 percent, the residential consumption can be expected to decline by 1,971,000 gallons resulting in anticipated average residential demand of 4,688 gallons per month. Staff recommends a 7.4 percent reduction in total test year residential gallons for rate setting purposes and corresponding reductions of \$519 for

Date: April 20, 2016

purchased power, \$341 for chemical expense, and \$41 for RAFs to reflect the anticipated repression. These adjustments result in a post repression revenue requirement of \$194,706.

The recommended rate structure and monthly water rates are shown on Schedule No. 4. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice.

**Issue 9:** What is the appropriate amount by which rates should be reduced after the rate case expense recovery period to reflect the removal of the amortized rate case expense as required by Section 367.081(8), F.S.?

**Preliminary Recommendation:** The water rates should be reduced, as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period, pursuant to Section 367.081(8), F.S. Neighborhood should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Hudson, Johnson, Smith)

**Staff Analysis:** Section 367.081(8), F.S., provides that rate case expense shall be apportioned for recovery over four years unless a longer period can be justified and is in the public interest. At the conclusion of the recovery period, the rates shall be immediately reduced by the amount of the rate case expense previously included in rates. Staff recommends that a four year amortization period is reasonable and is in the public interest. The reduction will reflect the removal of revenue associated with the amortization of rate case expense and the gross-up for RAFs. This results in a reduction of \$471.

The water rates should be reduced, as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the recovery period pursuant to Section 367.081(8), F.S. Neighborhood should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

**Issue 10:** Should the recommended rates be approved for the utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the utility?

**Preliminary Recommendation:** Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the utility. Neighborhood should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the Commission'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 should also indicate the status of the security being used to guarantee repayment of any potential refund. (Smith)

**Staff Analysis:** This recommendation proposes an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. Neighborhood should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by the utility should be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$42,310. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

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

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

- 1) The letter of credit is irrevocable for the period it is in effect, 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 should be part of the agreement:

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

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

The utility should maintain a record of the amount of the 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., the utility should 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 should also indicate the status of the security being used to guarantee repayment of any potential refund.

**Issue 11:** Should Neighborhood's miscellaneous service charges be revised?

**Preliminary Recommendation:** Staff's recommendation regarding the utility's miscellaneous service charges will not be finalized until after the May 18, 2016 customer meeting. (Hudson, Johnson)

**Staff Analysis:** Section 367.091, F. S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or services availability charges. The utility's existing initial connection, normal reconnection, premises visit, and violation reconnection charges were last established in 1984.<sup>10</sup> As discussed in Issue 5, U.S. Water provides disconnection and reconnection services for Neighborhood on a contractual basis. The cost of the contractual service is more than the utility's approved miscellaneous service charge. The utility requested and provided cost justification to have its miscellaneous service charges revised. Staff has requested additional information in regards to the cost justification provided to determine the appropriate miscellaneous service charges. Staff will reserve its recommendation on revising the utility's existing miscellaneous service charges until staff's final recommendation.

---

<sup>10</sup> Order No. 13723, issued September 28, 1984, in Docket No. 840063-WU, *In re: Application of Neighborhood Utilities, Inc., for a certificate to operate a water utility in Duval County.*

**Issue 12:** Should Neighborhood's request to implement a \$5 late payment charge be approved?

**Preliminary Recommendation:** Staff's recommendation regarding a \$5 late payment charge will not be finalized until after the May 18, 2016 customer meeting. (Hudson, Johnson)

**Staff Analysis:** Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or services availability charges. The utility is requesting a \$5 late payment charge to recover the cost of supplies and labor associated with processing late payment notices. The utility requested and provided cost justification to implement a late payment charge. Staff has requested additional information in regards to the cost justification provided to determine the appropriate late payment charge. Staff will reserve its recommendation on the \$5 late payment charge request until staff's final recommendation.

**Issue 13:** Should Neighborhood be authorized to collect Non-Sufficient Funds Charges (NSF)?

**Preliminary Recommendation:** Yes. Neighborhood should be authorized to collect NSF charges. Staff recommends that Neighborhood revise its tariffs to reflect the NSF charges currently set forth in Section 68.065, F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. Furthermore, the charges should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given within 10 days of the date of the notice. (Hudson, Johnson)

**Staff Analysis:** Section 367.091, F.S., requires rates, charges, and customer service policies to be approved by the Commission. The Commission has authority to establish, increase, or change a rate or charge. Staff believes that Neighborhood should be authorized to collect NSF charges consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Section 68.065(2), F.S., the following NSF charges may be assessed:

- (1) \$25, if the face value does not exceed \$50,
- (2) \$30, if the face value exceeds \$50 but does not exceed \$300,
- (3) \$40, if the face value exceeds \$300,
- (4) or five percent of the face amount of the check, whichever is greater.

Approval of NSF charges is consistent with prior Commission decisions.<sup>11</sup> Furthermore, NSF charges place the cost on the cost-causer, rather than requiring that the costs associated with the return of the NSF checks be spread across the general body of ratepayers. As such, Neighborhood should be authorized to collect NSF charges for its water system. Staff recommends that Neighborhood revise its tariff sheet to reflect the NSF charges currently set forth in Section 68.065, F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. Furthermore, the NSF charges should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given within 10 days of the date of the notice.

---

<sup>11</sup>Order Nos. PSC-14-0198-TRF-SU, issued May 2, 2014, in Docket No. 140030-SU, *In re: Request for approval to amend Miscellaneous Service charges to include all NSF charges by Environmental Protection Systems of Pine Island, Inc.*; and PSC-13-0646-PAA-WU, issued December 5, 2013, in Docket No. 130025-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*



**Issue 14:** What are the appropriate initial customer deposits for Neighborhood's water service?

**Preliminary Recommendation:** The appropriate water initial customer deposit should be \$64 for the residential 5/8" x 3/4" meter size based on staff's preliminary rates. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water service. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C.

**Staff Analysis:** Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the utility and, ultimately, the general body of ratepayers. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.<sup>12</sup> Currently, the utility does not have initial customer deposits. Based on the staff recommended water rates and the post repression average residential demand, the appropriate initial customer deposit should be \$64 for water to reflect an average residential customer bill for two months.

It should also be noted that staff has identified a number of customer deposits that have been held longer than 23 months. Pursuant to Rule 25-30.311, F.A.C., after a customer has established a satisfactory payment record and has had continuous service for a period of 23 months, the utility shall refund the residential customer's deposit. Staff will determine whether the deposits held longer than 23 months have met the rule requirements and should be refunded. If any, staff will address the refund of customer deposits in its final recommendation.

Staff recommends that the appropriate water initial customer deposit should be \$64 for the residential 5/8" x 3/4" meter size based on staff's preliminary rates. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water service. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C.

---

<sup>12</sup>Order Nos. PSC-13-0611-PAA-WS, issued November 19, 2013, in Docket No. 130010-WS, *In re: Application for increase in water rates in Lee County and wastewater rates in Pasco County by Ni Florida, LLC.* and PSC-14-0016-TRF-WU, issued January 6, 2014, in Docket No. 130251-WU, *In re: Application for approval of miscellaneous service charges in Pasco County, by Crestridge Utility Corporation.*

NEIGHBORHOOD UTILITIES, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 06/30/15		DOCKET NO. 150181-WU	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$646,773	\$46,092	\$692,865
LAND & LAND RIGHTS	1,000	0	1,000
ACCUMULATED DEPRECIATION	(462,169)	31,489	(430,680)
CIAC	(786,998)	95,642	(691,357)
AMORTIZATION OF CIAC	567,803	15,880	583,683
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>20,281</u>	<u>20,281</u>
WATER RATE BASE	<u>(\$33,591)</u>	<u>\$209,384</u>	<u>\$175,793</u>

NEIGHBORHOOD UTILITIES, INC. TEST YEAR ENDED 06/30/15 ADJUSTMENTS TO RATE BASE	SCHEDULE NO. 1-B DOCKET NO. 150181-WU PAGE 1 OF 1
	<u>WATER</u>
<b><u>UTILITY PLANT IN SERVICE</u></b>	
1. To reflect prior COAs and additions that were not booked. (AF2)	\$21,591
2. To reflect an averaging adjustment.	(188)
3. To reflect pro forma plant additions.	<u>24,689</u>
Total	<u>\$46,092</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>	
1. To reflect the appropriate balance.	\$2,711
2. To reflect an averaging adjustment.	10,320
3. To reflect pro forma plant additions.	<u>18,458</u>
Total	<u>\$31,489</u>
<b><u>CIAC</u></b>	
To reflect the imputed CIAC balance.	<u>\$95,642</u>
<b><u>AMORTIZATION OF CIAC</u></b>	
1. To reflect appropriate balance based on imputed CIAC.	\$19,339
2. To reflect an averaging adjustment.	<u>(3,459)</u>
Total	<u>\$15,880</u>
<b><u>WORKING CAPITAL ALLOWANCE</u></b>	
To reflect 1/8 of test year O & M expenses.	<u>\$20,281</u>

NEIGHBORHOOD UTILITIES, INC. TEST YEAR ENDED 06/30/15 SCHEDULE OF CAPITAL STRUCTURE							SCHEDULE NO. 2 DOCKET NO. 150181-WU		
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON STOCK	(\$622,743)	\$622,743	\$0						
2. RETAINED EARNINGS	0	0	0						
3. PAID IN CAPITAL	0	0	0						
4. OTHER COMMON EQUITY	0	0	0						
TOTAL COMMON EQUITY	(\$622,743)	\$622,743	\$0	\$0	\$0	0.00%	11.16%	0.00%	
5. LONG TERM DEBT	\$178,919	(\$75,472)	\$103,447	\$64,796	\$168,243	95.71%	6.85%	6.56%	
6. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%	
7. PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%	
TOTAL LONG TERM DEBT	\$178,919	(\$75,472)	\$103,447	\$64,796	\$168,243	95.71%			
8. CUSTOMER DEPOSITS	\$7,995	(\$445)	\$7,550	\$0	\$7,550	4.29%	2.00%	0.09%	
9. TOTAL	<u>(\$435,829)</u>	<u>\$546,826</u>	<u>\$110,997</u>	<u>\$64,796</u>	<u>\$175,793</u>	<u>100.00%</u>		<u>6.64%</u>	
<b>RANGE OF REASONABLENESS</b>						<b>LOW</b>	<b>HIGH</b>		
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>		
OVERALL RATE OF RETURN						<u>6.64%</u>	<u>6.64%</u>		

NEIGHBORHOOD UTILITIES, INC. TEST YEAR ENDED 06/30/15 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 150181-WU		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$135,972</u>	<u>(\$839)</u>	<u>\$135,133</u>	<u>\$63,464</u> 46.96%	<u>\$198,597</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	\$133,012	\$29,237	\$162,249	\$0	\$162,249
3. DEPRECIATION (NET)	13,390	10,710	24,100	0	24,100
4. AMORTIZATION	0	(13,635)	(13,635)	0	(13,635)
5. TAXES OTHER THAN INCOME	11,550	(195)	11,355	2,856	14,211
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$157,952</u>	<u>\$26,117</u>	<u>\$184,069</u>	<u>\$2,856</u>	<u>\$186,925</u>
8. OPERATING INCOME/(LOSS)	<u>(\$21,980)</u>		<u>(\$48,936)</u>		<u>\$11,673</u>
9. WATER RATE BASE	<u>(\$33,591)</u>		<u>\$175,793</u>		<u>\$175,793</u>
10. RATE OF RETURN	<u>65.43%</u>		<u>-27.84%</u>		<u>6.64%</u>

NEIGHBORHOOD UTILITIES, INC. TEST YEAR ENDED 06/30/15 ADJUSTMENTS TO OPERATING INCOME	Schedule No. 3-B DOCKET NO. 150181-WU Page 1 of 2
	<b><u>WATER</u></b>
<b>OPERATING REVENUES</b>	
1. To reflect the appropriate test year services revenues.	(\$2,723)
2. To reflect the appropriate test year miscellaneous service revenues.	<u>1,884</u>
Subtotal	<u>(\$839)</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>	
1. Salaries and Wages - Employees (601)	
a. To reflect appropriate employee salaries.	<u>\$223</u>
Subtotal	<u>\$223</u>
2. Purchased Power (615)	
a. To reflect actual purchased power expense.	\$187
b. To include estimate of electric for office.	<u>1,705</u>
Subtotal	<u>\$1,892</u>
3. Chemicals (618)	
a. To remove invoice that occurred outside the test year.	<u>(\$635)</u>
Subtotal	<u>(\$635)</u>
4. Contractual Services - Billing (630)	
a. To remove invoices outside the test year.	<u>(\$1,123)</u>
Subtotal	<u>(\$1,123)</u>
5. Contractual Services - Testing (635)	
a. To remove unsupported invoices.	(\$39)
b. To reflect the appropriate testing expense.	<u>485</u>
Subtotal	<u>\$446</u>
6. Contractual Services - Other (636)	
a. To reflect documented expenses.	\$20,922
b. To reflect lawn maintenance.	1,560
c. To reflect pro forma expenses.	<u>8,585</u>
Subtotal	<u>\$31,067</u>
7. Rents (640)	
a. To include rent expense.	<u>\$9,293</u>
Subtotal	<u>\$9,293</u>

NEIGHBORHOOD UTILITIES, INC. TEST YEAR ENDED 06/30/15 ADJUSTMENTS TO OPERATING INCOME	Schedule No. 3-B DOCKET NO. 150181-WU Page 2 of 2
8. Transportation Expense (650)	
a. To reflect supported amount.	<u>\$632</u>
Subtotal	<u>\$632</u>
9. Insurance Expenses (655)	
a. To reflect supported amounts.	<u>\$1,344</u>
Subtotal	<u>\$1,344</u>
10. Regulatory Commission Expense	
a. Allowance for rate case expense amortized over 4 years.	<u>\$446</u>
Subtotal	<u>\$446</u>
11. Bad Debt Expense (670)	
a. To remove undocumented amount. (AF11)	<u>(\$387)</u>
Subtotal	<u>(\$387)</u>
12. Miscellaneous Expense (675)	
a. To removed expenses outside the test year. (AF11)	(\$11,098)
b. To remove expenses due to lack of support. (AF11)	(7,895)
c. To include supported expenses not on utility's books. (AF11)	<u>5,032</u>
Subtotal	<u>(\$13,961)</u>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>	<u>\$29,237</u>
<b>DEPRECIATION EXPENSE</b>	
1. To reflect the appropriate test year depreciation expense. (AF3)	\$9,422
2. To reflect pro forma additions.	<u>1,288</u>
Total	<u>\$10,710</u>
<b>AMORTIZATION</b>	
To reflect the appropriate test year amortization expense. (AF12)	<u>(\$13,635)</u>
<b>TAXES OTHER THAN INCOME</b>	
To reflect the appropriate test year TOTI.	<u>(\$195)</u>
Total	<u>(\$195)</u>

<b>NEIGHBORHOOD UTILITIES, INC.</b>		<b>SCHEDULE NO. 3-C</b>	
<b>TEST YEAR ENDED 06/30/15</b>		<b>DOCKET NO. 150181-WU</b>	
<b>ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE</b>			
	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUST- MENT</b>	<b>TOTAL PER STAFF</b>
(601) SALARIES AND WAGES - EMPLOYEES	\$17,777	\$223	\$18,000
(603) SALARIES AND WAGES - OFFICERS	26,400	0	26,400
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	5,261	1,892	7,153
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	5,339	(635)	4,704
(620) MATERIALS AND SUPPLIES	1,300	0	1,300
(630) CONTRACTUAL SERVICES - BILLING	14,326	(1,123)	13,203
(631) CONTRACTUAL SERVICES - PROFESSIONAL	2,400	0	2,400
(635) CONTRACTUAL SERVICES - TESTING	2,632	446	3,078
(636) CONTRACTUAL SERVICES - OTHER	0	31,067	31,067
(640) RENTS	0	9,293	9,293
(650) TRANSPORTATION EXPENSE	6,746	632	7,378
(655) INSURANCE EXPENSE	4,164	1,344	5,508
(656) GENERATOR LEASE	2,760	0	2,760
(657) MANAGEMENT FEES	0	0	0
(665) REGULATORY COMMISSION EXPENSE	0	446	446
(670) BAD DEBT EXPENSE	387	(387)	0
(675) MISCELLANEOUS EXPENSE	43,520	(13,961)	29,559
(680) REPAIRS & MAINTENANCE	<u>0</u>	<u>0</u>	<u>0</u>
	<b><u>\$133,012</u></b>	<b><u>\$29,237</u></b>	<b><u>\$162,249</u></b>



<b>NEIGHBORHOOD UTILITIES, INC.</b>		<b>SCHEDULE NO. 4</b>	
<b>TEST YEAR ENDED 06/30/15</b>		<b>DOCKET NO. 150181-WU</b>	
<b>MONTHLY WATER RATES</b>			
	<b>UTILITY CURRENT RATES</b>	<b>STAFF RECOMMENDED RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential and General Service</u></b>			
Base Facility Charge by Meter Size			
5/8" X3/4"	\$9.17	\$10.27	\$0.02
3/4"	\$13.76	\$15.41	\$0.04
1"	\$22.94	\$25.68	\$0.06
1-1/2"	\$45.86	\$51.35	\$0.12
2"	\$73.39	\$82.16	\$0.20
3"	\$146.77	\$164.32	\$0.39
4"	\$229.33	\$256.75	\$0.62
6"	\$458.67	\$513.50	\$1.23
Charge per 1,000 gallons - Residential			
0 - 6,000 gallons	\$2.40	N/A	N/A
6,001 - 12,000 gallons	\$3.60	N/A	N/A
Over 12,000 gallons	\$4.80	N/A	N/A
0 - 5,000 gallons	N/A	\$4.60	\$0.01
5,001 - 10,000 gallons	N/A	\$6.06	\$0.01
Over 10,000 gallons	N/A	\$9.09	\$0.02
Charge per 1,000 gallons - General Service	\$2.45	\$5.18	\$0.01
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
5,000 Gallons	\$27.17	\$33.27	
10,000 Gallons	\$39.17	\$63.57	
15,000 Gallons	\$63.17	\$109.02	