

State of Florida



Public Service Commission

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

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

DATE: November 16, 2016

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

FROM: Division of Economics (Friedrich, Hudson) *MF SH*
Division of Accounting and Finance (Vogel) *@*
Division of Engineering (Knoblauch) *EK*

RE: Docket No. 160143-WU – Application for staff-assisted rate case in Hardee County by Charlie Creek Utilities, LLC.

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- STAFF REPORT -

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

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Case Background

Charlie Creek Utilities, LLC, (Charlie Creek or utility) is a Class C utility providing service to approximately 146 water customers in Hardee County. Rates were last established for this utility when its original certificate was granted on January 25, 2016.¹ The rates and charges Charlie Creek had in effect prior to the current owner acquiring the water system were approved simultaneously with the utility's original certificate. On June 3, 2016, Charlie Creek filed an application for a staff assisted rate case (SARC). Staff selected the test year ended December 31, 2015, for the instant case. According to Charlie Creek's 2015 annual report, total gross revenues were \$68,259 and total operating expenses were \$71,773.

This Staff Report is a **preliminary** analysis of the utility prepared by Commission staff to give customers and the utility an advanced look at what staff may be proposing. The final recommendation to the Commission is currently scheduled to be filed January 26, 2017, for consideration at the February 7, 2016 Commission Conference. The recommendation will be revised as necessary using any updated information and results of customer quality of service concerns or other relevant information received during the customer meeting. The Commission has jurisdiction in this case pursuant to Sections 367.0812, 367.0814, and 367.091 Florida Statutes, (F.S.).

¹ 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.*

Discussion of Issues

Issue 1: Is the quality of service provided by Charlie Creek Utilities, LLC satisfactory?

Preliminary Recommendation: Staff's recommendation regarding quality of service will not be finalized until after the December 8, 2016 customer meeting. (Knoblauch)

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.

Charlie Creek's service area is located near Wauchula, Florida, in Hardee County, and is within the Southwest Florida Water Management District (SFWMD). The water treatment system has two wells rated at 150 gallons per minute (gpm) and 350 gpm. The raw water is treated with liquid chlorine for disinfection purposes. The utility's water system has two storage tanks totaling 11,000 gallons.

Quality of Utility's Product

In evaluation of Charlie Creek's product quality, staff reviewed 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 of samples dated July 27, 2015. All of the contaminants were below the maximum contaminant level set by DEP. DEP received one customer complaint in 2012 that related to a possible calcium buildup in the lines. Calcium is a secondary contaminant and is not considered an immediate health risk; however, the customer was advised to contact DEP if there were any further concerns. No other product quality complaints were received in past years.

Operating Condition of the Utility's Plant and Facilities

Staff reviewed the utility's last two DEP Sanitary Survey Reports dated October 8, 2012 and February 12, 2014. Each report had at least one deficiency listed. The last report identified a deficiency in meeting minimum requirements for a community over 350 in population, which required submission of an Emergency Preparedness Plan and mediation measures to one well. Following this report, the system was found to be in compliance on May 6, 2014.

The Utility's Attempt to Address Customer Satisfaction

Through October 31, 2016, staff reviewed the Commission's complaint records and found one complaint. The complaint involved improper disconnection of service, which was resolved by the utility and the complaint was closed. Staff also requested copies of complaints filed with the

utility during the test year and four years prior to the test year. The utility indicated that no complaints were filed during the test year, but the utility had received customer calls in relation to an odor from the water. In response, the utility installed two flushing valves in order to help with the hydrogen sulfide that was causing the odor. The utility is working on providing any complaints prior to the test year.

DEP indicated that one complaint was received on February 22, 2012. The customer stated that particles were present in their water, there was a leak on the purveyor's side, and they believed meters were not being correctly read. DEP personnel contacted the utility's operator and owner, who addressed the customer's concerns and the complaint was closed on February 23, 2012. All service complaints 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 December 8, 2016 customer meeting.

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

Preliminary Recommendation: Charlie Creek's WTP should be considered 100 percent U&U. The water distribution system should be considered 55 percent U&U. Staff recommends that a 31 percent adjustment to purchased power and chemicals should be made for excessive unaccounted for water. (Knoblauch)

Staff Analysis: Charlie Creek's water treatment system has two wells rated at 150 gpm and 350 gpm. The utility's water system has two useable storage tanks totaling 11,000 gallons in capacity. There is an existing fire flow stand pipe, but no fire hydrants are present. The distribution system is composed of varying sizes of galvanized and PVC pipes.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., defines Excessive Unaccounted for Water (EUW) as "unaccounted for water in excess of 10 percent of the amount produced." Unaccounted for water is all water produced that is not sold, metered or accounted for in the records of the utility. In determining whether adjustments to plant and operating expenses are necessary in accordance with Rule 25-30.4325(10), F.A.C., staff considers several factors. These include the causes of EUW, any corrective action taken, or the economical feasibility of a proposed solution. EUW is calculated by subtracting both the gallons sold to customers and the gallons used for other services, such as flushing, from the total gallons pumped for the test year. From the monthly operating reports, Charlie Creek produced 14,534,000 gallons of water from January 1, 2015 to December 31, 2015. From the audit completed by staff, the utility sold 8,300,739 gallons of water to customers. The utility documented 233,000 gallons of water used for other uses as recorded in the 2015 Annual Report. The result $[(14,534,000 - 8,300,739 - 233,000) / 14,534,000]$ for unaccounted for water is 41 percent, which yields EUW of 31 percent.

Used and Useful Percentages

Treatment Plant

Pursuant to Rule 25-30.4325, F.A.C., the Used and Useful calculations are defined for the water treatment system and storage facilities. For a water treatment plant with more than one well and storage capacity, the U&U is calculated by the following equation: $(\text{Peak Demand} + \text{Fire Flow} + \text{Growth} - \text{EUW}) / \text{Firm Reliable Capacity} \times 100$.

The Peak Demand is the single maximum day in the test year where there is no unusual occurrence on that day and is measured in gallons per day. From the flow data provided on the monthly operating reports, the peak demand was found to be 449,500 gallons per day. There is no fire flow for the utility. As described in Rule 25-30.431, F.A.C., a linear regression analysis of the utility's historical growth shows that there has been no growth for the 5-year statutory growth period. As provided above, the EUW is 31 percent or 12,344 gallons per day. Taking into account the utility's two wells, the firm reliable capacity (FRC) is equal to the pumping capacity, excluding the largest well. Based on 16 hours of pumping, the FRC is 144,000 gallons per day. Therefore, staff recommends the treatment plant be considered 100 percent U&U. $[(449,500 + 0 + 0 - 12,344) / 144,000 \times 100]$.

Charlie Creek has two useable storage tanks with a total capacity of 11,000 gallons. According to Rule 25-30.4325(8), F.A.C., usable storage capacity less than or equal to the peak day demand shall be considered 100 percent used and useful. As discussed above, the peak day demand was found to be 449,500 gallons per day. Thus, the storage should be considered 100 percent U&U.

Water Distribution System

The formula for calculating U&U for the water distribution system is given by: (number of test year connections + growth) / capacity of the system. Charlie Creek had an average of 145 residential connections and one general service connection during the test year. The capacity of the system is 266 lots; therefore, the water distribution system is 55 percent U&U.

Summary

Charlie Creek's water treatment plant should be considered 100 percent U&U. The water distribution system should be considered 55 percent U&U. Staff recommends an adjustment to purchased power and chemicals should be made for EUW of 31 percent.

Issue 3: What is the appropriate average test year rate base for Charlie Creek Utilities, LLC?

Preliminary Recommendation: The appropriate average test year water rate base for Charlie Creek is \$25,552. (Vogel)

Staff Analysis: Charlie Creek's net book value has never been established by the Commission, due in part to lack of original documentation during the original certificate audit. Charlie Creek's owner, Michael Smallridge, owns and manages other utilities in Florida and, as of January 1, 2015, has been recording common costs on Florida Utility Services 1, LLC's (FUS1) books. These costs, which include salaries, transportation, and office supplies, have been allocated among all of the utilities receiving services from FUS1. All allocations are based on ERC count provided by the utility in an audit response dated September 26, 2016. The test year ended December 31, 2015, was used for the instant case. A summary of each water rate base component and recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

The utility recorded water UPIS of \$3,044. Staff capitalized major repairs at the plant originally expensed to Accounts 620 and 636. These repairs include two pump repairs, one for \$504 and the second for \$640. The utility originally booked these costs as expenses, but staff believes these repairs will not be recurring and did extend the useful life of the assets; therefore, they should be capitalized. The repairs being capitalized also include replacing of a control box, refurbishing well 2 pumping equipment, installing a flush point, and installing a starter on well 1. Staff has increased UPIS by \$6,616 for these repairs. The utility also installed meters, but did not book the labor and installation costs for these meters; therefore, staff has increased UPIS by \$360. No documentation was found for the original cost of the water distribution system. Staff has also included an averaging adjustment of negative \$5,010. Staff's net adjustments increase UPIS by \$1,966. Therefore, staff recommends that the appropriate UPIS balance is \$5,010.

UPIS - Allocated

The utility did not record a balance in UPIS – Allocated. Due to the utility's relationship with FUS1, staff has included allocated common plant from FUS1. Staff's audit included total FUS1 balances for Office Furniture & Equipment, Transportation Equipment, and Tools, Shop, and Garage Equipment. These balances totaled \$21,770. After applying Charlie Creek's 7.22 percent allocation (based on the total ERCs), staff increased UPIS – Allocated by \$1,693. Staff has also included an averaging adjustment of negative \$68. Therefore, staff recommends that the appropriate UPIS - Allocated balance is \$1,625.

Land & Land Rights

The utility recorded a test year land balance of \$12,050. No adjustments are necessary; therefore, staff recommends that the Land & Land Rights balance remain \$12,050.

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

As discussed in Issue 2, the WTP should be considered 100 percent U&U. Charlie Creek's water distribution system should be considered 56 percent U&U.

Due to the lack of original cost documentation for transmission or distribution plant, staff was unable to apply the U&U percentage to the average plant balances and associated average accumulated depreciation balances.

Contributions In Aid of Construction (CIAC)

The utility did not record CIAC balances. Due to the lack of original cost documentation for transmission and distribution plant, staff was not able to impute CIAC pursuant to Rule 25-30.570, F.A.C. Commission audit staff found no additions in the test year and determined that no adjustments are necessary. Staff recommends CIAC of \$0.

Accumulated Depreciation

Charlie Creek recorded a test year accumulated depreciation balance of \$179. Staff recalculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and depreciation associated with plant additions and retirements and has increased water by \$98. Staff decreased this account by \$139 to reflect the simple average. Staff's total adjustments to this account are a decrease of \$41. Staff's adjustments to this account result in an Accumulated Depreciation balance of \$139.

Accumulated Depreciation – Allocated

The utility did not record a test year balance for Accumulated Depreciation – Allocated. Staff included in this account accumulated depreciation for plant associated with FUS1's common plant that has been allocated to Charlie Creek. Staff included \$57 for accumulated depreciation - allocated. Staff also included an averaging adjustment of \$21 for each account. Therefore, staff's adjustments to this account result in an Accumulated Depreciation – Allocated balance of \$36.

Accumulated Amortization of CIAC

The utility did not record a test year Accumulated Amortization of CIAC balance. Amortization of CIAC could not be calculated due to the lack of original records and costs. Staff recommends Accumulated Amortization of CIAC balance of \$0.

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 (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$7,042 (based on O&M expense of \$56,336/8).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base for Charlie Creek is \$25,552. 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 Charlie Creek Utilities, LLC?

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 6.27 percent. (Vogel)

Staff Analysis: According to staff's audit, Charlie Creek's test year capital structure reflected common equity of \$15,931, long term debt of \$8,660, and customer deposits of \$2,555. Staff is still determining the appropriate capital structure and cost of capital. Staff has decreased common equity by \$15,931 to remove revenue earned from the previous owner and an adjustment made by the utility based on the transfer audit performed in Docket 150186-WU. Staff decreased the customer deposits balance by \$599 to reflect the utility's deposit log. 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.² 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 6.27 percent. The ROE and overall rate of return are shown on Schedule No. 2.

²Order 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.*

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

Preliminary Recommendation: The appropriate test year revenues for Charlie Creek's water system are \$65,621. (Friedrich)

Staff Analysis: Charlie Creek recorded total test year revenues of \$68,259. The water revenues included \$63,582 of service revenues and \$4,677 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 \$59,656. This results in a decrease of \$3,926 (\$63,582-\$59,656) to service revenues. In addition, staff made adjustments to miscellaneous revenues. Based on staff's review of the number of miscellaneous service occurrences during the test year and the utility's recommended miscellaneous service charges, staff determined miscellaneous revenues should be \$5,965. This results in an increase of \$1,288 (\$5,965-\$4,677). It should be noted that staff will evaluate for its final recommendation whether the utility is appropriately applying its approved miscellaneous service charges. Based on staff's audit findings, it appears that the utility is combining their approved violation reconnection charge of \$20 and premise visit fee of \$10 and charging customers a \$30 disconnect and reconnect fee that is not approved. A violation reconnection charge already takes into account the disconnection and subsequent reconnection. Therefore, at this time, staff does not believe the \$30 disconnect and reconnect charge the utility is administering to customers is appropriate. Based on the above, the appropriate test year revenues for Charlie Creek's water system are \$65,621.

Issue 6: What is the appropriate amount of operating expense for Charlie Creek Utilities, LLC?

Preliminary Recommendation: The appropriate amount of operating expense for Charlie Creek is \$62,929. (Vogel)

Staff Analysis: Charlie Creek recorded operating expense of \$71,632 for the test year ended December 31, 2015. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff also included an allocated portion of FUS1's operating expenses for the test year ending December 31, 2015. All allocations are based on the total ERCs provided by the utility in an audit response dated September 26, 2016. Staff made several adjustments to the utility's operating expenses as summarized below.

Salaries and Wages – Employees (601)

Charlie Creek recorded salaries and wages – employees expense of \$12,876. Staff decreased this expense by \$222 to remove a payroll markup. Staff decreased this expense by \$567 to annualize salary expense. Staff also decreased this expense by \$929 to reflect the appropriate payroll tax for the test year. Staff increased this account by \$864 based on the new allocations presented. Staff's net adjustments result in a decrease of \$854. Therefore, staff is recommending salaries and wages – employees expense of \$12,022.

Salaries and Wages – Officers (603)

Charlie Creek recorded salaries and wages – officers expense of \$5,700. Staff decreased this expense by \$1,500 to reflect the appropriate salary expense of the owner based on FUS1 allocations. Staff increased this account by \$325 based on the new allocations presented. Staff's adjustments result in a decrease of \$1,175. Therefore, staff is recommending salaries and wages – officers expense of \$4,525.

Employee Pensions and Benefits (604)

Charlie Creek recorded employee pensions and benefits expense of \$1,838. Staff decreased this expense by \$260 to include the appropriate amount of benefit expense for the test year. Staff increased this account by \$122 to reflect the new allocations presented. Staff's adjustments result in a decrease of \$138. Therefore, staff is recommending employee pensions and benefits expense of \$1,700.

Purchased Power (615)

The utility recorded purchased power expense of \$3,790. Staff decreased this expense by \$18 to remove an out of period expense. Staff increased this expense by \$392 to include a previously unrecorded invoice. Staff also decreased this account by \$1,291 to reflect an adjustment to Excessive Unaccounted for Water (EUW). Staff's net adjustments are a decrease of \$917. Therefore, staff recommends purchased power expense of \$2,873.

Fuel for Power Production (616)

The utility recorded fuel for power production expense of \$496. Staff decreased this expense by \$496 because no documentation was provided to support this expense. Therefore, staff recommends fuel for power production expense of \$0.

Chemicals (618)

Charlie Creek recorded chemicals expense of \$1,994. Staff decreased this account by \$165, to remove a double entry. Staff also decreased this account by \$567 to reflect an adjustment to EUW. Staff's total adjustments result in a decrease of \$732. Therefore, staff recommends chemicals expense of \$1,262.

Materials & Supplies (620)

The utility recorded materials & supplies expense of \$2,926. Staff decreased this account by \$1,144 to remove capitalized expenses relating to pump repairs during the test year. The utility, in their audit response, requested inclusion of these expenses in O&M. Staff is still determining if these expenses should be capitalized or expensed. Staff also increased this account by \$369 to include an allocated invoice not previously included. Staff also increased this account by \$155 to reflect the new allocations. Staff's total adjustments result in a decrease of \$620. Therefore, staff recommends materials & supplies expense of \$2,306.

Contractual Services - Other (636)

Charlie Creek recorded contractual services – other expense of \$16,705. Staff recommends the following adjustments to contractual services – other.

**Table 6-1
 Adjustments made to Contractual Services - Other**

	Adjustment Description	Water
1.	To capitalize the purchase of a 30 gpd pump.	(\$590)
2.	To capitalize the replacement of a control box.	(508)
3.	To capitalize the refurbishment of well pumping equipment.	(2,156)
4.	To capitalize the installation of a 2-inch flush point.	(1,800)
5.	To capitalize the installation of a starter for a well.	(418)
6.	To remove a duplicative invoice.	(528)
7.	To include an allocated invoice not previously included.	33
8.	To reflect the new allocations.	76
	Total	<u>(\$5,891)</u>

Source: Utility Records, Audit Response, and Audit Control No. 16-182-4-1

Based on the adjustments shown above, staff's net adjustment is a decrease of \$5,891. Staff recommends contractual services – other expense of \$10,814.

Rent Expense (640)

Charlie Creek recorded rent expense of \$1,258. Staff decreased this account by \$104 to reflect the annualized lease agreement with FUS1. Staff increased this account by \$89 to reflect the new allocation. Staff's net adjustments result in a decrease of \$15. Therefore, staff recommends rent expense of \$1,243.

Transportation Expense (650)

Charlie Creek recorded transportation expense of \$1,309. Staff increased this account by \$295 to reflect the appropriate allocated expenses for transportation. Staff decreased this account by \$122 to remove a truck loan inappropriately allocated to this utility. Staff decreased this account by \$27 to remove unsupported expenses. The utility had inappropriately recorded a balance for Charlie Creek of negative \$496; therefore, staff increased the account by \$496. Finally, staff increased this expense by \$151 to reflect the new allocations. Staff's total adjustments result in an increase of \$793. Staff recommends transportation expense of \$2,102.

Insurance Expense (655)

Charlie Creek recorded insurance expense of \$1,935 for the test year. Staff decreased this expense by \$301 to remove the health insurance premiums for FUS1. Staff recommends insurance expense for the test year of \$1,634.

Regulatory Commission Expense (665)

Charlie Creek did not record regulatory commission expense for the test year. Staff increased this account by \$316 to include filing fees, noticing fees, and postage for the instant case. Staff also included \$222 to reflect amortized filing and legal fees from the transfer, not previously included. Therefore, staff recommends regulatory commission expense of \$538.

Bad Debt Expense (670)

Charlie Creek recorded a bad debt expense estimation of \$350 for the test year. Staff increased this account by \$1,615, to reflect the actual bad debt expense per the Aging Account Report. Therefore, staff recommends bad debt expense of \$1,965.

Miscellaneous Expense (675)

Charlie Creek recorded miscellaneous expense of \$7,159. Staff recommends the following adjustments to miscellaneous expense:

**Table 6-2
 Adjustments made to Miscellaneous Expense**

	Adjustment Description	Water
1.	To remove bank fees for non-sufficient funds and closing costs.	(\$105)
2.	To remove transfer filing fees and amortize into Acct. 665.	(750)
3.	To remove a portion of the purchase fee for the utility.	(100)
4.	To include fees for customer's convenience fees.	758
5.	To remove interest payments for a loan.	(407)
6.	To move expenses relating to original certification to Acct. 665.	(137)
7.	To include expenses relating to an annual customer meeting.	199
8.	To remove unrecoverable allocated expenses from FUS1.	(233)
9.	To remove unsupported expenses.	(123)
10.	To reflect the appropriate allocation of expenses from FUS1.	17
11.	To remove expenses included in Acct. 640.	(179)
12.	To reflect the appropriate amount of utility expenses from FUS1.	(170)
13.	To include amortized closing costs of a loan, amortized over 5 years.	20
14.	To reflect the new allocations.	<u>279</u>
	Total	<u>(\$931)</u>

Source: Utility Records, Audit Response, and Audit Control No. 16-182-4-1

Staff's total adjustments decrease this account by \$931. Therefore, staff recommends miscellaneous expense of \$6,228.

Operation and Maintenance Expenses Summary

Based on the above adjustments, staff recommends that the O&M expense balance is \$56,336. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A through 3-C.

Depreciation Expense (Net of Amortization of CIAC)

Charlie Creek recorded depreciation expense of \$179 during the test year. It should be noted that the utility did not have original cost records for plant in service. Staff recalculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff increased depreciation expense by \$98 to reflect the appropriate depreciation expense. Staff increased depreciation expense by \$265 to include the appropriate depreciation of allocated plant. Charlie Creek did not record amortization of CIAC expense during the test year. Due to the limited records for the utility, staff could not appropriately calculate amortization of CIAC expense. Staff's total adjustment is an increase of \$363, resulting in a net depreciation expense of \$542.

Taxes Other Than Income (TOTI)

Charlie Creek recorded a TOTI balance of \$5,993 for the test year. Staff recalculated the utility's property taxes using the updated 2015 rates and decreased this account by \$4,278. The utility had

included the 2013 and 2014 property tax payment in this account. Staff increased this account to include payroll taxes of \$1,251. Staff increased this account by \$2,953, to reflect the appropriate test year Regulatory Assessment Fees (RAFs) based on adjusted test year revenues. Staff's total adjustment for TOTI is a decrease of \$74.

In addition, as discussed in Issue 8, revenues have been increased by \$2,942 to reflect the change in revenue required to cover expenses and allow the recommended return on investment. As a result, TOTI should be increased by \$132 to reflect RAFs of 4.5 percent on the change in revenues. Staff's net adjustment is an increase of \$58. Staff recommends TOTI of \$6,051.

Operating Expenses Summary

The application of staff's recommended adjustments to Charlie Creek's test year operating expenses results in operating expenses of \$62,929. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule Nos. 3-B through 3-C.

Issue 7: Should the Commission utilize the operating ratio methodology as an alternative method of calculating the water revenue requirement for Charlie Creek Utility, LLC, and, if so, what is the appropriate margin?

Preliminary Recommendation: Yes, the Commission should utilize the operating ratio methodology for calculating the water revenue requirement for Charlie Creek. The margin should be 10 percent of O&M expense. (Vogel)

Staff Analysis: Section 367.0814(9), F.S., provides that the 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. As an alternative, utilities with total gross annual operating revenue of less than \$275,000 per system may petition the Commission for staff assistance using alternative rate setting.

Charlie Creek did not petition the Commission for alternative rate setting under the aforementioned rule, but staff believes the Commission should employ the operating ratio methodology to set rates 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 the utility's rate base, the revenue requirement is based Charlie Creek's O&M expenses plus a margin. This methodology has been applied in cases in which the traditional calculation of the revenue requirement would not provide sufficient revenue to protect against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU,³ the Commission, for the first time, utilized the operating ratio methodology as an alternative means for setting rates. This order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expense. This criterion was applied again in Order No. PSC-97-0130-FOF-SU.⁴ Most recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-16-0126-PAA-WU.⁵

By Order No. PSC-96-0357-FOF-WU, the Commission established criteria to determine whether to utilize the operating ratio methodology for those utilities with low or non-existent rate base. The qualifying criteria established by Order No. PSC-96-0357-FOF-WU and how they apply to the utility are discussed 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. In the instant case, rate base is less than the level of O&M expense. The utility's primary risk resides with covering

³Issued 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.*

⁴Issued February 10, 1997, in Docket No. 960561-SU, *In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.*

⁵Issued March 28, 2016, in Docket No. 140220-WU, *In re: Application for staff-assisted rate case in Polk County by Sunrise Utilities, LLC.*

its operating expense. Based on the staff's recommendation, the adjusted water rate base for the test year is \$25,552, while adjusted O&M expenses are \$56,336.

- 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 being considered in this case only applies to small utilities with gross annual revenue of \$250,000 or less. Charlie Creek is a Class C utility and the recommended revenue requirement of \$68,563 is substantially below the threshold level for Class B status (\$250,000 per system). The utility's service area has not had any significant growth in the last five years. Therefore, it appears the utility will not become a Class B utility in the foreseeable future.
- 3) Quality of service and condition of plant. As discussed in Issue 1, the recommended quality of service will not be finalized until after the December 8, 2016 Customer Meeting.
- 4) Whether the utility is developer-owned. The current utility owner is not a developer.
- 5) Whether the utility operates treatment facilities or is simply a distribution and/or collection system. The issue is whether or not purchased water and/or wastewater costs should be excluded in the computation of the operating margin. Charlie Creek operates a water treatment plant.

Based on staff's review of the utility's situation relative to the above criteria, staff recommends that Charlie Creek is a viable candidate for the operating ratio methodology.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, the 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 the utility 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 the utility.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenue for the utility to cover its interest expense. Charlie Creek's interest expense is not a concern in this case.

Second, the operating ratio method recognizes that a major issue for small utilities is cash flow; therefore, the operating ratio method focuses more on cash flow than on investment. In the instant case, the utility's primary risk resides with covering its operating expense. A traditional calculation of the revenue requirement may not provide sufficient revenue to protect against potential variances in revenues and expenses. Under the rate base methodology, the return to Charlie Creek would be \$1,601. Staff does not believe this would not provide the necessary financial cushion to successfully operate this utility.

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 staff's estimates, Charlie Creek could be left with insufficient funds to cover operating expenses. Therefore, the margin should provide adequate revenue to protect against potential variability in revenues and expenses. If the

utility's operating expenses increase or revenues decrease, Charlie Creek may not have the funds required for day-to-day operations. Staff determined that a 10 percent margin would be sufficient in this case.

In conclusion, staff believes the above factors show that the utility needs a higher margin of revenue over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide Charlie Creek with adequate cash flow to provide some assurance of safe and reliable service, staff recommends application of the operating ratio methodology at a margin of 10 percent of O&M expense for determining the revenue requirements.

Issue 8: What is the appropriate revenue requirement?

Preliminary Recommendation: The appropriate revenue requirement is \$68,563, resulting in an annual increase of \$2,942 (4.48 percent). (Vogel)

Staff Analysis: Charlie Creek should be allowed an annual increase of \$2,942 (4.48 percent). This will allow the utility the opportunity to recover its expenses as well as a 10 percent margin on O&M expenses for its water systems. The calculations are shown in Table 8-1.

**Table 8-1
Water Revenue Requirement**

Adjusted O&M Expense	\$56,336
Operating Margin (%)	<u>10.00%</u>
Operating Margin (\$)	\$5,634
Adjusted O&M Expense	56,336
Depreciation Expense (Net)	542
Taxes Other Than Income	5,919
Test Year RAFs	<u>132</u>
Revenue Requirement	\$68,563
Less Adjusted Test Year Revenues	<u>65,621</u>
Annual Increase	<u>\$2,942</u>
Percent Increase	<u>4.48%</u>

Issue 9: What are the appropriate rate structure and rates for Charlie Creek'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. (Friedrich)

Staff Analysis: Charlie Creek is located in Hardee County within the SFWMD and provides water service to approximately 145 residential and one general service customer. Approximately 10.49 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 4,757 gallons per month. The utility's current water system rate structure for residential and general service customers consists of a base facility charge (BFC) based on meter size and a two-tier inclining block rate structure. The rate blocks are: (1) 0-3,000 gallons and (2) all usage in excess of 3,000 gallons per month.

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.

The existing rate structure is consistent with what an appropriate non-discretionary threshold for the average household size in this service territory. The average household size is 2.5 persons per household, which indicates the non-discretionary usage threshold should remain between 3,000 and 4,000 gallons. Due to the relatively low percentage increase and no anticipated repression, staff recommends that the revenue requirement increase be applied across-the-board to the utility's existing rates for residential customers. To determine the appropriate percentage increase to apply to the service rates, miscellaneous revenues were removed from the test year revenues, resulting in a 4.93 percent increase in the service rates. For general service, staff recommends a BFC and uniform gallonage charge rate structure.

Based on the above, 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 10: What is the appropriate amount by which rates should be reduced in four years after the published effective date 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 four-year rate case expense recovery period, pursuant to Section 367.081(8), F.S. Charlie Creek 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. (Vogel)

Staff Analysis: Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates unless a longer period can be justified and is in the public interest. 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 are \$620.

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 four-year rate case expense recovery period, pursuant to Section 367.081(8), F.S. Charlie Creek 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 11: Should the recommended rates be approved for Charlie Creek Utility, LLC 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. Charlie Creek 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. (Vogel)

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. Charlie Creek 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.

Charlie Creek 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 \$1,968. 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) No monies in the escrow account may be withdrawn by the utility without the express approval of the Commission;
- 2) The escrow account shall be an interest bearing account;
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility;
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) 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;
- 8) The Commission Clerk must be a signatory to the escrow agreement; and,
- 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.

Should the recommended rates be approved by the Commission on a temporary basis, Charlie Creek 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 12: What are the appropriate late payment, convenience, and meter tampering charges for Charlie Creek Utilities, LLC?

Preliminary Recommendation: Staff's recommendation regarding the utility's requested late payment, convenience, and meter tampering charges will not be finalized until after the December 8, 2016 customer meeting. (Friedrich)

Staff Analysis: Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. The utility's existing convenience charge of \$3.00 and late payment charge of \$5.00 were approved when the utility was granted its original certificate on January 25, 2016.⁶ The utility is requesting to increase its convenience charge to \$3.40 and late payment charge to \$5.25 to be consistent with related utilities. In addition, the utility requests approval to implement a meter tampering charge of \$50.

This recommendation is scheduled to be heard by the Commission at the February 7, 2016 Commission Conference. Staff will reserve its recommendation on revising the utility's existing miscellaneous service charges until the cost justification information has been received from the utility and reviewed.

⁶ 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.*

Issue 13: What are the appropriate initial customer deposits for Charlie Creek's water service?

Preliminary Recommendation: The appropriate water initial customer deposit should be \$70 for the residential 5/8" x 3/4" meter size. 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. (Friedrich)

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.⁷ Currently, the utility has an initial customer deposit of \$65 for the residential 5/8" x 3/4" meter size and two times the average customer bill for all other meter sizes. Based on the staff recommended water rates the appropriate initial customer deposit should be \$70 for water to reflect an average residential customer bill for two months.

Staff recommends that the appropriate water initial customer deposit should be \$70 for the residential 5/8" x 3/4" meter size. 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.

⁷Order 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.*

Issue 14: Should the utility be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision?

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

Staff Analysis: Charlie Creek should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Charlie Creek should 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 the utility's books and records. In the event the utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

CHARLIE CREEK UTILITIES, LLC		SCHEDULE NO. 1-A	
TEST YEAR ENDED 12/31/15		DOCKET NO. 160143-WU	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$3,044	\$1,966	\$5,010
UTILITY PLANT IN SERVICE- ALLOCATED	0	1,625	1,625
LAND & LAND RIGHTS	12,050	0	12,050
NON-USED AND USEFUL COMPONENTS	0	0	0
CIAC	0	0	0
ACCUMULATED DEPRECIATION	(179)	41	(139)
ACCUMULATED DEPRECIATION- ALLOCATED	0	(36)	(36)
AMORTIZATION OF CIAC	0	0	0
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>7,042</u>	<u>7,042</u>
WATER RATE BASE	<u>\$14,915</u>	<u>\$10,637</u>	<u>\$25,552</u>

CHARLIE CREEK UTILITIES, LLC	SCHEDULE NO. 1-B
TEST YEAR ENDED 12/31/15	DOCKET NO. 160143-WU
ADJUSTMENTS TO RATE BASE	
	<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
1. To reflect the correct records of plant in service.	\$6,976
2. Averaging adjustment.	<u>(5,010)</u>
Total	<u>\$1,966</u>
<u>UTILITY PLANT IN SERVICE – ALLOCATED</u>	
1. To allocated common plant from FUS1.	\$1,693
2. Averaging adjustment.	<u>(68)</u>
Total	<u>\$1,625</u>
<u>ACCUMULATED DEPRECIATION</u>	
1. Depreciation adjustment per Rule 25-30.140 F.A.C.	\$(98)
2. Averaging adjustment.	<u>139</u>
Total	<u>\$41</u>
<u>ACCUMULATED DEPRECIATION – ALLOCATED</u>	
1. To reflect the appropriate Accumulated Depreciation – Allocated.	(\$57)
2. Averaging adjustment.	<u>21</u>
Total	<u>(\$36)</u>
<u>WORKING CAPITAL ALLOWANCE</u>	
To reflect 1/8 of test year O&M expenses.	<u>\$7,042</u>

CHARLIE CREEK UTILITIES, LLC							SCHEDULE NO. 2		
TEST YEAR ENDED 12/31/15							DOCKET NO. 160143-WU		
SCHEDULE OF CAPITAL STRUCTURE									
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 EQUITY	\$15,931	(\$15,931)	\$0	\$0	\$0	0.00%	11.16%	0.00%	
2. RETAINED EARNINGS	0	0	0	0	0	0.00%	0.00%	0.00%	
3. LONG-TERM DEBT	8,660	0	8,660	14,936	23,596	92.34%	6.62%	6.11%	
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	2,555	(599)	1,956	0	1,956	7.66%	2.00%	0.15%	
7. TOTAL	<u>\$27,146</u>	<u>(\$16,530)</u>	<u>\$10,616</u>	<u>\$14,936</u>	<u>\$25,552</u>	<u>100.00%</u>		<u>5.68%</u>	
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>		
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>		
OVERALL RATE OF RETURN						<u>6.27%</u>	<u>6.27%</u>		

CHARLIE CREEK UTILITIES, LLC TEST YEAR ENDED 12/31/15 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 160143-WU		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	\$68,259	(\$2,638)	\$65,621	\$2,942 4.48%	\$68,563
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$65,460	(\$9,124)	\$56,336	\$0	\$56,336
3. DEPRECIATION (NET)	179	363	542	0	542
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	5,993	(74)	5,919	132	6,051
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	\$71,632	(\$8,835)	\$62,797	\$132	\$62,929
8. OPERATING INCOME/(LOSS)	(\$3,373)		\$2,824		\$5,634
9. WATER O&M EXPENSES	\$65,460		\$56,336		\$56,336
10. OPERATING MARGIN					10.00%

CHARLIE CREEK UTILITIES, LLC		SCHEDULE NO. 3-B
TEST YEAR ENDED 12/31/15		DOCKET NO. 160143-WU
ADJUSTMENTS TO OPERATING INCOME		Page 1 of 3
		<u>WATER</u>
OPERATING REVENUES		
1.	To reflect the appropriate test year revenues.	<u>(\$2,638)</u>
OPERATION AND MAINTENANCE EXPENSES		
1.	Salaries and Wages – Employees (601)	
	a. To remove a payroll markup.	(\$222)
	b. To reclassify salary expense from Acct. 636/736.	(567)
	c. To reflect the appropriate payroll tax.	(929)
	d. To reflect new allocations.	864
	Subtotal	<u>(\$854)</u>
2.	Salaries and Wages – Officers (603)	
	a. To remove former owner's salary.	(\$1,500)
	b. To reflect new allocations.	325
	Subtotal	<u>(\$1,175)</u>
3.	Employee Pension & Benefits (604)	
	a. To reflect appropriate amount of benefit expense.	(\$260)
	b. To reflect new allocations.	122
	Subtotal	<u>(\$138)</u>
4.	Purchased Power (615)	
	a. To remove an out of period expense.	(\$18)
	b. To include a previously unrecorded expense.	392
	c. To include an adjustment for EUW.	<u>(1,291)</u>
	Subtotal	<u>(\$917)</u>
5.	Fuel for Purchased Power	
	To remove undocumented expenses.	<u>(\$496)</u>
6.	Chemicals (618)	
	a. To remove a duplicate expense.	(\$165)
	b. To include an adjustment for EUW.	(567)
	Subtotal	<u>(\$732)</u>
7.	Materials & Supplies (620)	
	a. To remove capitalized expenses relating to pump repairs.	(\$1,144)
	b. To include an invoice not previously included.	369
	c. To reflect new allocations.	155
	Subtotal	<u>(\$620)</u>
8.	Contractual Services - Other (636)	
	a. To remove capitalized expenses discussed in Table 6-1.	(\$590)
	b. To capitalize the replacement of a control box.	(508)
	c. To capitalize the refurbishment of well pumping equipment.	(2,156)
	d. To capitalize the installation of a 2-inch flush point.	(1,800)
	e. To capitalize the installation of a starter for a well.	(418)
	f. To remove an invoice duplicated in two months.	(528)
	g. To include an allocated invoice not previously included.	33
	h. To reflect the new allocations.	76
	Subtotal	<u>(\$5,891)</u>

CHARLIE CREEK UTILITIES, LLC TEST YEAR ENDED 12/31/15 ADJUSTMENTS TO OPERATING INCOME	SCHEDULE NO. 3-B DOCKET NO. 160143-WU Page 2 of 3
	<u>WATER</u>
9. Rent Expense (640)	
a. To reflect the appropriate allocated expenses from FUS1.	(\$104)
b. To reflect the new allocations.	<u>89</u>
Subtotal	<u>(\$15)</u>
10. Transportation Expense (650)	
a. To reflect the appropriate expenses for the test year.	\$295
b. To remove a truck loan not related to the utility.	(122)
c. To remove unsupported allocated expenses to the utility.	(27)
d. To reclassify expenses from Account 619.	496
e. To reflect the new allocations.	<u>151</u>
Subtotal	<u>\$793</u>
11. Insurance Expense (655)	
To remove health insurance premiums.	<u>(705)</u>
12. Regulatory Commission Expense (665)	
a. To include rate case expense.	\$316
b. To include amortized filing and legal fees from the transfer.	<u>222</u>
Subtotal	<u>\$538</u>
13. Bad Debt Expense (670)	
To reflect the appropriate bad debt expense for the test year.	<u>\$1,615</u>
14. Miscellaneous Expense (675)	
a. To remove bank fees.	(\$105)
b. To reallocate filing fees to Acct. 665.	(750)
c. To remove purchase fee for the utility.	(100)
d. To include fees for customer's convenience fees.	758
e. To remove interest payments for a loan.	(407)
f. To reallocate expenses relating to original certification to Acct. 665.	(137)
g. To include expenses relating to an annual customer meeting.	199
h. To remove unrecoverable allocated expenses from FUS1.	(233)
i. To remove unsupported expenses.	(123)
j. To reflect the appropriate allocation of expenses.	17
k. To remove expenses included in Acct. 640.	(179)
l. To reflect the appropriate amount of utility expenses from FUS1.	(170)
m. To include amortized closing cost of a loan, amortized over five years.	20
n. To reflect the new allocations.	<u>279</u>
Subtotal	<u>(\$931)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$9,124)</u>

CHARLIE CREEK UTILITIES, LLC		SCHEDULE NO. 3-B
TEST YEAR ENDED 12/31/15		DOCKET NO. 160143-WU
ADJUSTMENTS TO OPERATING INCOME		Page 3 of 3
		<u>WATER</u>
DEPRECIATION EXPENSE		
1.	To reflect test year depreciation calculated per Rule 25-30.140, F.A.C.	\$98
2.	To reflect appropriate depreciation expense from allocated plant.	<u>265</u>
	Total	<u>\$363</u>
TAXES OTHER THAN INCOME		
1.	To reflect property taxes.	(\$4,278)
2.	To reflect payroll taxes.	1,251
3.	To reflect the appropriate test year RAFs.	<u>2,953</u>
	Total	<u>(\$74)</u>

CHARLIE CREEK UTILITIES, LLC		SCHEDULE NO. 3-C	
TEST YEAR ENDED 12/31/15		DOCKET NO. 160143-WU	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENTS	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$12,876	(\$854)	\$12,022
(603) SALARIES AND WAGES - OFFICERS	5,700	(1,175)	4,525
(604) EMPLOYEE PENSIONS AND BENEFITS	1,838	(138)	1,700
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	3,790	(917)	2,873
(616) FUEL FOR POWER PRODUCTION	496	(496)	0
(618) CHEMICALS	1,994	(732)	1,262
(620) MATERIALS AND SUPPLIES	2,926	(620)	2,306
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	1,592	0	1,592
(633) CONTRACTUAL SERVICES - TESTING	5,532	0	5,532
(636) CONTRACTUAL SERVICES - OTHER	16,705	(5,891)	10,814
(640) RENTS	1,258	(15)	1,243
(650) TRANSPORTATION EXPENSE	1,309	793	2,102
(655) INSURANCE EXPENSE	1,935	(301)	1,634
(665) REGULATORY COMMISSION EXPENSE	0	538	538
(670) BAD DEBT EXPENSE	350	1,615	1,965
(675) MISCELLANEOUS EXPENSE	<u>7,159</u>	<u>(931)</u>	<u>6,228</u>
	<u>\$65,460</u>	<u>(\$9,124)</u>	<u>\$56,336</u>

CHARLIE CREEK UTILITIES, LLC		SCHEDULE NO. 4	
TEST YEAR ENDED 12/31/15		DOCKET NO. 160143-WU	
MONTHLY WATER RATES			
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8"X 3/4"	\$15.00	\$15.74	\$0.16
3/4"	\$22.50	\$23.61	\$0.25
1"	\$37.50	\$39.35	\$0.41
1-1/2"	\$75.00	\$78.70	\$0.82
2"	\$120.00	\$125.92	\$1.31
3"	\$240.00	\$251.84	\$2.62
4"	\$375.00	\$393.50	\$4.09
6"	\$750.00	\$787.00	\$8.18
Charge per 1,000 gallons- Residential Service			
Charge per 1,000 gallons			
0 - 3,000 gallons	\$3.50	\$3.67	\$0.04
Over 3,000 gallons	\$4.50	\$4.72	\$0.05
Charge per 1,000 gallons- General Service			
0 - 3,000 gallons	\$3.50	N/A	\$0.04
Over 3,000 gallons	\$4.50	N/A	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$25.50	\$26.75	
5,000 Gallons	\$34.50	\$36.19	
10,000 Gallons	\$57.00	\$59.79	