

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: December 29, 2021

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Bethea, Hudson) *JGH*
Division of Accounting and Finance (D. Brown, Casper, Richards) *ALM*
Division of Engineering (Lewis, Ramos) *TB*
Office of the General Counsel (Jones, Trierweiler) *TLT*

RE: Docket No. 20210055-WU – Application for staff-assisted rate case in Lake County by Brendenwood Waterworks, Inc.

AGENDA: 01/11/22 – Regular Agenda – Proposed Agency Action – Except for Issues 12, 13, and 14 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: La Rosa

CRITICAL DATES: 08/15/22 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

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Case Background

Brendenwood Waterworks, Inc. (Brendenwood or utility) is a Class C utility which is currently providing water service to 59 customers. Brendenwood is located in the St. Johns River Water Management District (SJRWMD). According to the utility's 2020 Annual Report, Brendenwood's operating revenues were \$28,510 and operating expenses were \$27,370.

Certificate No. 339-W was originally granted in 1981.¹ In 1990, the Commission approved a transfer of majority organizational control² and an amendment to include additional territory.³ In 2003, the Commission approved a name change from Brendenwood Water System to Brendenwood Water Systems, Inc.⁴ In 2004, the Commission approved a transfer of majority organizational control.⁵ In 2005, the Commission approved an amendment to include additional territory.⁶ In 2011, the Commission approved an application to transfer the utility from Brendenwood Water Systems, Inc. to Brendenwood Utilities, LLC.⁷ In 2015, the Commission approved an application to transfer the utility from Brendenwood Utilities, LLC. to Brendenwood Waterworks, Inc. In 2017, the utility's rates were reduced as a result of an overearnings investigation.⁸ Subsequent to the reduction in rates, Brendenwood's rates have been increased by two price index rate adjustments in 2018 and 2019. On March 16, 2021, Brendenwood filed an application for a staff-assisted rate case (SARC) and paid the appropriate filing fee on April 26, 2021.⁹ The test year is established as the year ended December 31, 2020.

The Commission has jurisdiction pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, 367.091 and 367.121, Florida Statutes (F.S.).

¹ Order No. 10184, issued August 5, 1981, in Docket No. 810079-W, *In re: Application of Brendenwood Water System for a certificate to operate a water utility in Lake County, Florida, pursuant to Section 367.041, Florida Statutes.*

² Order No. 22425, issued January 17, 1990, in Docket No. 891121-WU, *In re: Application for transfer of ownership of Brendenwood Water System in Lake County from Robert S. Hanks, Jerry L. Rogers and Daniel H. Judy to Paul E. Day.*

³ Order No. 22398, issued January 10, 1990, in Docket No. 891122-WU, *In re: Application of Brendenwood Water System for amendment of Certificate No. 339-W in Lake County.*

⁴ Order No. PSC-03-0118-FOF-WU, issued January 21, 2003, in Docket No. 020996-WU, *In re: Application for name change on Certificate No. 339-W in Lake County from Brendenwood Water System to Brendenwood Water Systems, Inc.*

⁵ Order No. PSC-04-1054-PAA-WU, issued October 27, 2004, in Docket No. 040276-WU, *In re: Application for transfer of majority organizational control of Brendenwood Water System, Inc., holder of Certificate No. 339-W in Lake County, from Paul E. Day to Deborah J. Miller.*

⁶ Order No. PSC-05-0678-FOF-WU, issued June 20, 2005, in Docket No. 050255-WU, *In re: Application for "quick take" amendment of Certificate No. 339-W in Lake County by Brendenwood Water System, Inc.*

⁷ Order No. PSC-11-0552-FOF-WU, issued December 7, 2011, in Docket No. 110255-WU, *In re: Application for approval of transfer of Brendenwood Water System, Inc., and application for certificate to operate water utility in Lake County, by Brendenwood Utilities, LLC.*

⁸ Order No. PSC-2017-0481-PAA-WU, issued December 21, 2017, in Docket No. 20170247-WU, *In re: Joint motion requesting Commission approval of settlement agreement by the Office of Public Counsel, Black Bear Waterworks, Inc., Brendenwood Waterworks, Inc., Brevard Waterworks, Inc., Country Walk Utilities, Inc., Harbor Waterworks, Inc., Lake Idlewild Utility Company, Raintree Waterworks, Inc., and Sunny Hills Utility Company.*

⁹ Order No. PSC-14-0691-PAA-WU, issued December 15, 2014, in Docket No. 140120-WU, *In re: Application for approval of transfer of Certificate No. 339-W from Brendenwood Utilities, LLC. to Brendenwood Waterworks, Inc. in Lake County.*

Discussion of Issues

Issue 1: Is the quality of service provided by Brendenwood satisfactory?

Recommendation: Yes. The utility is passing all DEP primary and secondary standards and has been responsive to its customer complaints. Therefore, the quality of service provided by Brendenwood should be considered satisfactory. (Lewis)

Staff Analysis: Pursuant to Section 367.081(2)(a), F.S., and Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission, in every rate case, shall make a determination of the quality of service provided by the utility by evaluating the quality of the utility's product (water) and the utility's attempt to address customer satisfaction (water and wastewater). The Rule states that the most recent chemical analyses, outstanding citations, violations, and consent orders on file with the state's Department of Environmental Protection (DEP) and the county health departments, along with any DEP and county health department officials' testimony concerning quality of service shall be considered. In addition, any customer testimony, comments, or complaints shall also be considered. The operating condition of the water system is addressed in Issue 2.

Quality of Product

In evaluating Brendenwood's product quality, staff reviewed the utility's compliance with the 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. The most recent chemical analyses were performed on February 24, 2021, and the results were in compliance with the DEP's standards. These chemical analyses are performed every three years; therefore, the next scheduled analysis should be completed in 2024.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the complaints filed in the Commission's Consumer Activity Tracking System for the test year and four years prior. The Commission received one complaint in August 2016, regarding a higher than expected bill. The utility responded to the customer, conducted a meter test, which indicated the meter was working properly, and offered to adjust the customer's bill, which the customer accepted. As a result, this complaint was closed. The DEP received one customer inquiry during the same five-year period in February 2020, regarding the utility's compliance with drinking water standards. The customer was provided instructions on how to search the DEP's website in order to review the utility's compliance history and the inquiry was subsequently closed.

The utility reported receiving fifty-one complaints directly from its customers during the five-year period. The complaints concerned issues with: meter readings (7), condition of the meter (3), low water pressure or no water (19), water main breaks (2), leaks at the meter or on the customer's side (15), and water quality (5). The complaints were investigated and closed by the utility.

Staff conducted a virtual customer meeting on October 20, 2021. No customers attended the customer meeting. Representatives from the utility and OPC were in attendance. No customer comments have been filed in the docket file.

Conclusion

The utility is passing all DEP primary and secondary standards and has been responsive to its customer complaints. Therefore, the quality of service provided by Brendenwood should be considered satisfactory.

Issue 2: Are the infrastructure and operating condition of Brendenwood's water system in compliance with DEP regulations?

Recommendation: Yes. Brendenwood's water system is currently in compliance with DEP regulations. (Lewis)

Staff Analysis: Rule 25-30.225(2), F.A.C., requires each water and wastewater utility to maintain and operate its plant and facilities by employing qualified operators in accordance with the rules of the DEP. Rule 25-30.433(2), F.A.C., requires consideration of whether the infrastructure and operating conditions of the plant and facilities are in compliance with Rule 25-30.225, F.A.C. In making this determination, the Commission must consider testimony of the DEP and county health department officials, sanitary surveys for water systems and compliance evaluation inspections for wastewater systems, citations, violations, and consent orders issued to the utility, customer testimony, comments, and complaints, and utility testimony and responses to the aforementioned items.

Water System Operating Conditions

Brendenwood's water system has a permitted design capacity of 108,000 gallons per day (gpd). The utility's water system is supplied by one well with a rated pumping capacity of 150 gallons per minute (gpm). The treated water is pumped into a 3,000 gallon hydropneumatic storage tank before entering the distribution system. Staff reviewed the Sanitary Survey conducted by the DEP on January 30, 2019. The water treatment plant (WTP) was in compliance with no deficiencies indicated. A review of DEP's records did not show any warning letters or consent orders issued to the utility.

Conclusion

Based on the above, Brendenwood's water system is currently in compliance with DEP regulations.

Issue 3: What are the used and useful (U&U) percentages for Brendenwood's WTP and water distribution system?

Recommendation: Brendenwood's WTP and water distribution system should be considered 100 percent U&U. Additionally, there appears to be no excessive unaccounted for water (EUW); therefore, staff recommends that no adjustment be made to operating expenses for chemicals and purchased power. (Lewis)

Staff Analysis: Brendenwood's WTP consists of one well at a rated pumping capacity of 150 gpm. The utility's water system does not have a storage tank, but has one hydropneumatic tank totaling 3,000 gallons in capacity. The distribution system is composed of approximately 3,550 feet of 2 inch and 3,350 feet of 4 inch polyvinyl chloride pipes.

Water Treatment Plant Used & Useful

Rule 25-30.4325(4), F.A.C., states that a water treatment system is considered 100 percent used and useful if the service territory the system is designed to serve is built out and there is no apparent potential for expansion of the service territory or the system is served by a single well. The utility has shown no growth in customers and appears to be built out. Brendenwood is also served by a single well. Further, in the utility's previous rate case, the Commission deemed the water treatment plant 100 percent U&U.

Water Distribution System Used and Useful

The water distribution system is evaluated based on ERCs consisting of growth, customer demand, and system capacity. During the test year, 59 customers were being served. The utility provided system maps that indicated there are only 59 lots in the development/service territory. Therefore, the service territory should be considered built out. The Commission previously deemed the U&U of the distribution system as 100 percent. Considering all of the water mains are required to adequately serve the existing customers, and consistent with prior Commission practice, staff recommends the distribution system be considered 100 percent U&U.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., additionally provides factors to be considered in determining whether adjustments to operating expenses are necessary for EUW. EUW is defined 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. A review of the utility's Monthly Operating Reports, 2020 Annual Report, and audited billing data indicate that Brendenwood treated 7,596,497 gallons and sold 6,895,000 gallons with 353,000 gallons used for flushing during the test year. The resulting calculation $([7,596,497 - 6,895,000 - 353,000] / 7,596,497)$ for unaccounted for water is approximately 4.6 percent; therefore, there is no EUW. Staff recommends that no adjustments should be made to purchased power and chemicals.

Conclusion

Brendenwood's WTP and water distribution system should both be considered 100 percent U&U. Additionally, there appears to be no EUW; therefore, staff recommends that no adjustment be made to operating expenses for chemicals and purchased power.

Issue 4: What is the appropriate average test year rate base for Brendenwood?

Recommendation: The appropriate average test year rate base for Brendenwood is \$38,447. (D. Brown, Richards)

Staff Analysis: The appropriate components of the utility's rate base include utility plant in service (UPIS), land, accumulated depreciation, contributions-in-aid-of-construction (CIAC), accumulated amortization of CIAC, and working capital. The utility's rate base was established as part of its transfer proceeding, in Docket No. 20140120-WU.¹⁰ Staff selected the test year ended December 31, 2020, for the instant rate case. Commission audit staff determined that the utility's books and records are in compliance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). A summary of each component and staff's recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

The utility recorded \$48,200 for UPIS. Staff decreased UPIS by \$28 to reflect an averaging adjustment. Therefore, staff recommends a UPIS balance of \$48,172 (\$48,200 - \$28).

Land & Land Rights

The utility recorded a test year land value of \$1,100. The Commission approved a land balance of \$1,100 in the utility's 2014 transfer docket.¹¹ There have been no additions to land since the transfer; therefore, no adjustments are necessary. Staff recommends a land and land rights balance of \$1,100.

Used & Useful

As discussed in Issue 3, Brendenwood's WTP and distribution system are considered 100 percent U&U. Therefore, no U&U adjustments are necessary.

Accumulated Depreciation

Brendenwood recorded an accumulated depreciation balance of \$14,563. As a result of the staff audit, staff increased accumulated depreciation by \$1,414 to reflect the recalculation of accumulated depreciation using audited UPIS plant balances. Staff decreased accumulated depreciation by \$1,335 to reflect an adjustment to remove over depreciation of Account 320 – Water Treatment Equipment. Additionally, staff decreased accumulated depreciation by \$365 to reflect an averaging adjustment. Staff's adjustments to this account result in a net decrease of \$286 (\$1,414 - \$1,335 - \$365). Therefore, staff recommends an accumulated depreciation balance of \$14,277 (\$14,563 - \$286).

Contributions in Aid of Construction (CIAC)

The utility recorded a test year CIAC balance of \$1,577. The Commission approved a CIAC balance of \$1,577 in the utility's 2014 transfer docket.¹² There have been no additions to CIAC

¹⁰Order No. PSC-2014-0691-PAA-WU, issued December 15, 2014, in Docket No. 20140120-WU, *In re: Application for approval of transfer of Certificate No. 339-W from Brendenwood Utilities, LLC., to Brendenwood Waterworks, Inc. in Lake County.*

¹¹*Id.*

¹²*Id.*

since the transfer; therefore, no adjustments are necessary. Staff recommends a CIAC balance of \$1,577.

Accumulated Amortization of CIAC

Brendenwood recorded accumulated amortization of CIAC of \$1,577. The Commission approved an accumulated amortization of CIAC balance of \$1,577 in the utility's 2014 transfer docket.¹³ There have been no additions to accumulated amortization of CIAC since the transfer; therefore, no adjustments are necessary. Staff recommends an accumulated amortization CIAC balance of \$1,577.

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(3), F.A.C., staff used one-eighth of the operation and maintenance expense (less rate case expense) formula for calculating the working capital allowance. Section 367.081(9), F.S., prohibits a utility from earning a return on the unamortized balance of rate case expense. As such, staff removed the rate case expense balance of \$288 for this calculation resulting in an adjusted O&M expense balance of \$27,614 (\$27,902 - \$288). Applying this formula, staff recommends a working capital allowance of \$3,452 ($\$27,614 \div 8$).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$38,447. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

¹³Order No. PSC-2014-0691-PAA-WU.

Issue 5: What is the appropriate return on equity and overall rate of return for Brendenwood?

Recommendation: The appropriate return on equity (ROE) is 7.85 percent with a range of 6.85 percent to 8.85 percent. The appropriate overall rate of return is 7.85 percent. (D. Brown, Richards)

Staff Analysis: Brendenwood's reported capital structure consists of \$30,645 in common equity. The utility has no customer deposits.

The utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE is 7.85 percent based upon the Commission-approved leverage formula currently in effect.¹⁴ Staff recommends a ROE of 7.85 percent, with a range of 6.85 percent to 8.85 percent, and an overall rate of return of 7.85 percent. The ROE and overall rate of return are shown on Schedule No. 2.

¹⁴Order No. PSC-2021-0244-PAA-WS, issued July 6, 2021, in Docket No. 20210006-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 6: What are the appropriate amount of test year revenues for Brendenwood's water system?

Recommendation: The appropriate test year revenues for Brendenwood's water system are \$29,939. (Bethea)

Staff Analysis: Brendenwood recorded test year revenues of \$28,510. The water revenues included \$27,951 of service revenues and \$559 of miscellaneous revenues. Staff annualized service revenues by applying the number of billing determinants to the rates in effect as of June 9, 2019. As a result, staff determined that service revenues should be \$29,380, which is an increase of \$1,429. Staff determined that miscellaneous revenues should be \$559. Based on the above, the appropriate test year revenues for Brendenwood water system, including miscellaneous revenues are \$29,939 ($\$29,380 + \559).

Issue 7: What is the appropriate test year operating expense for Brendenwood?

Recommendation: The appropriate amount of operating expense for Brendenwood is \$32,034. (D. Brown, Richards)

Staff Analysis: The utility recorded operating expense of \$31,679. The test year operation and maintenance (O&M) expenses have been reviewed by staff, including invoices and other supporting documentation. Staff has made several adjustments to the utility's operating expenses as discussed below.

Operation and Maintenance Expenses

Salaries and Wages – Officers and Directors (603)

The utility recorded salaries and wages expense for officers and directors of \$2,650. According to the utility's 2020 Annual Report, Brendenwood's officers also include an accounting manager who does not receive a salary. In response to audit staff, the utility indicated that the president only receives compensation through distribution of retained earnings if there are any net operating profits from operations that are not used for continuing operations or capital improvements. Staff made no adjustments, and therefore recommends salaries and wages expense for officers and directors of \$2,650.

Purchased Power (615)

Brendenwood recorded purchased power expense of \$1,878. Supporting documentation confirming the purchased power expense was provided and reviewed by staff. Staff made no adjustments, and therefore recommends purchased power expense of \$1,878.

Chemicals (618)

The utility recorded chemicals expense of \$182. Supporting documentation confirming the chemicals expense was provided and reviewed by staff. Staff made no adjustments, and therefore recommends chemicals expense of \$182.

Contractual Services – Accounting (632)

Brendenwood recorded contractual services - accounting expense of \$400. Supporting documentation confirming the accounting expense was for preparing and filing the 2019 corporate tax return was provided. Staff made no adjustments, and therefore recommends contractual services - accounting expense of \$400.

Contractual Services – Legal (633)

The utility recorded contractual services - legal expense of \$300. Supporting documentation was provided by the utility indicating the legal fees are for filing with the Florida Secretary of State, and to prepare shareholder and director annual minutes. Staff made no adjustments, and therefore recommends contractual services - legal expense of \$300.

Contractual Services – Testing (635)

Brendenwood recorded contractual services – testing expense of \$31. This expense reflects the cost of boil water clearance testing on two occasions in January 2020. Staff made no adjustments, and therefore recommends contractual services - testing expense of \$31.

Contractual Services – Other (636)

The utility recorded contractual services – other expense of \$19,965. Brendenwood receives all of its operational and administrative services under a contract with an affiliated company, U.S. Water Services Corporation (USWSC or U.S. Water). Pursuant to the contract, USWSC performs various functions: administrative management, operations, maintenance, and billing/collection for the utility. USWSC’s president and majority shareholder has been in the water utility management and operations industry for over 30 years. Brendenwood specifically contracts with USWSC for the following services:

- Water Operations
- Meter Reading
- System Maintenance and Repairs
- Billing and Collections
- Customer Service
- Regulatory Affairs
- Testing
- Accounting
- Office Space and Equipment

The current USWSC contract, which took effect on April 1, 2017, established a cost of \$18,913 annually. With a current cost of \$19,965, this represents a 5.56 percent increase over three years ($(\$19,965 - \$18,913) \div \$18,913$). This is below the compound annual Commission approved index increase of 5.91 percent over the same period.¹⁵

Due to the low number of customers (59 ERCs) served by this utility, the cost of the USWSC contract for Brendenwood equates to \$350 per ERC ($\$19,965 \div 57$ ERCs). Despite the higher cost on a per ERC basis, staff believes Brendenwood’s contractual services agreement with USWSC is reasonable and beneficial to the utility and its customers. In previous dockets, U.S. Water has indicated, “if the actual costs were recovered through the actual number of ERCs, the amount per ERC would be higher.”¹⁶ Staff believes that USWSC and its employees bring considerable management and operational experience at a comparatively reasonable cost; the utility’s customers are experiencing operational benefits that might not be realized if Brendenwood operated on a stand-alone basis. If Brendenwood were required to establish a stand-alone utility with personnel for maintenance, customer service, accounting, regulatory compliance, etc., the cost would likely exceed that of the current USWSC contract. For example, it would be highly impractical to assume that all of these operational, administrative, and

¹⁵ 2018 through 2020

¹⁶Document No. 07319-2019, filed on August 9, 2019.

managerial services could be performed by a single individual for only \$19,965 a year. By virtue of the USWSC contract, the customers of Brendenwood benefit from the services of multiple qualified employees on a fractional basis, which is cost prohibitive on a stand-alone system.

In regard to the appropriateness of utility contracts with affiliated companies, staff cites *GTE v Deason*, 642 So. 2d 545 (Fla. 1994), in which the Florida Supreme Court found:

The mere fact that a utility is doing business with an affiliate does not mean that unfair or excess profits are being generated, without more. Charles F. Phillips, Jr., *The Regulation of Public Utilities* 254-255 (1988). We believe the standard must be whether the transactions exceed the going market rate or otherwise inherently unfair . . . [i]f the answer is “no”, then the PSC may not reject the utility’s position.

Staff notes that in prior cases involving seven of Brendenwood’s sister utilities over the past five years, the Commission approved similar USWSC agreements and associated costs.¹⁷ In those cases, the cost of the USWSC contract on a per ERC basis ranged from \$152 to \$427.

In the instant case, staff believes that the contract reflects the market conditions of the utility’s service area. Absent the USWSC contract, staff believes the costs to provide service would be higher. For the reasons discussed above, staff believes that the utility’s contract with USWSC is reasonable and the cost should be included for recovery of the utility’s proposed rates. Therefore, staff recommends test year contractual services – other expense of \$19,965.

Insurance Expense – General Liability (657)

The utility recorded insurance expense of \$1,184 for the test year. On October 20, 2021, the utility provided an updated invoice reflecting a premium of \$1,343 for the period October 2021 through October 2022.¹⁸ To reflect the increase in premium, staff increased this account by \$159 (\$1,343 - \$1,184). Staff believes including the adjustment is appropriate because the increased premium is known, measurable, and already in effect. As such, staff recommends insurance expense for the test year of \$1,343 (\$1,184 + \$159).

¹⁷Order No. PSC-2017-0334-PAA-WS, Issued August 23, 2017, in Docket No. 20160222-WS, *In re: Application for staff-assisted rate case in Highlands County by LP Waterworks, Inc.*; Order No. PSC-2017-0428-PAA-WS, Issued November 7, 2017, in Docket No. 20160195-WS, *In re: Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.*; Order No. PSC-2018-0552-PAA-WU, Issued November 19, 2018, in Docket No. 20180022-WU, *In re: Application for staff-assisted rate case in Lake County by Pine Harbour Waterworks, Inc.*; Order No. PSC-2018-0553-PAA-WU, Issued November 19, 2018, in Docket No. 20180021, WU, *In re: Application for staff-assisted rate case in Highlands County by Country Walk Utilities, Inc.*; Order No. PSC-2020-0086-PAA-WU, Issued March 24, 2020, in Docket No. 20190114-WU, *In re: Application for staff-assisted rate case in Alachua County, and request for interim rate increase by Gator Waterworks, Inc.*; Order No. PSC-2020-0088-PAA-SU, Issued March 25, 2020, in Docket No. 20190116-SU, *In re: Application for staff-assisted rate case in Brevard County, and request for interim rate increase by Merritt Island Utility Company*; Order No. PSC-2020-0087-PAA-WS, Issued March 25, 2020, in Docket No. 20190125-WS, *In re: Application for staff-assisted rate case in Sumter County by The Woods Utility Company*; Order No. PSC-2020-0168-PAA-WS, Issued May 22, 2020, in Docket No. 20190166-WS, *In re: Application for increase in water rates in Highlands County by HC Waterworks, Inc.*

¹⁸Document No. 12218-2021, filed on October 20, 2021.

Regulatory Commission Expense (665)

Per Brendenwood's filed application, the utility estimated regulatory expense to be \$280 for the test year. Regarding the instant case, the utility is required by Rule 25-22.0407, F.A.C., to provide notices of the customer meeting, final rates, and four-year rate reduction. Staff calculated noticing costs to be \$171. Additionally, the utility paid a \$500 filing fee.¹⁹ Using the 2021 IRS mileage rate, at 428 miles round-trip, staff calculated travel to the Commission Conference to be \$240.²⁰ Staff did not include any travel to the customer meeting, since it was held remotely. Additionally, staff estimated \$240 for lodging expense for two utility representatives, using the average lodging rate for Tallahassee. Staff recommends noticing costs, filing fee, and travel expenses of \$1,151 ($\$171 + \$500 + \$240 + \240), which amortized over four years is \$288 ($\$1,151 \div 4$ years) per year. This represents an \$8 increase to the utility's recorded expense of \$280. Therefore, staff recommends regulatory commission expense of \$288 ($\$280 + \8).

Bad Debt Expense (670)

Brendenwood recorded bad debt expense of \$89 for the test year. Staff notes that it is Commission practice to calculate bad debt expense using a three-year average when the information is available. Based on the utility's Annual Reports, Brendenwood recorded bad debt expense of \$2,027, \$280, and \$89, for the years 2018, 2019, and 2020, respectively. Staff believes that the 2018 amount of \$2,027 is an anomaly, and therefore requested the utility provide updated bad debt expense for 2021. In response, the utility reported bad debt expense of \$99 through August 2021.²¹ Staff annualized this amount, resulting in 2021 annualized bad debt expense of \$149. Staff used a three-year average of \$280, \$89, and \$149 to calculate bad debt expense of \$173 ($(\$280 + \$89 + \$149) \div 3$). This represents an increase of \$84 to the utility's recorded expense of \$89. Therefore, staff recommends bad debt expense of \$173 ($\$89 + \84).

Miscellaneous Expense (675)

The utility recorded miscellaneous expense of \$692. This expense is the 2020 Drinking Water Annual Operating License fee paid to the Florida Department of Environmental Protection. Staff made no adjustments, and therefore recommends miscellaneous expense of \$692.

Operation and Maintenance Expense Summary

The utility recorded O&M expenses of \$27,651 for the test year. Based on the above adjustments, staff recommends that the O&M expense balance be increased by \$251, resulting in a total O&M expense of \$27,902 ($\$27,651 + \251). Staff's recommended adjustments to O&M expense are shown on Schedule No. 3-C.

Depreciation Expense

The utility's records reflect test year depreciation expense of \$2,095. As a result of the staff audit, an adjustment was made to increase depreciation expense by \$133. This increase to depreciation expense impacted Acct. 320 – Water Treatment Equipment, which as discussed in Issue 4, was already over-depreciated. Staff calculated depreciation expense using the prescribed

¹⁹Document No. 03705-2021, filed on April 26, 2021.

²⁰<https://www.irs.gov/newsroom/irs-issues-standard-mileage-rates-for-2021>

²¹Document No. 12181-2021, filed on October 18, 2021.

rates set forth in Rule 25-30.140, F.A.C., and removed the auditor's adjustment. Therefore, staff recommends net depreciation expense of \$2,095.

Taxes Other Than Income (TOTI)

Brendenwood recorded TOTI of \$1,933 for the test year. As a result of the staff audit, an adjustment was made to decrease this amount by \$131 to reflect the audited amounts paid in 2020. Staff increased TOTI by \$64 to reflect the appropriate Regulatory Assessment Fees (RAFs) based on corrected utility test year revenues. Staff reviewed the 2021 Lake County Tax records and decreased TOTI by \$59 to reflect the utility's 2021 property taxes.²² Staff's adjustment reflects the four percent discount for early payment that is typically recognized by the Commission.

As discussed in Issue 6, water revenues have been increased by \$5,774 to reflect the change in revenue required to cover expenses and allow an opportunity to earn the recommended rate of return. As a result, TOTI should be increased by \$230 to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff is recommending TOTI of \$2,037 ($\$1,933 - \$131 + \$64 - \$59 + \230).

Income Tax

The utility is a Subchapter S Corporation and therefore did not record any income tax expense for the test year. As such, no adjustment to income tax expense is required.

Operating Expenses Summary

The application of staff's recommended adjustments to the utility's test year operating expenses result in a total operating expense of \$32,034. Operating expenses are shown on Schedule No. 3- and the related adjustments are shown on Schedule No. 3-B.

²²Document No. 12441-2021, filed October 28, 2021.

Issue 8: What is the appropriate revenue requirement for Brendenwood?

Recommendation: The appropriate revenue requirement is \$35,052 resulting in an annual increase of \$5,113 (17.08 percent). (Bethea, D. Brown)

Staff Analysis: Brendenwood should be allowed an annual increase of \$5,113 (17.08 percent). This should allow the utility the opportunity to recover its expenses and a 7.85 percent rate of return on its investment. The calculations are shown in Table 8-1:

**Table 8-1
Revenue Requirement**

Rate Base	\$38,447
Rate of Return (%)	<u>x 7.85%</u>
Return on Rate Base	\$3,018
O&M Expense	27,902
Depreciation Expense (Net)	2,095
Taxes Other Than Income	<u>2,037</u>
Revenue Requirement	<u>\$35,052</u>
Less Adjusted Test Year Revenues	<u>29,939</u>
Annual Increase	<u>\$5,113</u>
Percent Increase	<u>17.08%</u>

Issue 9: What are the appropriate rate structure and rates for Brendenwood's water system?

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 sheets 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. (Bethea)

Staff Analysis: Brendenwood is located in Lake County within the SJRWMD. This area has been designated as a water use caution area. The utility provides water service to 58 residential customers and one general service customer. Approximately 7 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 10,001 gallons per month. The average water demand excluding zero gallon bills is 10,703 gallons per month. Currently, the utility's water rate structure consists of a monthly base facility charge (BFC) and a three-tier inclining block rate structure, which includes separate gallonage charges for discretionary and non-discretionary usage for residential water customers. The rate blocks are: (1) 0-5,000 gallons; (2) 5,001-10,000 gallons; and (3) all usage in excess of 10,000 gallons per month. General service rate structure consists of a monthly BFC and a gallonage charge.

Staff performed an analysis of the utility's billing 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.

In this case, staff recommends that 30 percent of the water revenues be generated from the BFC, which will provide sufficient revenues to design gallonage charges that send pricing signals to customers using above the non-discretionary level. The average people per household served by the water system is 2.5; therefore, based on the number of people per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 4,000 gallons per month.²³ Staff's review of the billing analysis indicates that the discretionary usage above 4,000 gallons represents 58 percent of the bills, which account for approximately 68 percent of the water demand. This is considered high discretionary usage for this customer base.

In addition to the BFC allocation, staff also recommends a BFC and a three-tier inclining block rate structure, which includes separate gallonage charges for discretionary and non-discretionary usage for residential water customers. The rate blocks are: (1) 0-4,000 gallons; (2) 4,001-10,000 gallons; and (3) all usage in excess of 10,000 gallons per month. This rate structure sends the appropriate pricing signals because it targets customers with high consumption levels and

²³ Average person per household was obtained from www.census.gov/quickfacts/lakecountyflorida.

minimizes price increases for customers at non-discretionary levels. In addition, the third tier provides an additional pricing signal to customers using in excess of 10,000 gallons of water per month, which represents approximately 39 percent of the usage. General service customers should be billed a BFC and a gallonage charge.

Based on staff's recommended revenue increase of 17.4 percent, which excludes miscellaneous revenues, the residential consumption can be expected to decline by 445,000 gallons resulting in anticipated average residential demand of 9,352 gallons per month. Staff recommends a 6.5 percent reduction in test year residential gallons for ratesetting purposes. As a result, the corresponding reductions for purchased power expense is \$121, \$12 for chemicals expense, and \$6 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$34,354.

The recommended rate structures 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 sheets 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: Should the requested initial customer deposits for Brendenwood be approved?

Recommendation: The appropriate initial customer deposit should be \$84 for the single family residential 5/8 inch x 3/4 inch meter size for water. The initial customer deposit for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding. (Bethea)

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.²⁴ Currently, the utility does not have initial customer deposits. Based on the staff recommended water rates and the post repression average residential demand of 9,352, the appropriate initial customer deposit should be \$84 to reflect an average residential customer bill for two months. Under staff's recommended rates, the monthly average residential bill is \$42.

Staff recommends that the appropriate initial customer deposit should be \$84 for the single family residential 5/8 inch x 3/4 inch meter size for water. 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. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding.

²⁴Order NO. PSC-2021-0320-PAA-WU, issued August 23, 2021, in Docket No. 20200230, *In re: Application for In re: Application for staff-assisted rate case in Manatee County by Sunny Shores Utilities, LLC.*, and Order No. PSC-2018-0446-FOF-SU, issued September 4, 2018, in Docket No. 20170141-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

Issue 11: Should the miscellaneous service charges be revised to conform to amended Rule 25-30.460, F.A.C.?

Recommendation: Yes. Staff recommends the miscellaneous service charges be revised to conform to the recent amendment to Rule 25-30.460, F.A.C. The tariff should be revised to reflect the removal of initial connection and normal reconnection charges. Brendenwood should be required to file a proposed customer notice to reflect the Commission-approved charges. The approved 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. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bethea)

Staff Analysis: Effective June 24, 2021, Rule 25-30.460, F.A.C., was amended to remove initial connection and normal reconnection charges.²⁵ The definitions for initial connection charges and normal reconnection charges were subsumed in the definition of the premises visit charge. It was envisioned that the utility tariffs would be reviewed by staff on a prospective basis to ensure conformance with the amended rule. Brendenwood miscellaneous service charges consist of initial connection and normal reconnection charges. These charges are more than the premises visit charge. Since the premises visit entails a broader range of tasks, staff believes the premises visit should reflect the amount of normal reconnection charges of \$15.56. Therefore, staff recommends that the initial connection and normal reconnection charges be removed, the premises visit be revised to \$15.56 and the definition for the premises visit charge be updated to comply with amended Rule 25-30.460, F.A.C. The existing and staff recommended miscellaneous service charges are reflected below.

Existing
Miscellaneous Service Charges

	<u>Normal Hours</u>
Initial Connection Charge	\$15.56
Normal Reconnection Charge	\$15.56
Violation Reconnection Charge	\$15.56
Premises Visit Charge (in lieu of disconnection)	\$10.38
Late Payment Charge	\$5.18
NSF Charges	Pursuant to Section 68.065, F.S.
Convenience Charge	\$2.70

²⁵Order No. PSC-2021-0201-FOF-WS, issued June 4, 2020, in Docket No. 20200240-WS, *In re: Proposed amendment of Rule 25-30.460, F.A.C., Application for Miscellaneous Service Charges.*

Staff Recommended
Miscellaneous Service Charges

	<u>Normal Hours</u>
Premises Visit Charge	\$15.56
Violation Reconnection Charge	\$15.56
Late Payment Charge	\$5.18
NSF Charges	Pursuant to Section 68.065, F.S.
Convenience Charge	\$2.70

Conclusion

Staff recommends the miscellaneous service charges be revised to conform to the recent revision to Rule 25-30.460, F.A.C. The recommended miscellaneous service charges are shown on Schedule No. 1-B. Brendenwood should be required to file a proposed customer notice to reflect the Commission-approved charges. The approved 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. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

Issue 12: What is the appropriate amount by which rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.081(8), F.S.?

Recommendation: The 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. Pursuant to Section 367.081(8), F.S., the decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. Brendenwood should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and rationale no later than one month prior to the effective date of the new rates. If the utility files revised tariffs reflecting this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Bethea, Casper) (Procedural Agency Action)

Staff Analysis: Section 367.081(8), F.S., requires that the rates be reduced by the amount of the rate case expense previously included in rates immediately following the expiration of the recovery period. With respect to Brendenwood, the reduction will reflect the removal of revenue associated with the amortization of rate case expense and the gross-up for RAFs. The total reduction is \$301.

Staff recommends that the 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. Pursuant to Section 367.081(8), F.S., the decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. Brendenwood should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and rationale no later than one month prior to the effective date of the new rates. If the utility files revised tariffs reflecting 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 13: Should the recommended rates be approved for Brendenwood on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the utility?

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. Brendenwood should file revised tariff sheets and a proposed customer notice reflecting the Commission-approved rates. The approved rates should be effective for services 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. Further, prior to implementing any temporary rates, the utility should provide appropriate financial 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 both the current monthly and total amount 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. (Casper) (Procedural Agency Action)

Staff Analysis: This recommendation proposes an increase in rates. A timely protest might delay a 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 proposed rates be approved on a temporary basis. Brendenwood should file revised tariff sheets and a proposed customer notice reflecting 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 it has been received by the customers. The additional revenue produced by staff's recommended rates and collected by the utility should be subject to the refund provisions discussed below.

Brendenwood should be authorized to initiate the temporary rates upon staff's approval of an appropriate security for the potential refund and cost of the proposed customer notice. Security should be in the form of either a bond or letter of credit in the amount of \$4,046. Alternatively, the utility may establish an escrow agreement with an independent financial institution.

If the utility chooses a bond for securing the potential refund, 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 for securing the potential refund, the letter of credit should contain the following conditions:

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

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

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

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

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

Issue 14: Should Brendenwood be required to notify the Commission within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory utility Commissioners (NARUC) Uniform System of Accounts (USOA) associated with the Commission approved adjustments?

Recommendation: Yes. Brendenwood should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Brendenwood should submit a letter within 90 days of the Commission's 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, a notice providing good cause should be filed not less than seven days prior to the deadline. Upon providing a notice of good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Casper) (Procedural Agency Action)

Staff Analysis: Brendenwood should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Brendenwood should submit a letter within 90 days of the Commission's 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, a notice providing good cause should be filed not less than seven days prior to the deadline. Upon providing a notice of good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Issue 15: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the Proposed Agency Action Order, a consummating order should be issued. This docket should remain open for staff's verification that the revised tariff sheets and customer notices have been filed by the utility and approved by staff. Also, the docket should remain open to allow the utility to provide the recommended reporting information. Upon staff's approval of the tariff sheets and customer notices, along with staff's completion of its review of the recommended reporting information, this docket should be closed administratively if no adjustments are necessary. (Jones)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the Proposed Agency Action Order, a consummating order should be issued. This docket should remain open for staff's verification that the revised tariff sheets and customer notices have been filed by the utility and approved by staff. Also, the docket should remain open to allow the utility to provide the recommended reporting information. Upon staff's approval of the tariff sheets and customer notices, along with staff's completion of its review of the recommended reporting information, this docket should be closed administratively if no adjustments are necessary.

BRENDENWOOD WATERWORKS, INC.		SCHEDULE NO. 1-A		
TEST YEAR ENDED 12/31/2020		DOCKET NO. 20210055-WU		
SCHEDULE OF WATER RATE BASE				
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST.	BALANCE PER STAFF	
1. UTILITY PLANT IN SERVICE	\$48,200	(\$28)	\$48,172	
2. LAND & LAND RIGHTS	1,100	0	1,100	
3. ACCUMULATED DEPRECIATION	(14,563)	286	(14,277)	
4. CIAC	(1,577)	0	(1,577)	
5. ACCUMULATED AMORTIZATION OF CIAC	1,577	0	1,577	
6. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>3,452</u>	<u>3,452</u>	
7. WATER RATE BASE	<u>\$34,737</u>	<u>\$3,710</u>	<u>\$38,447</u>	

BRENDENWOOD WATERWORKS, INC.		SCHEDULE NO. 1-B
TEST YEAR ENDED 12/31/2019		DOCKET NO. 20210055-WU
ADJUSTMENTS TO RATE BASE		
		<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>		
To reflect an averaging adjustment.		<u>(\$28)</u>
<u>ACCUMULATED DEPRECIATION</u>		
1.	To reflect an auditing adjustment.	(\$1,414)
2.	To reflect a staff adjustment.	1,335
3.	To reflect an averaging adjustment.	<u>365</u>
	Total	<u>\$286</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
To reflect 1/8 of test year O&M expenses.		<u>\$3,452</u>

BRENDENWOOD WATERWORKS, INC.
TEST YEAR ENDED 12/31/2020
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 20210055-WU

CAPITAL COMPONENT	PER UTILITY	PRO RATA ADJUST- MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. LONG-TERM DEBT	0	0	0	0.00%	0.00%	0.00%
2. SHORT-TERM DEBT	0	0	0	0.00%	0.00%	0.00%
3. COMMON EQUITY	\$30,645	\$7,802	\$38,447	100.00%	7.85%	7.85%
4. CUSTOMER DEPOSITS	0	0	0	0.00%	2.00%	0.00%
5. DEFERRED INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
6. TOTAL CAPITAL	<u>\$30,645</u>	<u>\$7,802</u>	<u>\$38,447</u>	<u>100.00%</u>		<u>7.85%</u>
		RANGE OF REASONABLENESS			LOW	HIGH
		RETURN ON EQUITY			6.85%	8.85%
		OVERALL RATE OF RETURN			6.85%	8.85%

BRENDENWOOD WATERWORKS, INC.		SCHEDULE NO. 3-A			
TEST YEAR ENDED 12/31/2020		DOCKET NO. 20210055-WU			
SCHEDULE OF WATER OPERATING INCOME					
	PER UTILITY	STAFF ADJUST MENTS	STAFF ADJ. TEST YEAR	ADJUST FOR INCREASE	REV. REQ.
1. TOTAL OPERATING REVENUE	<u>\$28,510</u>	<u>\$1,429</u>	<u>\$29,939</u>	<u>\$5,113</u> 17.08%	<u>\$35,052</u>
OPERATING EXPENSES					
2. OPERATION & MAINTENANCE	\$27,651	\$251	\$27,902	\$0	\$27,902
3. DEPRECIATION (NET)	2,095	0	2,095	0	2,095
4. AMORTIZATION (NET)	0	0	0	0	0
5. TAXES OTHER THAN INCOME	1,933	(126)	1,807	230	2,037
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSE	<u>\$31,679</u>	<u>\$125</u>	<u>\$31,804</u>	<u>\$230</u>	<u>\$32,034</u>
7. OPERATING INCOME / LOSS	<u>(\$3,169)</u>		<u>(\$1,865)</u>		<u>\$3,018</u>
8. WATER RATE BASE	<u>\$34,737</u>		<u>\$3,710</u>		<u>\$38,447</u>
9. RATE OF RETURN					7.85%

BRENDENWOOD WATERWORKS, INC.		SCHEDULE NO. 3-B
TEST YEAR ENDED 12/31/2020		DOCKET NO. 20210055-WU
ADJUSTMENTS TO OPERATING INCOME		<u>WATER</u>
OPERATING REVENUES		
	To reflect an auditing adjustment to Service Revenues.	<u>\$1,429</u>
OPERATION AND MAINTENANCE EXPENSE		
1.	Insurance Expense (657) To reflect October 2021 increase in policy premium.	<u>\$159</u>
2.	Rate Case Expense (665) To reflect four-year amortization of rate case expense.	<u>\$8</u>
3.	Bad Debt Expense (670) To reflect appropriate bad debt expense.	<u>\$84</u>
TOTAL OPERATION AND MAINTENANCE ADJUSTMENTS		<u>\$251</u>
DEPRECIATION EXPENSE		
1.	To reflect an auditing adjustment.	\$133
2.	To reflect staff adjustment to remove over depreciation from Acct. 320.	<u>(133)</u>
	Total	<u>\$0</u>
TAXES OTHER THAN INCOME		
1.	To reflect an auditing adjustment to 2020 property taxes.	(\$131)
2.	To reflect appropriate test year RAFs.	64
3.	To reflect 2021 property taxes.	<u>(59)</u>
	Total	<u>\$126</u>
TOTAL OPERATING EXPENSE		<u>\$125</u>

BRENDENWOOD WATERWORKS, INC.		SCHEDULE NO. 3-C		
TEST YEAR ENDED 12/31/2020		DOCKET NO. 20210055-WU		
ANALYSIS OF WATER O&M EXPENSE				
ACCT. #	DESCRIPTION	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
603	Salaries and Wages – Officers	\$2,650	\$0	\$2,650
615	Purchased Power	1,878	0	1,878
618	Chemicals	182	0	182
632	Contractual Services – Accounting	400	0	400
633	Contractual Services – Legal	300	0	300
635	Contractual Services – Testing	31	0	31
636	Contractual Services – Other	19,965	0	19,965
657	Insurance Expense	1,184	159	1,343
665	Regulatory Commission Expense	280	8	288
670	Bad Debt Expense	89	84	173
675	Miscellaneous Expenses	<u>692</u>	<u>0</u>	<u>692</u>
	Total O&M Expense	<u>\$27,651</u>	<u>\$251</u>	<u>\$27,902</u>
	Working Capital			\$3,452

BRENDENWOOD WATERWORKS INC.		SCHEDULE NO. 4	
TEST YEAR ENDED DECEMBER 31, 2020		DOCKET NO. 20210055-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"	\$13.71	\$14.77	\$0.14
3/4"	\$20.57	\$22.16	\$0.21
1"	\$34.28	\$36.93	\$0.35
1-1/2"	\$68.55	\$73.85	\$0.70
2"	\$109.68	\$118.16	\$1.12
3"	\$219.36	\$236.32	\$2.25
4"	\$342.75	\$369.25	\$3.51
6"	\$685.50	\$738.50	\$7.02
Charge per 1,000 gallons - Residential			
0 - 5,000 gallons	\$1.87	N/A	N/A
5,001 - 10,000 gallons	\$2.08	N/A	N/A
Over 10,000 gallons	\$4.16	N/A	N/A
Charge per 1,000 gallons - Residential			
0 - 4,000 gallons	N/A	\$2.38	\$0.02
4,001 - 10,000 gallons	N/A	\$2.97	\$0.03
Over 10,000 gallons	N/A	\$5.35	\$0.05
Charge per 1,000 gallons - General Service	\$2.83	\$3.73	\$0.04
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
4,000 Gallons	\$21.19	\$24.29	
10,000 Gallons	\$33.46	\$42.11	
14,000 Gallons	\$50.10	\$63.51	