

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 22, 2022

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Bethea, Hudson) *JGH*
Division of Accounting and Finance (Richards) *ALM*
Division of Engineering (Lewis, Ramos) *TB*
Office of the General Counsel (Trierweiler) *AH*

RE: Docket No. 20220026-WU – Application for staff-assisted rate case in Marion County, and request for interim rate increase, by Leighton Estates Utilities, LLC.

AGENDA: 12/06/22 – Regular Agenda – Proposed Agency Action – Except for Issues 13, 14, and 15 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Graham

CRITICAL DATES: 06/28/2023 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

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Case Background

Leighton Estates Utilities, LLC. (Leighton or utility) is a Class C utility which is currently providing water only service to approximately 80 customers in Marion County. Wastewater service is provided by individually owned septic tanks. Leighton is located in the St. Johns River Water Management District (SJRWMD). On November 1, 2021, the Commission approved the transfer of Certificate No. 652-W from Arma Water Service, LLC to Leighton Estates Utilities, LLC.¹ According to Leighton's 2021 Annual Report, the utility's operating revenues were \$28,105 and operating expenses were \$45,069.

On January 27, 2022, Leighton filed an application for a staff-assisted rate case and paid the appropriate filing fee on March 30, 2022. The official filing date was established as March 28, 2022, and the test year ended December 31, 2021. A customer meeting was held on September 12, 2022. No customers provided comments during the meeting.

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

¹ Order No. PSC-2021-0408-PAA-WU, issued November 1, 2021, in Docket No. 20210043-WU, *In re: Application to transfer facilities and water Certificate No. 652-W in Marion County from Arma Water Service, LLC to Leighton Estates Utilities, LLC.*

Discussion of Issues

Issue 1: Is the quality of service provided by Leighton Estates Utilities, LLC. satisfactory?

Recommendation: Yes. The utility is passing all Department of Environmental Protection (DEP) primary and secondary standards and no customer complaints or comments have been received. Therefore, the quality of service provided by Leighton 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 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 Leighton'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 June 16, 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 Commission's Consumer Activity Tracking System for the test year and four years prior and found that no complaints have been filed. Also, no customers attended the customer meeting held on September 12, 2022, and no customer correspondence has been filed in the docket as of November 15, 2022. Last, the DEP and the utility have indicated that no customer complaints were received during the test year and four years prior.

Conclusion

The utility is passing all DEP primary and secondary standards and no customer complaints or comments have been received. Therefore, the quality of service provided by Leighton should be considered satisfactory.

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

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

Staff Analysis: Rule 25-30.225, F.A.C., requires that each water utility shall operate and maintain its plant and facilities by employing qualified operators in accordance with the rules of the DEP in order to provide safe and efficient service up to and including the point of delivery into the piping owned by the customer. During a rate making proceeding, 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

Leighton’s water system has a permitted design capacity of 65,800 gallons per day (gpd). The utility’s water system is supplied by one well with a rated pumping capacity of 96 gallons per minute (gpm). The treated water is pumped into a 5,000 gallon hydropneumatic storage tank before entering the distribution system. The hydropneumatic tank passed inspection on June 24, 2020. Staff reviewed the Sanitary Survey conducted by the DEP on September 11, 2020. The water treatment plant (WTP) was in compliance with no deficiencies indicated. Staff did not find any warning letters or consent orders issued to the utility. The DEP usually conducts inspections on three-year intervals and the next should occur in 2023.

Conclusion

Leighton’s water system is currently in compliance with DEP regulations.

Issue 3: What are the used and useful percentages for Leighton Estates Utilities, LLC.'s WTP and water distribution system?

Recommendation: Leighton's WTP and water distribution system should be considered 100 percent used and useful (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: Leighton's WTP consists of one well with a rated pumping capacity of 96 gpm. The utility's water system does not have a storage tank, but has one hydropneumatic tank totaling 5,000 gallons in capacity. The distribution system is composed of approximately 3,520 feet of 2 inch and 4,000 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. Leighton is served by a single well and therefore, Leighton's WTP should be considered 100 percent U&U.

Water Distribution System Used and Useful

The utility's service area originally consisted of 22 duplexes, approximately 96 homes on private wells, and additional vacant lots in the Leighton Estates subdivision located in Ocala.² During the test year, 80 residential customers were being served by the utility. At the time Leighton Estates was developed, Marion County required that new private wells could not be constructed unless the homes were on five acre tracts or the wells were owned by a permitted water system. Therefore, the utility was issued a special use permit for the construction of a community water system on 4.49 acres and the system was constructed in January 2005.

Based on staff's review, it does not appear that a U&U percentage was previously established for the utility. The distribution system has been extended since the utility was granted its certificate, and presently serves 80 customers. Information provided by the utility stated 18 existing homes with private wells and 16 vacant lots can also be served by the utility's current distribution system. However, these homeowners and vacant lot owners are not required to take service from the utility. Therefore, the distribution system can be considered built out. Based on these circumstances, the water distribution system should 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, 2021 Annual Report, and audited billing data indicate that Leighton treated 4,924,400 gallons and sold 4,352,400 gallons with 572,000 gallons used for

²Order No. PSC-10-0552-PAA-WU, issued September 3, 2010, in Docket No. 090366-WU, *In re: Application for certificate to operate water utility in Marion County by ARMA WATER SERVICE, LLC.*

flushing during the test year. The resulting calculation $([4,924,400 - 4,352,400 - 572,000]/4,924,400)$ for unaccounted for water is 0 percent; therefore, there is no EUW.

Conclusion

Leighton's WTP and 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 Leighton Estates Utilities, LLC.?

Recommendation: The appropriate average test year rate base for Leighton is \$236,146. (Richards, Lewis)

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, net acquisition adjustment, and working capital. The utility's rate base was established as part of its transfer proceeding, in Docket No. 20210043-WU.³ Staff selected the test year ended December 31, 2021, 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 a UPIS balance of \$366,405. Staff decreased UPIS by \$2,064 to reflect an averaging adjustment. Additionally, as shown below in Table 4-1, staff increased UPIS by \$9,871 to reflect pro forma additions, offset by a decrease of \$6,193 to reflect pro forma retirement.

Pro Forma Plant Additions

As shown in Table 4-2, the utility requested three pro forma items be included in rate base: 1) replacement of a failed pump; 2) purchase of two 2021 Ford F150 trucks; and 3) a meter replacement program. In June of 2022, the WTP experienced a well pump failure. This was an emergency repair that needed to occur expeditiously. The purchase and replacement of the new well pump occurred on June 27, 2022, and a paid invoice was provided totaling \$4,941. The installation cost consisted of new piping and wiring for the pump and motor, plus labor charges. The purchase and installation cost appear justified and reasonable.

Florida Utility Services 1 (FUS1) purchased two 2021 Ford F-150 trucks for its service fleet and requested the cost of the vehicles be commonly allocated across all the systems it operates. The utility indicated that the addition of the trucks allows for each of FUS1's three maintenance technicians, maintenance foreman, and officer to provide efficient and timely responses to the 17 utility systems operated by FUS1. The two additional vehicles allow for efficient service to the 17 utilities and a faster response to emergencies. The utilities served by FUS1 are located in six different counties. One truck was purchased in August 2021, and the other purchased a year later in August 2022. The utility provided a copy of the vehicles' bill of sales.⁴ Staff agrees with the stated purpose and the cost of the vehicles.

The utility requested to transition all of its existing standard 5/8 x 3/4" meters to Advanced Meter Infrastructure (AMI) meters. The utility indicated that switching to AMI meters would allow the utility to electronically obtain meter readings, provide real-time data accessibility,

³Order No. PSC-2021-0408-PAA-WU, issued November 1, 2021, in Docket No. 20210043-WU, *In re: Application to transfer facilities and water Certificate No. 652-W in Marion County from Arma Water Service, LLC to Leighton Estates Utilities, LLC.*

⁴ See Document No. 06031-2022 filed September 6, 2022.

reduce customer service-related calls and associated work order trips. Customers would gain the ability to monitor water usage, set leak detection alarms, and receive utility communications through a system Application, which would benefit customers.

The program consists of upgrading the utility's existing 80 meters, plus two additional meters, to AMI, remote read, meters and the purchase/installation of The Beacon, Advanced Metering system software (Beacon). The utility indicated that it intends to utilize the Beacon software across its other FUS1 systems, which would result in approximately \$186.30 of Beacon's \$8,208 total cost allocated to Leighton. Once purchased, there are no reoccurring or monthly fees to utilize the software. Staff inquired whether the utility explored obtaining additional bids or looked into alternative manufacturers for AMI. In response, the utility stated the Beacon product is the only software that is compatible with its existing billing system.

Of the 82 meters, the utility intends to retrofit 42 meters and replace 40 meters with AMI technology. In response to staff's second data request, the utility indicated the cost to retrofit each meter is \$521.94 and the cost to replace a meter is \$577.94. However, staff does not believe it is appropriate for the utility to recover mileage and labor costs as part of this program since this program would be implemented by full-time employees of FUS1 already accounted for through FUS1's payroll. The proposal included \$138.84 (\$47 + \$91.84) for a technician to travel round trip to install two meters. There was an additional \$6.00 charge for the customer service manager to call and inform each customer about the new meters.⁵ Staff does not favor the \$6.00 charge. Therefore, staff recommends the installation cost be reduced by \$144.84 resulting in a cost of \$377.10 and \$433.10 to retrofit or replace, respectively, a meter, as shown in Table 4-1. The utility stated its decision to retrofit roughly half of its meters rather than replace all 82 is based on the remaining life of the existing meters.

Based on the information provided above, staff recognizes that upgrading the meters to AMI will benefit Leighton's customers. Staff recognizes that the ability to monitor for leakage, water theft, and pay bills online is a benefit to the customers. Therefore, staff recommends the proposed AMI meter program is warranted.

⁵ See Document No. 04830-2022 filed July 19, 2022.

**Table 4-1
 Meter Replacement Program: Meter Costs**

Equipment	Retrofit Meter		New Meter	
	Retrofit Meter	\$302.00	New Meter	\$358.00
	Meter Box	\$24.56	Meter Box	\$24.56
	Meter Box Lid	\$15.50	Meter Box lid	\$15.50
	Locking Curb Stop	\$35.04	Locking Curb Stop	\$35.04
Mileage	Roundtrip from FUS1 to service territory	\$91.84	Roundtrip from FUS1 to service territory	\$91.84
Labor-Tech	Driving/Installation time	\$47.00	Driving/Installation time	\$47.00
Labor-Customer Service	Customer service call with customer and charging billing account	\$6.00	Customer service call with customer and charging billing account	\$6.00
Utility Requested Total:		\$521.94		\$577.94
Staff Recommended Total:		\$377.10		\$433.10
		(\$521.94 - \$144.84)		(\$521.94 - \$144.84)

Source: Document No. 04830-2022

**Table 4-2
 Pro Forma Plant Additions**

Project	Acct. No.	Description	Amount
Well Pump Replacement	311	Replace failed well pump	\$4,941.00
		Associated Retirement	
Vehicle Purchase	341	2021 Ford F150 vehicle purchase	\$46,030
Vehicle Purchase	341	2021 Ford F150 vehicle purchase	\$34,558
Meter Replacement Program	334	Replace or retrofit existing standard meters with AMI meters	\$33,349
		Associated Retirement	
Net Adjustment			

Source: Document Nos. 04830-2022, 06031-2022, and 04830-2022

**Table 4-3
 Pro Forma Plant Items**

Project	Additions	Retirements
Acct. 311 – Replace failed pump.	\$4,941	(\$3,706)
Acct. 334 – Meter replacement amortized 10 years.	3,316	(2,487)
Acct. 341 – 2021 F-150 Truck 2.00 percent allocation.	921	0
Acct. 341 – 2021 F-150 Truck 2.00 percent allocation.	<u>693</u>	<u>0</u>
Total Pro Forma	<u>\$9,871</u>	<u>(\$6,193)</u>

Based on the above, staff recommends an average UPIS balance of \$368,019 (\$366,405 - \$2,064 + \$9,871 - \$6,193).

Land & Land Rights

The utility recorded a land balance of \$30,000. Staff made no adjustment to this amount and therefore recommends a land balance of \$30,000.

Used & Useful

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

Accumulated Depreciation

Leighton recorded an accumulated depreciation balance of \$123,119. Staff decreased accumulated depreciation by \$34 to reflect overstated depreciation expense for Account 320 – Water Treatment Equipment. Additionally, staff decreased accumulated depreciation by \$6,638 to reflect an averaging adjustment. Staff also decreased accumulated depreciation by \$5,802 to reflect retirements associated with pro forma plant. Therefore, staff recommends an accumulated depreciation balance of \$110,645 (\$123,119 - \$34 - \$6,638 - \$5,802).

Contributions in Aid of Construction (CIAC)

The utility recorded a CIAC balance of \$10,165. Staff made an averaging adjustment decreasing CIAC by \$1,083. Therefore, staff recommends a CIAC balance of \$9,083 (\$10,165 - \$1,083).

Accumulated Amortization of CIAC

Leighton recorded accumulated amortization of CIAC of \$846. Staff made an averaging adjustment decreasing this amount by \$167. Therefore, staff recommends an accumulated amortization of CIAC balance of \$680 (\$846 - \$167).

Acquisition Adjustment Net

The utility recorded a negative acquisition adjustment of \$47,985 based on Order No. PSC-2021-0408-PAA-WU.⁶ In its Order, the Commission stated the acquisition adjustment will be amortized over seven years from the date of issuance. The utility did not record an accumulated amortization of acquisition adjustment. Staff annualized the amortization amount as \$6,855 (\$47,985 ÷ 7 years). The Order was issued on November 1, 2021, therefore, staff calculated the accumulated amortization from November 1, 2021, through the end of the test year as \$1,127. Staff recommends a net acquisition adjustment of \$46,858 (\$47,985 - \$1,127).

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

⁶Order No. PSC-2021-0408-PAA-WU, issued November 1, 2021, in Docket No. 20210043-WU, *In re: Application to transfer facilities and water Certificate No. 652-W in Marion County from Arma Water Service, LLC to Leighton Estates Utilities, LLC.*

unamortized balance of rate case expense. As such, staff removed the rate case expense balance of \$316 for this calculation resulting in an adjusted O&M expense balance of \$32,260 (\$32,576 - \$316). Applying this formula, staff recommends a working capital allowance of \$4,032 ($\$32,260 \div 8$).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$236,146. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

Issue 5: What is the appropriate return on equity and overall rate of return for Leighton Estates Utilities, LLC.?

Recommendation: The appropriate return on equity (ROE) is 10.45 percent with a range of 9.45 percent to 11.45 percent. The appropriate rate of return is 6.83 percent. (Richards)

Staff Analysis: The utility's capital structure is comprised of long-term debt, common equity, and customer deposits. The utility's proposed capital structure has been reconciled with staff's recommended rate base. The appropriate ROE for the utility is 10.45 percent based upon the Commission-approved leverage formula currently in effect.⁷ Staff recommends an ROE of 10.45 percent, with a range of 9.45 percent to 11.45 percent, and an overall rate of return of 6.83 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁷Order No. PSC-2022-0208-PAA-WS, issued June 15, 2022, in Docket No. 20220006-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 test year revenues for Leighton Estates Utilities, LLC's water system?

Recommendation: The appropriate test year revenues for Leighton's water system are \$28,269. (Bethea)

Staff Analysis: Leighton recorded test year revenues of \$28,105. The water revenues included \$27,740 of service revenues and \$365 of miscellaneous revenues. Staff annualized service revenues by applying the number of billing determinants to the utility's existing rates. As a result, staff determined that service revenues should be \$28,104, which is an increase of \$364. Staff also made an adjustment to miscellaneous revenues to remove \$200 of service availability charges that were inaccurately reflected in miscellaneous revenues. Staff determined that miscellaneous revenues should be \$165. Based on the above, the appropriate test year revenues for Leighton's water system, including miscellaneous revenues are \$28,269 (\$28,104 + \$165).

Issue 7: What is the appropriate operating expense for Leighton Estates Utilities, LLC.?

Recommendation: The appropriate amount of operating expense for Leighton is \$41,981. (Richards)

Staff Analysis: The utility recorded operating expense of \$45,072. The test year 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 described below.

Operation and Maintenance Expenses

Previously, the Commission approved the sharing of common O&M costs by all utilities under the parent company, FUS1.⁸ O&M common costs are allocated among all of the individual utilities in the FUS1 system based on each utility's number of customers relative to the total number of customers receiving service under FUS1. Based on the number of customers for Leighton, the allocation of FUS1 common costs is 2.00 percent.

On October 6, 2022, the utility requested pro forma increases to O&M accounts 601, 603, and 604.⁹ As these common costs are allocated among all FUS1 systems, staff determined the instant case is not the appropriate docket to include these costs. Therefore, after further review of the utility's records, staff made no adjustments to O&M accounts: 601, 603, and 604.

Additionally, after review of the utility's records, staff made no adjustments to the utility's recorded amounts to O&M accounts: 615, 620, 631, 635, 636, 640, 650, and 655. Staff's recommended balances for these accounts are shown on Schedule No. 3-C.

Contractual Services – Billing (630)

The utility did not record any contractual services – billing expense. However, in correspondence with staff, the utility provided documentation for the Beacon Software that is necessary to operate the new meters.¹⁰ This software will be used by all utilities under FUS1 with a total cost of \$8,208. Staff allocated the cost of this software for Leighton Estates, and therefore recommends a contractual services – billing expense of \$186.

Rate Case Expense (665)

The utility did not record any rate case expense. The utility is required by Rule 25-22.0407, F.A.C., to mail notices containing the rate case overview, interim rates, final rates and the four-year rate reduction. Staff calculated noticing costs to be \$296. Staff calculated the round-trip distance from the utility to Tallahassee as 428 miles. Based on the 2022 IRS business mileage rate of \$0.625, staff calculated a travel and lodging expense to the Commission Conference of \$468. Additionally, the utility paid a filing fee of \$500.¹¹

⁸Order No, PSC-2019-0503-PAA-SU, issued November 25, 2019, in Docket No. 201802020-SU, *In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC.*

⁹Document No. 08830-2022, filed on October 6, 2022.

¹⁰Document No. 08630-2022, filed on October 4, 2022.

¹¹Document No. 02148-2022, filed on March 30, 2022.

Staff calculated the total amount of noticing costs, travel expense and filing fee, and recommends total rate case expense of \$1,264 ($\$296 + \$468 + \500), which amortized over four years is \$316 ($\$1,264 \div 4$ years). Therefore, staff recommends amortized rate case expense of \$316.

Regulatory Commission Expense (667)

The utility did not record any prior regulatory commission expense. However, in its transfer docket, the utility incurred a regulatory commission expense of \$7,315.¹² Staff amortized this amount over five years, and therefore recommends an annual regulatory commission expense of \$1,463.

Bad Debt Expense (670)

Under the current ownership, and its previous ownership, the utility has not recorded any bad debt expense. When there is no previous bad debt expense data, it is Commission practice to calculate bad debt expense as a percentage of revenues to allow the utility an opportunity to recover such expenses, if necessary.¹³ In this case, staff recommends 1 percent of revenues be calculated as bad debt expense. Therefore, staff recommends bad debt expense of \$283.

Miscellaneous Expenses (675)

The utility recorded miscellaneous expense of \$2,498. After review, staff made several adjustments decreasing this amount. Staff reduced this account by \$20 to reflect the removal of bank service charges, in addition to another \$15 reduction to remove a non-sufficient funds fee the utility recorded. Additionally, staff reduced this account by \$181 to reflect the removal of loan fees. Therefore, staff recommends miscellaneous expenses of \$2,282 ($\$2,498 - \$20 - \$15 - \181).

Operation and Maintenance Expense Summary

The utility recorded O&M expenses of \$30,544 for the test year. Based on the above adjustments, staff recommends O&M expenses be increased by \$2,032, resulting in a total O&M expense of \$32,576 ($\$30,544 + \$2,032$). Staff's recommended adjustments to O&M expenses are shown on Schedule No. 3-C.

Depreciation Expense

The utility recorded depreciation expense of \$12,603. Audit staff decreased depreciation expense by \$34 to reflect the appropriate amount of depreciation expense for Account 320 – Water Treatment Equipment using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff increased depreciation expense by \$390 to reflect the appropriate depreciation on pro forma additions. Therefore, staff recommends depreciation expense of \$12,959 ($\$12,603 - \$34 + \390).

¹²Order No. PSC-2021-0408-PAA-WU.

¹³Order No. PSC-2021-0320-PAA-WU, issued on August 23, 2021, in Docket No. 20200230-WS, *In re: Application for staff-assisted rate case in Manatee County by Sunny Shores Utilities*; 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-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.*

Net Amortization Expense

The utility recorded an amortization expense of \$333. Staff increased amortization expense by \$6,855 to reflect amortization expense for the acquisition adjustment. Therefore, staff recommends amortization expense of \$7,188 ($\$333 + \$6,855$).

Taxes Other Than Income (TOTI)

The utility recorded TOTI of \$2,258. Staff increased TOTI by \$7 to reflect the appropriate regulatory assessment fees (RAFs) based on corrected utility test year revenues. Additionally, staff increased TOTI by \$27 to reflect property taxes associated with pro forma additions. These adjustments result in a test year TOTI increase of \$34 ($\$7 + \27). As discussed in Issue 9, staff recommends revenues be increased by \$29,829 in order to reflect the change in revenue required to cover expenses and allow an opportunity to earn the recommended rate of return. As a result, TOTI should be increased by \$1,342 to reflect RAFs of 4.5 percent on the change in revenues. Therefore, staff recommends TOTI of \$3,634 ($\$2,258 + \$34 + \$1,342$).

Income Taxes

Leighton is a sole proprietorship, and therefore did not record any income tax expense for the test year. As such, staff recommends no adjustment to income tax expense.

Operating Expenses Summary

The utility recorded operating expenses of \$45,072. The application of staff's recommended adjustments to the utility's operating expenses result in a total operating expense of \$41,981. Operating expenses are shown on Schedule No. 3-A, and the related adjustments are shown on Schedule No. 3-B.

Issue 8: Does Leighton Estates Utilities, LLC. meet the criteria for application of the operating ratio methodology?

Recommendation: No. Leighton does not meet the requirement for application of the operating ratio methodology for calculating the revenue requirement. (Richards)

Staff Analysis: Rule 25-30.4575(2), F.A.C., provides that, in rate cases processed under Rule 25-30.455, F.A.C., the Commission will use the operating ratio methodology to establish the utility's revenue requirement when its rate base is not greater than 125 percent of O&M expenses, less rate case expense, and the use of the operating ratio methodology does not change the utility's qualification for a staff-assisted rate case.

With respect to Leighton, staff has recommended a rate base of \$236,146. After removal of rate case expense, staff has calculated an O&M expense of \$32,260 (\$32,576 - \$316). Based on staff's recommended amounts, the utility's rate base is 732 percent of its adjusted O&M expense. Based on this, the utility does not qualify for application of the operating ratio methodology.

Issue 9: What is the appropriate revenue requirement for Leighton Estates Utilities, LLC.?

Recommendation: The appropriate revenue requirement is \$58,098 resulting in an annual increase of \$29,829 (105.52 percent). (Richards)

Staff Analysis: Leighton should be allowed an annual increase of \$29,829 (105.52 percent). This should allow the utility the opportunity to recover its expenses and earn a 6.83 percent return on its water system. The calculations are shown in Table 9-1:

Table 9-1
Revenue Requirement

Rate Base	\$236,146
Rate of Return	<u>x 6.83%</u>
Return on Rate Base	\$16,117
O&M Expense	32,576
Depreciation Expense	12,959
Amortization	(7,188)
Taxes Other Than Income	<u>3,634</u>
Revenue Requirement	<u>\$58,098</u>
Less Adjusted Test Year Revenues	<u>28,269</u>
Annual Increase	<u>\$29,829</u>
Percent Increase	<u>105.52%</u>

Source: Staff calculations

Issue 10: What are the appropriate rate structure and rates for Leighton Estates Utilities, LLC.'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: The utility provides water service to 80 residential customers. Approximately two 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 4,587 gallons per month. The average water demand excluding zero gallon bills is 4,660 gallons per month. Currently, the utility's residential and general service water rate structure consists of a monthly base facility charge (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 40 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 appropriate non-discretionary threshold should be 4,000 gallons.¹⁴ Staff's review of the billing analysis indicates that the usage above 4,000 gallons represents 48 percent of the bills, which account for approximately 36 percent of the water demand. This is considered moderately high discretionary usage for this customer base.

For this case, staff recommends a BFC and a two-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 and 2) all usage in excess of 4,000 gallons per month. This rate structure sends the appropriate pricing signals because it targets customers with high consumption levels and minimizes price increases for customers at non-discretionary levels. General service customers should be billed a BFC and an uniform gallonage charge.

Based on staff's recommended revenue increase of 106.1 percent, which excludes miscellaneous revenues, the residential consumption can be expected to decline by 1,289,000 gallons resulting

¹⁴ Average person per household was obtained from www.census.gov/quickfacts/marioncountyflorida.

in anticipated average residential demand of 3,229 gallons per month. Staff recommends a 29.6 percent reduction in test year residential gallons for ratesetting purposes. As a result, the corresponding reductions for purchased power expense is \$335, and \$16 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$57,582.

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 11: Should Leighton Estates Utilities, LLC.'s miscellaneous service charges be revised to conform to amended Rule 25-30.460, F.A.C.?

Recommendation: Yes. Leighton's miscellaneous service charges should 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. Leighton 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.¹⁵ The definitions for initial connection charges and normal reconnection charges were subsumed in the definition of the premises visit charge. Leighton's miscellaneous service charges consist of initial connection and normal reconnection charges. Therefore, staff recommends that the initial connection and normal reconnection charges be removed, and the definition for the premises visit charge be updated to comply with amended Rule 25-30.460, F.A.C. The premises visit and violation reconnection charge will remain at \$25 for normal hours and \$50 for after hours.

Conclusion

Based on the above, 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. Leighton 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.

¹⁵Order 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.*

Issue 12: Should the requested initial customer deposits for Leighton Estates Utilities, LLC. be approved?

Recommendation: The appropriate initial customer deposits should be \$120 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. (Bethea)

Staff Analysis: Rule 25-30.311, F.A.C., provides 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. An initial customer deposit ensures that the cost of providing service is recovered from the cost causer. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.¹⁶ Currently, the utility's initial customer deposit for single family residential water customer is \$50 for the 5/8 inch x 3/4 inch meter size. However, the amount does not cover two months' average bill based on staff's recommended rates. The average monthly bill based on staff's recommended rates is \$59.89 for water.¹⁷

Based on the above, the appropriate initial customer deposits for the residential 5/8 inch x 3/4 inch meter size are \$120 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 monthly 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 initial customer deposits until authorized to change them by the Commission in a subsequent proceeding.

¹⁶Order No. PSC-2022-0043-PAA-WU, issued January 26, 2022, in Docket No. 20210055-WU, *In re: Application for staff-assisted rate case in Lake County by Brendenwood Waterworks, Inc.*

¹⁷The post repression average consumption is 3,231 gallons.

Issue 13: What is the appropriate amount by which rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense?

Recommendation: The 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. Leighton 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, the utility shall file separate data for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Bethea, Richards) (Procedural Agency Action)

Staff Analysis:

Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the recovery period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense and the gross-up for RAFs. The total reduction is \$331.

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. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period, pursuant to Section 367.081(8), F.S. Leighton 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, the utility shall file separate data for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 14: Should the recommended rates be approved for Leighton Estates Utilities, LLC. on a temporary basis, subject to refund, 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. Leighton 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. (Richards)(Procedural Agency Action)

Staff Analysis: This recommendation proposes an increase in rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(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. Leighton 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.

Leighton 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 \$20,295. 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.
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.

Date: November 22, 2022

Issue 15: Should Leighton Estates Utilities, LLC. 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 NARUC USOA associated with the Commission approved adjustments?

Recommendation: Yes. Leighton should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Leighton 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 providing good cause should be filed not less than 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. (Richards)

Staff Analysis: Leighton should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Leighton 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 providing good cause should be filed not less than 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.

Issue 16: 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. (Trierweiler)

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.

LEIGHTON ESTATES UTILITIES, LLC. TEST YEAR ENDED 12/31/2021 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 20220026-WU		
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST.	BALANCE PER STAFF	
1. UTILITY PLANT IN SERVICE	\$366,405	\$1,614	\$368,019	
2. LAND & LAND RIGHTS	30,000	0	30,000	
3. ACCUMULATED DEPRECIATION	(123,119)	12,474	(110,645)	
4. CIAC	(10,165)	1,083	(9,083)	
5. ACCUMULATED AMORTIZATION OF CIAC	846	(167)	680	
6. ACQUISITION ADJUSTMENT (NET)	(47,985)	1,127	(46,858)	
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>4,032</u>	<u>4,032</u>	
8. WATER RATE BASE	<u>\$215,982</u>	<u>\$20,164</u>	<u>\$236,146</u>	

LEIGHTON ESTATES UTILITIES, LLC. TEST YEAR ENDED 12/31/2021 ADJUSTMENTS TO RATE BASE	SCHEDULE NO. 1-B DOCKET NO. 20220026-WU
	<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
1. To reflect an averaging adjustment.	(\$2,064)
2. To reflect pro forma additions.	9,871
3. To reflect pro forma retirements.	<u>(6,193)</u>
Total	<u>\$1,614</u>
<u>ACCUMULATED DEPRECIATION</u>	
1. To reflect an auditing adjustment.	\$34
2. To reflect an averaging adjustment.	6,638
3. To reflect pro forma adjustment.	<u>5,802</u>
Total	<u>\$12,474</u>
<u>CIAC</u>	
To reflect an averaging adjustment.	<u>\$1,083</u>
<u>ACCUMULATED AMORTIZATION OF CIAC</u>	
To reflect an averaging adjustment.	<u>(\$167)</u>
<u>ACQUISITION ADJUSTMENT (NET)</u>	
To reflect accumulated amortization of acquisition adjustment.	<u>\$1,127</u>
<u>WORKING CAPITAL ALLOWANCE</u>	
To reflect 1/8 of test year O&M expenses.	<u>\$4,032</u>

LEIGHTON ESTATES UTILITIES, LLC.					SCHEDULE NO. 2		
TEST YEAR ENDED 12/31/2021					DOCKET NO. 20220026-WU		
SCHEDULE OF CAPITAL STRUCTURE							
CAPITAL COMPONENT	PER UTILITY	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. LONG-TERM DEBT	\$169,167	\$3,534	\$172,701	73.13%	5.53%	4.04%	
2. SHORT-TERM DEBT	0	0	0	0.00%	0.00%	0.00%	
3. COMMON EQUITY	61,461	1,284	62,745	26.57%	10.45%	2.78%	
4. CUSTOMER DEPOSITS	700	0	700	0.30%	2.00%	0.01%	
5. DEFERRED INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>	
TOTAL CAPITAL	<u>\$231,328</u>	<u>\$4,818</u>	<u>\$236,146</u>	<u>100.00%</u>		<u>6.83%</u>	
		<u>RANGE OF REASONABLENESS</u>			<u>LOW</u>	<u>HIGH</u>	
		RETURN ON EQUITY			9.45%	11.45%	
		OVERALL RATE OF RETURN			6.56%	7.09%	

LEIGHTON ESTATES UTILITIES, LLC.				SCHEDULE NO. 3-A	
TEST YEAR ENDED 12/31/2021				DOCKET NO. 20220026-WU	
SCHEDULE OF WATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR	ADJUST FOR INCREASE	REVENUE REQUIREMENT
TOTAL OPERATING REVENUES	<u>\$28,105</u>	<u>\$164</u>	<u>\$28,269</u>	<u>\$29,829</u> 105.52%	<u>\$58,098</u>
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	\$30,544	\$2,032	\$32,576	\$0	\$32,576
DEPRECIATION	12,603	356	12,959	0	12,959
AMORTIZATION	(333)	(6,855)	(7,188)	0	(7,188)
TAXES OTHER THAN INCOME	2,258	34	2,292	1,342	\$3,634
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>\$0</u>
TOTAL OPERATING EXPENSES	<u>\$45,072</u>	<u>(\$4,433)</u>	<u>\$40,639</u>	<u>\$1,342</u>	<u>\$41,981</u>
OPERATING INCOME / (LOSS)	(\$16,967)		(\$12,370)		\$16,117
WATER RATE BASE	\$215,982				\$236,146
RATE OF RETURN					6.83%

LEIGHTON ESTATES UTILITIES, INC.		SCHEDULE NO. 3-B
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220026-WU
ADJUSTMENTS TO OPERATING INCOME		
		WATER
OPERATING REVENUES		
1.	To reflect appropriate test year Service Revenues.	\$364
2.	To reflect appropriate test year Miscellaneous Revenues.	<u>(200)</u>
	Total	<u>\$164</u>
OPERATION AND MAINTENANCE EXPENSE		
1.	Contractual Services – Billing (630) To reflect allocated Beacon Software costs for replaced Meters.	<u>\$186</u>
2.	Rate Case Expense (665) To reflect 1/4 rate case expense.	<u>\$316</u>
3.	Regulatory Commission Expense (667) To reflect five year amortization of RCE from Docket No. 20210043-WU.	<u>\$1,463</u>
4.	Bad Debt Expense (670) To reflect 1 percent of test year revenues.	<u>\$283</u>
5.	Miscellaneous Expense (675)	
	a. To reflect removal of bank service charges.	(\$20)
	b. To reflect removal of NSF fees.	(15)
	c. To reflect removal of loan fees.	<u>(181)</u>
	Subtotal	<u>(\$216)</u>
TOTAL OPERATION AND MAINTENANCE ADJUSTMENTS		<u>\$2,032</u>
DEPRECIATION EXPENSE		
1.	To reflect an auditing adjustment.	(\$34)
2.	To reflect pro forma additions.	390
	Total	<u>\$356</u>
AMORTIZATION EXPENSE		
	To reflect amortization expense of Acquisition Adjustment.	<u>(\$6,855)</u>
TAXES OTHER THAN INCOME		
1.	To reflect appropriate test year RAFs.	\$7
2.	To reflect property taxes associated with pro forma plant additions.	<u>27</u>
	Total	<u>\$34</u>
TOTAL OPERATING EXPENSE ADJUSTMENTS		<u>(\$4,433)</u>

LEIGHTON ESTATES UTILITIES, LLC.		SCHEDULE NO. 3-C		
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220026-WU		
ANALYSIS OF WATER O&M EXPENSE				
ACCT. #	DESCRIPTION	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
601	Salaries and Wages – Employees	\$7,589	\$0	\$7,589
603	Salaries and Wages – Officers	1,600	0	1,600
604	Employee Pensions and Benefits	68	0	68
615	Purchased Power	1,131	0	1,131
620	Materials and Supplies	3,465	0	3,465
630	Contractual Services – Billing	0	186	186
631	Contractual Services – Professional	257	0	257
635	Contractual Services – Testing	2,555	0	2,555
636	Contractual Services – Other	5,945	0	5,945
640	Rents	1,027	0	1,027
650	Transportation Expense	967	0	967
655	Insurance Expense	3,442	0	3,442
665	Rate Case Expense	0	316	316
667	Regulatory Commission Expense	0	1,463	1,463
670	Bad Debt Expense	0	283	283
675	Miscellaneous Expenses	<u>\$2,498</u>	<u>(\$216)</u>	<u>\$2,282</u>
	Total O&M Expense	<u>\$30,544</u>	<u>\$2,032</u>	<u>\$32,576</u>
	Working Capital is 1/8 O&M Less RCE			\$4,032

LEIGHTON ESTATES UTILITIES, LLC. TEST YEAR ENDED DECEMBER 31, 2021 MONTHLY WATER RATES		SCHEDULE NO. 4 DOCKET NO. 20220026-WU		
	UTILITY CURRENT RATES	UTILITY INTERIM RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>				
Base Facility Charge by Meter Size				
5/8"X3/4"	\$22.00	\$24.48	\$24.27	\$0.14
3/4"	N/A	N/A	\$36.41	\$0.21
1"	\$55.00	\$61.20	\$60.68	\$0.35
1-1/2"	\$110.00	\$122.40	\$121.35	\$0.69
2"	\$176.00	\$195.84	\$194.16	\$1.11
3"	N/A	N/A	\$388.32	\$2.21
4"	N/A	N/A	\$606.75	\$3.46
6"	N/A	N/A	\$1,213.50	\$6.92
Charge per 1,000 gallons - Residential and General Service	\$1.66	\$1.85	N/A	N/A
Charge per 1,000 gallons - Residential Service				
0 - 4,000 gallons	N/A	N/A	\$11.03	\$0.06
Over 4,000 gallons	N/A	N/A	\$13.79	\$0.08
Charge per 1,000 gallons - General Service	N/A	N/A	\$11.28	\$0.06
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
3,000 Gallons	\$26.98	\$30.03	\$57.36	
6,000 Gallons	\$31.96	\$35.58	\$95.97	
10,000 Gallons	\$38.60	\$42.98	\$151.13	