

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in Polk County by Orchid Springs Development Corporation.

DOCKET NO. 140239-WS
ORDER NO. PSC-15-0569-PAA-WS
ISSUED: December 16, 2015

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
LISA POLAK EDGAR
RONALD A. BRISÉ
JULIE I. BROWN
JIMMY PATRONIS

NOTICE OF PROPOSED AGENCY ACTION ORDER APPROVING RATE INCREASE FOR WATER AND WASTEWATER AND FINAL ORDER ESTABLISHING TEMPORARY RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the four year rate reduction, the granting of temporary rates in the event of protest, and proof of adjustment of books and records, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

Background

Orchid Springs Development Corporation (Orchid Springs or utility) is a Class C utility providing service to approximately 310 water and wastewater customers in Polk County. Effective July 7, 1998, Orchid Springs was granted Certificate Nos. 600-W and 516-S.¹ The utility has been in existence since 1969 providing water and wastewater service. The utility's rates and charges were last approved in a staff-assisted rate case in 1998.² The rates were subsequently reduced to reflect the expiration of the amortization of rate case expense approved in 1998. The utility has filed numerous index and pass through applications since its last rate case. According to Orchid Springs' 2014 Annual Report, total gross revenues were \$94,634 for water and \$120,826 for wastewater. Total operating expenses were \$74,579 and \$170,343 for water and wastewater, respectively.

¹Order No. PSC-98-0918-FOF-WS, issued July 7, 1998, in Docket No. 970158-WS, *In re: Application for grandfather certificate to operate a water and wastewater utility in Polk County, by Orchid Springs Development Corporation.*

²Order No. PSC-98-1579-FOF-WS, issued November 25, 1998, in Docket No. 980441-WS, *In re: Application for staff-assisted rate case in Polk County by Orchid Springs Development Corporation.*

On December 11, 2014, Orchid Springs filed its application for a staff-assisted rate increase. In its application, the utility requested a test year ended December 31, 2014, for interim and final rates purposes. There are several factors that contributed to the rate case request. In 2009, the utility demolished its wastewater treatment plant (WWTP) to comply with a Florida Department of Environmental Protection (DEP) consent order. This led to the utility having to purchase wastewater treatment instead of treating it themselves. In addition, this is the first requested rate increase since 1998 other than index and pass through adjustments. Interim rates were approved on February 3, 2015, for wastewater only.³ The official filing date was established as February 9, 2015.

We have jurisdiction in this case pursuant to Sections 367.011, 367.0814, 367.101, and 367.121, Florida Statutes (F.S.).

Decision

Quality of Service

Pursuant to Rule 25-30.433(1), F.A.C., in water and wastewater rate cases, we shall determine the overall quality of service provided by a utility. This determination is made by evaluating three separate components of the utility's operation. The three components to be evaluated are the quality of the utility's product, the operating conditions of the utility's plant and facilities, and the utility's attempts to address issues involving customer satisfaction. The rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with DEP and the county health department shall be considered. In addition, input from the DEP and health department officials, and customer comments or complaints over the preceding five-year period shall be considered pursuant to Section 367.0812(1)(e), F.S.

Orchid Springs' service area is located near the City of Winter Haven in Polk County and within the Southwest Florida Water Management District (SWFMD). The water source is one well with backup water purchased from the City of Winter Haven.

Quality of Utility's Product and Operating Condition of the Utility's Plant and Facilities

Orchid Springs' raw water source is ground water, which is obtained from one well and treated with liquid chlorine for disinfection. In March 2009, Polk County Department of Health issued a Consent Order finding that the water supply system was in violation of several requirements of Rule 62-555, F.A.C. Rule 62-555 F.A.C., requires at least two wells to be in service at all times, but the second well had previously been taken offline. Also, and among other problems, cross connections existed between the distribution system and both the offline second well and the irrigation system, the system had no auxiliary power source, and it lacked an audio-visual alarm and automatic dialing system in case of loss of power. The Consent Order required Orchid Springs to either resolve these problems or connect with the City of Winter Haven (City) for emergency backup water service. The utility chose to abandon the second well and establish

³Order No. PSC-15-0104-PCO-WS, issued February 13, 2015, in Docket No. 140239-WS, *In re: Application for staff-assisted rate case in Polk County by Orchid Springs Development Corporation.*

an interconnection with the City's water system in lieu of performing system modifications. Orchid Springs resells water purchased from the City for periods during which its own well is out of service.

Orchid Springs' wastewater system originally included a wastewater treatment plant (WWTP) in addition to its wastewater collection system. In 2004, the DEP issued a Consent Order requiring extensive modifications to the WWTP in order to bring it into compliance with DEP. However, following a 2007 second amendment to the order, the utility agreed to remove the WWTP from service and construct additional facilities in order to connect with the City. Since that time, the utility has purchased wastewater treatment from the City on a bulk flow basis, and only operates its wastewater collection system.

Upon review of the records for both the utility and DEP, we find that Orchid Springs is current in all of the required chemical analyses for its water, and the finished water is in compliance with all regulatory standards. Because the City accepts all of the utility's wastewater for treatment, Orchid Springs is not subject to any regulatory oversight for wastewater standards.

After a review of sanitary surveys and compliance inspection reports, we found no deficiencies over the last five years. Therefore, we find that the quality of drinking water delivered to the customers and the operating condition of the water distribution and wastewater collection systems shall be considered satisfactory.

The Utility's Attempt to Address Customer Satisfaction

In order to determine the utility's attempt to address customer satisfaction, we reviewed customer complaints and comments from five sources: our Consumer Activity Tracking System (CATS), DEP, any complaints the utility has recorded, the customer meeting, and any correspondence submitted to our Clerk regarding this rate case. There were no complaints found in CATS, none filed with the DEP, and none filed with the utility over the past five years.

A customer meeting was held in Winter Haven on June 11, 2015. Approximately 33 customers attended the meeting, and five customers spoke. A total of twelve written comments were received since the beginning of the rate case. All of the speakers at the meeting and all twelve of the written comments were concerned with the financial burden of the increase. One written comment discussed flooding issues in the neighborhood. However, during a site visit we determined the flooding issues were due to excessive rain and grading issues and is not attributable to the utility's systems. No complaints have been received regarding the quality of the water or the service provided by the utility. In fact, one customer discussed the high level of satisfaction she has with the utility's responsiveness and apparent concern for the customers in her written comments.

We find that the quality of service provided by Orchid Springs shall be considered satisfactory. The utility is currently meeting all applicable DEP water quality standards, and appears to be responsive to its customers and to the DEP.

Used and Useful (U&U)

Based upon Rules 25-30.431, 25-30.432, and 25-30.4325, F.A.C., our U&U evaluation of water and wastewater systems includes consideration of the formula-based method and all relevant factors such as prior decisions, conservation, and change in customer base.

Orchid Springs WTP consists of one 10-inch well operating at a depth of 600 feet and rated at a total capacity of 650 gallons per minute. The raw water is treated with liquid chlorine and pumped into a 5,000-gallon hydro pneumatic tank. The treated water is then pumped into the water distribution system, which is a composite network of PVC pipe of the following lengths and diameters:

3,960 linear feet – 8 inch
5,520 linear feet – 6 inch
6,120 linear feet – 4 inch
7,250 linear feet – 2 inch

The wastewater collection system is comprised of four lift stations and force mains utilizing 3,400 linear feet of 4-inch pipe. The gravity mains include pipes of the following lengths and diameters:

140 linear feet – 10 inch
7,220 linear feet – 8 inch
6,020 linear feet – 6 inch
4,640 linear feet – 4 inch

In its previous rate case in Order No. PSC-98-1579-FOF-WS, in Docket No. 980441,⁴ Orchid Springs' WTP, water distribution system, and wastewater collection system were all found to be 100 percent U&U. No expansions to the distribution system have been made since that time. The only changes are the interconnections made with the City of Winter Haven for backup water and wastewater treatment; therefore, all of the Orchid Springs system components are still 100 percent U&U.

Excessive Unaccounted for Water

Unaccounted for water is all water produced that is not documented in the records of the utility as having been sold to customers, or for which the utility has otherwise accounted. Rule 25-30.4325, F.A.C., describes excessive unaccounted for water (EUW) as water in excess of ten percent of the amount produced for which the utility cannot account. When establishing Rule 25-30.4325, F.A.C., we recognized that some uses of water are readily measurable and others are not. Rule 25-30.4325, F.A.C., provides that, in order to determine the necessity for adjustments to plant and operating expenses such as purchased electrical power and chemical costs, we will consider the possible reasons for EUW, solutions implemented to correct problems, and the

⁴Order No. PSC-98-1579-FOF-WS, issued November 25, 1998, *In re: Application for staff-assisted rate case in Polk County by Orchid Springs Development Corporation.*

economic feasibility of any proposed solutions. Unaccounted for water is calculated by summing the total gallons sold to customers with the total gallons used for other purposes, such as flushing, and then subtracting the sum from the total gallons produced during the test year.

Our staff's audit found that the amount sold to customers during the test year was 21.573 million gallons, and Orchid Springs' records indicate that 25.620 million gallons were produced during the test year. Before calculating the EUW, the amount used for flushing and other purposes is normally added to the amount sold. However, during a site visit our staff was not able to determine any amounts used for flushing because the utility does not have a regular flushing program, and no meters are located at any place on the water distribution system to measure water pumped out for pressure regulation. We are unable to make any determination of the amount of water used for other purposes. The maximum allowable unaccounted for water, which is ten percent of the total produced, is 2.56 million gallons. However, because no record of water used for other purposes exists, the total unaccounted for water simply equals the difference between the amount produced and the amount sold, which is 4.05 million gallons, or approximately 15.8 percent. This figure yields an amount of EUW of 5.8 percent, which is the difference between the total unaccounted for water and the maximum allowable amount of 10 percent. We find that a 5.8 percent adjustment be made to purchased power and chemical expenses for the WTP.

Infiltration and Inflow

Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, we will consider infiltration and inflow (I&I). Every wastewater collection system experiences I&I. Typically, infiltration is a result of groundwater entering the wastewater collection system through broken or defective pipes and joints. Inflow is the result of water entering the collection system through manholes or lift stations. In 2008, Orchid Springs' WWTP was shut down due to a Consent Order from DEP and the utility entered into a contract with the City of Winter Haven (city) whereby its wastewater is sent to the City's WWTP for processing. Orchid Springs pays the city monthly for this service on a bulk flow basis. In addition, the utility has costs associated with the transport of wastewater.

The maximum allowable amount for infiltration is 500 gallons per day per inch of pipe diameter per mile of pipe length. This amount is calculated using each of the various sizes and lengths of pipe in the utility's wastewater collection system. In addition, ten percent of the total gallons of water sold to customers is allowed for inflow. The calculated allowance for I&I is 4,604,459 gallons per year.

Next, the amount of wastewater expected to be returned from the system is calculated. This figure is determined by summing 80 percent of water sold to residential users with 90 percent of water sold to non-residential users. The amount calculated is 17,450,900 gallons during the test year. In order to find the total amount of wastewater allowed, the I&I allowance and the expected return are summed, yielding 22,055,359 gallons. Finally, this total is compared to the total wastewater actually treated during the test year, which in this case is 18,506,000

gallons. The total wastewater treated does not exceed the total wastewater allowed. Therefore, there is no excessive I&I.

Based on the analysis given above, we find Orchid Springs' WTP, water distribution system, and wastewater collection system be considered 100 percent U&U. We find that a 5.8 percent adjustment shall be made to operation and maintenance expenses for EUW. No adjustment is approved for I&I.

Test Year Rate Base

The appropriate components of rate base include utility plant in service, land and land rights, accumulated depreciation, contributions in aid of construction (CIAC), accumulated amortization of CIAC, and working capital allowance. Orchid Springs' rate base was last established in its 1998 rate case.⁵ The test year ended December 31, 2014, was used for the instant case. A summary of each water rate base and wastewater rate base component, and approved adjustments are discussed below.

Utility Plant in Service (UPIS)

The utility recorded UPIS of \$249,136 for water and \$668,207 for wastewater. The Orchid Springs audit noted several adjustments to the utility's water and wastewater UPIS balances. We find the following adjustments to the utility's recorded UPIS.

Summary of Adjustments to Water & Wastewater UPIS

Adjustment Description	Water	Wastewater
To reflect the appropriate amount of plant in service per Commission	\$32,172	(\$176,848)
To capitalize meter replacements	2,272	0
To reflect an averaging adjustment	(1,136)	(144)
To reflect pro forma plant additions	<u>0</u>	<u>69,170</u>
Total	<u>\$33,308</u>	<u>(\$107,822)</u>

Since its last rate case, the utility has interconnected with the City of Winter Haven to provide wastewater treatment service to its customers. The books and records provided by the utility to audit staff since its last rate case were somewhat unreliable. In addition, the utility provided us with documentation of costs associated with the removal of its wastewater treatment plant (WWTP) and the remediation of the land associated with two percolation ponds. Upon our review, some of these costs were actually associated with the construction of interconnects with the City of Winter Haven to provide wastewater treatment and an emergency water supply source. As such, we calculated plant balances since the last rate case, which result in an increase to water UPIS of \$32,172 and a decrease to wastewater UPIS of \$176,848. The expenses

⁵ Order No. PSC-98-1579-FOF-WS, issued November 25, 1998, in Docket No. 980441-WS, *In re: Application for staff-assisted rate case in Polk County by Orchid Springs Development Corporation.*

associated with the WWTP removal and the remediation of the land associated with the two percolation ponds are discussed later in this Order.

In addition, the utility incorrectly expensed meter replacement costs of \$2,272 during the test year. We removed the costs from Contractual Services – Other and added this amount to water UPIS. We also included averaging adjustments which decrease plant in service by \$1,136 for water and \$144 for wastewater.

Pro Forma Adjustment

Orchid Springs' initial filing in this docket did not contain any pro forma requests. However, following a site visit on June 12, 2015, discussions between Orchid Springs personnel and our staff revealed that substantial work had been done on the wastewater plant since the end of the test year, and that more work is planned for early 2016. Upon request, Orchid Springs provided documentation of work already performed, and estimates for the planned work. We reviewed the invoices and estimates and we find several adjustments to wastewater plant is necessary. The table below provides a summary of our approved pro forma plant adjustments.

Approved Pro Forma Plant Adjustments

Pro Forma Items	Amount Requested	Amount Approved	Documentation Provided
Miscellaneous Repairs	\$10,086	10,086	Invoices
Video Line Inspection	23,611	23,611	Invoices
Engineering Work	8,600	8,600	Invoices
Replace 130' Clay Pipe	24,835	24,835	Estimate
Rebuild Manhole	<u>2,035</u>	<u>2,035</u>	Estimate
Total	<u>\$69,170</u>	<u>\$69,170</u>	

Miscellaneous Repairs

Orchid Springs contracts with the City of Winter Haven for wastewater treatment services. The utility constructed a lift station as part of the work to accomplish the interconnection through which all of the wastewater is sent to the City's WWTP. However, Orchid Springs is responsible for the wastewater collection pipes, nearly all of which are clay. Due to the age of the system and the clay pipes, the utility is beginning to experience problems and frequent repairs are necessary. All of the work included in this category was performed in the first five months of 2015, and included manhole repairs, parts for lift stations, stump removal and backfilling, and repairs to wastewater collection lines.

Video Line Inspection

Due to the increasing frequency of required repairs to the aging system, Orchid Springs undertook a video inspection of the wastewater collection pipes. Before the video inspection could be performed, however, several areas of the system had to be cleaned out in order to allow

the video cable to have an unobstructed pathway. The clearing of the lines occurred on three dates prior to the video work being performed.

Engineering Work

As a result of the numerous deficiencies in the system identified during the video inspection work, Orchid Springs is planning several system improvements in the near future. In order to accomplish the planning of the work, an engineering firm was retained and has been performing the planning and engineering work on an ongoing basis. Much of the design work was done in preparation for a project in which the utility plans to replace the clay pipe currently being used in the wastewater collection system.

Replace 130 feet of Clay Pipe

During the video inspection of the wastewater collection lines, the utility identified a 130 foot length of clay pipe that needs immediate replacement. Orchid Springs has received an estimate for the replacement of the clay pipe with 8 inch PVC, and plans to begin the project in early 2016. In addition to the replacement of the pipe, the project includes the removal and replacement of approximately 100 feet of asphalt roadway.

Rebuild Manhole

As part of its wastewater collection system improvement project, Orchid Springs has identified a manhole in need of structural rebuilding. While the video line inspection work was being performed, the contractor was unable to insert the video cable into manhole number 13 due to an excessive amount of water infiltration. Inspection by the engineer resulted in a determination that manhole number 13 was in need of structural improvements due to the lack of a supportive base.

Land & Land Rights

The utility recorded a test year land value of \$480 for water and \$58,860 for wastewater. In its last rate case, the utility did not provide enough information to determine land value. The stamp deed value was provided in the instant case, and we calculated land value for the water system of \$1,682. Therefore, we increased the land value by \$1,202. In 2009, the utility demolished its wastewater treatment plant (WWTP) to comply with a Florida Department of Environmental Protection (DEP) consent order. Sludge was excavated from both of its existing percolation ponds and the land was levelled. We decreased the land value for the wastewater system by \$58,860 because the land is no longer devoted to public utility use.

As such, we find that the appropriate balances are \$1,682 for water and \$0 for wastewater. If the utility sells this land in the future, any gain on sale shall be used to lower rates. The utility shall report to us any future sale, transfer, or reassignment of this land to any person or entity within 60 days of such a transaction. At the time that it notifies us, the utility shall also submit all documentation regarding the transaction, including, but not limited to, the market

value of the land. The utility shall also submit its proposal as to how this transaction shall be treated for ratemaking purposes.

Non-Used and Useful (U&U) Plant

As established previously in this Order, the utility's water system is 100 percent built out, and the utility's WWTP was demolished in 2009. Therefore, a U&U adjustment is not necessary.

Accumulated Depreciation

Orchid Springs recorded a test year accumulated depreciation balance of \$218,520 for water and \$484,173 for wastewater. We recalculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and depreciation associated with plant additions and retirements. We have increased this account balance by \$42,944 for water and decreased this account balance by \$16,237 for wastewater to reflect the correct balances for the test year. We increased the account balance by \$134 for water to reflect capitalized meters. We also decreased the account balance by \$2,814 for water and increased the account balance by \$685 for wastewater to reflect an averaging adjustment in the instant case. In addition, we increased the wastewater account balance by \$1,729 to reflect the depreciation associated with pro forma plant additions. The net adjustment to this account shall be an increase of \$40,263 ($\$42,944 - \$2,814 + \134) for water and a decrease of \$13,822 ($-\$16,237 + \$685 + \$1,729$) for wastewater, resulting in accumulated depreciation balances of \$258,783 ($\$218,520 + \$40,263$) for water and \$470,351 ($\$484,173 - \$13,822$) for wastewater.

Contributions In Aid of Construction (CIAC)

The utility recorded CIAC balances of \$171,516 for water and \$302,109 for wastewater. Based on our review, no adjustments are necessary. Therefore, we find that CIAC is \$171,516 and \$302,109 for water and wastewater, respectively.

Accumulated Amortization of CIAC

The utility recorded accumulated amortization of CIAC of \$171,252 for water and \$302,109 for wastewater. We increased amortization of CIAC by \$264 for water based on water CIAC being fully amortized in August 2015. No adjustment is necessary to accumulated amortization of CIAC for wastewater, as wastewater CIAC is fully amortized. Our approved balances of accumulated amortization of CIAC are \$171,516 and \$302,109, for water and wastewater, respectively.

Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(2), F.A.C., we used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, we find that the working capital allowance is \$9,353

for water (based on 1/8 O&M expense of \$74,824), and \$20,905 for wastewater (based on 1/8 O&M expense of \$167,239).

Based on the foregoing, we find that the appropriate average test year rate base for water is \$34,696, and the average test year rate base for wastewater is \$110,940. Water and wastewater rate bases are shown on Schedule Nos. 1-A and 1-B, respectively. The related adjustments are shown on Schedule No. 1-C.

Return on Equity (ROE) and Overall Rate of Return (ROR)

Orchid Springs' capital structure includes long-term debt of \$187,998, common equity of \$16,000, and customer deposits of \$14,990. We find that three adjustments are warranted.

The company has a promissory note with Community Southern Bank with a principal amount of \$250,000. We calculated a simple average balance of \$199,086. As a result, we find that that long-term debt shall be increased by \$11,088 (\$199,086 - \$187,998).

Second, the utility provided additional documentation of a loan in the amount of \$8,000 from its parent company, Orchid Springs Development Corporation. The documentation also included a promissory note with its parent company and journal entries of subsequent infusions of capital that supported a balance of \$496,263. Orchid Springs has not paid any interest on the balance since its inception in 2004. It is our practice that, regarding related-party debt, when no interest or scheduled payments for principal are being made, the debt is considered common equity.⁶ We have adjusted the utility's capital structure to reflect the related-party debt as common equity pursuant to our practice. Accordingly, we find a common equity balance shall be \$504,263 (\$496,263 + \$8,000) for ratemaking purposes. This results in an increase of \$488,263 (\$504,263 - \$16,000).

Third, based on our calculation, the simple average balance for customer deposits is \$14,798. Accordingly, we find customer deposits be reduced by \$192 (\$14,990 - \$14,798).

The utility's capital structure has been reconciled with our approved rate base. The appropriate ROE for the utility is 9.38 percent based upon our approved leverage formula currently in effect.⁷ We find an ROE of 9.38 percent, with a range of 8.38 percent to 10.38 percent, and an overall rate of return of 7.39 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁶Order Nos. PSC-13-0140-PAA-WU, issued March 25, 2013, in Docket No. 120183-WU, *In re: Application for staff assisted rate case in Lake County by TLP Water, Inc.*; PSC-12-0410-PAA-SU, issued August 13, 2012, in Docket No. 110165-SU, *In re: Application for staff-assisted rate case in Highlands County by Utility Corporation of Florida, Inc.*; and PSC-10-0681-PAA-WU, issued November 15, 2010, in Docket No. 090414-WU, *In re: Application for staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.*

⁷Order No. PSC-15-0259-PAA-WS, issued July 2, 2015, in Docket No. 150006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

Test Year Revenues

Orchid Springs recorded total test year revenues of \$95,103 for water and \$120,827 for wastewater. The water revenues included service revenues of \$89,973 and miscellaneous revenues of \$5,130. The wastewater revenues did not include any miscellaneous revenues. Based on our review of the utility's billing determinants and the rates that were in effect during the test year, we determined service revenues for water shall be decreased by \$167 to reflect test year service revenues of \$89,806. Service revenues for wastewater shall be decreased by \$1,024 to reflect test year service revenues of \$119,803. We also made an adjustment to miscellaneous revenues to account for late payment charges and non-sufficient funds charges (NSF) that were inappropriately collected. The utility's current tariff does not authorize the collection of late payment charges or NSF charges. Later in this Order, we approve a \$7.00 late payment charge and the statutory NSF charges. We have determined miscellaneous revenues based on the approved charges.

As a result, miscellaneous revenues shall be decreased by \$1,483 to reflect the appropriate amount of miscellaneous revenues of \$210 during the test year. Therefore, we find that the appropriate test year revenues for Orchid Springs water system are \$93,453 (\$95,103-\$167-\$1,483) and \$119,803 (\$120,827-\$1,024) for the wastewater system. Test year revenues are shown on Schedule Nos. 3-A and 3-B.

Test Year Operating Expenses

Operation and Maintenance Expenses

Purchased Water (610)

The utility recorded purchased water expense of \$1,149 for the test year. The utility purchases water from the City of Winter Haven for emergency purposes only. Purchased water was reduced by \$67 to reflect a 5.8 percent excessive unaccounted for water (EUW) adjustment. This adjustment results in a purchased water expense of \$1,082.

Purchased Power (615/715)

The utility recorded purchased power expense of \$3,000 for water and \$4,676 for wastewater. Based on invoices for the test year, we increased purchased power by \$220 for water and decreased purchased power for wastewater by \$525. We also decreased purchased power for water by \$187 to reflect a 5.8 percent EUW adjustment. Therefore, the appropriate purchased power expense is \$3,033 (\$3,000 + \$220 - \$187) for water and \$4,151 (\$4,676 - \$525) for wastewater.

Chemicals (618)

The utility recorded chemical invoices totaling \$3,440 for water in the test year. Based on invoices for the test year, we increased this account by \$31. We also decreased this amount by

\$201 to reflect a 5.8 percent EUW adjustment. Therefore, we find that the appropriate chemical expense shall be \$3,270 ($\$3,440 + \$31 - \201).

Contractual Services – Professional/Management (631/731)

The utility recorded Contractual Services – Professional/Management expense of \$7,304 for water and \$7,304 for wastewater in the test year. Included in the expense were salaries for the secretary and the utility manager of \$3,000 and \$4,304, respectively, for each system. In its last rate case, we approved a total of \$67,872, of which \$33,936 was assigned to each system for management services provided by Cassidy Organization, Inc. The utility pays the Cassidy Organization, Inc. for the services of a secretary, utility manager, and an officer. Our analysis in the instant docket reviewed this expense in light of current duties and responsibilities as well as the utility's change in operations.

In its last case, the secretary was allowed a salary of \$26,000 annually, \$13,000 for each system. In the current case, the utility requested a salary of \$31,694 annually for the secretary in its correspondence dated June 26, 2015. To evaluate the reasonableness of the utility's request, we applied our approved price indices from 1998 to 2015 to the salary approved in the last rate case. Based on this analysis, we find that the utility's request is appropriate, and we find a salary of \$31,694, \$15,847 for each system, for the secretary. As such, we increased Contractual Services – Management by \$12,847 ($\$15,847 - \$3,000$) for each system.

In its last rate case, the utility was allowed \$15,000 annually for the utility manager's salary, \$7,500 for each system. We calculated the effect of inflation on the salary from 1998 to 2015 using our approved price indices. As a result, the amount commensurate with \$15,000 salary in 1998 is \$20,590 in 2015. We would note that the duties and responsibilities of the utility manager have remained constant for the water system but have decreased significantly for the wastewater system due to the interconnect and contractual service agreement with the City of Winter Haven. Therefore, we reduced the utility manager's salary expense for wastewater by 50 percent due to the fact that only about one-half of the listed duties and responsibilities are still performed by the utility manager for the wastewater system. The result is a total salary of \$15,443 for the utility manager, \$10,295 for water and \$5,148 for wastewater. We increased Contractual Services – Management by \$5,991 ($\$10,295 - \$4,304$) for water and by \$844 ($\$5,148 - \$4,304$) for wastewater.

The president was allowed a salary of \$25,000 in the utility's last rate case, \$12,500 for each system. In the utility's last SARC, the expense for the same president, Al Cassidy, was determined based on the duties performed and the efficiency of the management provided. At that time, we found that a strict comparison of hourly officer rates was not appropriate. However, the Order⁸ did note that this allowance would be reviewed in future rate case filings to determine if circumstances had changed. Since Orchid Springs' last rate case, the utility has interconnected with the City of Winter Haven (City) for emergency water service. Under this contract with the

⁸ Order No. PSC-98-1579-FOF-WS, issued November 25, 1998, in Docket No. 980441-WS, *In re: Application for staff-assisted rate case in Polk County by Orchid Springs Development Corporation*.

City, the City performs some water system maintenance and repairs. In addition, the utility has interconnected with the City for all wastewater treatment and the City performs wastewater system maintenance and repairs. In light of the current operating posture, we find that it is appropriate to use an hourly rate to calculate the president's salary. The president devotes ten hours per week to utility business. We find that the duties and responsibilities required of the president are similar to the duties of the president of a water reseller of similar size. In a recent Order,⁹ we approved an hourly rate of \$20/hr for a president of a reseller whose duties and responsibilities are similar to Mr. Cassidy. Based on the duties the president performs, we find that an hourly rate of \$20/hr is appropriate for the president's salary. We calculated the president's total salary to be \$10,400 (\$20 x 10 x 52), allocated evenly between the two systems. We find that the level of oversight that the president provides is on a total utility basis. Based on our analysis, Contractual Services – Management shall be increased by \$24,038 (\$12,847 + \$5,991 + \$5,200) for water and increased by \$18,891 (\$12,847 + \$844 + \$5,200) for wastewater. The result of our adjustments are Contractual Services – Management expense of \$31,342 (\$7,304 + \$24,038) for water and \$26,195 (\$7,304 + \$18,891) for wastewater.

Contractual Services – Testing (635)

The utility recorded \$108 for water in this account. The utility did not add the December 2014 invoice to the general ledger. As such, we increased Contractual Services – Testing by \$133.

Contractual Services – Other (636/736)

The utility recorded Contractual Services - Other expense in the amount of \$40,661 for water and \$18,192 for wastewater. We reduced this expense by \$7,026 for water and \$6,353 for wastewater due to unsupported invoices and discrepancies between the general ledger and support documentation. We also reduced this expense for water by \$3,094 in order to amortize a one-time paving expense over five years. We reduced this expense by \$2,272 for water to capitalize meter replacements that were incorrectly expensed. Finally, we decreased this amount by \$263 for water and wastewater in order to amortize a one-time accounting expense over five years. The result of our adjustments is an expense of \$28,006 (\$40,661 - \$7,026 - \$3,094 - \$2,272 - \$263) for water and \$11,576 (\$18,192 - \$6,353 - \$263) for wastewater.

Rent Expense (640/740)

The utility was allowed \$3,070 for rent expense in its last rate case and recorded this amount during the test year. The utility provided a lease agreement showing rent expense amounting to \$9,000 per year. When applying our approved price indices to the rent expense from 1998 to 2015, we find that the requested additional \$2,860 is within a reasonable range for rent expense. We allocated the rent expense based on the Equivalent Residential Connections

⁹ Order No. PSC-14-0626-PAA-WU, issued October 29, 2014, in Docket No. 130265-WU, *In re: Application for staff-assisted rate case in Charlotte County by Little Gasparilla Water Utility, Inc.*

(ERCs) of the systems and subsequently increased rent expense by \$1,784 ($\$2,860 \times 53.9\%$) for water and \$1,076 ($\$2,860 \times 46.1\%$) for wastewater.

Insurance Expense (655/755)

The utility recorded insurance expense of \$699 for both water and wastewater, respectively. An updated invoice of the general liability policy premium for 2015 supported insurance expense of \$1,380. The expense was allocated to water and wastewater based on each system's percentage of the total adjusted plant balance (33 percent for water and 67 percent for wastewater). The appropriate balances are \$457 ($\$1,380 \times 0.33$) and \$923 ($\$1,380 \times 0.67$) for water and wastewater, respectively. As such, water insurance expense shall be decreased by \$242 ($\$457 - \699) and wastewater insurance expense shall be increased by \$224 ($\$923 - \699).

Regulatory Commission Expense (665/765)

Regarding the instant case, the utility booked its filing fee of \$2,000 and outside consultant fees of \$2,000 to water and wastewater Regulatory Commission Expense evenly. The utility is required by Rule 25-22.0407, F.A.C., to provide notices to its customers of the customer meeting and notices of interim and final rates in this case. In this docket, we have calculated cost of noticing customers of the customer meeting, interim rates, and final rates to be \$587. The utility also incurred consulting fees for the instant case in the amount of \$4,700. Travel and lodging to the agenda conference was estimated to be \$750. Based on the above, we find that total rate case expense is \$8,037 ($\$2,000 + \$4,700 + \$587 + \750). When amortized over four years, this represents an annual expense of \$2,009, with \$1,064 ($(\$8,037 \times 0.53) / 4$) allocated to water and \$945 ($(\$8,037 \times .47) / 4$) allocated to wastewater annually based on each system's ERCs.

Bad Debt Expense (670/770)

The utility included bad debt expense of \$115 for both water and wastewater, respectively. Based on a three-year average, we find that \$419 is the appropriate amount of bad debt expense to include in the test year for each system. Accordingly, this expense shall be increased by \$304 for both water and wastewater, respectively.

Miscellaneous Expense (675/775)

The utility recorded miscellaneous expense of \$2,364 for water and \$1,584 for wastewater. The invoices provided in support of this expense totaled \$1,490 and included shared expenses such as monthly billing mail-outs. As such, we find that it is appropriate to divide this expense based on ERC allocations. The appropriate amount for this account is \$804 ($\$1,490 \times 53.9\%$) for water and \$686 ($\$1,490 \times 46.1\%$) for wastewater. This represents a \$1,619 ($\$2,364 - \895) reduction for water and an \$839 ($\$1,584 - \745) reduction for wastewater.

Operation and Maintenance Expense (O&M) Summary

Total adjustments to O&M expense result in an increase of \$11,599 for water and \$12,456 for wastewater. Our approved O&M expense is \$74,824 for water and \$167,239 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-C.

Depreciation Expense (Net of Amortization of CIAC)

The utility recorded depreciation expense of \$1,736 for water and \$11,134 for wastewater during the test year. We recalculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. We increased depreciation expense by \$3,892 for water and decreased depreciation expense by \$9,329 for wastewater to reflect the appropriate depreciation expense. Orchid Springs recorded amortization expense of CIAC as \$479 for water during the test year, and no amount for wastewater because CIAC is fully amortized. However, based on our adjustment to fully amortize water CIAC, amortization expense of CIAC shall be removed. We increased depreciation expense for wastewater by \$1,729 associated with pro forma plant additions. We also increased depreciation expense for water by \$134 to reflect capitalized meters. Our net adjustment results in an increase of \$3,547 ($\$3,892 - \$479 + \134) to water depreciation expense and a decrease of \$7,599 ($-\$9,329 + \$1,730$) to wastewater depreciation expense, resulting in a total depreciation expense of \$5,283 ($\$1,736 + \$3,547$) for water and \$3,535 ($\$11,134 - \$7,599$) for wastewater.

Amortization of WWTP Removal and Land Remediation Costs

We find that the appropriate period, in this case, to amortize the cost of dismantling the wastewater treatment plant is ten years. Rule 25-30.433(8), F.A.C., states that non-recurring expenses shall be amortized over a five-year period unless a shorter or longer period of time can be justified. The purpose of allowing recovery of non-recurring items is to recognize that going concern utilities will incur costs, which may be significant, but that do not occur annually. To disallow recovery of prudently incurred costs shall be inappropriate.

In the instant case, Orchid Springs incurred costs to abandon its wastewater treatment plant, consisting primarily of the disposal of sludge. From a depreciation perspective, these costs would be characterized as “cost of removal.” Depreciation rates for electric and gas utilities, approved by us, are developed with the inclusion of a cost of removal component. As such, utilities recoup cost of removal over the life of the depreciable asset.

For water and wastewater utilities, depreciation guidance is set forth in Rule 25-30.140, F.A.C. Rule 25-30.140(2)(b)4., F.A.C., establishes the average service lives, by account, for wastewater treatment and disposal plant. None of these accounts have an associated net salvage value. Net salvage is defined as, “the salvage value of property retired less the cost of removal.” As such, in calculating depreciation for wastewater treatment plant accounts consistent with Rule 25-30.140(2)(b)4., F.A.C., the cost of the asset is divided by the average service life.

As reflected in Rule 25-30.140(2)(b)4., F.A.C., the average service lives of wastewater treatment and disposal plant for Class C utilities range from seven years for pumping equipment – chemical, to 32 years for plant sewers. Account 380, which is used to account for treatment and disposal equipment, including percolation ponds and lagoons, has an average service life for Class C utilities of 15 years.

To determine a reasonable period of time to amortize the wastewater removal costs, we find that consideration shall be given to the fact that this Class C utility has already paid for the cost of removal. There is no accounting guidance related to the determination of the appropriate amortization period of an incurred expense. As such, professional judgement serves as the basis for establishing a reasonable amortization period. As Orchid Springs has essentially fully depreciated the plant, the costs associated with sludge removal shall be spread over the shortest period of time as the plant is no longer in-service. Further, treatment and disposal equipment, as set forth in the depreciation guidelines in Rule 25-30.140(2)(b)4., F.A.C., has an average service life of 15 years. As such, we find that to require the costs of dismantlement to be spread over the next 15 years, when the plant is already fully depreciated, coupled with the fact that the average service life of a new plant is 15 years, is too long. If the cost of removal were embedded in the depreciation rates, and the investment was fully depreciated, the utility would have recovered the removal costs over the life of the plant with recovery beginning with the in-service date.

Pursuant to Section 367.081(2)(a)(6), F.S., Orchid Springs is entitled to fully recover the costs associated with mandates by the DEP. Requiring Orchid Springs to wait any longer than 10 years to recover the costs it is entitled by statute to fully recover does not reflect the spirit of the law.

Taxes Other Than Income (TOTI)

TOTI balances of \$5,727 for water and \$7,379 for wastewater were documented. We increased TOTI by \$414 for water and decreased this expense by \$111 for wastewater to reflect the appropriate test year RAFs based on adjusted test year revenues and the appropriate test year utility property taxes. We increased wastewater TOTI by \$1,014 to reflect property taxes on pro forma plant additions. We also increased water TOTI by \$36 to reflect property taxes after capitalization of water meters. As a result, water TOTI shall be increased by \$450 and wastewater TOTI shall be increased by \$903.

In addition, we calculated a revenue increase of \$214 for water and increased by \$83,426 for wastewater. As a result, TOTI shall be increased by \$10 for water and by \$3,754 for wastewater to reflect RAFs of 4.5 percent on the change in revenues. Our net adjustments are increases of \$460 (\$414 + \$36 + \$10) for water and \$4,658 (-\$111 + \$1,014 + \$3,754) for wastewater. Therefore, we find TOTI of \$6,186 and \$12,037 for water and wastewater, respectively.

Income Tax

The utility did not have any income tax expense for the test year. Orchid Springs files as a Subchapter S Corporation. In accordance with Rule 25-30.433(7), F.A.C., no income tax expense shall be allowed for this utility.

Operating Expense Summary

The application of approved adjustments to Orchid Springs' operating expenses result in our approved operating expenses of \$86,293 for water and \$195,035 for wastewater. The operating expenses for wastewater of \$195,035 are based on the amortization of WWTP removal and land remediation costs. We find that the appropriate period to amortize the costs associated with the abandonment of Orchid Springs' wastewater treatment plant is 10 years due to the costs associated with the abandonment of Orchid Springs' wastewater treatment plant. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-C.

Operating Ratio Methodology

Section 367.0814(9), F.S., provides that we may, by rule, establish standards and procedures for setting rates and charges of small utilities using criteria other than those set forth in Sections 367.081(1), (2)(a), and (3), F.S. Rule 25-30.456, F.A.C., provides an alternative to a staff-assisted rate case as described in Rule 25-30.455, F.A.C. As an alternative, utilities with total gross annual operating revenue of less than \$275,000 per system may petition us for our staff's assistance using alternative rate setting.

The operating ratio methodology is an alternative to the traditional calculation of revenue requirement. Under this methodology, instead of applying a return on the utility's rate base, the revenue requirement is based on Orchid Springs' O&M expenses plus a margin. This methodology has been applied in cases in which the traditional calculation of the revenue requirement would not provide sufficient revenue to protect against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU, we, for the first time, utilized the operating ratio methodology as an alternative means for setting rates.¹⁰ This order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10.00 percent of O&M expense. This criterion was applied again in Order No. PSC-97-0130-FOF-SU.¹¹ Most recently, we approved the operating ratio methodology for setting rates in Order No. PSC-13-0327-PAA-SU.¹²

¹⁰Issued March 13, 1996, in Docket No. 950641-WU, *In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.*

¹¹Issued February 10, 1997, in Docket No. 960561-SU, *In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.*

¹²Issued July 16, 2013, in Docket No. 120270-SU, *In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC.*

By Order No. PSC-96-0357-FOF-WU, we established criteria to determine whether to utilize the operating ratio methodology for those utilities with low or non-existent rate base. The qualifying criteria established by Order No. PSC-96-0357-FOF-WU and how they apply to the utility are discussed below:

1) Whether the utility's O&M expense exceeds rate base. The operating ratio method substitutes O&M expense for rate base in calculating the amount of return. A utility generally would not benefit from the operating ratio method if rate base exceeds O&M expense. The decision to use the operating ratio method depends on the determination of whether the primary risk resides in capital costs or operating expenses. In the instant case, water rate base is significantly less than water O&M expenses. The utility's primary risk resides with covering its operating expense for water. In past annual reports, the utility has reported O&M expenses significantly less than the amount we deemed as appropriate for continued operation in the instant case. The utility has a water rate base of \$34,561 and net water O&M expenses of \$73,742, and therefore is a candidate for the operating ratio method of calculating revenue requirement for water. The utility's wastewater O&M expenses are also greater than its wastewater rate base. However, the utility has a purchased wastewater expense of \$117,987. When calculating the utility's revenue requirement using the operating ratio method, purchased water and wastewater treatment services are excluded from O&M expenses. Therefore, for operating ratio purposes, wastewater O&M expense is \$49,252 (\$167,239 - \$117,987), which is less than the utility's wastewater rate base of \$110,940. Hence, wastewater revenue requirement is calculated using the traditional return on rate base method.

2) Whether the utility is expected to become a Class B utility in the foreseeable future. Pursuant to Section 367.0814(9), F.S., the alternative form of regulation being considered in this case only applies to small utilities with gross annual revenue of \$250,000 or less. Orchid Springs is a Class C utility and the approved revenue requirement of \$92,534 is substantially below the threshold level for Class B status (\$200,000 per system). The utility is totally built out, and there is not any potential for future growth. Therefore, the utility will not become a Class B utility in the foreseeable future.

3) Quality of service and condition of plant. We find that the overall quality of service for the Orchid Springs water system in Polk County is satisfactory.

4) Whether the utility is developer-owned. The current utility owner is a developer, however, being developer-owned does not, in itself, disqualify a utility from the operating ratio method.¹³ As mentioned previously, the system is totally built out and was originally placed into service in 1972. The utility has had the same number of customers for the past 15 years. Therefore, we find that there is no potential for future growth.

5) Whether the utility operates treatment facilities or is simply a distribution and/or collection system. Orchid Springs owns and operates its water treatment plant, but interconnects with the City of Winter Haven for emergency back-up service.

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

Based on our review of the utility's situation relative to the above criteria, we find that Orchid Springs is a viable candidate for the operating ratio methodology for the water system.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, we determined that a margin of 10.00 percent shall be used unless unique circumstances justify the use of a greater or lesser margin. The important question is not what the return percentage shall be, but what level of operating margin will allow the utility to provide safe and reliable service and remain a viable entity. The answer to this question requires a great deal of judgment based upon the particular circumstances of the utility.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenue for the utility to cover its interest expense. Orchid Springs has a promissory note with Community Southern Bank in the amount of \$199,086 at an interest rate of 4.5 percent per annum. The revenue requirement set by us must allow the utility to cover its interest expense among other operating expenses.

Second, use of the operating ratio methodology rests on the contention that the principal risk to the utility resides in operating cost rather than in cost of the plant. The fair return on a small rate base may not adequately compensate the utility owner for incurring the risk associated with covering the much larger operating cost. Therefore, the margin shall adequately compensate the utility owner for that risk. Under the rate base methodology, the return to Orchid Springs would be \$2,554 for water. This would not provide the necessary financial margin to successfully operate this utility as expenses such as purchased power, purchased water, and chemicals can vary from year to year.

Also, if the return on rate base method was applied, the return would not generate sufficient revenue to cover operating expenses plus an adequate margin. Therefore, the operating ratio methodology shall provide adequate revenue to cover operating costs at a minimum.

In our staff report, we used the return on rate base method to determine revenue requirement for both water and wastewater. Since then, additional discovery through data requests and correspondence with the utility has shown that the operating ratio method is a more appropriate method for calculating the revenue requirement for the water system. As mentioned previously, the utility has not been recovering the full amount of expenses it incurs to continue operations. The utility also has been receiving infusions of capital from its parent company in the amount of \$496,263, further evidence that the revenues were not sufficient to cover O&M expenses for continued operation. At the time of our staff report, we reported that using the operating ratio method for calculating revenue requirement was not appropriate for the entire utility because of the large purchased wastewater expense. Since our staff report, we calculated the revenue requirement and believes that the operating ratio method of revenue requirement calculation for the water system and the return on rate base revenue requirement calculation for the wastewater system place the utility in the best posture to cover the expenses necessary to provide reliable, quality service going forward.

In conclusion, we find the above factors show that the utility needs a higher margin of revenue over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide Orchid Springs with adequate cash flow to provide some assurance of safe and reliable service, we find that the application of the operating ratio methodology at a margin of 10.00 percent of O&M expense for determining the water revenue requirement.

Revenue Requirement

We find that the operating ratio method shall be used to calculate water revenue requirement. Using this methodology, Orchid Springs will have an operating margin of 10.00 percent, resulting in an annual increase of \$214 for water. Our water revenue requirement calculation is shown on the next table:

Water Revenue Requirement	
	Water
Adjusted Net O&M Expense ¹⁴	\$73,742
Operating Margin (%)	<u>x 10.00%</u>
Operating Margin (\$)	\$7,374
Adjusted O&M Expense	74,824
Depreciation Expense	5,283
Amortization Expense	0
Taxes Other Than Income	<u>6,186</u>
Revenue Requirement	\$93,667
Less Adjusted Test Year Revenues	<u>93,453</u>
Annual Increase	<u>\$214</u>
Percent Increase	<u>0.23%</u>

Using the return on rate base methodology, we find an annual increase of \$83,426 (69.64 percent) for wastewater is appropriate. This will allow the utility the opportunity to recover its expenses and earn a 7.39 percent return on its wastewater investment. Our wastewater revenue requirement calculation is shown on the next table:

¹⁴The adjusted O&M expense amount was reduced by \$1,082 related to purchased water expense because it is not eligible for the operating margin.

Wastewater Revenue Requirement

	Wastewater
Adjusted Rate Base	\$110,940
Rate of Return	<u>x 7.39%</u>
Return on Rate Base	\$8,194
Adjusted O&M Expense	167,239
Depreciation Expense	3,535
Amortization Expense	12,225
Taxes Other Than Income	<u>12,037</u>
Revenue Requirement	\$203,229
Less Adjusted Test Year Revenues	<u>119,803</u>
Annual Increase	<u>\$83,426</u>
Percent Increase	<u>69.64%</u>

Rate structures and ratesWater Rates

The Orchid Springs water system is located in Polk County within the SWFWMD. The utility provides water service to approximately 228 residential customers and 82 general service customers. Approximately 12 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 4,244 gallons per month. Currently, the utility's rate structure consists of a monthly base facility charge (BFC) and uniform gallonage charge for all customers.

Given the small change in the revenue requirement of approximately .23 percent, we find that it inappropriate to change the utility's existing rate structure or its existing BFC and gallonage charges at this time. Therefore, we find that it is appropriate from a rate stability perspective to maintain the current rate structure and BFC and gallonage charges until the utility comes before us in the future.¹⁵ Accordingly, we find that the utility's existing rate structure and BFC and gallonage charges remain unchanged.

¹⁵Order No. PSC-11-0010-SC-WU, issued January 3, 2011, *In re: Application for increase in water rates in Franklin County by Water Management Services, Inc.* (In the WMSI case, the revenue increase was a little over one percent in which case the Commission decided to maintain the current rates. In the instant case, the revenue increase of .23% is four times less than the amount in the WMSI case.)

Wastewater Rates

The utility also provides wastewater service to approximately 228 residential customers and 82 general service customers. Currently, the wastewater rate structure for residential customers consists of a monthly uniform BFC for all meter sizes and a gallonage charge with a 10,000 gallon cap. General service customers are billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

We performed an analysis of the utility's billing data in order to evaluate various BFC cost recovery percentages and gallonage caps for the residential wastewater customers. The goal of the evaluation was to select the rate design parameters that: 1) produce the approved revenue requirement; 2) equitably distribute cost recovery among the utility's customers; and 3) implement a gallonage cap that considers approximately the amount of water that may return to the wastewater system.

Our practice is to allocate at least 50 percent of the wastewater revenue to the BFC due to the capital intensive nature of wastewater plants. Therefore, an allocation of 50 percent of the wastewater revenue to the BFC is appropriate. In addition, it is our practice to set the wastewater cap at approximately 80 percent of residential water gallons sold. Based on our review of the billing analysis, the 6,000 gallon consumption level is where approximately 80 percent of the water demand is captured. The wastewater gallonage cap recognizes that not all water used by the residential customers is returned to the wastewater system. For this reason, we find that the residential gallonage cap of 10,000 per month shall be reduced to 6,000 gallons. We also find that the general service gallonage charge shall be 1.2 times greater than the residential gallonage charge which is consistent with our practice. Furthermore, we find there is a BFC allocation based on 50 percent of the wastewater revenue requirement. Our approved rate structure and rates are shown on Schedule No. 4- B.

Summary

The approved rate structure and monthly rates are shown on Schedule Nos. 4-A and 4-B. The utility shall file revised tariff sheets and a proposed customer notice to reflect our approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. The utility shall provide proof of the date notice was given within 10 days of the date of the notice.

Late Payment Charge

The utility is requesting a \$7 late payment charge to recover the cost of supplies and labor associated with processing late payment notices. The utility's request for a late payment charge was accompanied by its reason for requesting the charge, as well as the cost justification required by Section 367.091, F.S.

The utility has a total of 310 customer accounts and, according to the utility, there are a substantial number of customers that do not pay by the due date each billing cycle. Based on historical data, the utility anticipates it will prepare late payment notices for approximately 50 accounts per billing cycle. In the past, we have allowed 10-15 minutes per account per month for clerical and administrative labor to research, review, and prepare the notice.¹⁶ The utility indicated it will spend approximately 12 hours per month processing late payment notices, which results in an average of approximately 11 minutes per account (540 minutes/50 accounts) and is consistent with our past decisions. The late payment notices will be processed by the account manager, which results in labor cost of \$6.30 (9x\$35/50) per account. The cost basis for the late payment charge, including the labor, is shown below.

Cost Basis for Late Payment Charge

Labor	\$6.30
Printing	\$.11
Postage	\$0.49
Supplies	<u>\$0.15</u>
Total Cost	<u>\$7.05</u>

Source: Utility correspondence dated October 14, 2015

Based on our research, since the late 1990s, we have approved late payment charges ranging from \$2.00 to \$7.00.¹⁷ The purpose of this charge is not only to provide an incentive for customers to make timely payment, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing delinquent accounts solely upon those who are cost causers.

During the course of our staff's audit, it was determined that late payment charges had been collected without the appropriate tariff. The utility has determined the amount of late fees

¹⁶Order Nos. PSC-11-0204-TRF-SU, in Docket No. 100413-SU, issued April 25, 2011, *In re: Request for approval of tariff amendment to include a late fee of \$14.00 in Polk County by West Lakeland Wastewater.*; PSC-08-0255-PAA-WS, in Docket No. 070391-WS, issued April 24, 2008, *In re: Application for certificates to provide water and wastewater service in Sumter County by Orange Blossom Utilities, Inc.*; and PSC-01-2101-TRF-WS, in Docket No. 011122-WS, issued October 22, 2001, *In re: Tariff filing to establish a late payment charge in Highlands County by Damon Utilities, Inc.*

¹⁷Order Nos. PSC-01-2101-TRF-WS, in Docket No. 011122-WS, issued October 22, 2001, *In re: Tariff filing to establish a late payment charge in Highlands County by Damon Utilities, Inc.*; PSC-08-0255-PAA-WS, in Docket No. 070391-WS, issued April 24, 2008, *In re: Application for certificates to provide water and wastewater service in Sumter County by Orange Blossom Utilities, Inc.*; PSC-09-0752-PAA-WU, in Docket No. 090185-WU, issued November 16, 2009, *In re: Application for grandfather certificate to operate water utility in St. Johns County by Camachee Island Company, Inc. d/b/a Camachee Cove Yacht Harbor Utility.*; PSC-10-0257-TRF-WU, in Docket No. 090429-WU, issued April 26, 2010, *In re: Request for approval of imposition of miscellaneous service charges, delinquent payment charge and meter tampering charge in Lake County, by Pine Harbour Water Utilities, LLC.*; and PSC-11-0204-TRF-SU, in Docket No. 100413-SU, issued April 25, 2011, *In re: Request for approval of tariff amendment to include a late fee of \$14.00 in Polk County by West Lakeland Wastewater.* PSC-14-0105-TRF-WS, in Docket No. 130288-WS, issued February 20, 2014, *In re: Request for approval of late payment charge in Brevard County by Aquarina Utilities, Inc.*

collected from 2011 through 2015 and has already begun issuing credits to customers on their bills. In a response, Orchid Springs states that the refund process will be completed by January 2016. Any unclaimed refunds will be treated as cash contributions-in-aid-of-construction. Therefore, we find that enforcement action is not warranted at this time.

Based on the above, we find that Orchid Springs' request to implement a \$7 late payment charge shall be approved. Orchid Springs shall be required to file a proposed customer notice to reflect our approved charge. The approved charge shall 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 approved charge shall not be implemented until we have approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

Non-Sufficient Funds

Section 367.091, F.S., requires that rates, charges, and customer service policies be approved by us. We have authority to establish, increase, or change a rate or charge. We find that Orchid Springs shall be authorized to collect NSF charges consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Sections 832.08(5) and 68.065(2), F.S., the following NSF charges may be assessed:

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

Approval of NSF charges are consistent with our prior decisions.¹⁸ Furthermore, NSF charges place the cost on the cost-causer, rather than requiring that the costs associated with the return of the NSF checks be spread across the general body of ratepayers. As such, we find that Orchid Springs revise its tariffs to reflect the NSF charges currently set forth in Sections 68.065 and 832.08(5) F.S. The NSF charges shall be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the NSF charges shall not be implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date the notice was given within 10 days of the date of the notice.

Initial customer deposits for wastewater service

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, we have set initial

¹⁸Order Nos. PSC-10-0364-TRF-WS, issued June 7, 2010, in Docket No. 100170-WS, *In re: Application for authority to collect non-sufficient funds charges, pursuant to Sections 68.065 and 832.08(5), F.S., by Pluris Wedgfield Inc., and PSC-10-0168-PAA-SU, issued March 23, 2010, in Docket No. 090182-SU, In re: Application for increase in wastewater rates in Pasco County by Ni Florida, LLC.*

customer deposits equal to two times the average estimated bill.¹⁹ Currently, the utility's wastewater initial customer deposit is \$50 for 5/8" x 3/4" meter size and two times the average estimated bill for all other meters sizes. Based on our approved wastewater rates, the appropriate initial customer deposit shall be \$91 for wastewater to reflect an average residential customer bill for two months.

During our staff's audit, it was determined that the utility had failed to credit customers with interest on deposits. Upon discussion with the utility, it was determined that interest stopped being paid in approximately 2005 when their accounting program was updated. The utility is able to determine the amount due to customers from 2011 through 2015 and has proactively begun the refunding process. In a response to our staff, Orchid Springs states that the refund process will be completed by October 2015 and will appear as a credit on the customers' bill. Any unclaimed refunds will be treated as cash contributions-in-aid-of-construction. Therefore, we find that enforcement action is not warranted at this time.

We find that the appropriate initial customer deposit shall be \$91 for the residential 5/8" x 3/4" meter size for wastewater. The initial customer deposits for all other residential meter sizes and all general service meter sizes shall be two times the average estimated bill for wastewater. The approved customer deposits shall 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 shall be required to charge the approved charges until authorized to change them by us in a subsequent proceeding.

Rate Reduction for Amortized Rate Case Expense (Final Agency Action)

Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. The total reduction is \$1,125 for water and \$999 for wastewater.

Using Orchid Springs' current revenue, expenses, capital structure and customer base, the reduction in revenue will result in the rate decreases as shown on Schedule Nos. 4-A and 4-B. The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Orchid Springs shall be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

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

Rate Reduction for Costs Associated with the Decommissioning of the Utility's Wastewater Treatment Plant

We identified WWTP removal and land remediation costs totaling \$122,250 and amortized the sum over 10 years as set forth in Rule 25-30.433(8), F.A.C. for non-recurring expenses if a period longer than five years can be justified. When the amortization period has concluded, the Utility shall remove the recovery of this amortized expense from its rates. The reduction will reflect the removal of revenue associated with the amortization of removal costs and the gross-up for RAFs. The total reduction is \$12,801 for wastewater.

Therefore, the wastewater rates shall be reduced by \$12,801, as shown on Schedule No. 4-B, to remove removal costs grossed-up for regulatory assessment fees (RAFs) and amortized over a 10-year period. The decrease in rates shall become effective immediately following the expiration of the 10-year recovery period of removal costs associated with the decommissioning of the utility's wastewater treatment plant (WWTP). Orchid Springs shall be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized expense.

Temporary Rates (Final Agency Action)

By this Order, we increase water and wastewater 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, we find that the approved rates be approved as temporary rates. Orchid Springs shall file revised tariff sheets and a proposed customer notice to reflect our approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates shall not be implemented until our staff has approved the proposed notice, and the notice has been received by the customers. The approved rates collected by the Utility shall be subject to the refund provisions discussed below.

The utility shall be authorized to collect the temporary rates upon our staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security shall be in the form of a bond or letter of credit in the amount of \$55,760. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

- 1) The Commission approves the rate increase; or,
- 2) If the Commission denies the increase, 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 shall contain the following conditions:

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

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

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

In no instance shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall be borne by, 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 shall be maintained by the Utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

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

Adjusting Books to Reflect Commission's Decision

The utility shall be required to notify us, in writing that it has adjusted its books in accordance with our decision. Orchid Springs shall submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the utility's books and records. In an effort to assist the utility in its requirement, Attachment A provides a breakdown by primary account for plant and accumulated depreciation that reflects the year-end balances at December 31, 2014. In the event the utility needs additional time to complete the adjustments, notice shall be provided within seven days prior to deadline. Upon providing good cause, our staff shall have administrative authority to grant an extension of up to 60 days.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Orchid Springs Development Corporation's application for an increase in rates and charges is hereby approved as set forth in the body of this Order. It is further

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

ORDERED that all matters contained in the attachments and schedules appended hereto are incorporated by reference. It is further

ORDERED that the appropriate average test year base for Orchid Springs is \$34,696 for the water rate base and \$110,940 for the wastewater rate base. It is further

ORDERED that if the land associated with the wastewater treatment plant that was formerly in rate base is sold, the utility must notify the Commission in writing within 60 days of the transaction. At the time that it notifies the Commission, the utility shall also submit all documentation regarding the transaction, including, but not limited to, the market value of the land. The utility shall also submit its proposal as to how this transaction shall be treated for ratemaking purposes. It is further

ORDERED that appropriate return on equity (ROE) is 9.38 percent with a range of 8.38 percent to 10.38 percent. The appropriate overall rate of return is 7.39 percent. It is further

ORDERED that the appropriate test year revenues for the Orchid Springs' water and wastewater systems are \$93,453 and \$119,803, respectively. It is further

ORDERED that the appropriate amount of operating expense for Orchid Springs is \$86,293 for water and is \$195,035 for wastewater. It is further

ORDERED that the appropriate revenue requirement is \$93,667 for water and \$203,229 for wastewater. It is further

ORDERED that subject to the conditions set forth in the body of this Order the approved rate structures and monthly wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively, are hereby approved. It is further

ORDERED that the utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. The utility shall provide proof of the date notice was given within 10 days of the date of the notice. It is further

ORDERED that Orchid Springs is hereby authorized to implement a \$7 late payment charge. Orchid Springs is required to file a proposed customer notice to reflect the Commission-approved charge. The approved charge shall 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 approved charge shall not be implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice. It is further

ORDERED that Orchid Springs is hereby authorized to collect NSF charges. Orchid Springs shall revise its tariffs to reflect the NSF charges currently set forth in Sections 68.065 and 832.08(5), F.S. The NSF charges shall be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. Furthermore, the charges shall not be implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date the notice was given within 10 days of the date of the notice. It is further

ORDERED that the appropriate wastewater initial customer deposit is \$91 for the residential 5/8" x 3/4" meter size. The initial customer deposits for all other residential meter sizes and all general service meter sizes shall be two times the average estimated bill for wastewater service. The approved customer deposits shall 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 shall be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding. It is further

ORDERED that subject to the conditions set forth in the body of this Order, following the expiration of the four-year rate case expense recovery period, water and wastewater rates shall be reduced as shown on Schedule Nos. 4-A and 4-B. The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Orchid Springs shall be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. It is further

ORDERED that the approved rates shall 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. Orchid Springs shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. It is further

ORDERED that the temporary rates shall not be implemented until our staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the utility shall provide appropriate security. If the approved rates are approved on a temporary basis, the rates collected by the utility shall be subject to the refund provisions. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility shall file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed shall also indicate the status of the security being used to guarantee repayment of any potential refund. It is further

ORDERED that the Utility shall be required to provide proof within 90 days of the effective date of the final order that the commercial general liability insurance has been purchased. The utility shall be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Orchid Springs shall submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the utility's books and records. It is further

ORDERED that in the event the utility needs additional time to complete the adjustments, notice shall be provided within seven days prior to deadline. Upon providing good cause, our staff shall be given administrative authority to grant an extension of up to 60 days. It is further

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

ORDERED that, if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order shall be issued. The docket shall remain open for 1) our staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by our staff, 2) that the Utility has provided our staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 16th day of December, 2015.



HONG WANG
Chief Deputy Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

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

TLT

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

Except as identified in the body of this Order as a Final Agency Action, and reflected in corresponding ordering paragraphs, our action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on January 6, 2016.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

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

Any party adversely affected by the Commission's final action in this matter, identified as a Final Agency Action and reflected in the corresponding ordering paragraphs, may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, within fifteen (15) days of the issuance of this Order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Office of Commission Clerk and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this Order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

ORCHID SPRINGS DEVELOPMENT CORPORATION		SCHEDULE NO. 1-A	
TEST YEAR ENDED 12/31/14		DOCKET NO. 140239-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUSTMENTS TO UTIL. BAL.	BALANCE PER COMMISSION
1. UTILITY PLANT IN SERVICE	\$249,136	\$33,308	\$282,444
2. LAND & LAND RIGHTS	480	1,202	1,682
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. ACCUMULATED DEPRECIATION	(218,520)	(40,263)	(258,783)
5. CIAC	(171,516)	0	(171,516)
6. ACCUMULATED AMORTIZATION OF CIAC	171,252	264	171,516
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>9,353</u>	<u>9,353</u>
8. WATER RATE BASE	<u>\$30,832</u>	<u>\$3,864</u>	<u>\$34,696</u>

ORCHID SPRINGS DEVELOPMENT CORPORATION		SCHEDULE NO. 1-B	
TEST YEAR ENDED 12/31/14		DOCKET NO. 140239-WS	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUSTMENTS TO UTIL. BAL.	BALANCE PER COMMISSION
1. UTILITY PLANT IN SERVICE	\$668,207	(\$107,822)	\$560,385
2. LAND & LAND RIGHTS	58,860	(58,860)	0
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. ACCUMULATED DEPRECIATION	(484,173)	13,822	(470,351)
5. CIAC	(302,109)	0	(302,109)
6. ACCUMULATED AMORTIZATION OF CIAC	302,109	0	302,109
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>20,905</u>	<u>20,905</u>
8. WASTEWATER RATE BASE	<u>\$242,894</u>	<u>(\$131,954)</u>	<u>\$110,940</u>

ORCHID SPRINGS DEVELOPMENT CORPORATION		SCHEDULE NO. 1-C	
TEST YEAR ENDED 12/31/14		DOCKET NO. 140239-WS	
ADJUSTMENTS TO RATE BASE			
	<u>WATER</u>	<u>WASTEWATER</u>	
<u>UTILITY PLANT IN SERVICE</u>			
1.	To reflect the appropriate amount of plant in service per Commission.	\$32,172	(\$176,848)
2.	To capitalize meter replacements.	2,272	0
3.	To reflect an averaging adjustment.	(1,136)	(144)
4.	To reflect pro forma plant additions.	<u>0</u>	<u>69,170</u>
	Total	<u>\$33,308</u>	<u>(\$107,822)</u>
<u>LAND & LAND RIGHTS</u>			
1.	To reflect the appropriate land value.	\$1,202	\$0
2.	To remove land no longer used for Utility purposes.	<u>0</u>	<u>(\$58,860)</u>
	Total	<u>\$1,202</u>	<u>(\$58,860)</u>
<u>ACCUMULATED DEPRECIATION</u>			
1.	To reflect the appropriate accumulated depreciation.	(\$42,944)	\$16,237
2.	To reflect capitalized meters.	(134)	0
3.	To reflect an averaging adjustment.	2,814	(685)
4.	To reflect pro forma plant addition.	<u>0</u>	<u>(1,729)</u>
	Total	<u>(\$40,263)</u>	<u>\$13,822</u>
<u>ACCUMULATED AMORTIZATION OF CIAC</u>			
	To reflect full amortization of water CIAC.	<u>\$264</u>	<u>\$0</u>
	Total	<u>\$264</u>	<u>\$0</u>
<u>WORKING CAPITAL ALLOWANCE</u>			
	To reflect 1/8 of test year O&M expenses.	<u>\$9,353</u>	<u>\$20,905</u>

ORCHID SPRINGS DEVELOPMENT CORPORATION							SCHEDULE NO. 2		
TEST YEAR ENDED 12/31/14							DOCKET NO. 140239-WS		
SCHEDULE OF CAPITAL STRUCTURE									
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER COMMISSION	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON EQUITY	\$16,000	\$488,263	\$504,263	(\$410,460)	\$93,803	64.41%	9.38%	6.04%	
2. LONG-TERM DEBT	187,998	11,088	199,086	(162,052)	37,034	25.43%	4.50%	1.14%	
3. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%	
4. PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%	
5. CUSTOMER DEPOSITS	14,990	(192)	14,798	0	14,798	10.16%	2.00%	0.20%	
6. DEFERRED INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
7. TOTAL	<u>\$218,988</u>	<u>\$499,159</u>	<u>\$718,147</u>	<u>(\$572,512)</u>	<u>\$145,635</u>	<u>100.00%</u>		<u>7.39%</u>	
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>		
RETURN ON EQUITY						<u>8.38%</u>	<u>10.38%</u>		
OVERALL RATE OF RETURN						<u>6.74%</u>	<u>8.03%</u>		

ORCHID SPRINGS DEVELOPMENT CORPORATION				SCHEDULE NO. 3-A	
TEST YEAR ENDED 12/31/14				DOCKET NO. 140239-WS	
SCHEDULE OF WATER OPERATING INCOME					
	TEST YEAR	COMMISSION	COMMISSION	ADJUST.	REVENUE
	PER UTILITY	ADJUSTMENTS	ADJUSTED	FOR	REQUIREMENT
			TEST YEAR	INCREASE	
1. OPERATING REVENUES	<u>\$95,103</u>	<u>(\$1,650)</u>	<u>\$93,453</u>	<u>\$214</u> 0.23%	<u>\$93,667</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$63,225	\$11,599	\$74,824	\$0	\$74,824
3. DEPRECIATION (NET)	1,736	3,547	\$5,283	0	5,283
4. AMORTIZATION	0	0	\$0	0	0
5. TAXES OTHER THAN INCOME	5,727	450	\$6,177	10	6,186
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$70,668</u>	<u>\$15,595</u>	<u>\$86,283</u>	<u>\$10</u>	<u>\$86,293</u>
8. OPERATING INCOME/(LOSS)	<u>\$24,415</u>		<u>\$7,170</u>		<u>\$7,374</u>
9. WATER RATE BASE	<u>\$30,832</u>	<u>\$3,864</u>	<u>\$34,696</u>		<u>\$34,696</u>
10. OPERATING MARGIN					<u>10.00%</u>

ORCHID SPRINGS DEVELOPMENT CORPORATION					SCHEDULE NO. 3-B	
TEST YEAR ENDED 12/31/14					DOCKET NO. 140239-WS	
SCHEDULE OF WASTEWATER OPERATING INCOME						
	TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$120,827</u>	<u>(\$1,024)</u>	<u>\$119,803</u>	<u>\$83,426</u> 69.64%	<u>\$203,229</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$154,783	\$12,456	\$167,239	\$0	\$167,239	
3. DEPRECIATION (NET)	11,134	(7,599)	3,535	0	3,535	
4. AMORTIZATION	0	12,225	12,225	0	12,225	
5. TAXES OTHER THAN INCOME	7,379	903	8,282	3,754	12,037	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$173,296</u>	<u>\$17,985</u>	<u>\$191,281</u>	<u>\$3,754</u>	<u>\$195,035</u>	
8. OPERATING INCOME/(LOSS)	<u>(\$52,469)</u>		<u>(\$71,478)</u>		<u>\$8,194</u>	
9. WASTEWATER RATE BASE	<u>\$242,894</u>	<u>(\$131,954)</u>	<u>\$110,940</u>		<u>\$110,940</u>	
10. RATE OF RETURN	<u>(21.60%)</u>		<u>(64.43%)</u>		<u>7.39%</u>	

ORCHID SPRINGS DEVELOPMENT CORPORATION		SCHEDULE NO. 3-C	
TEST YEAR ENDED 12/31/14		DOCKET NO. 140239-WS	
ADJUSTMENTS TO OPERATING INCOME		Page 1 of 2	
		WATER	WASTEWATER
OPERATING REVENUES			
1.	To reflect the appropriate test year services revenues.	\$0	(\$1,024)
2.	To remove collection of unauthorized fees.	(5,087)	0
3.	To include imputed revenues.	<u>3,437</u>	<u>0</u>
	Subtotal	<u>(\$1,650)</u>	<u>(\$1,024)</u>
OPERATION AND MAINTENANCE EXPENSES			
Purchased Water (610)			
a.	To reflect a 5.8% EUW adjustment.	(\$67)	\$0
	Subtotal	<u>(\$67)</u>	<u>\$0</u>
1.	Purchased Power (615/715)		
a.	To reflect the appropriate test year purchased power.	\$220	(\$525)
b.	To reflect a 5.8% EUW adjustment.	<u>(187)</u>	<u>0</u>
	Subtotal	<u>\$33</u>	<u>(\$525)</u>
2.	Chemicals (618/718)		
a.	To reflect the appropriate test year chemical expense.	\$31	\$0
b.	To reflect a 5.8% EUW adjustment.	<u>(201)</u>	<u>0</u>
	Subtotal	<u>(\$170)</u>	<u>\$0</u>
3.	Contractual Services - Management (631/731)		
a.	To reflect the appropriate salary for the utility secretary.	\$12,847	\$12,847
b.	To reflect the appropriate salary for the utility manager	5,991	844
c.	To reflect the appropriate salary for the utility president.	<u>5,200</u>	<u>5,200</u>
	Subtotal	<u>\$24,038</u>	<u>\$18,891</u>
4.	Contractual Services - Testing (635/735)		
a.	To include additional test year invoice.	<u>\$133</u>	<u>\$0</u>
	Subtotal	<u>\$133</u>	<u>\$0</u>
5.	Contractual Services - Other (636/736)		
a.	To reflect removal of unsupported invoices and discrepancies between general ledger and support documentation.	(\$7,026)	(\$6,353)
b.	To remove a one-time paving expense to be amortized over five years.	(3,094)	0
c.	To capitalize meter replacement.	(2,272)	0
d.	To remove a one-time accounting expense to be amortized over five years.	<u>(263)</u>	<u>(263)</u>
	Subtotal	<u>(\$12,655)</u>	<u>(\$6,616)</u>
6.	Rent Expense (640)		
a.	To reflect the appropriate rent expense.	\$1,784	\$1,076
	Subtotal	<u>\$1,784</u>	<u>\$1,076</u>
7.	Insurance Expense (655/755)		
a.	To reflect appropriate test year insurance expense.	<u>(\$242)</u>	<u>\$224</u>
	Subtotal	<u>(\$242)</u>	<u>\$224</u>

ORCHID SPRINGS DEVELOPMENT CORPORATION		SCHEDULE NO. 3-C	
TEST YEAR ENDED 12/31/14		DOCKET NO. 140239-WS	
ADJUSTMENTS TO OPERATING INCOME		PAGE 2 OF 2	
		<u>WATER</u>	<u>WASTEWATER</u>
8.	Bad Debt Expense (670/770)		
	a. To reflect the appropriate amount of bad debt expense.	<u>\$304</u>	<u>\$304</u>
	Subtotal	<u>\$304</u>	<u>\$304</u>
9.	Miscellaneous Expense (675/775)		
	To reflect the appropriate amount in invoiced provided to Commission	<u>(\$1,560)</u>	<u>(\$898)</u>
	Subtotal	<u>(\$1,560)</u>	<u>(\$898)</u>
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$11,599</u>	<u>\$12,456</u>
	DEPRECIATION EXPENSE		
1.	To reflect test year depreciation expense calculated per 25-30.140 F.A.C.	\$3,892	(\$9,329)
2.	To remove CIAC amortization expense.	(479)	0
3.	To reflect pro forma plant additions.	0	1,730
4.	To reflect capitalized meters.	<u>134</u>	<u>0</u>
	Total	<u>\$3,547</u>	<u>(\$7,599)</u>
	AMORTIZATION		
1.	Amortization of WWTP removal costs.	<u>\$0</u>	<u>\$12,225</u>
	Total	<u>\$0</u>	<u>\$12,225</u>
	TAXES OTHER THAN INCOME		
1.	To reflect appropriate test year property taxes and RAFs.	\$414	(\$111)
2.	To reflect appropriate property tax after pro forma plant additions.	0	1,014
3.	To reflect appropriate property tax after capitalization of meters.	<u>36</u>	<u>0</u>
	Total	<u>\$450</u>	<u>\$903</u>

ORCHID SPRINGS DEVELOPMENT CORPORATION		SCHEDULE NO. 3-D	
TEST YEAR ENDED 12/31/14		DOCKET NO. 140239-WS	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	COMMISSION PER ADJUST.	TOTAL PER PER COMMISSION
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSION & BENEFITS	0	0	0
(610) PURCHASED WATER	1,149	(67)	1,082
(615) PURCHASED POWER	3,000	33	3,033
(616) FUEL FOR POWER PRODUCTION	40	0	40
(618) CHEMICALS	3,440	(170)	3,270
(620) MATERIALS AND SUPPLIES	115	0	115
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES – MANAGEMENT	7,304	24,038	31,342
(633) CONTRACTUAL SERVICES-LEGAL	0		0
(635) CONTRACTUAL SERVICES - TESTING	108	133	241
(636) CONTRACTUAL SERVICES - OTHER	40,661	(12,655)	28,006
(640) RENTS	3,070	1,784	4,854
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE - GEN LIABILITY	699	(242)	457
(663) REPAIRS AND MAINTENANCE	96	0	96
(665) REGULATORY COMMISSION EXPENSE	1,064	0	1,064
(670) BAD DEBT EXPENSE	115	304	419
(675) MISCELLANEOUS EXPENSES	<u>2,364</u>	<u>(1,560)</u>	<u>804</u>
TOTAL	<u>\$63,225</u>	<u>\$11,599</u>	<u>\$74,824</u>

ORCHID SPRINGS DEVELOPMENT CORPORATION		SCHEDULE NO. 3-E	
TEST YEAR ENDED 12/31/14		DOCKET NO. 140239-WS	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	COMMISSION PER ADJUST.	TOTAL PER PER COMMISSION
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSION & BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	117,987	0	117,987
(715) PURCHASED POWER	4,676	(525)	4,151
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	0	0	0
(720) MATERIALS AND SUPPLIES	115	0	115
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - MANAGEMENT	7,304	18,891	26,195
(733) CONTRACTUAL SERVICES - LEGAL	0	0	0
(735) CONTRACTUAL SERVICES-TESTING	0	0	0
(736) CONTRACTUAL SERVICES - OTHER	18,192	(6,616)	11,576
(740) RENTS	3,070	1,076	4,146
(750) TRANSPORTATION EXPENSE	0	0	0
(755) INSURANCE EXPENSE - GEN LIABILITY	699	224	923
(763) REPAIRS AND MAINTENANCE	96	0	96
(765) REGULATORY COMMISSION EXPENSE	945	0	945
(770) BAD DEBT EXPENSE	115	304	419
(775) MISCELLANEOUS EXPENSES	<u>1,584</u>	<u>(898)</u>	<u>686</u>
TOTAL	<u>\$154,783</u>	<u>\$12,456</u>	<u>\$167,239</u>

ORCHID SPRINGS DEVELOPMENT CORPORATION		SCHEDULE NO. 4-A	
TEST YEAR ENDED DECEMBER 31, 2014		DOCKET NO. 140239-WS	
MONTHLY WATER RATES			
	RATES AT TIME OF FILING	COMMISSION APPROVED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8"x 3/4"	\$9.67	\$9.67	\$0.12
3/4"	\$14.50	\$14.50	\$0.17
1"	\$24.17	\$24.17	\$0.29
1-1/2"	\$48.35	\$48.35	\$0.58
2"	\$77.38	\$77.38	\$0.93
3"	\$154.74	\$154.74	\$1.86
4"	\$241.76	\$241.76	\$2.91
6"	\$483.55	\$483.55	\$5.82
Charge per 1,000 gallons – Residential and General Service	\$1.76	\$1.76	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
4,000 Gallons	\$16.71	\$16.71	
6,000 Gallons	\$20.23	\$20.23	
10,000 Gallons	\$27.27	\$27.27	

**ORCHID SPRINGS DEVELOPMENT CORPORATION
 TEST YEAR ENDED DECEMBER 31, 2014
 MONTHLY WASTEWATER RATES**

**SCHEDULE NO. 4-B
 DOCKET NO. 140239-WS**

	RATES AT TIME OF FILING	COMMISSION APPROVED INTERIM	COMMISSION APPROVED RATES	4 YEAR RATE REDUCTION	10 YEAR WWTP DECOMMISSIONING REDUCTION
<u>Residential Service</u>					
Base Facility Charge for All Meter Sizes	\$14.13	\$16.42	\$24.33	\$0.12	\$1.53
Charge per 1,000 gallons - Residential					
10,000 gallon cap	\$3.08	\$3.58			
6,000 gallon cap			\$5.55	\$0.03	\$0.35
<u>General Service</u>					
Base Facility Charge by Meter Size					
5/8" X 3/4"	\$14.13	\$16.42	\$24.33	\$0.12	\$1.53
3/4"	\$21.24	\$24.63	\$36.50	\$0.18	\$2.30
1"	\$35.40	\$41.05	\$60.83	\$0.30	\$3.83
1-1/2"	\$70.78	\$82.10	\$121.65	\$0.60	\$7.66
2"	\$113.26	\$131.36	\$194.64	\$0.96	\$12.26
3"	\$226.50	\$262.72	\$389.28	\$1.91	\$24.52
4"	\$353.90	\$410.50	\$608.25	\$2.99	\$38.31
6"	\$707.80	\$821.00	\$1,216.50	\$5.98	\$76.62
Charge per 1,000 gallons	\$3.72	\$4.32	\$6.65	\$0.03	\$0.42
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>					
4,000 Gallons	\$26.45	\$30.74	\$46.53		
6,000 Gallons	\$32.61	\$37.90	\$57.63		
10,000 Gallons	\$44.93	\$52.22	\$57.63		

Orchid Springs Development Corporation			Attachment A
Test Year Ended 12/31/2014			
Plant & Accumulated Depreciation Balances			
Water			
Account No.	Description	UPIS	Accumulated Depreciation
304	Structures and Improvements	\$17,667	\$5,373
307	Wells and Springs	3,360	3,360
310	Power Generation Equipment	37,437	37,437
311	Pumping Equipment	3,275	3,275
320	Water Treatment Equipment	9,400	5,431
330	Distribution Reservoirs & Standpipes	12,049	11,748
331	Transmission & Distribution Mains	160,802	157,784
333	Services	16,737	16,474
334	Meters & Meter Installations	17,274	15,136
335	Hydrants	<u>5,579</u>	<u>5,579</u>
		<u>\$281,308</u>	<u>\$261,464</u>
Wastewater			
Account No.	Description	UPIS	Accumulated Depreciation
354	Structures and Improvements	\$21,246	\$4,878
360	Collection Sewers - Force	21,740	21,740
361	Collection Sewers - Gravity	219,184	219,184
363	Services to Customers	63,265	63,265
364	Flow Measuring Devices	3,101	3,101
370	Receiving Wells	150,628	150,628
371	Pumping Equipment	5,444	(1,609)
389	Other Plant and Misc. Equip.	5,081	5,081
395	Power Operated Equipment	<u>1,670</u>	<u>1,670</u>
		<u>\$491,359</u>	<u>\$467,936</u>