

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in
Hardee County by Charlie Creek Utilities,
LLC.

DOCKET NO. 160143-WU
ORDER NO. PSC-17-0144-PAA-WU
ISSUED: April 27, 2017

The following Commissioners participated in the disposition of this matter:

JULIE I. BROWN, Chairman
ART GRAHAM
RONALD A. BRISÉ
JIMMY PATRONIS
DONALD J. POLMANN

NOTICE OF PROPOSED AGENCY ACTION ORDER
APPROVING RATES FOR
CHARLIE CREEK UTILITIES, LLC
AND
FINAL ORDER
ON RECOVERY OF RATE CASE EXPENSE,
TEMPORARY RATES, AND ACCOUNTING

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission (Commission) that the action discussed herein 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

Charlie Creek Utilities, LLC (Charlie Creek or Utility) is a Class C utility providing water service to approximately 144 residential and one general service customer in Hardee County. Rates were last established for this utility when its original certificate was granted on January 25, 2016.¹ Charlie Creek's rates and charges were in effect prior to the current owner acquiring the water system were approved simultaneously with the Utility's original certificate. Charlie Creek is currently owned by Michael Smallridge and operated under Florida Utility Services 1, LLC (FUS1).

¹Order No. PSC-16-0043-PAA-WU, issued January 25, 2016, in Docket No. 150186-WU, *In re: Application for certificate to operate a water utility in Hardee County by Charlie Creek Utilities, LLC.*

On June 3, 2016, Charlie Creek filed an application for a staff assisted rate case (SARC). We selected the test year ended December 31, 2015, for the instant case. According to Charlie Creek's 2015 annual report, total gross revenues were \$68,259 and total operating expenses were \$71,773. On February 14, 2017, we received a petition, with 20 signatures, opposing the rate increase. We have jurisdiction in this rate case pursuant to Sections 367.0812, 367.0814, 367.081(8) and 367.091, Florida Statutes (F.S.).

Decision

1. Quality of Service

Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water and wastewater rate cases, we must determine the overall quality of service provided by the utility. Overall quality of service is derived from an evaluation of three separate components of the utility operations. These components are: (1) the quality of the utility's product; (2) the operating conditions of the utility's plant and facilities; and (3) the utility's attempt to address customer satisfaction. The Rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Florida Department of Environmental Protection (FDEP) and the county health department over the preceding three-year period must be considered. Furthermore, Section 367.0812(1)(c), F.S., requires us to consider the extent to which the utility provides water service that meets secondary water quality standards as established by the FDEP.

Quality of Utility's Product

In evaluating Charlie Creek's product quality, we reviewed the Utility's compliance with FDEP primary and secondary drinking water standards. Primary standards protect public health, while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water.

We reviewed chemical analyses of samples dated June 26, 2012, and July 27, 2015. All results were in compliance with the FDEP primary and secondary water quality standards. These chemical analyses are performed every three years. The next scheduled analysis should take place in 2018.

We also reviewed customer complaints regarding the quality of Charlie Creek's product. At the customer meeting held in Wauchula, FL on January 19, 2017, two customers expressed concerns regarding the quality of water, including low pressure, water outages, a sulfur odor, low chlorine levels, and a white substance in the pipes. Five customers also provided written comments expressing similar concerns.

The Utility has stated that there are ongoing efforts to complete the maintenance and repairs needed to update the system and address the calcium and odor concerns. To address the white substance customers had observed, the Utility is engaging an engineer in efforts to manage calcification problems in the system. We find that the Utility's efforts to address the calcification

are reasonable considering the customer's complaints. Additionally, the Utility stated that the buildup of calcium can also be attributed to the low pressure problems customers have experienced.

One customer at the customer meeting stated that he contacted the Utility about a lack of chlorine in the water, and the utility responded that it had run out of chlorine. The customer suggested that additional monitoring of the water quality should be completed on a monthly or bimonthly basis.

Addressing chlorine level concerns, the Utility stated it had never run out of chlorine and this may have occurred under the previous owner. The Utility disagreed that additional water quality monitoring is necessary as the water test results are in compliance with the FDEP requirements and additional testing would result in an added expenses for the customers.

We requested copies of complaints filed with the Utility during the test year and four years prior to the test year. The Utility indicated that no formal complaints were filed during the test year, but the Utility had received customer calls regarding an odor from the water. In response, the Utility installed two flushing valves to help with the hydrogen sulfide that was causing the odor.

In 2012, a customer complaint was filed with FDEP which related to a possible calcium buildup in the lines. Calcium is a secondary contaminant and is not considered an immediate health risk; however, the customer was advised to contact FDEP if there were any further concerns. No other product quality complaints were received. Based upon our review, giving consideration to the Utility's current compliance with FDEP standards, Charlie Creek's product shall be considered satisfactory. Furthermore, it appears that the Utility is addressing the product quality concerns raised by its customers.

Operating Condition of the Utility's Plant and Facilities

Charlie Creek's service area is located in Wauchula, Florida, in Hardee County, and is within the Southwest Florida Water Management District (SWFWMD). The water treatment system has two wells and the raw water is treated with liquid chlorine for disinfection purposes. The Utility's water system has two storage tanks totaling 11,000 gallons and is pumped into a 6,000 gallon hydropneumatic tank before entering the distribution system.

On February 12, 2014, FDEP conducted a sanitary survey. One deficiency was identified, stemming from the Utility not meeting minimum requirements for a community over 350 in population. To meet the minimum requirements, the Utility was required to submit an Emergency Preparedness Plan, perform remediation measures to one well, and repair or replace its generator. The Utility made the necessary improvements and the system was found to be in compliance on May 6, 2014. Our staff did not identify any issues or concerns during its January 19, 2017, site visit. Upon review, the operating condition of Charlie Creek's water treatment plant and facilities shall be considered satisfactory.

The Utility's Attempt to Address Customer Satisfaction

The final component of the overall quality of service that must be assessed is the Utility's attempt to address customer satisfaction. A summary of all complaints and comments received during the test year and four years prior are shown in the table below.

Number of Complaints by Source

Subject of Complaint	PSC's Records (CATS)	Utility's Records	FDEP	Docket Correspondence	Customer Meeting
Improper Billing/ Billing Related			1	3	
Quality of Water			1	3	2
Condition of Facilities				4	2
Improper Disconnect	2				
Outages	1			2	2
Total*	3	0	2	12	6

*A complaint may appear more than one time in this table if it meets multiple categories.

As part of our evaluation of customer satisfaction, we held a customer meeting to receive customer comments concerning Charlie Creek's quality of service. The Utility mailed the customer meeting notice to its customers on January 4, 2017, advising them of the time, place, and purpose of the meeting, as well as the procedures for filing comments with this Commission.

Four customers attended the customer meeting, two of which provided comments. Both customers reported problems associated with the water quality. The first customer additionally cited several instances when contacting the utility, his concerns were not properly addressed or he was provided with erroneous information. Moreover, the customer described an occurrence involving a water line break resulting in multiple day outages, and a customer provided personal equipment to assist the Utility in repairing the line. The second customer echoed many of the same concerns, such as water outages. Additionally, both customers expressed that more customers were not present at the customer meeting due to a misunderstanding of the rate increase and the impact it would have on customer bills.

Charlie Creek provided a written response to the oral comments made at the customer meeting. In its response, the Utility indicated that, since the Utility was acquired in 2014, it has made efforts to upgrade customer safety and convenience. The Utility stated that it is holding annual meetings with customers to discuss Utility-related issues and has implemented an option to pay bills over the phone or online.

Regarding the water main break, the Utility stated that Charlie Creek personnel initially repaired the water main following the break, but discovered that there was additional damage when the water pressure in the system remained low. A customer of Charlie Creek volunteered his equipment; however, due to the extent of the leak, a contractor was hired to complete the

repairs. The Utility asserted that customers were not out of water for several days; however, the pressure was low and a precautionary boil water notice was issued.

Other issues raised in the written comments received by this Commission included estimated water usage, lack of flushing, frequent breaks in water lines, difficulties in contacting the Utility, poor customer service, and a delayed response by the Utility when repairing leaks. As previously discussed, the Utility has started holding annual meetings with its customers to discuss Utility-related issues. Additionally, the Utility explained that several customer meters have been replaced to improve billing accuracy.

Our staff reviewed our complaint records from January 1, 2011, through March 3, 2017, and found three complaints. Two of the complaints have been closed. The remaining complaint involved an improper disconnection of service.

Examining FDEP records over a five year period including the test year and the four years prior, one complaint was received on February 22, 2012. The customer stated that particles were present in his water, there was a leak on the purveyor's side, and he believed meters were not being correctly read. FDEP personnel contacted the Utility's operator and owner who addressed the customer's concerns and the complaint was closed on February 23, 2012.

Based on the Utility's response to customers' concerns expressed in connection with the customer meeting, the small number of complaints filed with this Commission, as well as the lack of those filed with FDEP, we find that the Utility's attempt to address customer satisfaction shall be considered satisfactory.

Conclusion

Based on the foregoing, we find that the overall quality of service provided by Charlie Creek shall be considered satisfactory.

2. Used and Useful / Water Treatment Plant and Distribution System

Charlie Creek's water system is served by two 4-inch wells rated at 125 gallons per minute (gpm) and 350 gpm, and the water treatment plant (WTP) permitted capacity is 133,000 gallons per day (gpd). The raw water is treated by chlorination prior to entering the water distribution system. The WTP has two useable storage tanks totaling 11,000 gallons in capacity. There is an existing fire flow stand pipe, but no fire hydrants are present. The distribution system is composed of varying sizes of galvanized and PVC pipes. We have had no rate cases for this Utility therefore, the used and useful (U&U) percentages for the WTP, storage facilities, and the distribution system have not been previously established.

Water Treatment Plant Used and Useful

The U&U calculations for a water treatment system and storage facilities are made pursuant to Rule 25-30.4325, F.A.C. For a water treatment plant with more than one well and storage capacity, the U&U is determined in accordance with the following equation: $([\text{Peak Demand} + \text{Fire Flow} + \text{Growth} - \text{Excessive Unaccounted for Water}] / \text{Firm Reliable Capacity})$.

The peak demand is the single maximum day in the test year with no unusual occurrences and is measured in gallons per day (gpd). From the flow data provided in the Utility's Monthly Operating Reports (MORs), the peak demand is 60,000 gpd. There is no fire flow for the Utility. Based on recent data, growth in connections appears to be zero. As discussed below, no EUW has been identified for this system.

The firm reliable capacity for systems with more than one well is the pumping capacity of all wells combined, excluding the largest individual well. For Charlie Creek, this yields a value of 125 gpm, or 120,000 gpd. Since DEP rates the treatment facilities at a capacity of 133,000 gpd, the well-based capacity is not constrained by treatment capacity. The final calculation of U&U for Charlie Creek is 50 percent $([60,000 + 0 + 0 - 0] / 120,000)$.

Excessive Unaccounted for Water

Pursuant to Rule 25-30.4325, F.A.C., excessive unaccounted for water (EUW) is unaccounted for water in excess of 10 percent of the amount produced. Unaccounted for water is all water produced that is not sold, metered, or accounted for in the records of the utility. In determining whether adjustments to plant and operating expenses are necessary in accordance with Rule 25-30.4325(10), F.A.C., we consider several factors. These factors include the causes of EUW, any corrective action taken, and the economical feasibility of a proposed solution. EUW is calculated by subtracting both the gallons sold to customers and the gallons used for other services, such as flushing, from the total gallons pumped for the test year.

Based on the Utility's MORs, Charlie Creek produced 14,534,000 gallons of water from January 1, 2015 to December 31, 2015. However, the Utility subsequently found tabulation errors in its MORs and provided the corrected pumped water data. The total gallons pumped using the corrected data for 2015 is 8,099,000 gallons.

Based on our staff's audit report, the Utility sold 8,294,049 gallons of water to customers. Additionally, the Utility documented 233,000 gallons of water that were expended for other uses as recorded in the 2015 Annual Report. The resulting unaccounted for water is -5.3 percent $([8,099,000 - 8,294,049 - 233,000] / 8,099,000)$.

According to the Utility, there are several reasons why more water was sold than pumped. During the first several months of operation in 2015, the Utility identified and replaced forty-three faulty water meters, representing approximately 30 percent of its customer base. At the end of 2016, a total of ninety-two meters had been replaced. When determining the amount of water sold to customers with faulty meters, the Utility estimated usages and utilized past usages from its billing system.

Charlie Creek also found inaccuracies with the master meters at both wells. On February 17, 2017, the Florida Rural Water Association (FRWA) tested the master meters for both wells and found one meter to be outside the acceptable range of accuracy. The primary well's master meter was found to be running 8.3 percent slower than the test meter, but it was within accuracy tolerance. The second well's master meter was found to be running 11.1 percent faster than the test meter and was not within acceptable accuracy tolerance. However, the second well had undergone repairs in 2015, following the transfer of the system, and was not operational until November 2016; thus, it did not contribute to errors regarding the amount of water pumped. Considering the results from the FRWA and the age of each meter, the Utility plans to replace both master meters for improved accuracy in the amount of water pumped. Upon review, we find that the replacement of the master meters is prudent.

Taking into account the inaccuracy of the primary well's master meter, the amount of water pumped was adjusted and the unaccounted for water was found to be less than 10 percent. Therefore, considering all of these factors, no adjustment shall be made to operating expenses for chemicals and purchased power due to the EUW.

Storage Used and Useful

The Utility has two useable storage tanks with a capacity of 11,000 gallons. In accordance with Rule 25-30.4325(8), F.A.C., usable storage capacity less than or equal to the peak day demand are considered 100 percent used and useful. As discussed above, the peak day demand is 60,000 gallons per day; thus, the storage shall be considered 100 percent U&U.

Water Distribution System Used and Useful

The equation for calculating U&U for the water distribution system is $[\text{Number of Test Year Connections} + \text{Growth}] / \text{Capacity of the System}$. Based on customer bills, the audit report identified 144 residential connections and 1 general service connection during the test year. The capacity of the system is 266 lots; therefore, the water distribution system is 55 percent U&U $([145 + 0] / 266)$.

Summary

Upon review, Charlie Creek's water treatment plant is 50 percent U&U, storage U&U is 100 percent, and the water distribution system is 55 percent U&U. There is no EUW; therefore, no adjustment shall be made to operating expenses for chemicals and purchased power.

3. Average Test Year Rate Base

Charlie Creek's net book value has never been established by this Commission, due in part to the lack of original documentation from the previous owner, during the original certificate audit.

Charlie Creek's current ownership manages and owns other utilities in Florida and, as of January 1, 2015, has been recording common costs on FUS1 books. These costs, which include salaries, transportation, and office supplies, have been allocated among all of the utilities receiving services from FUS1. We used allocations based on customer count and all utilities owned and managed by FUS1 at the time of our audit. All new allocation adjustments are based on ERC count and the current utilities owned or managed by FUS1 as of September 26, 2016. The new allocation for Charlie Creek from FUS1 is 7.29 percent. The test year ended December 31, 2015, was used for the instant case. A summary of each water rate base component and approved adjustments are discussed below.

Utility Plant in Service (UPIS)

The UPIS balance to begin the test year was \$0 as the Utility's prior owner's records were destroyed. For the test year, the Utility recorded water UPIS of \$3,044. We capitalized major repairs at the plant originally expensed to Accounts 620 and 636. These repairs include two pump repairs, one for \$504 and the second for \$640. The Utility originally booked these costs as expenses, but we find that these repairs will not be recurring and did extend the useful life of the assets; therefore, the costs shall be capitalized. The Utility's improvements being capitalized also include replacing a control box, refurbishing well #2 pumping equipment, installing a flush point, and installing a starter on well #1. The Utility also installed meters, but did not book the labor and installation costs for these meters. Therefore, we have increased UPIS by \$360. We also increased this account by \$1,070 to include the purchase of a lawn mower.

As discussed above under the heading "2. Used and Useful / Water Treatment Plant and Distribution System," the Utility purchased and installed two master meters. The Utility also purchased and installed two gate valves along with the necessary sampling expenses. These additions totaled \$1,472 and \$2,223 (1,833 + 390), respectively. We have included an averaging adjustment of negative \$7,393. Our adjustments to UPIS result in a net increase of \$4,349. Therefore, we find that the appropriate UPIS balance is \$7,393. These approved adjustments to UPIS are detailed in the table below:

Adjustments made to UPIS

	Adjustment Description	Water
1.	To capitalize the purchase of a 30 gpd pump.	\$590
2.	To capitalize the replacement of a control box.	508
3.	To capitalize the refurbishment of well pumping equipment.	2,156
4.	To capitalize the installation of a 2-inch flush point.	1,800
5.	To capitalize the installation of a starter for a well.	418
6.	To capitalize non-recurring pump repairs and new impeller.	1,144
7.	To include the installation cost of replaced meters.	360
8.	To include the purchase of a new lawn mower.	1,070
9.	To include pro forma replacement of two gate valves and sampling.	2,223
10.	To include pro forma purchase and installation of two master meters.	<u>1,472</u>
	Subtotal	\$11,741
	Averaging Adjustment	<u>(7,393)</u>
	Net Increase to UPIS	\$4,349
	Existing UPIS	<u>3,044</u>
	Test Year UPIS	<u>\$7,393</u>

UPIS - Allocated

The Utility did not record a balance in UPIS – Allocated. Due to the Utility’s relationship with FUS1, we have included allocated common plant from FUS1. Our audit included total FUS1 balances for Office Furniture & Equipment, Transportation Equipment, and Tools, Shop, and Garage Equipment of \$21,770. After applying Charlie Creek’s 7.29 percent allocation, we increased UPIS – Allocated by \$1,588. We also included an averaging adjustment of negative \$69. Therefore, we approve a UPIS - Allocated balance of \$1,518.

Land & Land Rights

The Utility recorded a test year land balance of \$12,050. No adjustments are necessary; therefore, we approve a Land & Land Rights balance of \$12,050.

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

The Utility did not record a test year non-U&U plant balance for water. As discussed above under the heading, “2. Used and Useful / Water Treatment Plant and Distribution System,” we find the WTP to be 50 percent U&U and the water distribution system to be 55 percent U&U.

We have applied the U&U percentage to WTP average plant balances and to the associated average accumulated depreciation balances. We increased non-U&U WTP by \$1,120 for average plant and decreased the associated average depreciation by \$75. We have applied the U&U percentage to the water distribution average plant balances and to the associated average accumulated depreciation balances. We have increased non-U&U water distribution system by \$905 for average plant and decreased the associated average depreciation by \$38. Our adjustments to non-U&U plant are an increase of \$2,025 and our adjustments to associated average depreciation are a decrease of \$112. Therefore, the non-U&U plant is \$1,912.

Contributions in Aid of Construction (CIAC)

The Utility did not record CIAC balances. Due to the lack of original cost for transmission and distribution plant, we cannot determine an amount for CIAC. Our audit staff found no additions in the test year and determined that no adjustments are necessary. Therefore, CIAC is zero.

Accumulated Depreciation

Charlie Creek recorded a test year accumulated depreciation balance of \$179. We recalculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. and increased water by \$98. We decreased this account by \$215 for water to reflect the simple average. As discussed above under the heading “2. Used and Useful / Water Treatment Plant and Distribution System,” the Utility requested pro forma items. We have included \$152 for the average accumulated depreciation associated with the pro forma items. Our total adjustments to this account are a decrease of \$36. Our adjustments to this account results in an Accumulated Depreciation balance of \$215.

Accumulated Depreciation- Allocated

The Utility did not record a test year balance for Accumulated Depreciation – Allocated. We have included in this account accumulated depreciation for plant associated with FUS1’s common plant that has been allocated to Charlie Creek. We have included \$58 to Accumulated Depreciation - Allocated. We have also included an averaging adjustment of \$21 for each account. Therefore, our adjustments to this account result in an Accumulated Depreciation – Allocated balance of \$37.

Accumulated Amortization of CIAC

As discussed above, we approve a CIAC balance of zero; therefore, the balance of Accumulated Amortization of CIAC is also zero.

Working Capital Allowance

Working capital is 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, the working capital allowance is \$7,820 (based on O&M expense of \$62,557 /8).

Rate Base Summary

Based on the foregoing, the appropriate average test year rate base for Charlie Creek is \$26,617. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

4. Return on Equity/Overall Rate of Return

Based upon our audit, Charlie Creek's test year capital structure reflected common equity of \$15,931, long term debt of \$8,660 and customer deposits of \$2,555. We have decreased common equity by \$15,931 to remove revenue earned from the previous owner and to reflect an adjustment made by the Utility based on the transfer audit performed in Docket 150186-WU. We decreased the customer deposits balance by \$599, to reflect the Utility's customer deposit log. The Utility's capital structure has been reconciled with the approved rate base. The appropriate return on equity (ROE) for the Utility is 11.16 percent based upon our approved leverage formula currently in effect.² We approve an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 6.28 percent. The ROE and overall rate of return are shown on Schedule No. 2.

5. Test Year Revenues

Charlie Creek recorded total test year revenues of \$68,259. The water revenues included \$63,582 of service revenues and \$4,677 of miscellaneous revenues. Based on our review of the Utility's billing determinants and the service rates that were in effect during the test year, test year service revenues are \$59,656. This results in a decrease of \$3,926 (\$63,582-\$59,656) to service revenues. In addition, we made adjustments to miscellaneous revenues. Based on our review of the number of miscellaneous service occurrences during the test year and the Utility's tariff approved miscellaneous service charges, miscellaneous revenues shall be \$5,965. This

²Order No. PSC-16-0254-PAA-WS, issued June 29, 2016, in Docket No. 160006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

results in an increase of \$1,288 (\$5,965-\$4,677). Based on the above, the approved test year revenues for Charlie Creek's water system are \$65,621.

6. Operating Expense

Charlie Creek recorded operating expense of \$71,632 for the test year ended December 31, 2015. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. We have also included an allocated portion of FUS1's operating expenses for the test year ended December 31, 2015. We used allocations based on customer count and all utilities owned and managed by FUS1 at the time of our audit. All incremental allocation increases are based on ERC count as of September 26, 2016. The new allocation for Charlie Creek from FUS1 is 7.29 percent. We have made several adjustments to the Utility's operating expenses as summarized below.

Salaries and Wages- Employees (601)

Charlie Creek recorded salaries and wages – employees expense of \$12,876. We received a compensation survey completed by OCBOA Consulting, LLC (OCBOA) regarding the salaries of FUS1 employees. The Utility requested an increase in salaries based on the survey. We analyzed the results of the compensation survey and allocated the salary adjustments for Charlie Creek. Our adjustments and analysis of the compensation study are consistent with those approved in East Marion Utilities, LLC (East Marion), a sister utility, by this Commission at our February 7, 2017 Agenda Conference.³ We find that the amounts approved are appropriate at this time. Our allocation of salaries is detailed in the table below.

Adjustments made to Salaries and Wages – Employees based on the OCBOA Compensation Survey

Title	Requested	Current Salary	Allocation %	Allocated Salary
Chief Financial Off.	\$55,500	\$54,366	7.29	\$3,964
Operation Supervisor	39,000	39,000	7.29	2,844
Office Manager	39,500	39,500	7.29	2,880
Cust. Serv. Rep.	34,000	34,000	7.29	2,479
Part-time Billing	10,400	10,400	7.29	<u>758</u>
Total				<u>\$12,927</u>

We have increased this expense by \$51 to account for the increase in salaries and to properly allocate the salary expense. Our total adjustments result in an increase of \$51. Therefore, we approve a salaries and wages – employees expense of \$12,927.

Salaries and Wages- Officers (603)

Charlie Creek recorded salaries and wages – officers expense of \$5,700. Based on the adjustments approved at our February 7, 2017 Agenda Conference, we have decreased this

³Docket No. 150257-WS, *In re: Application for staff-assisted rate case in Marion County, by East Marion Utilities, LLC.*

expense by \$398. This represents an approved total President salary of \$72,704 to be allocated over all FUS1 utilities. Upon review, we do not find that any additional increases are appropriate at this time. Therefore, we approve a salaries and wages – officers expense of \$5,302.

Employee Pensions and Benefits (604)

Charlie Creek recorded employee pensions and benefits expense of \$1,838. We decreased this expense by \$260 to include the appropriate amount of benefits expense for the test year. We increased this account by \$122 to reflect the incremental allocation increase. Our adjustments result in a decrease of \$138. Therefore, we approve an employee pensions and benefits expense of \$1,700.

Purchased Power (615)

The Utility recorded purchased power expense of \$3,790. We decreased this expense by \$18 to remove an out of period expense. We increased this expense by \$392 to include a previously unrecorded invoice. Our net adjustments are an increase of \$374. Therefore, we approve a purchased power expense of \$4,164.

Fuel for Power Production (616)

The Utility recorded fuel for power production expense of \$496. We reclassified this expense to Account 650. Our adjustments result in a decrease of \$496. We approve a fuel for power production expense of \$0.

Chemicals (618)

Charlie Creek recorded chemicals expense of \$1,994. We decreased this account by \$165, to remove a double entry. Our total adjustments result in a decrease of \$165. Therefore, the approved chemicals expense is \$1,829.

Materials & Supplies (620)

The Utility recorded materials & supplies expense of \$2,926. We decreased this account by \$1,144 to remove capitalized expenses relating to pump repairs during the test year. The Utility, in its audit response, requested inclusion of these expenses in O&M. However, these expenses shall be capitalized as they are non-recurring. We increased this account by \$369 to include an allocated invoice not previously included. We also increased this account by \$155 to reflect the incremental allocation increase. Our total adjustments result in a decrease of \$620. Therefore, the approved materials & supplies expense is \$2,306.

Contractual Services- Other (636)

Charlie Creek recorded Contractual Services – Other expense of \$16,705. As discussed above under the heading, “1. Quality of Service,” calcification of the water distribution system has caused quality of service issues associated with water color and water pressure. The Utility has engaged an engineering consultant to address the calcification issue which has also caused water meters and appurtenances to fail. Based on information provided by Charlie Creek, correcting the calcification issue will likely improve the Utility’s quality of service. Charlie Creek provided an invoice of \$4,197 for the scope of services to be completed by the engineering consultant. The Utility attempted to obtain multiple bids, but due to the rural location of the Utility, no other engineering firm was able to provide a bid. Upon review, we find the engineering analysis and its costs to be prudent and reasonable. We approve the following adjustments to Contractual Services – Other.

Adjustments made to Contractual Services - Other

	Adjustment Description	Water
1.	To capitalize the purchase of a 30 gpd pump.	(590)
2.	To capitalize the replacement of a control box.	(508)
3.	To capitalize the refurbishment of well pumping equipment.	(2,156)
4.	To capitalize the installation of a 2-inch flush point.	(1,800)
5.	To capitalize the installation of a starter for a well.	(418)
6.	To remove a duplicate invoice.	(528)
7.	To include an allocated invoice not previously included.	33
8.	To reflect the incremental allocation increase.	76
9.	To reflect an increase in water operations expense of \$25/month.	300
10.	To include pro forma replacement of two check valves.	86
11.	To include pro forma sampling expense for a main repair.	390
12.	To include pro forma main repair.	400
13.	To include pro forma piping supplies.	216
14.	To include pro forma calcification analysis, amortized over five years.	839
	Total	<u>(\$3,660)</u>

Based on the adjustments shown above, our net adjustment is a decrease of \$3,660. We approve a Contractual Services – Other expense of \$13,045.

Rent Expense (640)

Charlie Creek recorded rent expense of \$1,258. We decreased this account by \$104 to reflect the annualized lease agreement with FUS1. We increased this account by \$89 to reflect the incremental allocation increase based on ERCs. Our adjustments result in a net decrease of \$15. Therefore, we approve a rent expense of \$1,243.

Transportation Expense (650)

Charlie Creek recorded transportation expense of \$1,309. We increased this account by \$295 to reflect the appropriate allocated expenses for transportation. We decreased this account by \$122 to remove a truck loan from expenses. We decreased this account by \$27 to remove unsupported expenses. We reclassified an account balance from Account 616 for \$496, increasing this account balance by \$496. Finally, we increased this expense by \$151 to reflect the incremental allocation increase. Our total adjustments result in an increase of \$793. We approve a transportation expense of \$2,102.

Insurance Expense (655)

Charlie Creek recorded insurance expense of \$1,935 for the test year. We decreased this expense by \$301 to remove the health insurance premiums duplicated in Account 604. We approve an insurance expense for the test year of \$1,634.

Regulatory Commission Expense (665)

Charlie Creek did not record regulatory commission expense for the test year. We determined the filing fees, noticing fees, and postage for the instant case to be \$1,259. We also included \$887 to reflect amortized filing and legal fees from the transfer, not previously included. We amortized these amounts over four years. Therefore, we approve a regulatory commission expense of \$536.

Bad Debt Expense (670)

Charlie Creek recorded a bad debt expense estimation of \$350 for the test year. We increased this account by \$1,615 to reflect the actual bad debt expense per an Aging Account Report. The Utility did not have three years of records to compare. However, the Aging Account Report included approximately 6 months of 2016 data totaling \$883. We find that approximately 18 months of data is a valid representation of bad debt expense for this Utility. Therefore, we approve a bad debt expense of \$1,965.

Miscellaneous Expense

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

Adjustments made to Miscellaneous Expense

	Adjustment Description	Water
1.	To remove bank fees for non-sufficient funds and closing costs.	(\$105)
2.	To remove transfer filing fees and amortize into Acct. 665.	(750)
3.	To remove a portion of the purchase fee for the utility.	(100)
4.	To include customer convenience fees.	758
5.	To remove interest payments for a loan.	(407)
6.	To move expenses relating to original certification to Acct. 665.	(137)
7.	To include expenses relating to an annual customer meeting.	199
8.	To remove unsupported expenses.	(123)
9.	To reflect the test year allocation of expenses from FUS1.	17
10.	To remove equipment expenses included in Acct. 640.	(179)
11.	To reflect the appropriate amount of utility expenses from FUS1.	(170)
12.	To include amortized closing costs of a loan, amortized over 5 years.	20
13.	To reflect the incremental allocation increase.	279
14.	To include pro forma roof repair, amortized over five years.	219
	Total	<u>(\$479)</u>

Our total adjustments decrease this account by \$479. Therefore, we approve a miscellaneous expense of \$6,680.

Operation and Maintenance Expenses Summary

Based on the adjustments above, the O&M expense balance is \$62,557. Our approved adjustments to O&M expense are shown on Schedule Nos. 3-A through 3-C.

Depreciation Expense (Net of Amortization of CIAC)

Charlie Creek recorded depreciation expense of \$179 during the test year. We recalculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. We increased depreciation expense by \$98 to reflect the appropriate depreciation expense. We increased depreciation expense by \$249 to include the appropriate depreciation of allocated plant. We increased depreciation expense by \$152 to include depreciation expense for pro forma plant. We decreased depreciation expense by \$112 to reflect the U&U adjustment to plant. The

appropriate amount of amortization of CIAC is \$0. Our total adjustment is an increase of \$387, resulting in a net depreciation expense of \$566.

Taxes Other Than Income (TOTI)

Charlie Creek recorded a TOTI balance of \$5,993 for the test year. We recalculated the Utility's property taxes using the updated 2015 rates and has decreased this account \$4,278. The Utility had included the 2013 and 2014 property tax payment in this account. We increased this account to include payroll taxes of \$1,251. We increased this account by \$2,953, to reflect the appropriate test year Regulatory Assessment Fees (RAFs) based on adjusted test year revenues. We increased TOTI by \$74 to reflect the pro forma plant addition. We also decreased TOTI by \$490 to remove property taxes associated with non-U&U property. Our adjustments to TOTI result in a net decrease of \$490.

In addition, as discussed below under the heading, "8. Revenue Requirement," revenues have been increased by \$9,697 to reflect the change in revenue required to cover expenses and allow the approved operating margin. As a result, TOTI shall be increased by \$436 to reflect RAFs of 4.5 percent on the change in revenues. This adjustment results in a net decrease of \$54. We approve TOTI of \$5,939

Operating Expense Summary

The application of our adjustments to Charlie Creek's test year operating expenses results in operating expenses of \$69,063. Operating expenses are shown on Schedule Nos. 3-A. The related adjustments are shown on Schedule Nos. 3-B and 3-C.

7. Revenue Requirement/ 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 this Commission for staff assistance using alternative rate setting.

Charlie Creek did not petition this Commission for alternative rate setting under the aforementioned rule, however, upon review, we shall employ the operating ratio methodology to set rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the Utility's rate base, the revenue requirement is based Charlie Creek's O&M expenses plus a margin. This methodology has been applied in cases in which the traditional calculation of the revenue requirement would not provide sufficient revenue to protect against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU,⁴ we, for the first time, utilized the operating ratio methodology as an alternative means for setting rates. This order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expense. This criterion was applied again in Order No. PSC-97-0130-FOF-SU.⁵ Recently, we approved the operating ratio methodology for setting rates in Order No. PSC-16-0126-PAA-WU.⁶

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:

A) Whether the Utility's O&M expense exceeds rate base. The operating ratio method substitutes O&M expense for rate base in calculating the amount of return. A utility generally would not benefit from the operating ratio method if rate base exceeds O&M expense. In the instant case, rate base is less than the level of O&M expense. The Utility's primary risk resides with covering its operating expense. The adjusted rate base for the test year is \$26,617, while adjusted O&M expenses are \$62,557.

B) 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 \$275,000 or less. Charlie Creek is a Class C utility and the approved revenue requirement of \$75,318 is substantially below the threshold level. The Utility's service area has not had any significant growth in the last five years. Therefore, it appears the Utility will not become a Class B utility in the foreseeable future.

C) Quality of service and condition of plant. As discussed above under the heading "1. Quality of Service," the overall quality of service provided by Charlie Creek is satisfactory.

D) Whether the Utility is developer-owned. The current Utility owner is not a developer.

E) Whether the Utility operates treatment facilities or is simply a distribution and/or collection system. The issue is whether or not purchased water and/or wastewater costs should be excluded in the computation of the operating margin. Charlie Creek operates a water treatment plant.

Upon review, we find that use of the operating ratio methodology is appropriate in this case.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, we determined that a margin of 10 percent shall be used unless unique circumstances justify the use of a greater or

⁴Issued 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.*

⁵Issued February 10, 1997, in Docket No. 960561-SU, *In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.*

⁶Issued March 28, 2016, in Docket No. 140220-WU, *In re: Application for staff-assisted rate case in Polk County by Sunrise Utilities, LLC.*

lesser margin. The important question is not what the return percentage should be, but what level of operating margin will allow the Utility to provide safe and reliable service and remain a viable entity. The answer to this question requires a great deal of judgment based upon the particular circumstances of the Utility.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenue for the Utility to cover its interest expense. Upon review, we find that the margin will sufficiently cover the interest expense for Charlie Creek.

Second, the operating ratio method recognizes that a major issue for small utilities is cash flow; therefore, the operating ratio method focuses more on cash flow than on investment. In the instant case, the Utility's primary risk resides with covering its operating expense. A traditional calculation of the revenue requirement may not provide sufficient revenue to protect against potential variances in revenues and expenses. Under the rate base methodology, the return to Charlie Creek would be \$1,597. With the large number of necessary repairs and improvements made to the system in its first year under this owner and the potential need for additional repairs, we find that \$1,597 would not provide the financial cushion necessary to successfully operate this Utility.

Third, if the return on rate base method were applied, a normal return would generate such a small level of revenue that in the event revenues or expenses vary from our estimates, Charlie Creek could be left with insufficient funds to cover operating expenses. Therefore, the margin shall provide adequate revenue to protect against potential variability in revenues and expenses. If the Utility's operating expenses increase or revenues decrease, Charlie Creek may not have the funds required for day-to-day operations. Upon review, we determined that a 10 percent margin would be sufficient in this case.

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

8. Revenue Requirement

Charlie Creek shall be allowed an annual increase of \$9,697 (14.78 percent). This will provide the Utility with the opportunity to recover its expenses as well as a 10 percent margin on O&M expenses for its water systems. The calculations are shown in the table below.

Water Revenue Requirement

Adjusted O&M Expense	\$62,557
Operating Margin (%)	<u>10.00%</u>
Operating Margin (\$)	\$6,256
Adjusted O&M Expense	62,557
Depreciation Expense (Net)	566
Taxes Other Than Income	5,503
Test Year RAFs	<u>436</u>
Revenue Requirement	\$75,318
Less Adjusted Test Year Revenues	<u>65,621</u>
Annual Increase	<u>\$9,697</u>
Percent Increase	<u>14.78%</u>

9. Rate Structure

Charlie Creek is located in Hardee County within the SWFWMD and provides water service to approximately 145 residential and one general service customer. Approximately 10.49 percent of the residential customer bills during the test year had zero gallons indicating a non-seasonal customer base. The average residential water demand is 4,788 gallons per month. The Utility's current water system rate structure for residential and general service customers consists of a base facility charge (BFC) based on meter size and a two-tier inclining block rate structure. The rate blocks are: (1) 0-3,000 gallons and (2) all usage in excess of 3,000 gallons per month.

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

In order to design gallonage charges that will send the appropriate pricing signals to target non-discretionary usage, we find that 43 percent of the revenue requirement shall be recovered through the BFC. At the 43 percent BFC allocation, the percentage increase in price increases as consumption increases, which is one of the rate design goals. In addition, the average number of people per household served by the water system is two and one half;

therefore, based on the number of persons per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold shall be 4,000 gallons per month instead of 3,000 gallons. We approve a BFC and a two-tier gallonage charge rate structure for residential customers. The rate tiers shall be: (1) 0-4,000 gallons and (2) all usage in excess of 4,000 gallons per month. We approve a BFC and uniform gallonage charge rate structure for general service customers.

As discussed subsequently in this order, we approve increases to the Utility's miscellaneous service, late payment, and convenience charges and the addition of a meter tampering charge. As a result, test year miscellaneous revenues shall be increased to \$10,834 to reflect the appropriate miscellaneous revenues on a prospective basis. Based on the approved revenue increase of approximately 15.0 percent excluding miscellaneous revenues, there is no anticipated repression. The approved rate structure and monthly water rates are shown on Schedule No. 4. Additionally, we evaluated alternative rate structures with varying BFC allocations and found that the alternatives were not in accordance with the rate design parameters.

Upon review, 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.

10. Rate Case Expense/Four Year Rate Reduction (Final Agency Action)

Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. 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 \$617.

Accordingly, the water rates shall be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.081(8), F.S. Charlie Creek 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.

11. Temporary Rates (Final Agency Action)

By this order we propose an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility.

Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, the approved rates shall be approved as temporary rates. Charlie Creek 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.

Charlie Creek 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 \$6,586. 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) This Commission approves the rate increase; or,
- 2) If this 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
- 2) No monies in the escrow account may be withdrawn by the utility without the express approval of this Commission;
- 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; and

- 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.

Should rates be approved by the Commission on a temporary basis, Charlie Creek 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 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.

12. Miscellaneous Service Charges

Section 367.091, F.S., authorizes this Commission to approve and change miscellaneous service charges. The Utility asked that we evaluate its existing miscellaneous service charges. Approved have been used in order to determine the administrative and field labor component of miscellaneous services. We also used the mileage provided by the Utility and the IRS mileage rate to calculate the transportation costs associated with administering the miscellaneous services. In addition, the Utility has requested that miscellaneous service charges be grossed up to reflect the appropriate RAFs. We have previously approved miscellaneous service charges that are grossed up to reflect the appropriate RAFs.⁷ In the table below titled "Miscellaneous Service Charges," the Utility's current and our approved miscellaneous service charges are rounded up to the nearest tenth.

Initial Connection

The initial connection charge is levied for service initiation at a location where service did not exist previously. A Charlie Creek representative makes one trip when performing the service of an initial connection. Based on labor and transportation to and from the service territory, we approve initial connection charges of \$56.50 for normal hours and \$60.10 for after hours. Our calculation is shown in the table below.

⁷Order Nos. PSC-99-2378-TRF-WU, in Docket No. 990763-WU, dated December 6, 1999, *In re: Tariff filing by Floralino Properties, Inc. requesting approval of premises visit charge for visits requested by customers in Pasco County* and PSC-17-0092-PAA-WU, in Docket No. 160144-WU, dated March 13, 2017, *In re: Application for transfer of Certificate No. 288-W in Pasco County from Orangeland Water Supply to Orange Land Utilities, LLC*

Initial Connection Charge Calculation

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$18.00/hr x 1/4hr)	\$4.50	Labor (Administrative) (\$18.00/hr x 1/4hr)	\$4.50
Labor (Field) (\$20.31/hr x 1/3 hr)	\$6.77	Labor (Field) (\$30.47/hr x 1/3 hr)	\$10.16
Transportation (\$0.535/mile x 80 miles-to/from)	\$42.80	Transportation (\$0.535/mile x 80 miles-to/from)	\$42.80
Mark up for RAFs (4.5%)	\$2.43	Mark up for RAFs (4.5%)	\$2.59
Total	\$56.50	Total	\$60.05

Normal Reconnection Charge

A normal reconnection charge is levied for the transfer of service to a new customer account at a previously served location, or reconnection of service subsequent to a customer requested disconnection. A normal reconnection requires two trips, which includes one to turn service on and the other to turn service off.

Based on labor and transportation to and from the service territory, the normal reconnection charge shall be \$104.80 for normal hours and \$110.30 for after hours. Our calculations are shown in the table below.

Normal Reconnection Charge Calculation

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$18.00/hr x 1/4hr)	\$4.50	Labor (Administrative) (\$18.00/hr x 1/4hr)	\$4.50
Labor (Field) (\$20.31/hr x 1/4 hr x 2)	\$10.16	Labor (Field) (\$30.74/hr x 1/4hr x 2)	\$15.37
Transportation (\$0.535/mile x 80 miles-to/from x 2)	\$85.60	Transportation (\$0.535/mile x 80 miles-to/from x 2)	\$85.60
Mark up for RAFs (4.5%)	\$4.51	Mark up for RAFs (4.5%)	\$4.75
Total	\$104.77	Total	\$110.22

Violation Reconnection Charge

The violation reconnection charge is levied prior to reconnection of an existing customer after discontinuance of service for cause. The service performed for violation reconnection requires two trips, which includes one trip to turn off service and a subsequent trip to turn on service once the violation has been remedied. Based on labor and transportation to and from the

service territory, we approve violation reconnection charges of \$104.80 for normal hours and \$110.30 for after hours. Our calculations are shown in the table below.

Violation Reconnection Charge Calculation

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$18.00/hr x 1/4hr)	\$4.50	Labor (Administrative) (\$18.00/hr x 1/4hr)	\$4.50
Labor (Field) (\$20.31/hr x 1/4 hr x 2)	\$10.16	Labor (Field) (\$30.74/hr x 1/4 hr x 2)	\$15.37
Transportation (\$0.535/mile x 80 miles-to/from) x 2	\$85.60	Transportation (\$0.535/mile x 80 miles-to/from) x 2	\$85.60
Mark up for RAFs (4.5%)	\$4.51	Mark up for RAFs (4.5%)	\$4.75
Total	\$104.77	Total	\$110.22

Premises Visit

The premises visit charge is levied when a service representative visits premises at the customer's request for complaint resolution and the problem is found to be the customer's responsibility. In addition, the premises visit can be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill, and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. A premises visit requires one trip.

Based on labor and transportation to and from the service territory, we approve a premises visit charges of \$56.50 for normal hours and \$60.10 for after hours. Our calculations are shown in the table below.

Premises Visit Charge Calculation

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$18.00/hr x 1/4hr)	\$4.50	Labor (Administrative) (\$18.00/hr x 1/4hr)	\$4.50
Labor (Field) (\$20.31/hr x 1/3 hr)	\$6.77	Labor (Field) (\$30.74/hr x 1/3 hr)	\$10.16
Transportation (\$0.535/mile x 80 miles-to/from)	\$42.80	Transportation (\$0.535/mile x 80 miles-to/from)	\$42.80
Mark up for RAFs (4.5%)	\$2.43	Mark up for RAFs (4.5%)	\$2.59
Total	\$56.50	Total	\$60.05

The Utility's requested and our approved miscellaneous service charges are set forth in the table below.

Miscellaneous Service Charges

	Current		Approved	
	Normal Hours	After Hours	Normal Hours	After Hours
Initial Connection Charge	\$20.00	\$40.00	\$56.50	\$60.10
Normal Reconnection Charge	\$10.00	\$20.00	\$104.80	\$110.30
Violation Reconnection Charge	\$20.00	\$20.00	\$104.80	\$110.30
Premises Visit Charge (in lieu of Disconnection)	\$10.00	\$20.00	\$56.50	\$60.10

Conclusion

Charlie Creek's miscellaneous service charges shall be revised as set forth above. The charges shall be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges 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.

13. Late Payment Charge

The Utility is requesting a \$5.25 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. In its cost justification, Charlie Creek asserts that its total cost for a late payment charge is \$5.28, but Charlie Creek is requesting this charge to be rounded down to \$5.25. Since the 1990s, we have approved late payment charges ranging from \$2.00 to \$7.00.⁸ The purpose of this charge is to provide an incentive for customers to make timely payments and to place the cost burden of processing delinquent accounts solely upon those who are cost causers. Upon review, we find that Charlie Creek's requested late payment charge of \$5.25 is appropriate. Charlie Creek's labor cost of \$4.75 accounts for the office personnel time to search, determine, and process delinquent accounts. The provided justification by Charlie Creek also includes costs for supplies and postage for printing and sending out late payment notices. Charlie Creek's cost basis for the late payment charge is shown in the table below.

⁸Order 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.*

Late Payment Charge Cost Justification

Activity	Cost
Labor	\$4.75
Supplies	\$0.06
Postage	<u>\$0.47</u>
Total Cost	\$5.28

Upon review, Charlie Creek's request to implement a \$5.25 late payment charge is approved. The Utility shall file a proposed customer notice and tariff to reflect the approved charge. The approved charge shall be effective on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge 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.

14. Convenience Charge

Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. The Utility is requesting a \$3.43 convenience charge and provided cost justification as required by Section 367.091, F.S. The Utility's cost analysis breakdown for its requested charge is shown in the table below.

Convenience Charge Cost Justification

Activity	Cost
Labor	\$0.54
Ink and Paper per Transaction	\$0.06
Credit Card Machines	<u>\$2.83</u>
Total	\$3.43

The charge is designed to recover the cost of supplies, administrative labor, and equipment. We find Utility's requested charge of a \$3.43 convenience charge to be reasonable for customers who opt to pay their water bill by debit or credit card. The Utility's requested charge benefits the customers by allowing them to expand their payment options. Furthermore, this fee will insure the Utility's remaining customers do not subsidize those customers who choose to pay using this option. A convenience charge of \$3.43 for Orange Land Utilities, LLC a sister utility of Charlie Creek, was approved recently by this Commission.⁹

Thus, Charlie Creek's request for approval of a convenience charge of \$3.43 for customers who opt to pay their bill by debit or credit card is approved. The convenience charge shall be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475,

⁹Order No. PSC-17-0092-PAA-WU, in Docket No. 160144-WU, dated March 13, 2017, In re: *Application for transfer of Certificate No. 288-W in Pasco County from Orangeland Water Supply to Orange Land Utilities, LLC.*

F.A.C. The approved charge 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.

15. Meter Tampering Charge

The Utility requested a \$50 charge to recover the cost of changes in piping on equipment necessary as a result of meter tampering. Rule 25-30.320(2)(i), F.A.C., provides that a customer's service may be discontinued without notice in the event of tampering with the meter or other facilities furnished or owned by the Utility. In addition, Rule 25-30.320(2)(j), F.A.C., provides that a customer's service may be discontinued in the event of an unauthorized or fraudulent use of service. The rule allows the Utility to require the customer to reimburse the Utility an amount reasonably estimated as the deficiency in revenue resulting from the customer's fraudulent use before restoring service.

Pursuant to Rule 25-30.345, F.A.C., a Utility may charge a reasonable fee to defray the cost of restoring service that was discontinued for proper cause as specified in Rule 25-30.320, F.A.C. We have previously approved a meter tampering charge of \$50 for sister utilities of Charlie Creek. The Utility provided the appropriate cost justification pursuant to Section 367.091, F.S. Upon review, we find the request to be reasonable and consistent with our prior decisions. However, the charge is appropriate only where an investigation reveals evidence of meter tampering.

Thus, Charlie Creek's request to implement a \$50 meter tampering charge is approved. The charge shall be effective for services rendered on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charge 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.

16. Customer Deposits

Rule 25-30.311, F.A.C., sets forth 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 customer deposits equal to two times the average estimated bill. Currently, the Utility has an initial customer deposit of \$65 for the residential 5/8" x 3/4" meter size and two times the average customer bill for all other meter sizes. Based on our approved water rates and post repression average residential demand, the appropriate initial customer deposit is \$76 for water to reflect an average residential customer bill for two months.

Thus we approve initial customer deposit of \$76 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 water service. The approved initial customer deposits shall be effective for connections made on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C.

17. Plant Capacity Charge

The current service availability charges for Charlie Creek were approved in Docket No. 150186-WU with the Utility's original certificate.¹⁰ The Utility's service availability charges consist of meter installation charges based on meter size and a plant capacity charge of \$750. Rule 25-30.580, F.A.C., establishes guidelines for designing service availability charges. Pursuant to the rule, the maximum amount of contributions-in-aid-of construction (CIAC), net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of the Utility's facilities and plant when the facilities and plant are at their designed capacity. The minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution system.

Our approved rate base consists of plant improvements and additions by the current owner. The approved rate base does not include values for the distribution system or CIAC. Therefore, the Utility's current contribution level is zero percent.

If the utility continues to collect the current plant capacity charge of \$750 per equivalent residential connection (ERC), the contribution level will exceed the Utility's plant in service balance. Due to the relatively small amount of rate base and the number ERCs that can be served by the Utility, the plant capacity charge shall be discontinued.

18. Adjustments to Books (Final Agency Action)

Charlie Creek is required to notify the Commission, in writing, that it has adjusted its books in accordance with our decision. Charlie Creek shall submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice shall be provided at least seven days prior to the deadline. Our staff has administrative authority to grant an extension of up to 60 days based upon a showing of good cause by the Utility.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Charlie Creek Utilities, LLC's application for an increase in water 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 is hereby approved in every respect. It is further

ORDERED that the Schedules and Attachments to this order are incorporated by reference herein. It is further

¹⁰Order No. PSC-16-0043-PAA-WU.

ORDERED that the overall quality of service provided by Charlie Creek Utilities, LLC is satisfactory. It is further

ORDERED that Charlie Creek Utilities, LLC's Water Treatment Plant is 50 percent used and useful. The water distribution system is 55 percent used and useful. It is further

ORDERED that the approved average test year water rate base for Charlie Creek is \$26,617. It is further

ORDERED that the approved return on equity is 11.16 percent with a range of 10.16 percent to 12.16 percent. The approved overall rate of return is 6.28 percent. It is further

ORDERED that the approved test year revenues for Charlie Creek Utilities, LLC's water system are \$65,621. It is further

ORDERED that the approved operating expense for Charlie Creek Utilities, LLC is \$69,063. It is further

ORDERED that the operating ratio methodology shall be used to calculate the water revenue requirement for Charlie Creek Utilities, LLC. The margin shall be 10 percent of O&M expense. It is further

ORDERED that the appropriate revenue requirement is \$75,318, resulting in an annual increase of \$9,697 (14.78 percent). It is further

ORDERED that the approved rate structure and monthly water rates are shown on Schedule No. 4. Charlie Creek Utilities, LLC 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. (Final Agency Action) It is further

ORDERED that the water rates shall be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.081(8), F.S. Charlie Creek Utilities, LLC shall 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. (Final Agency Action) It is further

ORDERED that pursuant to Section 367.0814(7), F.S., the approved rates shall be approved for Charlie Creek Utilities, LLC on a temporary basis, subject to refund with interest,

in the event of a protest filed by a party other than the Utility. Charlie Creek 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. (Final Agency Action). 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 set forth in the body of this order. 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 this 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. (Final Agency Action) It is further

ORDERED that Charlie Creek Utilities, LLC's miscellaneous service charges shall be revised as set forth in the body of this order. The charges shall be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges 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 Charlie Creek Utilities, LLC's request to implement a \$5.25 late payment charge is approved. The Utility shall file a proposed customer notice and tariff to reflect our approved charge. The approved charge shall be effective on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge 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 Charlie Creek Utilities, LLC's request for approval of a convenience charge of \$3.43 for customers who opt to pay their bill by debit or credit card is approved. The convenience charge shall be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. The approved charge 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 Charlie Creek Utilities, LLC's request to implement a \$50 meter tampering charge is approved. The charge shall be effective for services rendered on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. The approved charge shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. Charlie Creek shall provide proof of the date notice was given within 10 days of the date of the notice. It is further

ORDERED that the appropriate water initial customer deposit shall be \$76 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 water service. The approved initial customer deposits shall be effective for connections made on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C. It is further

ORDERED that Charlie Creek Utilities, LLC's existing plant capacity charge is hereby discontinued. It is further

ORDERED that Charlie Creek Utilities, LLC is hereby required to notify this Commission, in writing, that it has adjusted its books in accordance with the our decision. Charlie Creek shall submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all applicable NARUC USOA primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice shall be provided at least seven days prior to the deadline. Our staff has administrative authority to grant an extension of up to 60 days based upon a showing of good cause by the Utility (Final Agency Action). It is further

ORDERED that except for the granting of temporary rates in the event of protest, the four year rate reduction, and proof of adjustments of books and records (which are final actions) 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 will be issued. The docket shall remain open for our staff's verification that 1) the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and 2) the Utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once these actions are completed this docket shall be closed administratively.

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DOCKET NO. 160143-WU
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By ORDER of the Florida Public Service Commission this 27th day of April, 2017.



CARLOTTA S. STAUFFER
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.

Chairman Julie I. Brown dissents from the Commission's decision to use the operating ratio methodology for calculating Charlie Creek Utilities, LLC's water revenue requirement because it is unnecessary based upon the actual revenue requirements approved in this case.

CWM

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 or judicial review of Commission orders that is available under Sections 120.57 or 120.68, 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 or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our actions are preliminary in nature, with the exception of our decisions regarding the granting of temporary rates in the event of a protest, addressing rate case expense, and requiring specified accounting practices which are final agency actions. 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, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on May 18, 2017. If such a petition is filed, 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. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

Any objection or protest filed in this docket 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 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.

CHARLIE CREEK UTILITIES, LLC			SCHEDULE NO. 1-A
TEST YEAR ENDED 12/31/15			DOCKET NO. 160143-WU
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	ADJUSTMENTS TO UTIL. BAL.	APPROVED BALANCE
UTILITY PLANT IN SERVICE	\$3,044	\$4,349	\$7,393
UTILITY PLANT IN SERVICE- ALLOCATED	0	1,518	1,518
LAND & LAND RIGHTS	12,050	0	12,050
NON-USED AND USEFUL COMPONENTS	0	(1,912)	(1,912)
CIAC	0	0	0
ACCUMULATED DEPRECIATION	(179)	(36)	(215)
ACCUMULATED DEPRECIATION- ALLOCATED	0	(37)	(37)
AMORTIZATION OF CIAC	0	0	0
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>7,820</u>	<u>7,820</u>
WATER RATE BASE	<u>\$14,915</u>	<u>\$11,702</u>	<u>\$26,617</u>

CHARLIE CREEK UTILITIES, LLC	SCHEDULE NO. 1-B
TEST YEAR ENDED 12/31/15	DOCKET NO. 160143-WU
ADJUSTMENTS TO RATE BASE	
	<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
1. To reflect the correct records of plant in service.	\$6,976
2. To include pro forma plant additions.	4,765
3. Averaging adjustment.	<u>(7,393)</u>
Total	<u>\$4,349</u>
<u>UTILITY PLANT IN SERVICE – ALLOCATED</u>	
1. To allocated common plant from FUS1.	\$1,588
2. Averaging adjustment.	<u>(69)</u>
Total	<u>\$1,518</u>
<u>NON-USED AND USEFUL PLANT</u>	
1. To reflect non-used and useful plant.	(\$2,025)
2. To reflect non-used and useful Accumulated Depreciation.	<u>112</u>
Total	<u>(\$1,912)</u>
<u>ACCUMULATED DEPRECIATION</u>	
1. Depreciation adjustment per Rule 25-30.140 F.A.C.	(\$98)
2. To reflect pro forma plant replacements depreciation.	(152)
3. Averaging adjustment.	<u>215</u>
Total	<u>(\$36)</u>
<u>ACCUMULATED DEPRECIATION – ALLOCATED</u>	
To reflect the appropriate Accumulated Depreciation –	
1. Allocated.	(\$58)
2. Averaging adjustment.	<u>21</u>
Total	<u>(\$37)</u>
<u>WORKING CAPITAL ALLOWANCE</u>	
To reflect 1/8 of test year O&M expenses.	<u>\$7,820</u>

CHARLIE CREEK UTILITIES, LLC
TEST YEAR ENDED 12/31/15
SCHEDULE OF CAPITAL STRUCTURE

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER COMM.	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON EQUITY	\$15,931	(\$15,931)	\$0	\$0	\$0	0.00%	11.16%	0.00%
2. RETAINED EARNINGS	0	0	0	0	0	0.00%	0.00%	0.00%
3. LONG-TERM DEBT	8,660	0	8,660	16,001	24,661	92.65%	6.62%	6.13%
4. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
5. PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%
6. CUSTOMER DEPOSITS	2,555	(599)	1,956	0	1,956	7.35%	2.00%	0.15%
7. TOTAL	<u>\$27,146</u>	<u>(\$16,530)</u>	<u>\$10,616</u>	<u>\$14,867</u>	<u>\$26,617</u>	<u>100.00%</u>		<u>6.28%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>	
OVERALL RATE OF RETURN						<u>6.28%</u>	<u>6.28%</u>	

CHARLIE CREEK UTILITIES, LLC			SCHEDULE NO. 3-A		
TEST YEAR ENDED 12/31/15			DOCKET NO. 160143-WU		
SCHEDULE OF WATER OPERATING INCOME					
	TEST YEAR	COMM	COMM.	ADJUST.	REVENUE
	PER UTILITY	ADJUSTMENTS	ADJUSTED	FOR	REQUIREMENT
			TEST YEAR	INCREASE	
1. OPERATING REVENUES	<u>\$68,259</u>	<u>(\$2,638)</u>	<u>\$65,621</u>	<u>\$9,697</u> 14.78%	<u>\$75,318</u>
OPERATING EXPENSES:					
OPERATION &					
2. MAINTENANCE	\$65,460	(\$2,903)	\$62,557	\$0	\$62,557
3. DEPRECIATION (NET)	179	387	566	0	566
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	5,993	(490)	5,503	436	5,939
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING					
7. EXPENSES	<u>\$71,632</u>	<u>(\$3,006)</u>	<u>\$68,626</u>	<u>\$436</u>	<u>\$69,063</u>
8. OPERATING INCOME/(LOSS)	<u>(\$3,373)</u>		<u>(\$3,005)</u>		<u>\$6,256</u>
9. WATER O&M EXPENSES	<u>\$65,460</u>		<u>\$62,557</u>		<u>\$62,557</u>
10. OPERATING MARGIN					<u>10.00%</u>

CHARLIE CREEK UTILITIES, LLC
TEST YEAR ENDED 12/31/15
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-B
DOCKET NO. 160143-WU
Page 1 of 3

WATER

OPERATING REVENUES

- | | |
|--|------------------|
| 1. To reflect the appropriate test year revenues. | (\$3,926) |
| 2. To adjust miscellaneous revenues for test year. | <u>1,288</u> |
| Subtotal | <u>(\$2,638)</u> |

OPERATION AND MAINTENANCE EXPENSES

- | | |
|---|----------------|
| 1. Salaries and Wages – Employees (601) | |
| a. To include the new salary adjustment with proper allocation. | <u>\$51</u> |
| 2. Salaries and Wages – Officers (603) | |
| b. To include the new salary adjustment with proper allocation. | <u>(\$398)</u> |
| 3. Employee Pension & Benefits (604) | |
| a. To reflect appropriate amount of benefit expense. | (\$260) |
| b. To reflect new allocations. | <u>122</u> |
| Subtotal | <u>(\$138)</u> |
| 4. Purchased Power (615) | |
| a. To remove an out of period expense. | (\$18) |
| b. To include a previously unrecorded expense. | 392 |
| Subtotal | <u>\$374</u> |
| 5. Fuel for Purchased Power (616) | |
| To remove undocumented expenses. | <u>(\$496)</u> |
| 6. Chemicals (618) | |
| a. To remove a duplicate expense. | <u>(\$165)</u> |
| 7. Materials & Supplies (620) | |
| a. To remove capitalized expenses relating to pump repairs. | (\$1,144) |
| b. To include an invoice not previously included. | 369 |
| c. To reflect new allocations. | <u>155</u> |
| Subtotal | <u>(\$620)</u> |

CHARLIE CREEK UTILITIES, LLC	SCHEDULE NO. 3-B
TEST YEAR ENDED 12/31/15	DOCKET NO. 160143-WU
ADJUSTMENTS TO OPERATING INCOME	Page 2 of 3
	<u>WATER</u>
8. Contractual Services - Other (636)	
a. To remove capitalized expenses discussed in Table 6-2.	(\$590)
b. To capitalize the replacement of a control box.	(508)
c. To capitalize the refurbishment of well pumping equipment.	(2,156)
d. To capitalize the installation of a 2-inch flush point.	(1,800)
e. To capitalize the installation of a starter for a well.	(418)
f. To remove an invoice duplicated in two months.	(528)
g. To include an allocated invoice not previously included.	33
h. To reflect the new allocations.	76
i. To reflect an increase in water operations expense of \$25/month.	300
j. To include pro forma replacement of two check valves.	86
k. To include pro forma sampling expense after main repair.	390
l. To include pro forma main repair.	400
m. To include pro forma piping supplies for main repair.	216
n. To include pro forma engineering analysis for calcification.	<u>839</u>
Subtotal	<u>(\$3,660)</u>
9. Rent Expense (640)	
a. To reflect the appropriate allocated expenses from FUS1.	(\$104)
b. To reflect the new allocations.	89
Subtotal	<u>(\$15)</u>
10. Transportation Expense (650)	
a. To reflect the appropriate expenses for the test year.	\$295
b. To remove a truck loan.	(122)
c. To remove unsupported allocated expenses from FUS1.	(27)
d. To reclassify fuel expenses from Account 619.	496
e. To reflect the new allocations.	<u>151</u>
Subtotal	<u>\$793</u>
11. Insurance Expense (655)	
To remove health insurance premiums included in Account 604.	<u>(301)</u>
12. Regulatory Commission Expense (665)	
a. To include rate case expense.	\$315
b. To include amortized filing and legal fees from the transfer.	<u>222</u>
Subtotal	<u>\$536</u>
13. Bad Debt Expense (670)	
To reflect the appropriate bad debt expense for the test year.	<u>\$1,615</u>

CHARLIE CREEK UTILITIES, LLC
TEST YEAR ENDED 12/31/15
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-B
DOCKET NO. 160143-WU
Page 3 of 3

WATER

14. Miscellaneous Expense (675)	
a. To remove bank fees.	(\$105)
b. To reallocate filing fees to Acct. 665.	(750)
c. To remove purchase fee for the utility.	(100)
d. To include fees for customer's convenience fees.	758
e. To remove interest payments for a loan.	(407)
f. To reallocate expenses relating to original certification to Acct. 665.	(137)
g. To include expenses relating to an annual customer meeting.	199
h. To remove unsupported expenses.	(123)
i. To reflect the appropriate allocation of expenses.	17
j. To remove equipment expenses included in Acct. 640.	(179)
k. To reflect the appropriate amount of utility expenses from FUS1.	(170)
l. To include amortized closing cost of a loan, amortized over five years.	20
m. To reflect the new allocations.	279
n. To include pro forma roof repair.	<u>219</u>
Subtotal	<u>(\$479)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$2,903)</u>
DEPRECIATION EXPENSE	
To reflect test year depreciation calculated per Rule 25-30.140,	\$98
1. F.A.C.	
2. To reflect appropriate depreciation expense from allocated plant.	249
3. To include depreciation expense for pro forma plant.	152
4. To reflect used and useful depreciation expense.	<u>(112)</u>
Total	<u>\$387</u>
TAXES OTHER THAN INCOME	
1. To correct property tax expense.	(\$4,278)
2. To reflect payroll taxes.	1,251
3. To reflect the appropriate test year RAFs.	2,953
To reflect the property tax for pro forma plant and test year	74
4. additions.	
5. To reflect non-used and useful property tax.	<u>(490)</u>
Total	<u>(\$490)</u>

CHARLIE CREEK UTILITIES, LLC		SCHEDULE NO. 3-C	
TEST YEAR ENDED 12/31/15		DOCKET NO. 160143-WU	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	COMM. ADJUST- MENTS	TOTAL PER COMM.
(601) SALARIES AND WAGES - EMPLOYEES	\$12,876	\$51	\$12,927
(603) SALARIES AND WAGES - OFFICERS	5,700	(398)	5,302
(604) EMPLOYEE PENSIONS AND BENEFITS	1,838	(138)	1,700
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	3,790	374	4,164
(616) FUEL FOR POWER PRODUCTION	496	(496)	0
(618) CHEMICALS	1,994	(165)	1,829
(620) MATERIALS AND SUPPLIES	2,926	(620)	2,306
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	1,592	0	1,592
(633) CONTRACTUAL SERVICES - TESTING	5,532	0	5,532
(636) CONTRACTUAL SERVICES - OTHER	16,705	(3,660)	13,045
(640) RENTS	1,258	(15)	1,243
(650) TRANSPORTATION EXPENSE	1,309	793	2,102
(655) INSURANCE EXPENSE	1,935	(301)	1,634
(665) REGULATORY COMMISSION EXPENSE	0	536	536
(670) BAD DEBT EXPENSE	350	1,615	1,965
(675) MISCELLANEOUS EXPENSE	<u>7,159</u>	<u>(479)</u>	<u>6,680</u>
	<u>\$65,460</u>	<u>(\$2,903)</u>	<u>\$62,557</u>

CHARLIE CREEK UTILITIES, LLC.		SCHEDULE NO. 4	
TEST YEAR ENDED 12/31/15		DOCKET NO. 160143-WU	
MONTHLY WATER RATES			
	UTILITY CURRENT RATES	COMM. APPROVED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8"X3/4"	\$15.00	\$15.89	\$0.15
3/4"	\$22.50	\$23.84	\$0.23
1"	\$37.50	\$39.73	\$0.38
1-1/2"	\$75.00	\$79.45	\$0.76
2"	\$120.00	\$127.12	\$1.22
3"	\$240.00	\$254.24	\$2.44
4"	\$375.00	\$397.25	\$3.81
6"	\$750.00	\$794.50	\$7.63
Charge per 1,000 gallons - Residential			
0 - 3,000 gallons	\$3.50	N/A	N/A
Over 3,000 gallons	\$4.50	N/A	N/A
0 - 4,000 gallons	N/A	\$4.00	\$0.04
Over 4,000 gallons	N/A	\$5.01	\$0.05
Charge per 1,000 gallons - General Service		\$4.43	\$0.04
0 - 3,000 gallons	\$3.50	N/A	
Over 3,000 gallons	\$4.50	N/A	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
4,000 Gallons	\$30.00	\$31.89	
6,000 Gallons	\$39.00	\$41.91	
8,000 Gallons	\$48.00	\$51.93	