

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in Polk County, and request for interim rate increase, by McLeod Gardens Utilities, LLC.

DOCKET NO. 20200168-WU  
ORDER NO. PSC-2021-0107-PAA-WU  
ISSUED: March 19, 2021

The following Commissioners participated in the disposition of this matter:

GARY F. CLARK, Chairman  
ART GRAHAM  
ANDREW GILES FAY  
MIKE LA ROSA

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING RATE INCREASE FOR MCLEOD GARDENS UTILITIES, LLC.  
AND ORDER ON RECOVERY OF RATE CASE EXPENSES, TEMPORARY RATES,  
AND ACCOUNTING ADJUSTMENTS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission (Commission) that the actions discussed herein, except for (1) the reduction of rates after four years based upon the recovery of rate case expense, (2) the granting of temporary rates in the event of protest, and (3) the requirement for proof of adjustment of books and records, are 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.). The reduction of rates after four years, the granting of temporary rates in the event of protest, and the requirement for proof of adjustment of books and records are procedural agency actions and subject to reconsideration and appeal as described below under the heading, "NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW."

**Background**

McLeod Gardens Utilities, LLC (McLeod or Utility) is a Class C utility serving approximately 96 residential water customers in Polk County. On November 27, 2001, we approved the Utility's application for an Original Certificate to provide water service under the name McLeod Gardens Water Company.<sup>1</sup> The Utility was transferred to the present operator in 2017.<sup>2</sup> McLeod's rates and charges were approved in its last staff-assisted rate case (SARC) in

<sup>1</sup> Order No. PSC-01-2317-PAA-WU, issued November 27, 2001, in Docket No. 20001381-WU, *In re: Application for certificate to operate water utility in Polk County by Tevalo, Inc. d/b/a McLeod Gardens Water Company.*

<sup>2</sup> Order No. PSC-2017-0367-PAA-WU, issued September 29, 2017, in Docket No. 20160193-WU, *In re: Application for approval of transfer of certain water facilities and Certificate No. 619-W from McLeod Gardens Water Company to McLeod Gardens Utilities, LLC, in Polk County.*

2002 when the Utility was still known as McLeod Gardens Water Company.<sup>3</sup> Subsequent to the Utility's last rate case, its rates have been amended through five price index increases. According to McLeod's 2019 Annual Report, total gross revenue was \$33,563 and total operating expense was \$41,418.

On June 19, 2020, McLeod filed an application for a staff-assisted rate case. Commission staff selected a test year ended December 31, 2019, for the instant case. We approved an interim rate increase of \$2,608 (7.7 percent) for the Utility's water system on September 21, 2020.<sup>4</sup> Due to the COVID-19 pandemic, we held a virtual customer meeting on December 16, 2020, but no customers attended. Representatives from the Utility and Office of Public Counsel (OPC) were in attendance.

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

## **Review and Decision**

### 1. Quality of Service

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

#### *A. Quality of Utility's Product*

In evaluating McLeod's product quality, we reviewed the Utility's compliance with the DEP primary and secondary drinking water standards. Primary standards protect public health, while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water. The most recent chemical analyses were performed on July 18, 2018, and the results were in compliance with the DEP's standards. These chemical analyses are performed every three years; therefore, the next scheduled analysis shall be completed in 2021.

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<sup>3</sup> Order No. PSC-02-1733-PAA-WU, issued December 9, 2002, in Docket No. 20011677-WU, *In re: Application for staff-assisted rate case in Polk County by Tevalo, Inc. d/b/a McLeod Gardens Water Company.*

<sup>4</sup> Order No. PSC-2020-0317-PCO-WU, issued September 21, 2020, in Docket No. 20200168-WU, *In re: Application for staff-assisted rate case in Polk County, and request for interim rate increase, by McLeod Gardens Utilities, LLC.*

*B. The Utility's Attempt to Address Customer Satisfaction*

We reviewed the complaints filed in the Commission's Consumer Activity Tracking System (CATS) for the test year and four years prior. We received one billing complaint in October 2019, which the Utility responded to and the complaint was subsequently closed. The DEP received three complaints during the same five-year period. There were two complaints in 2017 regarding a leaky chlorine line. The third complaint received in June 2018, regarded smelly water, which was due to an irrigation line that did not have backflow prevention and affected three homes. The complaints were investigated and closed with no further action. Furthermore, three complaints were reported directly to the Utility for the same time period; two of which were received in 2017 regarding the placement of a meter and a broken service line, and one in 2019 regarding a misread meter.

Due to the ongoing COVID-19 pandemic, we conducted a virtual customer meeting on December 16, 2020. No customers attended the customer meeting. Representatives from the Utility and OPC were in attendance. The video recording of the meeting, which includes a brief presentation of the SARC process by our staff, was placed in the docket file. No customer comments have been filed in the docket file.

*C. Conclusion*

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

2. Infrastructure and Operational Conditions

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

*A. Water System Operating Conditions*

McLeod's water system has a permitted design capacity of 712,800 gallons per day (gpd). The Utility's water system has two wells with a combined pumping capacity of 495 (425 and 70) gallons per minute. The treated water is pumped into a 10,000 gallon hydropneumatic storage tank before entering the distribution system. A review of the DEP records did not show any consent orders against the Utility. We reviewed the sanitary surveys conducted by the DEP in 2018, 2019, and 2020. The 2018 survey listed three deficiencies, two for not having records on

site, and the third for not having vacuum breakers on the point of entry tap and other taps at the plant. The 2019 survey stated that the water treatment plant (WTP) was in compliance and there were no deficiencies indicated by the 2020 sanitary surveys.

Additionally, the DEP issued a Warning Letter on February 17, 2017, which stated that the Utility had failed to properly clean and paint the interior of the hydropneumatic tank. There were no DEP enforcement actions listed in 2018 and 2019, and there are not any enforcement actions pending in 2020. Therefore, since the Utility's last three sanitary surveys did not indicate any deficiencies, and since there are no enforcement actions pending, the Utility's WTP is in compliance.

Based on the foregoing, we find that McLeod's water treatment facilities are currently in compliance with DEP regulations.

### 3. Used and Useful (U&U)

McLeod's WTP has two wells rated at a combined 495 gallons per minute (gpm). The Utility's water system does not have a storage tank, but has one hydropneumatic tank totaling 10,000 gallons in capacity. The distribution system is composed of approximately 3,280 feet of 6 and 8 inch polyvinyl chloride (PVC) pipes.

#### *A. Water Treatment Plant Used and Useful*

Rule 25-30.4325, F.A.C., addresses the method by which the U&U of a water system is determined. The formula for calculating U&U for the WTP is given by  $[2 \times (\text{Maximum Day Peak Demand} - \text{EUW})/1,440 + \text{Fire Flow} + \text{Growth}] / \text{Firm Reliable Capacity}$ . Peak demand is based on a peak hour for a water treatment system with no storage capacity. The formula for calculating peak hour demand is given by  $[(\text{SMD} - \text{EUW})/1,440 \times 2]$ , SMD is the single maximum day in the test year where there is no unusual occurrence on that day, such as a fire or line break. Based on the Monthly Operating Reports that the Utility files with the DEP, the SMD in the test year was 88,000 gpd, which occurred on July 2, 2019.

As discussed below, there appears to be no EUW. Subsequently, the peak hour demand is calculated to be 122 gpm  $[(88,000 \text{ gpd} - 0)/1,440 \text{ min/day} \times 2]$ . The Utility has fire hydrants and the required Fire Flow is 350 gpm. Growth allowance is based on the requirements outlined in Rule 25-30.431, F.A.C., which states that a linear regression analysis using average equivalent residential connections (ERCs) for the last five years should be used to determine growth. Our staff obtained data for the period of 2015-2019 to perform a linear regression over five years, and the growth in customer gallonage was calculated to be 22,917 gpd or 15.9 gpm. Firm Reliable Capacity assumes loss of the largest capacity well (425 gpm) and is therefore 70 gpm. This calculation results in a U&U greater than 100 percent; as such, we find that the WTP be

considered 100 percent U&U. In addition, in the 2001 rate case, we deemed the U&U for the system as 100 percent.<sup>5</sup>

#### *B. Water Distribution System Used and Useful*

The water distribution system is evaluated based on ERCs consisting of growth, customer demand, and system capacity. During the test year, 96 customer lots were being served. The Utility provided system maps that indicated 176 lots would be served in the planned development. Several planned roads have not been constructed. Therefore, the service territory shall not be considered built out. However, we previously deemed the U&U of the distribution system as 100 percent. Considering all of the water mains are required to adequately serve the existing customers, and consistent with our prior practice, we find that the distribution system be considered 100 percent U&U.

#### *C. Excessive Unaccounted for Water*

Rule 25-30.4325, F.A.C., additionally provides factors to be considered in determining whether adjustments to operating expenses are necessary for EUW. EUW is defined as "unaccounted for water in excess of 10 percent of the amount produced." Unaccounted for water is all water produced that is not sold, metered, or accounted for in the records of the Utility.

The Monthly Operating Reports (MORs) indicated that the Utility pumped 13,511,000 gallons during the test year. The MORs did not indicate any line breaks or fire use during the test year. The data from the 2019 Annual Report indicates 7,037,000 gallons were utilized for flushing of the system, which represents 52 percent of the water treated.<sup>6</sup> According to our staff's audit report, the Utility sold 6,469,049 gallons of water for the test year. The resulting calculation  $([13,511,000 - 7,037,000 - 6,469,049] / 13,511,000)$  for unaccounted for water is 0.04 percent; therefore, there is no EUW. We find that no adjustments shall be made to operating expenses for purchased power and chemicals.

#### *D. Conclusion*

McLeod's WTP and water distribution system shall be considered 100 percent U&U. Additionally, there appears to be no EUW; therefore, we find that no adjustment shall be made to operating expenses for chemicals and purchased power.

#### 4. Rate Base

The appropriate components of the Utility's rate base include utility plant in service (UPIS), land, accumulated amortization, contributions-in-aid-of-construction (CIAC),

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<sup>5</sup> Order No. PSC-01-2317-PAA-WU, issued November 27, 2001, in Docket No. 20001381-WU, *In re: Application for certificate to operate water utility in Polk County by Tevalo, Inc. d/b/a McLeod Gardens Water Company*.

<sup>6</sup> In response to our staff's third data request, the Utility indicated that it conducts significant flushing due to the high amount of hydrogen sulfide in its source water, which may cause a sulfur smell in the water product. The Utility has engaged with the Florida Rural Water Association and is exploring treatment options to mitigate the sulfur smell which may reduce flushing.

accumulated amortization of CIAC, and working capital. The Utility's net book value was established as part of its transfer proceeding in Docket No. 20160193-WU.<sup>7</sup> Our staff selected the test year ended December 31, 2019, for the instant rate case. Our audit staff determined that the Utility's books and records are in compliance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). A summary of each component and the approved adjustments are discussed below.

#### *A. Utility Plant in Service (UPIS)*

The Utility recorded \$240,330 for UPIS. We made an adjustment decreasing UPIS by \$26 to reflect appropriate Commission-ordered adjustments to Account 334 – Meters and Meter Installation.<sup>8</sup>

The Utility did not record a balance in UPIS account 341 – Transportation Equipment to reflect the allocated portion of vehicles owned by Florida Utility Services 1, LLC (FUS1) and used by the Utility. The Utility submitted documentation supporting five vehicles with a cost of \$87,904.<sup>9</sup> After McLeod's 3 percent allocation, we increased UPIS by \$2,637 to account for the appropriate amount of Transportation Equipment. Because these vehicles were purchased prior to the start of the test year, we did not include an averaging adjustment to these amounts. However, we did make an averaging adjustment increasing UPIS by \$13 to reflect test year beginning and ending UPIS average balance. Further, we increased UPIS by \$17,829 to reflect pro forma additions, offset by a decrease of \$8,846 for pro forma retirements.

As described above and summarized in Table 1, our adjustments to UPIS result in an increase of \$11,633 ( $\$2,637 + \$13 + \$17,829 - \$8,846$ ). Therefore, we hereby approve an average UPIS balance of \$251,937 ( $\$240,330 - \$26 + \$11,633$ ).

**Table 1**  
**Adjustments to UPIS**

Adjustment	Water
To reflect allocated amount for vehicles.	\$2,637
To reflect an averaging adjustment.	13
To reflect pro forma additions.	17,829
To reflect pro forma retirements	(8,846)
<b>Total adjustments to UPIS</b>	<b>\$11,633</b>

Source: Utility response to our data requests.

The Utility requested replacement of the well house protecting its water treatment equipment. An engineering consulting firm reviewed the condition of the well house building and found the structure unrepairable; therefore, the consulting firm recommended complete

<sup>7</sup> Order No. PSC-2017-0367-PAA-WU, issued September 29, 2017, in Docket No. 20160193-WU, *In re: Application for approval of transfer of certain water facilities and Certificate No. 619-W from McLeod Gardens Water Company, to McLeod Gardens Utilities, LLC, in Polk County.*

<sup>8</sup> Ibid.

<sup>9</sup> Document No. 11980-2020, filed on November 13, 2020.

replacement of the building. The Utility obtained two bids (\$16,000 and \$14,113) to replace the well house building.<sup>10</sup> The lowest bid was selected. The Utility's request of \$14,113 appears to be necessary and prudent.

Additionally, the Utility indicated that several of its meters have been in service for a considerable amount of time and that 43 of the Utility's 98 total residential meters have recorded over a million gallons each. Therefore, the Utility requested recovery of costs associated with a meter replacement program. We find that the meter replacement program will improve the accuracy of water usage metering and Utility revenues. The Utility indicated that it anticipates replacing 30 meters the first year at a cost of \$3,100, 30 the second year at a cost of \$3,100, and 38 in the third and final year at a cost of \$3,927. The total cost of this meter replacement program is approximately \$10,127. Consistent with Section 367.018(2)(a)2, F.S., we find that it is appropriate to include one year's worth of meters in rate base since these meters will be completed within 24 months of the test year. Accordingly, we have included the cost of the 30 meters the Utility plans on replacing during 2021. Our adjustments include adjustments to UPIS and accumulated depreciation, as well as corresponding adjustments to depreciation expense and taxes as discussed above and in Section 8. We note that the Utility has the option of coming back to this Commission after completion of the meter replacement program to request that the additional two years of meters and associated costs be added to rate base.

#### *B. Land and Land Rights*

The Utility recorded a test year land value of \$7,000. We approved a land balance of \$7,000 in the Utility's 2016 transfer docket.<sup>11</sup> There have been no additions to land since the transfer so no adjustments are necessary. Therefore, we find that a land and land rights balance of \$7,000 is appropriate.

#### *C. Used and Useful*

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

#### *D. Accumulated Depreciation*

The Utility recorded an accumulated depreciation balance of \$164,389. As a result of our audit, we increased accumulated depreciation by \$2,327. We increased accumulated depreciation using the prescribed depreciation rates set forth in Rule 25-30.140, F.A.C., associated with plant additions during the test year. We increased accumulated depreciation by \$828 to reflect the allocated portion of vehicles added to UPIS account 341 – Transportation Equipment. We decreased accumulated depreciation by \$4,391 to reflect an averaging adjustment, and further decreased accumulated depreciation by \$8,347 to reflect pro forma additions and net retirements.

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<sup>10</sup> Document No. 13003-2020 filed November 30, 2020.

<sup>11</sup> Order No. PSC-2017-0367-PAA-WU, issued September 29, 2017, in Docket No. 20160193-WU, *In re: Application for approval of transfer of certain water facilities and Certificate No. 619-W from McLeod Gardens Water Company, to McLeod Gardens Utilities, LLC, in Polk County.*

We find an accumulated depreciation balance of \$154,806 ( $164,389 + \$2,327 + \$828 - \$4,391 - \$8,347$ ) is appropriate.

*E. Contributions in Aid of Construction (CIAC)*

The Utility recorded a test year CIAC balance of \$123,776. We note that a \$115 meter installation charge, and a \$275 plant capacity charge were incorrectly recorded as miscellaneous revenue. Based on our review, these two amounts shall be recorded as CIAC. Therefore, we increased CIAC by \$390 ( $\$115 + \$275$ ) to reflect this adjustment. Additionally, we decreased CIAC by \$195 to reflect an averaging adjustment. Therefore, we find the appropriate CIAC balance is \$123,971 ( $\$123,776 + \$390 - \$195$ ).

*F. Accumulated Amortization of Contributions in Aid of Construction*

The Utility recorded accumulated amortization of CIAC as \$73,900. As a result of our audit, an adjustment was made to decrease accumulated amortization of CIAC by \$409. We also increased accumulated amortization of CIAC by \$17 to reflect the meter installation charge and plant capacity charge in accordance with Rule 25-30.140(2), F.A.C. Additionally, we decreased accumulated amortization of CIAC by \$2,097 to reflect an averaging adjustment. Therefore, we find an accumulated amortization of CIAC balance of \$71,411 ( $\$73,900 - \$409 + \$17 - \$2,097$ ) is appropriate.

*G. Acquisition Adjustment (Net)*

The Utility's books reflect an acquisition adjustment of \$14,551 and accumulated amortization of the acquisition adjustment of \$5,331. This resulted in a net acquisition adjustment recorded by the Utility of \$9,223 ( $\$14,554 - \$5,331$ ). Based on our review, no adjustments to this account is necessary. Therefore, we find that the appropriate net acquisition balance is \$9,223.

*H. Working Capital Allowance*

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(3), F.A.C., we used the one-eighth of the operation and maintenance expense (less rate case expense) formula for calculating the working capital allowance. Section 367.081(9), F.S., prohibits a utility from earning a return on the unamortized balance of rate case expense. As such, we removed the rate case expense balance of \$332 for this calculation, resulting in an adjusted O&M expense balance of \$38,640 ( $\$38,972 - \$332$ ). Applying this formula, we find a working capital allowance of \$4,830 ( $\$38,640 \div 8$ ) is appropriate.



### *I. Rate Base Summary*

Based on the foregoing, we find that the appropriate average test year rate base is \$47,179. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

### 5. Return on Equity (ROE)

As discussed in Section 9, we find that the Operating Ratio methodology is appropriate in this case. Although the traditional rate of return does not apply in this case due to rate base being less than 125 percent of O&M expenses, we find it appropriate that an ROE still be established for this Utility.

The Utility has no long-term debt, \$28,995 in equity, and \$2,730 in customer deposits. In response to an email by our staff, the Utility stated its equity consists of \$21,568 paid in capital, \$34,503 in negative retained earnings, and related party debt totaling \$41,930.<sup>12</sup> It is our practice to treat related party debt as equity when no interest or scheduled payments for principal are being made.<sup>13</sup> As such, we adjusted the Utility's capital structure to reflect the related party debt as common equity. Therefore, the beginning equity balance for McLeod is \$28,995 (\$21,568 - \$34,503 + \$41,930).

The Utility's capital structure has been reconciled with the Commission-approved rate base. The appropriate ROE for the Utility is 7.85 percent based upon the Commission-approved leverage formula currently in effect.<sup>14</sup> The appropriate ROE is 7.85 percent, with a range of 6.85 percent to 8.85 percent. The ROE is shown on Schedule No. 2. The traditional rate of return does not apply in this case due to rate base being less than 125 percent of O&M expenses. As such, the Operating Ratio method is being used in this case.

### 6. Allowance for Funds Used During Construction (AFUDC)

On November 12, 2020, McLeod submitted a request that we establish an AFUDC rate in this proceeding. In its request, the Utility stated "FUS1 plans to file a petition for approval of Capital Project Improvement Plans for a majority of its systems with the Commission."<sup>15</sup> According to the Utility, FUS1 has engaged the engineering services of the Florida Rural Water

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<sup>12</sup> Document No. 13281-2020, filed on December 9, 2020.

<sup>13</sup> Order No. PSC-2013-0140-PAA-WS, issued March 25, 2013, in Docket No. 20120183-WU, *In re: Application for staff-assisted rate case in Lake County by TLP Water, Inc.*; Order No. PSC-2014-0195-PAA-WS, issued May 1, 2014, in Docket No. 20130211-WS, *In re: Application for staff-assisted rate case in Polk County by S.V. Utilities, Ltd.*; Order No. PSC-2016-0583-PAA-WS, issued December 29, 2016, in Docket No. 20150010-WS, *In re: Application for staff-assisted rate case in Brevard County by Aquarina Utilities, Inc.*; Order No. PSC-2018-0549-PAA-WS, issued November 19, 2018, in Docket No. 20170219-WS, *In re: Application for staff-assisted rate case in Polk County by River Ranch Water Management, LLC.*

<sup>14</sup> Order No. PSC-2020-0222-PAA-WS, issued June 29, 2020, in Docket No. 20200006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utility pursuant to Section 367.081(4)(f), F.S.*

<sup>15</sup> Document No. 11981-2020, filed on November 13, 2020.

Association (FRWA) to prepare an analysis report evaluating each of its systems and recommend corrective actions along with funding sources. The Utility further stated that it believes “most, if not all, of the proposed capital projects will qualify for AFUDC treatment as authorized by Rule 25-30.116, F.A.C.”<sup>16</sup> McLeod is not currently authorized to accrue AFUDC and does not have a Commission-approved AFUDC cost rate. We find that it is appropriate to establish an AFUDC rate for the Utility.

We used the capital structure proposed in Section 5 to calculate the annual AFUDC rate and monthly compounding rate for McLeod. Based on our review, we find that an AFUDC rate of 7.51 percent is appropriate. Furthermore, we also find that a monthly compounding rate of 0.605314 percent to achieve an annual AFUDC rate of 7.51 percent is appropriate.

### 7. Test Year Revenues

The Utility recorded total test year revenues of \$33,563. The water revenues included \$31,790 of service revenues and \$1,773 of miscellaneous revenues. The Utility had a rate increase subsequent to the test year as a result of a price index adjustment. We annualized revenues to reflect the change in rates. By applying the rates subsequent to the end of the test year along with the test year billing determinants, we found test year service revenues to be \$32,839. This results in an increase of \$1,049 (\$32,839 - \$31,790) to test year service revenues. We also made an adjustment to miscellaneous revenues to remove \$390 of service availability charges that were erroneously reflected in miscellaneous revenues. This results in miscellaneous revenues of \$1,383 (\$1,773 - \$390). Based on the above, we find that the appropriate test year revenues for McLeod are \$34,222 (\$32,839 + \$1,383).

### 8. Operating Expense

The Utility recorded operating expense of \$41,417. We reviewed the test year O&M expenses, including invoices and other supporting documentation. We made several adjustments to the Utility’s operating expenses as described below.

#### *A. Operation and Maintenance Expenses*

Previously, we approved common O&M expenses be shared by all utilities under the parent company, FUS1.<sup>17</sup> O&M common costs are allocated among all of the utilities in the FUS1 system based on each utility’s number of customers relative to the total number of customers receiving service under FUS1. Based on the number of customers for McLeod, the allocation of FUS1 common costs for this utility is 3 percent.

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<sup>16</sup> Ibid.

<sup>17</sup> Order No. PSC-2019-0503-PAA-SU, issued November 25, 2019, in Docket No. 201802020-SU, *In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC*.

**Salaries and Wages – Employees (601)**

The Utility recorded salaries and wages expense for employees of \$7,638. We increased this amount by \$2,221 to reflect the Utility's allocated portion of a \$74,046 increase approved in Docket No. 20200152-WS.<sup>18</sup> This amount included salary increases for eight positions and the addition of one new Compliance Technician position. Therefore, we hereby approve a salaries and wages expense of \$9,859 (\$7,638 + \$2,221) for the test year.

**Salaries and Wages – Officers and Directors (603)**

The Utility recorded salaries and wages expense for officers and directors of \$2,373. We made no adjustments to this account. As such, we hereby approve a salaries and wages expense of \$2,373 for officers and directors.

**Employee Pensions and Benefits (604)**

The Utility recorded employee pensions and benefits expense of \$179. We made no adjustments to this account. As such, we hereby approve an employee pensions and benefits expense of \$179.

**Purchased Power (615)**

The Utility recorded purchased power expense of \$2,008. We made no adjustments to this account. As such, we hereby approve a purchased power expense of \$2,008.

**Fuel for Power Production (616)**

The Utility recorded fuel for power production expense of \$261. We made no adjustments to this account. As such, we hereby approve a fuel for power production expense of \$261.

**Chemicals (618)**

The Utility recorded chemicals expense of \$1,990. We made no adjustments to this account. As such, we hereby approve a chemicals expense of \$1,990.

**Materials and Supplies (620)**

The Utility recorded materials and supplies expense of \$1,438. We made no adjustments to this account. As such, we hereby approve a materials and supplies expense of \$1,438.

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<sup>18</sup> Order No. PSC-2020-0396-PAA-WS, issued October 22, 2020, in Docket No. 20200152-WS, *In re: Application for a limited alternative rate increase proceeding in Polk and Marion Counties, by Alturas Water, LLC. Sunrise Water, LLC. Pinecrest Utilities, LLC. and East Marion Utilities, LLC.*

### **Contractual Services – Professional (631)**

The Utility recorded contractual services – professional expense of \$538. We increased this amount by \$65 ( $\$325 \div 5$  years) to reflect the cost of two sets of engineering plans for the well house amortized over five years. Therefore, we hereby approve a contractual services – professional expense of \$603 ( $\$538 + \$65$ ).

### **Contractual Services – Testing**

The Utility recorded contractual services – testing expense of \$2,928. We made no adjustments to this account. As such, we hereby approve a contractual services – testing expense of \$2,928.

### **Contractual Services – Other**

The Utility recorded contractual services – other expense of \$8,201. We increased this amount by \$40 to reflect the allocated portion of replacing an air conditioning system at FUS1's New Port Richey office. The total cost for the system was \$6,650. We approved the expense of the air conditioning system in Docket No. 20200152-WS, and determined that the cost st be amortized over five years.<sup>19</sup> As such, we increased contractual services – other for all FUS1 systems by \$1,330 ( $\$6,650 \div 5$  years) in that docket. The allocated portion attributable to McLeod is \$40. Therefore, we hereby approve a contractual services – other expense of \$8,241 ( $\$8,201 + \$40$ ).

### **Rents (640)**

The Utility recorded rent expense of \$1,154. We made no adjustments to this account. As such, we hereby approve a rent expense of \$1,154.

### **Transportation Expense (650)**

The Utility recorded transportation expense of \$1,155. We made no adjustments to this account. As such, we hereby approve a transportation expense of \$1,155.

### **Insurance Expense (655)**

The Utility recorded insurance expense of \$1,865. We increased this amount by \$241 to reflect the allocated portion of an increase of \$7,130 that we in Docket No. 20200152-WS.<sup>20</sup> This increase covers auto insurance based on the premium for the policy period November 2019 through November 2020 as reflected in support documentation in that docket. The amount also includes a \$200 increase for workman's compensation insurance for the period November 2019 to November 2020. Therefore, we hereby approve an insurance expense of \$2,079 ( $\$1,865 + \$214$ )

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<sup>19</sup> Ibid.

<sup>20</sup> Ibid.

**Regulatory Commission Expense (665)**

McLeod recorded regulatory commission expense of \$1,059 to reflect the Utility's four-year amortization of regulatory commission expense related to legal, consulting, and filing fees associated with the Utility's transfer docket.<sup>21</sup> We find that it is appropriate for this amount to be included in the instant docket since it has not been recovered in rates to date. The Utility did not record any additional expense.

Regarding the instant case, the Utility is required by Rule 25-22.0407, F.A.C., to mail notices of the rate case overview, the interim rates as approved by Order No. PSC-2020-0317-PCO-WU, final rates, and four-year rate reduction. We calculated noticing costs to be \$326. We did not include any travel expense as the customer meeting was held remotely and the Commission Conference was held remotely. Additionally, the Utility paid a \$1,000 filing fee.<sup>22</sup> We find noticing costs and filing fee of \$1,326 (\$326 + \$1,000), which amortized over four years is \$332 ( $\$1,326 \div 4$  years) per year to be appropriate. Therefore, we hereby approve a regulatory commission expense of \$1,391 ( $\$1,059 + \$332$ ).

**Bad Debt Expense (670)**

The Utility recorded bad debt expense of \$57. In response to our second data request, the Utility updated the bad debt expense for 2018, 2019, and 2020.<sup>23</sup> The Utility stated the bad debt expense for 2018 was \$27, the bad debt expense for 2019 was \$57, and the bad debt expense for 2020 was \$220. It is our practice to calculate bad debt expense using a three-year average, which we calculated as \$101 ( $(\$27 + \$57 + \$220) \div 3$ ). Using the three-year average, we increased bad debt expense by \$44 ( $\$101 - \$57$ ). Therefore, we hereby approve a bad debt expense of \$101 ( $\$57 + \$44$ ).

**Miscellaneous Expense (675)**

The Utility recorded miscellaneous expense of \$3,212. We made no adjustments to this account. As such, we hereby approve a miscellaneous expense of \$3,212.

*B. Operation and Maintenance Expense Summary*

The Utility recorded O&M expenses of \$36,056 for the test year. Based on the above adjustments, we hereby approve an increase in the O&M expense balance by \$2,916, resulting in a total O&M expense of \$38,972 ( $\$36,056 + \$2,916$ ). Our adjustments to O&M expenses are shown on Schedule No. 3-C.

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<sup>21</sup> Order No. PSC-2017-0367-PAA-WU, issued September 29, 2017, in Docket No. 20160193-WU, *In re: Application for approval of transfer of certain water facilities and Certificate No. 619-W from McLeod Gardens Water Company, to McLeod Gardens Utilities, LLC, in Polk County.*

<sup>22</sup> Document No. 04286-2020, filed on August 7, 2020.

<sup>23</sup> Document No. 11553-2020, filed on October 27, 2020.

*C. Depreciation Expense*

The Utility recorded depreciation expense of \$8,342. Using the prescribed rates set forth in Rule 25-30.140, F.A.C., we increased depreciation expense by \$440 to reflect the depreciation on the allocated portion of vehicles owned by FUS1 and used by the Utility. We further increased depreciation expense by \$499 to reflect pro forma additions. As such, we hereby approve a depreciation expense of \$9,281 ( $\$8,342 + \$440 + \$499$ ).

*D. Amortization Expense*

The Utility recorded an amortization expense of \$5,775. We increased this amount by \$17 to reflect the CIAC adjustments which were discussed in Section 4. As such, we hereby approve an amortization expense of \$5,792 ( $\$5,775 + \$17$ ).

*E. Taxes Other Than Income (TOTI)*

The Utility recorded TOTI of \$2,794. As a result of our audit, an adjustment was made to decrease TOTI by \$46. In addition, we increased TOTI by \$12 to reflect the appropriate Regulatory Assessment Fees (RAFs) based on corrected Utility test year revenues. We further increased TOTI by \$141 to reflect the appropriate taxes associated with pro forma plant additions. Our adjustments total an increase in TOTI of \$107 ( $\$12 - \$46 + \$141$ ).

As discussed in Section 7, revenues have been increased by \$16,562 to reflect the change in revenue required to cover expenses and allow an opportunity to earn the approved rate of return. As a result, TOTI shall be increased by \$745 to reflect RAFs of 4.5 percent of the change in revenues. Therefore, we hereby approve TOTI of \$3,647 ( $\$2,794 + \$107 + \$745$ ).

*F. Income Taxes*

McLeod is a sole proprietorship, and therefore did not record any income tax for the test year. As such, we find that no adjustments to income tax expense is necessary.

*G. Operating Expenses Summary*

The Utility recorded operating expenses of \$41,417. The application of our adjustments to the Utility's operating expenses result in a total operating expense of \$46,107. Operating expenses are shown on Schedule No. 3-A, and the related adjustments are shown on Schedule No. 3-B.

9. Operating Ratio Methodology

Rule 25-30.4575(2), F.A.C., provides that, in rate cases processed under Rule 25-30.455, F.A.C., we will use the operating ratio methodology to establish the utility's revenue requirement when the utility's rate base is no greater than 125 percent of O&M expenses and the use of the operating ratio methodology does not change the utility's qualification for a SARC. Under the operating ratio methodology, instead of calculating the utility's revenue requirement based on a

rate of return on the utility's rate base, the revenue requirement is calculated using a margin of 12 percent of O&M expenses, not to exceed \$15,000. Purchased water and wastewater expenses, if any, must be removed from O&M expense prior to calculating the margin of 12 percent.

As discussed in Section 4 and 8, we approved a rate base of \$47,179, and O&M expense of \$38,972. Based on the approved amounts, McLeod's rate base is only 121 percent of its O&M expense. In addition, the application of the operating ratio methodology does not change the Utility's qualification for a SARC. As such, McLeod meets the criteria for the operating ratio methodology established in Rule 25-30.4575(2), F.A.C. Therefore, we find the application of the operating ratio methodology at a margin of 12 percent of O&M expense for determining the revenue requirement to be appropriate.

#### 10. Revenue Requirement

McLeod shall be allowed an annual increase of \$16,562 (48.40 percent). This will allow the Utility the opportunity to recover its expenses and a 12 percent operating margin on its O&M expenses. The calculations are shown in Table 2:

**Table 2**  
**Revenue Requirement**

Adjusted O&M Expense	\$38,972
Operating Margin (%)	x 12.00%
Operating Margin (\$)	\$4,677
Adjusted O&M Expense	38,972
Depreciation Expense (Net)	3,489
Taxes Other Than Income	<u>3,647</u>
Revenue Requirement	<u>\$50,784</u>
Less Adjusted Test Year Revenues	<u>34,222</u>
Annual Increase	<u>\$16,562</u>
Percent Increase	<u>48.40%</u>

#### 11. Rates and Rate Structure

McLeod is located in Polk County within the Southwest Florida Water Management District. The Utility provides water service to approximately 96 residential customers. Approximately 13 percent of the residential customer bills during the test year had 1,000 gallons or less in usage, indicating a non-seasonal customer base. The average residential water demand is 5,640 gallons per month. The average water demand for customer bills greater than 1,000 gallons is 6,440 gallons per month. Currently, the Utility's water rate structure consists of a

monthly base facility charge (BFC) and uniform gallonage charge for the residential and general service customers.

We performed an analysis of the Utility's billing data in order to evaluate the appropriate rate structure for the residential water customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the 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.

The average people per household served by the water system is 3; therefore, based on the number of people per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold shall be 5,000 gallons per month.<sup>24</sup> Our review of the billing analysis indicates that the discretionary usage above 5,000 represents 40 percent of the bills, which account for approximately 38 percent of the water demand. This is considered high discretionary usage for this customer base.

In this case, we find that 35 percent of the water revenues shall be generated from the BFC due to the high discretionary usage, which will provide sufficient revenues to design gallonage charges that send pricing signals to customers using above the non-discretionary level. We find that a BFC and a three-tier inclining block rate structure is appropriate, which includes separate gallonage charges for non-discretionary and discretionary usage for residential water customers. The rate blocks are: (1) 0-5,000 gallons; (2) 5,001-10,000 gallons; and (3) all usage in excess of 10,000 gallons per month. This rate structure sends the appropriate pricing signals because it targets customers with high consumption levels and minimizes price increases for customers at non-discretionary levels. In addition, the third tier provides an additional pricing signal to customers using in excess of 10,000 gallons of water per month, which represents approximately 16 percent of the usage. General service customers shall be billed a BFC and uniform gallonage charge.

Based on the customer billing data provided by the Utility, approximately 38 percent of total residential consumption is discretionary and subject to the effects of repression. Customers will typically reduce their discretionary consumption in response to a price increase, while non-discretionary consumption remains relatively unresponsive. Based on an approved revenue increase of 50.4 percent for water, which excludes miscellaneous revenues, the residential consumption can be expected to decline by 697,000 gallons, resulting in anticipated average residential demand of 5,032 gallons per month. We find that a 10.8 percent reduction in test year gallons for rate setting purposes and corresponding reductions of \$216 for purchased power, \$214 for chemicals, and \$20 for RAFs to reflect the anticipated repression is appropriate. This results in a post repression revenue requirement of \$48,950.

The approved rate structure and monthly water rates are shown on Schedule No. 4. The Utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-

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<sup>24</sup> Average person per household was obtained from [www.census.gov/quickfacts/polkcountyflorida](http://www.census.gov/quickfacts/polkcountyflorida).



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.

12. Rate Case Expense (Procedural Agency Action)

Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the recovery period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense and the gross-up for RAFs. The total reduction is \$347.

We find that the 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 rate case expense recovery period, pursuant to Section 367.081(8), F.S. McLeod 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, the Utility shall file separate data for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

13. Temporary Rates (Procedural Agency Action)

This Order approves an increase in rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the utility, the approved rates are hereby approved as temporary rates. McLeod shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the 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.

McLeod 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 \$11,164. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

1. The Commission approves the rate increase; or,
2. If the Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

If the Utility chooses a letter of credit as a security, it shall contain the following conditions:

1. The letter of credit is irrevocable for the period it is in effect.
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 prior written authorization of the Commission Clerk, or his or her designee.
3. The escrow account shall be an interest bearing account.
4. If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
5. If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility.
6. All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
7. The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
8. This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to *Cosentino v. Elson*, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
9. The account must specify by whom and on whose behalf such monies were paid.

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

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

14. Adjustments to NARUC USOA Primary Accounts (Procedural Agency Action)

McLeod shall be required to notify this Commission, in writing, that it has adjusted its books in accordance with our decision. McLeod 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 providing good cause shall be filed not less than seven days prior to the deadline. Our staff is hereby given administrative authority to grant such an extension for up to 60 days.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the overall quality of service provided by McLeod Gardens Utilities, LLC is satisfactory. It is further

ORDERED that McLeod Gardens Utilities, LLC's water treatment facility is currently in compliance with Department of Environmental Protection regulations. It is further

ORDERED that McLeod Gardens Utilities, LLC's water treatment plant, storage, and water distribution system shall be considered 100 percent used and useful. It is further

ORDERED that no EUW adjustments shall be made to operating expenses for chemicals and purchased power. It is further

ORDERED that the appropriate average test year rate base for McLeod Gardens Utilities, LLC is \$47,179. It is further

ORDERED that the approved return on equity for McLeod Gardens Utilities, LLC is 7.85 percent, with a range of 6.85 percent to 8.85 percent. The approved overall rate of return is 7.85 percent. It is further

ORDERED that the appropriate test year revenues for McLeod Gardens Utilities, LLC are \$34,222. It is further

ORDERED that McLeod Gardens Utilities, LLC's approved operating expense is \$46,107. It is further

ORDERED that the appropriate revenue requirement for McLeod Gardens Utilities, LLC is \$50,784, resulting in an annual increase of \$16,562 (48.40 percent). It is further

ORDERED that McLeod Gardens Utilities, LLC's approved rate structures and monthly water rates are shown on Schedule No. 4. It is further

ORDERED that McLeod Gardens Utilities, LLC shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall be

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

ORDERED that McLeod Gardens Utilities, LLC's 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 rate case expense recovery period, pursuant to Section 367.081(8), F.S. McLeod Gardens 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 McLeod Gardens Utilities, LLC files this reduction in conjunction with a price index or pass-through rate adjustment, the utility shall file separate data for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (*Procedural Agency Action*) It is further

ORDERED that the rates for McLeod Gardens Utilities, LLC are approved on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. McLeod Gardens Utilities, LLC shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. The temporary rates shall not be implemented until Commission staff has approved the proposed notice, and the notice has been received by the customers. (*Procedural Agency Action*) It is further

ORDERED that McLeod Gardens Utilities, LLC shall provide appropriate security for the potential refund. Temporary rates collected by McLeod Gardens Utilities, LLC shall be subject to refund as provided in the body of this Order. (*Procedural Agency Action*). It is further

ORDERED that after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., McLeod Gardens Utilities, LLC shall file reports with the Commission Clerk's office no later than the 20th of every month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed shall also indicate the status of the security being used to guarantee repayment of any potential refund. (*Procedural Agency Action*) It is further

ORDERED that McLeod Gardens Utilities, LLC is required to notify this Commission, in writing, that it has adjusted its books in accordance with our decision. McLeod Gardens Utilities, LLC 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 McLeod Gardens Utilities, LLC needs additional time to complete the adjustments, notice providing good cause shall be filed not less than seven days prior to the deadline. Our staff is hereby given administrative authority to grant such an extension for up to 60 days. (*Procedural Agency Action*) It is further

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

ORDERED that the docket shall remain open for our staff's verification that the revised tariff sheets and customer notices have been filed by the utility and approved by Commission staff. Upon Commission staff's approval of the tariff sheets and customer notices, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 19th day of March, 2021.



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ADAM J. TEITZMAN  
Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399  
(850) 413-6770  
[www.floridapsc.com](http://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.

GAP

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, except for (1) the reduction of rates after four years based upon the recovery of rate case expense, (2) the granting of temporary rates in the event of protest, and (3) the requirement for proof of adjustment of books and records. 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 April 9, 2021. 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 procedural 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.

MCLEOD GARDENS UTILITIES, LLC TEST YEAR ENDED 12/31/2019 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 20200168-WU	
DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJ.	BALANCE PER COMMISSION
1. UTILITY PLANT IN SERVICE	\$240,330	\$11,607	\$251,937
2. LAND & LAND RIGHTS	7,000	0	7,000
3. ACCUMULATED DEPRECIATION	(164,389)	9,583	(154,806)
4. CIAC	(123,776)	(195)	(123,971)
5. ACCUMULATED AMORTIZATION OF CIAC	73,900	(2,489)	71,411
6. ACQUISITION ADJUSTMENT (NET)	(9,223)	0	(9,223)
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>4,830</u>	<u>4,830</u>
8. WATER RATE BASE	<u>\$23,842</u>	<u>\$23,337</u>	<u>\$47,179</u>

<b>MCLEOD GARDENS UTILITIES, LLC TEST YEAR ENDED 12/31/2019 ADJUSTMENTS TO RATE BASE</b>	<b>SCHEDULE NO. 1-B DOCKET NO. 20200168-WU</b>
	<b>WATER</b>
<b><u>UTILITY PLANT IN SERVICE</u></b>	
1. To reflect an auditing adjustment.	(\$26)
2. To reflect allocated percentage of vehicles.	2,637
3. To reflect an averaging adjustment.	13
4. To reflect pro forma additions.	17,829
5. To reflect pro forma retirement.	<u>(8,846)</u>
Total	<u>\$11,607</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>	
1. To reflect an auditing adjustment.	(\$2,327)
2. To reflect allocated percentage of vehicles.	(828)
3. To reflect an averaging adjustment.	4,391
4. To reflect pro forma adjustments.	<u>8,347</u>
Total	<u>\$9,583</u>
<b><u>CIAC</u></b>	
1. To reflect meter installation charge.	(\$115)
2. To reflect plant capacity charge.	(275)
3. To reflect an averaging adjustment.	<u>195</u>
Total	<u>(\$195)</u>
<b><u>ACCUMULATED AMORTIZATION OF CIAC</u></b>	
1. To reflect an auditing adjustment.	(\$409)
2. To reflect meter installation charge.	7
3. To reflect plant capacity charge.	10
4. To reflect an averaging adjustment.	<u>(2,097)</u>
Total	<u>(\$2,489)</u>
<b><u>WORKING CAPITAL ALLOWANCE</u></b>	
To reflect 1/8 of test year O&M expenses.	<u>\$4,830</u>



MCLEOD GARDENS UTILITIES, LLC TEST YEAR ENDED 12/31/2019 SCHEDULE OF CAPITAL STRUCTURE					SCHEDULE NO. 2 DOCKET NO. 20200168-WU		
CAPITAL COMPONENT	BALANCE PER UTILITY	PRO RATA ADJUST- MENTS	BALANCE PER COMMISSION	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. LONG-TERM DEBT	\$0	\$0	\$0	0.00%	0.00%	0.00%	
2. SHORT-TERM DEBT	0	0	0	0.00%	0.00%	0.00%	
3. COMMON EQUITY	28,995	15,454	44,449	94.21%	7.85%	7.40%	
4. CUSTOMER DEPOSITS	2,730	0	2,730	5.79%	2.00%	0.12%	
5. DEFERRED INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>	
TOTAL CAPITAL	<u>\$31,725</u>	<u>\$15,454</u>	<u>\$47,179</u>	<u>100.00%</u>		<u>7.51%</u>	
		<b>RANGE OF REASONABLENESS</b>			<b><u>LOW</u></b>	<b><u>HIGH</u></b>	
		RETURN ON EQUITY			6.85%	8.85%	
		OVERALL RATE OF RETURN			6.57%	8.45%	

MCLEOD GARDENS UTILITIES, LLC TEST YEAR ENDED 12/31/2019 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 20200168-WU		
	TEST YR PER UTILITY	COMMISSION ADJ ADJ	COMMISSION ADJ TEST YEAR	ADJ FOR INC.	REV REQ
1. <b>TOTAL OPERATING REVENUE</b>	<u>\$33,563</u>	<u>\$659</u>	<u>\$34,222</u>	<u>\$16,562</u> 48.40%	<u>\$50,784</u>
<b>OPERATING EXPENSES</b>					
2. OPERATION & MAINTENANCE	\$36,056	\$2,916	\$38,972	\$0	\$38,972
3. DEPRECIATION (NET)	8,342	939	9,281	0	9,281
4. AMORTIZATION (NET)	(5,775)	(17)	(5,792)	0	(5,792)
5. TAXES OTHER THAN INCOME	2,794	107	2,902	745	3,647
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$41,417</u>	<u>\$3,945</u>	<u>\$45,362</u>	<u>\$745</u>	<u>\$46,107</u>
7. <b>OPERATING INCOME / (LOSS)</b>	<u>(\$7,854)</u>		<u>(\$11,140)</u>		<u>\$4,677</u>
8. <b>WATER RATE BASE</b>	<u>\$23,842</u>		<u>\$23,337</u>		<u>\$47,179</u>
9. <b>OPERATING MARGIN</b>					<u>12.00%</u>

<b>MCLEOD GARDENS UTILITIES, LLC</b>		<b>SCHEDULE NO. 3-B</b>
<b>TEST YEAR ENDED 12/31/2019</b>		<b>DOCKET NO. 20200168-WU</b>
<b>ADJUSTMENTS TO OPERATING INCOME</b>		
		<b>WATER</b>
<b>OPERATING REVENUES</b>		
1.	To reflect an auditing adjustment to Service Revenues.	\$397
2.	To reflect the appropriate test year Service Revenues.	652
3.	To reflect the appropriate test year Miscellaneous Revenues.	<u>(390)</u>
	Total	<u>\$659</u>
<b>OPERATION AND MAINTENANCE EXPENSE</b>		
1.	Salaries and Wages – Employees (601) To reflect allocated pro forma increase per Docket No. 20200152-WS.	<u>\$2,221</u>
2.	Contractual Services – Professional (631) To reflect engineering plans for well house amortized over five years.	<u>\$65</u>
3.	Contractual Services – Other (636) To reflect allocated pro forma increase per Docket No. 20200152-WS.	<u>\$40</u>
4.	Insurance Expense (655) To reflect allocated pro forma increase per Docket No. 20200152-WS.	<u>\$214</u>
5.	Regulatory Commission Expense (665) To reflect 1/4 rate case expense.	<u>\$332</u>
6.	Bad Debt Expense (670) To reflect three-year average bad debt expense.	<u>\$44</u>
	<b>TOTAL OPERATING AND MAINTENANCE ADJUSTMENTS</b>	<u>\$2,916</u>
<b>DEPRECIATION EXPENSE</b>		
1.	To reflect allocated portion of vehicles.	\$440
2.	To reflect pro forma additions.	499
	Total	<u>\$939</u>
<b>AMORTIZATION EXPENSE (NET)</b>		
	To reflect CIAC adjustment to Service Revenues.	<u>(\$17)</u>
<b>TAXES OTHER THAN INCOME</b>		
1.	To reflect an auditing adjustment.	(\$46)
2.	To reflect appropriate test year RAFs.	12
3.	To reflect property taxes associated with pro forma plant additions.	141
	Total	<u>\$107</u>
	<b>TOTAL OPERATING EXPENSE</b>	<u>\$3,945</u>

MCLEOD GARDENS UTILITIES, LLC TEST YEAR ENDED 12/31/2019 ANALYSIS OF WATER O&M EXPENSE		SCHEDULE NO. 3-C DOCKET NO. 20200168-WU		
ACCT. #	DESCRIPTION	TOTAL PER UTILITY	COMMISSION ADJUST- MENTS	TOTAL PER COMMISSION
601	Salaries and Wages – Employees	\$7,638	\$2,221	\$9,859
603	Salaries and Wages – Officers and Directors	2,373	0	2,373
604	Employee Pensions and Benefits	179	0	179
615	Purchased Power	2,008	0	2,008
616	Fuel for Power Production	261	0	261
618	Chemicals	1,990	0	1,990
620	Materials and Supplies	1,438	0	1,438
631	Contractual Services – Professional	538	65	603
635	Contractual Services – Testing	2,928	0	2,928
636	Contractual Services – Other	8,201	40	8,241
640	Rents	1,154	0	1,154
650	Transportation Expense	1,155	0	1,155
655	Insurance Expense	1,865	214	2,079
665	Regulatory Commission Expense	1,059	332	1,391
670	Bad Debt Expense	57	44	101
675	Miscellaneous Expense	<u>3,212</u>	<u>0</u>	<u>3,212</u>
	Total O&M Expense	<u>\$36,056</u>	<u>2,916</u>	<u>\$38,972</u>
	Working Capital is 1/8 of O&M Less RCE			\$4,830

<b>MCLEOD GARDEN UTILITIES LLC.</b>		<b>SCHEDULE NO. 4</b>		
<b>TEST YEAR ENDED 12/31/2019</b>		<b>DOCKET NO. 20200168-WU</b>		
<b>MONTHLY WATER RATES</b>				
	<b>UTILITY CURRENT RATES</b>	<b>COMMISSION APPROVED INTERIM RATES*</b>	<b>COMMISSION APPROVED RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential and General Service</u></b>				
Base Facility Charge by Meter Size				
5/8"X3/4"	\$11.88	\$12.61	\$14.94	\$0.11
3/4"	\$17.82	\$18.92	\$22.41	\$0.17
1"	\$29.70	\$31.53	\$37.35	\$0.28
1-1/2"	\$59.40	\$63.05	\$74.70	\$0.55
2"	\$95.04	\$100.88	\$119.52	\$0.88
3"	\$190.08	\$201.76	\$239.04	\$1.76
4"	\$297.00	\$315.25	\$373.50	\$2.75
6"	\$594.03	\$630.50	\$747.00	\$5.50
Charge per 1,000 gallons - Residential				
All gallons	\$2.97	\$3.15	N/A	N/A
0 - 5,000 gallons	N/A	N/A	\$4.56	\$0.03
5,001 - 10,000 gallons	N/A	N/A	\$6.84	\$0.05
Over 10,000 gallons	N/A	N/A	\$9.13	\$0.06
Charge per 1,000 gallons - General Service	\$2.97	\$3.15	\$5.51	\$0.04
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>				
5,000 Gallons	\$26.73	\$28.36	\$37.74	
10,000 Gallons	\$41.58	\$50.42	\$71.94	
15,000 Gallons	\$56.43	\$59.86	\$117.59	
*Interim rates became effective January 9, 2021.				