

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in  
Polk County by CHC VII, Ltd.

DOCKET NO. 20220033-WS  
ORDER NO. PSC-2022-0420-PAA-WS  
ISSUED: December 14, 2022

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING RATE INCREASE FOR CHC VII, LTD. 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."

**Case Background**

CHC VII, Ltd. (Utility or CHC) is a Class C water and wastewater utility currently providing service to approximately 885 water customers and 872 wastewater customers in Polk County. CHC has been in existence and charging rates since 1985. The Utility was granted Certificate Nos. 609-W and 525-S in 1999.<sup>1</sup>

On May 29, 2019, CHC filed a request for a limited proceeding to increase rates for its water system. In its application, CHC requested recovery of costs associated with installing

<sup>1</sup>Order No. PSC-1999-1235-PAA-WS, issued June 22, 1999, in Docket No. 19981341-WS, *In re: Application for grandfather certificates to operate water and wastewater utility in Polk County by CHC VII, Ltd.*

automatic meter reading (AMR) water meters. We approved a final revenue increase of \$23,368 (20.82 percent) for its water system.<sup>2</sup> The Utility's wastewater rates have been unchanged since May 2014.<sup>3</sup>

According to CHC's 2021 Annual Report, total gross water and wastewater revenues were \$144,438 and \$168,182, respectively. The total water and wastewater operating expenses were \$171,598 and \$229,449, respectively.

On February 11, 2022, CHC filed its application for a staff-assisted rate case (SARC). Our staff selected the test year ended December 31, 2021, for purposes of final rates. A customer meeting was originally scheduled for September 28, 2022; however due to Hurricane Ian, the meeting was rescheduled for November 2, 2022. No customers provided comments during the meeting.

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 Subsection 367.081(2)(a)1, F.S., and Rule 25-30.433(1), F.A.C., in water and wastewater rate cases, we shall determine the overall quality of service provided by the utility. This determination is made from an evaluation of the quality of the Utility's product (water), and the Utility's attempt to address customer satisfaction (water and wastewater). The Rule further states that the most recent chemical analyses for the water system, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department, and any DEP and county health department officials' testimony concerning quality of service shall be considered. In addition, any customer testimony, comments, or complaints received by us are also reviewed. The operating conditions of the water and wastewater systems are addressed in Section 2.

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

In evaluation of CHC's product quality, we reviewed the Utility's compliance with the DEP's 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. In the DEP's last Sanitary Survey Report dated September 16, 2021, no chemical or bacteriological exceedances were noted for the previous 12 months, and the Utility was determined to be in compliance with DEP standards.

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<sup>2</sup>Order No. PSC-2019-0493-PAA-WS, issued November 19, 2019, in Docket No. 20190121-WS, *In re: Application for limited proceeding rate increase in Polk County by CHC VII, Ltd.*

<sup>3</sup>Order No. PSC-2014-0196-PAA-WS, issued May 1, 2014, in Docket No. 20130210-WS, *In re: Application for staff-assisted rate case in Polk County by CHC VII, Ltd.*

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

We reviewed the complaints filed in our Consumer Activity Tracking System and there were five complaints recorded during the test year and the prior four years for CHC. Three complaints were related to improper billing and two complaints were related to Water Quality/Water Pressure. All complaints were resolved by the Utility. We requested all complaints received by the Utility during the test year and four years prior, and the Utility responded that it did not receive any complaints during this timeframe. We also requested all complaints received by the DEP during the test year and four years prior and was informed of only one complaint, filed on August 9, 2019, which related to water quality that was resolved by the Utility.

A customer meeting was held on November 2, 2022, no customers spoke at the meeting; however, three customer comments were placed in the docket file. All three customers commented that they oppose the proposed rate increase. One of the customers also noted that there was an odor coming from the water. We performed a supplemental review, through November 18, 2022, of complaints filed in our Consumer Activity Tracking System following the customer meeting and found no additional complaints.

*C. Conclusion*

CHC has been responsive to customer complaints and is currently in compliance with the DEP. Therefore, we consider the quality of service provided by CHC to be satisfactory.

2. Infrastructure and Operating Conditions

Rule 25-30.225, F.A.C., requires that each water utility shall operate and maintain its plant and facilities by employing qualified operators in accordance with the rules of the DEP in order to provide safe and efficient service up to and including the point of delivery into the piping owned by the customer. During a rate making proceeding, Rule 25-30.433(2), F.A.C., requires consideration of whether the infrastructure and operating conditions of the plant and facilities are in compliance with Rule 25- 30.225, F.A.C. In making this determination, 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*

CHC's water system has a permitted capacity of 1,296,000 gallons per day (gpd). The Utility's water system has two wells, Well Nos. 1 and 2, with pumping capacities of 600 gallons per minute (gpm) and 900 gpm, respectively. Groundwater from Well No. 1 is treated through liquid chlorination. CHC's Well No. 2 is used solely to provide untreated water for golf course irrigation and is not included in the potable water system. The water system also has one hydropneumatic tank with a capacity of 20,000 gallons. We reviewed CHC's sanitary survey

report conducted by the DEP to determine the Utility's overall water facility compliance. A review of the inspection conducted on September 16, 2021, indicated that CHC's water treatment facility is in compliance with the DEP's rules and regulations.

CHC's wastewater system consists of a permitted 0.176 million gallons per day (MGD) per Three Month Average Daily Flow (3MADF) design capacity extended aeration domestic wastewater treatment plant (WWTP) that provides secondary treatment with basic disinfection. We reviewed the Utility's compliance evaluation inspection conducted by the DEP to determine the Utility's overall wastewater facility compliance. A review of the most recent inspection by DEP conducted on October 15, 2020, indicated that CHC's wastewater treatment facility was in compliance with the DEP's rules and regulations. DEP is tentatively planning a compliance evaluation inspection of the wastewater facility for the upcoming year.

### *B. Conclusion*

Based on the above, CHC's water and wastewater systems is currently in compliance with the DEP regulations.

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

CHC's water system has one well for potable water, Well No. 1, which is rated at a total capacity of 600 gpm. The raw water pumped from the well is treated with liquid chlorine, which is injected prior to entry into the 20,000-gallon hydropneumatic tank. The treated water from the tank is then pumped into the water distribution system. The distribution system is a composite network consisting of approximately 9,060 linear feet of 6-inch polyvinyl chloride (PVC) pipe, 1,740 linear feet of 4-inch PVC pipe, and 8,760 linear feet of 2-inch PVC pipe. The distribution system supports 40 fire hydrants.

The WWTP has a DEP permitted capacity of 0.176 million MGD per 3MADF. The collection system is made up of approximately 28,105 linear feet of 8-inch PVC pipe. There are 84 brick manholes throughout the wastewater collection system and seven lift stations.

### *A. Used and Useful Percentages*

Rule 25-30.432, F.A.C., addresses the method by which the U&U of a wastewater system is determined, and Rule 25-30.4325, F.A.C., addresses the method by which the U&U of a water system is determined. In the previous rate case,<sup>4</sup> the WTP, WWTP, water distribution and wastewater collections systems were determined to be 100 percent U&U.

### **Water Treatment Plant**

Pursuant to Rule 25-30.4325(4), F.A.C., a WTP is considered 100 percent used and useful if the system is served by a single well. Since the Utility's assets include only one

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<sup>4</sup>Order No. PSC-14-0196-PAA-WS, issued May 1, 2014, in Docket No. 20130210-WS, *In re: Application for staff-assisted rate case in Polk County by CHC VII, Ltd.*

potable well and there has been no changes to the system, WTP shall be considered 100 percent U&U, which is consistent with the our decisions in the prior rate case.

### **Wastewater Treatment Plant**

There has been no change in the service area in the past five years and there are no plans for expansion; therefore, consistent with our previous orders and pursuant to Rule 25-30.4325, F.A.C., we find a U&U of 100 percent for the WWTP.

### **Water Distribution**

Because the service territory the system is designed to serve was deemed fully built out per the previous rate case and there is no potential for expansion, we find the water distribution system continues to be considered 100 percent U&U.

### **Wastewater Collection**

The service area had no growth in the past five years and no change in capacity. Therefore, consistent with our prior Orders, the wastewater collection system shall be considered 100 percent U&U.

#### *B. Excessive Unaccounted for Water (EUW)*

Rule 25-30.4325, F.A.C., provides additional factors to be considered when 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. When establishing the Rule, we recognized that some uses of water are readily measurable and others are not. We allow 10 percent of unaccounted water for the uses of water that is not metered, which includes but is not limited to: line flushing; hydrant testing; street cleaning; and theft. The rule provides that to determine whether adjustments to operating expenses, such as purchased electrical power and chemicals cost are necessary, we will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible.

The unaccounted for water is calculated by subtracting both the gallons used for flushing and the gallons sold to customers during the test year from the total gallons pumped during that same period. The Monthly Operating Reports that the Utility files with DEP, indicates that the Utility treated 56,025,000 gallons during the test year. In response to one of our data request, the Utility indicated that it purchased no water and used 339,000 gallons for other uses during the test year. According to our audit report, the Utility sold 54,744,000 gallons of water for the test year. When both the gallons sold and water used for other uses are subtracted from the total gallons pumped there are 942,000 gallons or, 2 percent, that are unaccounted for. Thus, we find that CHC has no excessive unaccounted for water for the test year.

*C. Inflation and Inflow (I&I)*

Infiltration typically results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas inflow results from water entering a wastewater collection system through manholes or lift stations. The allowance for infiltration is 500 gpd per inch diameter pipe per mile, and an additional 10 percent of water sold is allowed for inflow. Rule 25-30.432, F.A.C., provides that in determining the WWTP amount of U&U, we will consider I&I.

Since all wastewater collection systems experience I&I, the conventions noted above provide guidance for determining whether the I&I experienced at a WWTP is excessive. We calculate the allowable infiltration based on system parameters, and calculates the allowable inflow based on water billed to customers. The sum of these amounts is the allowable I&I. We next calculated the estimated amount of wastewater returned from customers. The estimated return is determined by summing 80 percent of the water billed to residential customers with 90 percent of the water billed to non-residential customers. Adding the estimated return to the allowable I&I yields the maximum amount of wastewater that shall be treated by the wastewater system without incurring adjustments to operating expenses. If this amount exceeds the actual amount treated, no adjustment is made. If it is less than the gallons treated, then the difference is the excessive amount of I&I.

From January 1, 2021, through December 31, 2021, the allowance for infiltration was calculated as 7,771,458 gallons, and the allowance for inflow was calculated as 5,474,400 gallons; therefore, the total I&I allowance was calculated as 13,245,858 gallons. Based on our audit, the total water billed to residential customers was 40,267,000 gallons, and the total water billed to general service customers was 1,397,000. Therefore, the estimated amount of wastewater returned from customers was calculated as 33,470,900 gallons. Summing the estimated return and the allowable I&I results in a maximum of 46,716,758 gallons of wastewater that shall be treated by the wastewater system without incurring adjustments to operating expenses. Based on the Utility's discharge monitoring reports, the actual amount of wastewater treated during the test year was 14,955,000 gallons. Therefore, we find there is no excessive I&I and no adjustment to purchased power and chemicals to be made.

*C. Conclusion*

CHC's WTP, water distribution, WWTP, and wastewater collection system shall be considered 100 percent U&U. Therefore, we find that no adjustment shall be made to EUW or excessive I&I.

4. Average Test Year Rate Base

The appropriate components of the Utility's rate base include utility plant in service (UPIS), land and land rights, accumulated depreciation, and working capital. CHC does not have any contributions-in-aid-of-construction (CIAC). We selected the test year ended December 31, 2021, for the instant rate case. We 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 our adjustments are discussed below.

*A. Utility Plant In Service (UPIS)*

The Utility recorded UPIS of \$692,466 for water and \$760,130 for wastewater. There was an auditing adjustment increasing UPIS by \$10,110, and \$20,669, for water and wastewater, respectively. We made an adjustment decreasing UPIS by \$4,225 for wastewater to reflect appropriate plant retirements. We made adjustments decreasing UPIS by \$375 for water and wastewater to reflect the appropriate amounts in plant Accounts 341 and 391 – Transportation Equipment. We increased wastewater UPIS by \$875 to reflect our capitalization from operation and maintenance (O&M) account 620 for a generator. We also decreased UPIS by \$4,105 for water and \$48,719 for wastewater to reflect averaging adjustments.

***Pro Forma Plant Additions***

Table 4-1 shows the pro-forma plant projects requested by CHC.<sup>5</sup> The Handrails Replacement Project consists of replacing entry stair handrails at the lift station that were rusted. Additionally, the Utility identified damage to the previous lift station that could not be repaired. Thus, a new lift station was necessary and the Utility moved forward with its construction. The components of the new lift station include: new pumps and control panels, concrete pole and panel installation, and install lift station. The project consists of the purchase of the pumps, back-up pumps, control panels, and installation of all components of the lift station. The Meter Reading Equipment Upgrades Project consists of the Utility switching to new meter reading software. According to the Utility, there are issues being encountered in capturing all of the readings from the meters due to the reading system being outdated and not functioning properly with the meters. These issues would be resolved with the new meter reading software. We find these pro forma project costs are appropriate.

As is our practice, we requested that three bids be provided for each pro forma project. However, the Utility provided one bid for each item. According to the Utility, multiple bids were sought for each project; however the vendors that were ultimately selected were the only vendors that were able to complete the work in a timely manner. Regarding the Electronic Meter Reading Equipment Upgrades project, it is being completed by the same company that installed the Utility's water meters as they have familiarity with the meters and software. We find that the pro forma project costs are appropriate.

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<sup>5</sup>The Utility also requested one O&M pro forma project which is discussed in Section 7.

**Table 4-1  
Pro Forma Plant Items**

Project	Water		Wastewater	
	Additions	Ret.	Additions	Ret.
Acct. 334 – Meter Reading Equip. Upgrade	\$3,611	(\$2,708)	\$0	\$0
Acct. 370 – Handrail Replacement	0	0	18,924	(14,193)
Acct. 370 – Install Lift Station	0	0	38,035	(28,526)
Acct. 370 – Concrete Pole & Panel Install	0	0	4,475	(3,356)
Acct. 370 – New Pumps & Control Panel	<u>0</u>	<u>0</u>	<u>41,762</u>	<u>(31,322)</u>
Total Pro Forma adjustments	<u>\$3,611</u>	<u>(\$2,708)</u>	<u>\$103,196</u>	<u>(\$77,397)</u>

Source: Responses to our data requests.

As detailed above in Table 4-1, we increased UPIS by \$3,611 for water and \$103,196 for wastewater. These amounts were offset by retirements of \$2,708 and \$77,397 for water and wastewater, respectively. Table 4-2 below summarizes our adjustments to UPIS:

**Table 4-2  
Our Adjustments to UPIS**

Description	Water Adj.	Wastewater Adj.
To reflect auditing adjustments.	\$10,110	\$20,669
To reflect our adj. to record appropriate plant retirements.	0	(4,225)
To reflect appropriate transportation plant balance.	(375)	(375)
To reflect capitalization of generator.	0	875
To reflect averaging adjustments.	(4,105)	(48,719)
To reflect pro forma additions.	3,611	103,196
To reflect pro forma retirements.	<u>(2,708)</u>	<u>(77,397)</u>
Total adjustments to UPIS.	<u>\$6,533</u>	<u>(\$5,976)</u>

Source: Responses to our data requests.

As described above and summarized in Table 4-2, our adjustments to UPIS result in an increase of \$6,533 for water and a decrease of \$5,976 for wastewater. Therefore, we find an average UPIS balance of \$698,999 (\$692,466 + \$6,533) for water and \$754,154 (\$760,130 - \$5,976) for wastewater.

*B. Land and Land Rights*

The Utility recorded land and land rights balances of \$3,165 for water and \$5,082 for wastewater. We made no adjustments to this account, and therefore find land and land rights balances of \$3,165 and \$5,082 for water and wastewater, respectively.

*C. Used and Useful*

As previously discussed in Section 3, the Utility’s systems are considered 100 percent U&U. Therefore, we find that no U&U adjustments are necessary.

*D. Accumulated Depreciation*

The Utility recorded an accumulated depreciation balance of \$409,243 for water and \$517,954 for wastewater. We made auditing adjustments decreasing accumulated depreciation for water by \$11,604 and increasing wastewater by \$45,037. We also made an adjustment decreasing accumulated depreciation by \$4,225 for wastewater to reflect the appropriate amount of plant retirements. We made further adjustments decreasing accumulated depreciation by \$230 for water and increasing accumulated depreciation by \$1,658 for wastewater to reflect the appropriate balances in plant Accounts 341 and 391 - Transportation Equipment. Additionally, we increased accumulated depreciation by \$88 for wastewater to reflect the capitalizing of a generator. We made adjustments decreasing accumulated depreciation for water by \$13,656 and wastewater by \$12,216 to reflect the appropriate averaging adjustments. Finally, we decreased accumulated depreciation by \$2,655 for water and \$76,365 for wastewater for retirements related to pro forma additions. Our adjustments are summarized below in Table 4-3.

**Table 4-3  
Our Adjustments to Accumulated Depreciation**

<b>Description</b>	<b>Water Adj.</b>	<b>Wastewater Adj.</b>
To reflect auditing adjustments.	\$11,604	(\$45,037)
To reflect our adj. to record appropriate plant retirements.	0	4,225
To reflect appropriate transportation plant balances.	230	(1,658)
To reflect capitalization of generator.	0	(88)
To reflect averaging adjustments.	13,656	12,216
To reflect pro forma additions.	<u>2,655</u>	<u>76,365</u>
Total adjustments to accumulated depreciation.	<u>\$28,145</u>	<u>\$46,023</u>

Source: Responses to our data requests.

As described above and summarized in Table 4-3, our adjustments to accumulated depreciation result in a decrease of \$28,145 for water and \$46,023 for wastewater. Therefore, we find an average accumulated depreciation balance of \$381,098 (\$409,243 - \$28,145) for water and \$471,931 (\$517,954 - \$46,023) for wastewater.

*E. 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 O&M expense (less rate case expense) formula for calculating the working capital allowance. Subsection 367.081(9), F.S., prohibits a utility from earning a return on the unamortized balance of rate case expense. As such, for this calculation we removed the rate case expense balance of

\$1,326 for water and \$1,311 wastewater. This resulted in an adjusted O&M expense of \$134,551 (\$135,877 - \$1,326) for water and \$197,658 (\$198,969 - \$1,311) for wastewater. Applying this formula, we find a working capital allowance of \$16,819 ( $\$134,551 \div 8$ ) for water and \$24,707 ( $\$197,658 \div 8$ ) for wastewater.

#### *F. Rate Base Summary*

Based on the foregoing, we find that the appropriate average test year rate base is \$337,885 for water and \$312,012 for wastewater. Rate base is shown on Schedule Nos. 1-A and 1-B. The related adjustments are shown on Schedule No. 1-C.

#### 5. Rate of Return

The Utility's capital structure consists entirely of long-term debt. We determined that no test year adjustments were necessary. The Utility's capital structure has been reconciled with our approved rate base. The appropriate ROE is 10.45 percent based on our approved leverage formula currently in effect.<sup>6</sup> We find an ROE of 10.45 percent with a range of 9.45 percent to 11.45 percent, and an overall rate of return on 3.48 percent. The ROE and overall rate of return are shown on Schedule No. 2.

#### 6. Test Year Revenues

CHC recorded test year revenues of \$144,438 for water and \$168,182 for wastewater. The Utility did not record any miscellaneous revenues during the test year. To determine the appropriate service revenues for water and wastewater, we applied the number of billing determinants to the Utility's existing rates. As a result, we determined that service revenues for water shall be \$144,466, which is an increase of \$28. For wastewater service, we determined service revenues shall be \$168,062, which is a decrease of \$120. Based on the above, we find the appropriate test year revenues for CHC's water and wastewater systems are \$144,466 and \$168,062, respectively.

#### 7. Operating Expenses

The Utility recorded operating expense of \$171,178 for water and \$226,530 for wastewater. We have reviewed the test year O&M expenses, including invoices and other supporting documentation. We made several adjustments to the Utility's operating expenses which are described below.

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<sup>6</sup>Order No. PSC-2022-0208-PAA-WS, issued June 15, 2022, in Docket No. 20220006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

*A. Operation and Maintenance Expenses*

After review of the Utility's records, we made no adjustments to the Utility's recorded amounts to Sludge Removal (711), Purchased Power (615 / 715), and Chemicals expense (618 / 718). Our approved balances for these accounts are shown on Schedule No. 3-D and 3-E.

**Salaries and Wages – Employees (601 / 701)**

The Utility recorded salaries and wages – employee expense of \$78,181 for water and \$74,800 for wastewater. We reviewed the Utility's response to our Second Data Request containing salary information on a per employee basis and the audited employee responsibilities and duties. The Utility does not employ its own staff and is operated and managed by employees of Mobile Home Lifestyles, Inc. and Realco Properties, Inc. The Utility's salary expenses are allocated by the percentage of time the employees spend working on water and wastewater utility matters. The Utility shares a full-time wastewater operator and engineer with four other sister water and wastewater utilities. We reviewed the employee allocations and salaries and find they are reasonable. Therefore we find salaries and wages – employee expense of \$78,181 for water and \$74,800 for wastewater.

**Materials and Supplies (620 / 720)**

The Utility recorded materials and supplies expense of \$7,566 for water and \$9,708 for wastewater. We reduced materials and supplies for wastewater by \$875 to reflect capitalizing a generator. We made no adjustments to the water expense. Therefore, we find materials and supplies expense of \$7,566 for water and \$8,833 (\$9,708 - \$875) for wastewater.

**Contractual Services – Professional (631 / 731)**

The Utility recorded contractual services – professional expense of \$1,777 for water and \$5,275 for wastewater. We increased this amount for wastewater by \$2,875 to reflect an auditing adjustment to include a missing invoice. We made no adjustments to the water balance. Therefore, we find contractual services – professional expense of \$1,777 for water and \$8,150 (\$5,275 + \$2,875) for wastewater.

**Contractual Services – Testing (635 / 735)**

The Utility recorded contractual services – testing expense of \$3,840 for water and \$1,742 for wastewater. We decreased this account by \$1,400 for water to reflect the appropriate annual expense associated with triennial testing. We made no adjustments to the wastewater balance. Therefore, we find contractual services – testing expense of \$2,440 (\$3,840 - \$1,400) for water and \$1,742 for wastewater.

**Contractual Services – Other (636 / 736)**

The Utility recorded contractual services – other expense of \$16,532 for water and \$53,352 for wastewater. We decreased contractual services – other by \$171 to reflect removal of

a duplicate invoice. We made an additional adjustment decreasing this account by \$560 to reclassify Florida Rural Water Association (FRWA) membership costs to O&M Account 675.

The Utility requested one O&M pro forma project: to have the interior of its water tanks coated. The water tank is required to be inspected by DEP every five years, and coated as needed based on the results of the inspection. During the most recent inspection, it was determined that the interior of the water tank required a new coating. The Utility sought multiple bids; but, obtained one bid because only one vendor would bid the project. This project is anticipated to cost \$8,000 and is scheduled to be completed by the end of 2022. Based on the above, we find the cost of coating the interior of the water tanks be amortized over five years. We increased contractual services – other by \$1,600 to reflect the requested pro forma project amortized over five years ( $\$8,000 \div 5$  years).

We made no adjustments to this account for wastewater. Therefore, we find contractual services – other expense of \$17,400 ( $\$16,532 - \$171 - \$560 + \$1,600$ ) for water and \$53,352 for wastewater.

#### **Transportation Expense (650 / 750)**

The Utility recorded transportation expense of \$10,540 for water and \$8,728 for wastewater. We reduced this amount by \$3,983 for water and \$3,354 for wastewater to reflect audit adjustments to capitalize vehicle investments. Therefore, we find transportation expense of \$6,557 ( $\$10,540 - \$3,983$ ) for water and \$5,374 ( $\$8,728 - \$3,354$ ) for wastewater.

#### **Insurance Expense (655 / 755)**

The Utility recorded insurance expense of \$3,473 for both water and wastewater. We increased these amounts each by \$172 to reflect the insurance premiums for the upcoming year. Therefore, we find insurance expense of \$3,645 ( $\$3,473 + \$172$ ) for water and \$3,645 ( $\$3,473 + \$172$ ) for wastewater.

#### **Rate Case Expense (665 / 765)**

The Utility did not record any rate case expense. The Utility is required by Rule 25-22.0407, F.A.C., to mail notices containing the rate case overview, final rates, and four-year rate reduction. Because of the rescheduling of the customer meeting due to Hurricane Ian, the Utility was required to mail out a second rate case overview along with notices for the new customer meeting. We calculated noticing costs to be \$3,734. In correspondence with us, the Utility advised two representatives will be present at the Commission Conference.<sup>7</sup> We calculated the round-trip distance from the Utility to Tallahassee as 486 miles. Based on the 2022 IRS business mileage rate of \$0.625, we calculated travel and lodging expense for both representatives of \$1,008. As the Utility is scheduled to have three sister utilities participate in the December 6, 2022 Commission Conference, we equally divided the total travel and lodging amount of \$1,008 amongst the four. As such, in the instant docket, we find travel and lodging of \$252 ( $\$1,008 \div 4$ ).

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<sup>7</sup>Document No. 07473-2022, filed on September 21, 2022.

The Utility retained the legal services of Dean Mead. On September 21, 2022, the Utility provided us with a schedule of actual and estimated rate case expense.<sup>8</sup> In its schedule, the Utility indicated actual legal fees of \$273, in addition to estimated legal fees of \$4,290. We find these fees are reasonable and in line with previous dockets represented by Dean Mead. Additionally, the Utility paid a filing fee of \$1,000 for water and \$1,000 for wastewater.<sup>9</sup>

We calculated the total amount of noticing costs, travel expenses and legal fees of \$8,549 (\$3,734 + \$252 + \$4,290). We allocated these costs between water and wastewater based on the number of ERCs, which totaled \$4,306 for water and \$4,243 for wastewater. In addition to the \$1,000 filing fee for each system, we approve total rate case expense of \$5,306 for water and \$5,242 for wastewater, which amortized over four years is \$1,326 and \$1,311 for water and wastewater, respectively.

### **Bad Debt Expense (670 / 770)**

The Utility recorded bad debt expense of \$760 for water and \$828 for wastewater for the test year. We note that it is our practice to calculate bad debt expense using a three-year average when the information is available.<sup>10</sup> In its three most recent Annual Reports for 2021, 2020 and 2019, the Utility recorded bad debt expense of \$760, \$323 and \$330 for water, and \$113, \$60 and \$115 for wastewater. This represents a decrease of \$289 for water and \$725 for wastewater. Therefore, we find bad debt expense of \$470 (\$760 - \$289) for water and \$103 (\$828 - \$725) for wastewater.

### **Miscellaneous Expense (675 / 775)**

The Utility recorded miscellaneous expense of \$2,243 for water. There was no miscellaneous expense recorded for wastewater. We increased miscellaneous expense by \$560 to reflect the reclassified expense from O&M Account 636 for FRWA membership. Therefore, we find miscellaneous expense for water of \$2,803 (\$2,243 + \$560).

### *B. Operation and Maintenance Expense Summary*

The Utility recorded test year O&M expense of \$138,622 for water and \$199,565 for wastewater. Based on the above adjustments, we find the O&M expense be decreased for water by \$2,744 and \$597 for wastewater. This results in total O&M expense of \$135,877 (\$138,622 - \$2,744) for water and \$198,969 (\$199,565 - \$597) for wastewater. Our adjustments to O&M are shown on Schedule Nos. 3-D and 3-E.

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<sup>8</sup>*Id.*

<sup>9</sup>Document No. 02348-2022, filed on April 11, 2022.

<sup>10</sup>Order No. PSC-2022-0043-PAA-WU, issued on January 26, 2022, in Docket No. 20210055-WU, *In re: Application for staff-assisted rate case in Lake County by Brendenwood Waterworks, Inc.*; Order No. PSC-2021-0106-PAA-WS, issued on March 17, 2021, in Docket No. 20200169-WS, *In re: Application for staff-assisted rate case in Lake County, and request for interim rate increase, by Lake Yale Utilities, LLC.*; Order No. PSC-2021-0107-PAA-WU, issued on March 19, 2021, 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.*

*C. Depreciation Expense*

The Utility recorded depreciation expense of \$24,810 for water and \$17,393 for wastewater. Using the depreciation rates prescribed in Rule 25-30.140, F.A.C., we increased these amounts by \$2,563 for water and \$14,075 for wastewater to reflect an auditing adjustment. We increased depreciation by \$2,878 for wastewater to reflect appropriate plant retirements. We further decreased depreciation expense by \$62 for water and wastewater to reflect the appropriate depreciation to plant Accounts 341 and 391 - Transportation Equipment. We increased depreciation expense for wastewater by \$88 due to the capitalization adjustment to UPIS. Additionally, we increased depreciation expense by \$53 for water and \$1,032 for wastewater due to pro forma adjustments. These adjustments result in an increase to depreciation of \$2,554 ( $\$2,563 - \$62 + \$53$ ) for water and an increase of \$18,011 ( $\$14,075 + \$2,878 - \$62 + \$88 + \$1,032$ ) for wastewater. Therefore, we find depreciation expense of \$27,364 ( $\$24,810 + \$2,554$ ) for water and \$35,404 ( $\$17,393 + \$18,011$ ) for wastewater.

*D. Taxes Other Than Income (TOTI)*

The Utility recorded TOTI of \$7,747 for water and \$9,571 for wastewater. We increased TOTI by \$417 and \$12 for water and wastewater, respectively, due to an audit adjustment. We decreased TOTI by \$415 for water and \$18 for wastewater to reflect the appropriate regulatory assessment fees (RAFs) based on adjusted Utility test year revenues. Additionally, we increased TOTI by \$12 for water and \$342 for wastewater to reflect property taxes associated with pro forma additions. These adjustments result in a test year TOTI increase of \$13 ( $\$417 - \$415 + \$12$ ) for water and \$337 ( $\$12 - \$18 + \$342$ ) for wastewater.

As discussed in Section 9, we approve revenues to be increased by \$40,098 for water and \$91,180 for wastewater in order 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 \$1,804 for water and \$4,103 for wastewater to reflect RAFs of 4.5 percent of the change in revenues. Therefore, we find TOTI of \$9,564 ( $\$7,747 + \$13 + \$1,804$ ) for water and \$14,011 ( $\$9,571 + \$337 + \$4,103$ ) for wastewater.

*E. Operating Expense Summary*

The Utility recorded operating expenses of \$171,178 for water and \$226,530 for wastewater. The application of our adjustments to the Utility's operating expense result in a total operating expense of \$172,805 for water and \$248,384 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B, and the related adjustments are shown on Schedule No. 3-C.

8. 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 its rate base is not greater than 125 percent of O&M expenses, less rate case

expense, and the use of the operating ratio methodology does not change the Utility's qualification for a SARC.

With respect to CHC, we find a rate base of \$337,885 for water and \$312,012 for wastewater. After removal of rate case expense, we have calculated an O&M expense of \$134,551 (\$135,877 - \$1,326) for water and \$197,658 (\$198,969 - \$1,311) for wastewater. Based on our amounts, the Utility's rate base is 251 percent of its adjusted O&M expense for water, and 158 percent of its adjusted O&M expense for wastewater. Based on these ratios, the Utility does not qualify for application of the operating ratio methodology.

### 9. Revenue Requirement

CHC shall be allowed an annual increase of \$40,098 (27.76 percent) for water and \$91,180 (54.25 percent) for wastewater. This shall allow the Utility the opportunity to recover expenses and earn a 3.48 percent return on rate base for water and wastewater. The calculations for water are shown in Table 9-1, and for wastewater in Table 9-2.

**Table 9-1  
Water Revenue Requirement**

Water Rate Base	\$337,885
Rate of Return	<u>3.48%</u>
Return on Rate Base	<u>\$11,758</u>
Water O&M Expense	135,877
Depreciation Expense	27,364
Taxes Other Than Income	<u>9,564</u>
Revenue Requirement	<u>\$184,564</u>
Less Test Year Revenues	<u>\$144,466</u>
Annual Increase / (Decrease)	<u>\$40,098</u>
Percent Increase / (Decrease)	27.76%

Source: Our calculations.

**Table 9-2  
Wastewater Revenue Requirement**

Wastewater Rate Base	\$312,012
Rate of Return	<u>3.48%</u>
Return on Rate Base	<u>\$10,858</u>
Wastewater O&M Expense	198,969
Depreciation Expense	35,404
Taxes Other Than Income	<u>14,011</u>
Revenue Requirement	<u>\$259,242</u>
Less Test Year Revenues	<u>\$168,062</u>
Annual Increase / (Decrease)	<u>\$91,180</u>
Percent Increase / (Decrease)	54.25%

Source: Our calculations.

## 10. Rate Structure

### *A. Water Rates*

CHC is located in Polk County within the Southwest Florida Water Management District (SWFWMD). The Utility provides water service to 873 residential customers and 10 general service customers and 6 irrigation customers. A review of the billing data indicates approximately 11 percent of the residential customer bills during the test year had zero gallons, which indicates a non-seasonal customer base. According to the Utility, however, the customer base is seasonal and while customers are out of residence, these customers are required to have irrigation systems on timers. The average residential water demand was 4,750 gallons per month during the test period. The average water demand, excluding zero gallons bills, was 5,352 gallons per month.

CHC's current rate structure consists of a monthly base facility charge (BFC) and a two-tier inclining block rate structure, which includes separate gallonage charges for discretionary and non-discretionary usage for residential water customers. The rate blocks are: (1) 0-5,000 gallons; (2) all usage in excess of 5,000 gallons per month. The general service and irrigation customers' rate structure consists of a monthly BFC and a gallonage charge.

We performed an analysis of the Utility's billing in order to evaluate the appropriate rate structure for the residential water customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the 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 this case, we find that 40 percent of the water revenue be generated from the BFC, which will provide sufficient revenues to design gallonage charges that send pricing signals to customers using above the non-discretionary level. The average people per household served by the water system is 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>11</sup> Our review of the billing analysis indicates that the discretionary usage above 5,000 gallons represents 36 percent of the bills, which account for approximately 35 percent of the water demand. This is considered moderately high discretionary usage for this customer base.

For this case, we find a BFC and a three-tier inclining block rate structure, which includes separate gallonage charges for discretionary and non-discretionary usage for residential water customers. The rate blocks are: (1) 0-5,000 gallons; (2) 5,001-10,000 gallons; (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

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<sup>11</sup>Average person per household was obtained from [www.census.gov/quickfacts/polkcounty](http://www.census.gov/quickfacts/polkcounty), Florida.

signal to customers using in excess of 10,000 gallons of water per month, which represents approximately 13 percent of the usage. General service and irrigation customers shall be billed a BFC and a gallonage charge.

Based on our approved revenue increase of 27.8 percent, the residential consumption can be expected to decline by 2,174,000 gallons resulting in anticipated average residential demand of 4,543 gallons per month. We find a 4.4 percent reduction in test year residential gallons for rate setting purposes. As a result, the corresponding reductions are \$257 for purchased power expense, \$269 for chemical expense, and \$25 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$184,013.

### *B. Wastewater Rates*

The Utility provides wastewater service to 873 residential customers and 3 general service customers. Currently, the residential wastewater rate structure consists of a uniform BFC for all meter sizes and a gallonage charge with a 8,000 gallonage cap. The general service rate structure consists of a uniform BFC for all meter sizes and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

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

Consistent with our practice, we allocated 50 percent of the wastewater revenue to the BFC due to the capital intensive nature of wastewater plants. CHC's current residential wastewater cap is 8,000 gallons per month. The wastewater gallonage cap recognizes that not all water used by the residential customers is returned to the wastewater system. It is our practice to set the wastewater cap at approximately 80 percent of residential water sold. Based on our review of the billing analysis, approximately 80 percent of the residential gallons are captured at the 8,000 gallon consumption level. For this reason, we find a continuation of the Utility's current gallonage cap of 8,000 gallons per month.

General service customers shall continue to be billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge. We evaluate wastewater repression between the non-discretionary threshold (5,000 gallons) and the wastewater gallonage cap (8,000 gallons). Between those two levels, the expected wastewater repression is de minimis. Therefore, we do not find a repression adjustment for wastewater.

### *C. Conclusion*

Based on the above, the approved rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. 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 we have 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.

11. Four-Year Rate Reduction (Procedural Agency Action)

Subsection 367.081(8), F.S., requires that the rates be reduced by the amount of the rate case expense previously included in rates immediately following the expiration of the recovery period. With respect to CHC, 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 \$1,389 for water and \$1,372 for wastewater.

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

12. Temporary Rates (Procedural Agency Action)

This Order proposes an increase in rates. A timely protest might delay a rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Subsection 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, we find that the proposed rates be approved on a temporary basis. CHC shall file revised tariff sheets and a proposed customer notice reflecting 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 we have approved the proposed notice, and it has been received by the customers. The additional revenue produced by our rates and collected by the utility shall be subject to the refund provisions discussed below.

CHC shall be authorized to initiate the temporary rates upon our approval of an appropriate security for the potential refund and cost of the proposed customer notice. Security shall be in the form of either a bond or letter of credit in the amount of \$89,315. Alternatively, the Utility may establish an escrow agreement with an independent financial institution.

If the utility chooses a bond for securing the potential refund, the bond shall contain wording to the effect that it will be terminated only under the following conditions:

1. We approve the rate increase; or,
2. If we deny the increase, the Utility shall refund the amount collected that is attributable to the increase.

If the Utility chooses a letter of credit for securing the potential refund, the letter of credit 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 our final 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 shall 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.

13. Adjustment to Books

(Procedural Agency Action)

CHC shall be required to notify us, in writing, that it has adjusted its books in accordance with our decision. CHC shall submit a letter within 90 days of the our final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, a notice providing good cause shall be filed not less than seven days prior to the deadline. Upon providing a notice of good cause, our staff shall be given administrative authority to grant an extension of up to 60 days.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the overall quality of service provided by CHC VII, Ltd., is satisfactory. It is further

ORDERED that CHC VII, Ltd.'s water and wastewater systems are currently in compliance with the Department of Environmental Protection's regulations. Is it further

ORDERED that CHC VII, Ltd.'s Water Treatment Plant, water distribution, Wastewater Treatment Plant, and wastewater collection system shall be considered 100 percent Used & Useful, and that no adjustment be made to Excessive Unaccounted for Water or excessive Inflation & Inflow. It is further

ORDERED that the appropriate average test year rate base for the CHC VII, Ltd. is \$337,885 for water and \$312,012 for wastewater. Rate base is shown on Schedule Nos. 1-A and 1-B. The related adjustments are shown on Schedule No. 1-C. It is further

ORDERED that the approved return on equity for CHC VII, Ltd. Is 10.45 percent with a range of 9.45 percent to 11.45 percent. The overall rate of return is 3.48 percent. The return on equity and overall rate of return is shown on Schedule No. 2. It is further

ORDERED that the appropriate test year revenues for CHC VII, Ltd. water system are \$144,466 and \$168,062 for the wastewater system. It is further

ORDERED that the approved amount of operating expense for CHC VII, Ltd. is \$172,805 for water and \$248,384 for wastewater. It is further

ORDERED that CHC VII, Ltd. does not meet the requirement for application of the operating ratio methodology for calculating the revenue requirement. It is further

ORDERED that the approved revenue requirement is \$184,564 for water, resulting in an annual increase of \$40,098, 27.76 percent, and the appropriate revenue requirement for wastewater is \$259,242, resulting in an annual increase of \$91,180, 54.25 percent. It is further

ORDERED that the approved rate structure and rates for CHC VII, Ltd. Are shown on Schedule Nos. 4-A and 4-B, respectively. It is further

ORDERED that CHC VII, Ltd. Rates shall be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. Pursuant to Subsection 367.081(8), F.S., the decrease in rates shall become effective immediately following the expiration of the rate case expense recovery period. CHC VII, Ltd. shall be required to file revised tariffs and a proposed customer notice setting forth the lower rates and rationale no later than one month prior to the effective date of the new rates. If CHC VII, Ltd. files revised tariffs reflecting 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 and the reduction in the rates due to the amortized rate case expense. (*Procedural Agency Action*) It is further

ORDERED that the rates for CHC VII, Ltd. are approved on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the utility. CHC VII, Ltd. shall file revised tariff sheets and a proposed customer notice reflecting our approved rates. The approved rates shall be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the 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 implementing any temporary rates, CHC VII, Ltd. shall provide appropriate financial security. If rates are approved on a temporary basis, the rates collected by CHC VII, Ltd. shall be subject to the refund provisions discussed in set forth in the body of this Order. After the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., CHC VII, Ltd. shall file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating both the current monthly and total amount subject to refund at the end of the preceding month. The report filed 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 CHC VII, Ltd. shall notify us in writing, that it has adjusted its books in accordance with our decision. CHC VII, Ltd. shall submit a letter within 90 days of the our final order in this docket, confirming that the adjustments to all applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made to CHC VII, Ltd.'s books and records. In the event CHC VII, Ltd. needs additional time to complete the adjustments, a notice providing good cause shall be filed not less than seven days prior to the deadline. Upon providing a notice of good cause, our staff is given administrative authority to grant an extension of 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

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ORDERED that this docket shall remain open for our staff's verification that the revised tariff sheets and customer notice have been filed by the utility, and approved by our staff. Once these actions are complete, this docket shall be closed administratively. It is further

By ORDER of the Florida Public Service Commission this 14th day of December, 2022.



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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.

MJJ

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Subsection 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 January 4, 2023. 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.

<b>CHC VII, LTD.</b> <b>TEST YEAR ENDED 12/31/2021</b> <b>SCHEDULE OF WATER RATE BASE</b>		<b>SCHEDULE NO. 1-A</b> <b>DOCKET NO. 20220033-WS</b>	
DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUST.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$692,466	\$6,533	\$698,999
2. LAND & LAND RIGHTS	3,165	0	3,165
3. ACCUMULATED DEPRECIATION	(409,243)	28,145	(381,098)
4. CIAC	0	0	0
5. ACCUMULATED AMORT. CIAC	0	0	0
6. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>16,819</u>	<u>16,819</u>
WATER RATE BASE	<u>\$286,388</u>	<u>\$51,497</u>	<u>\$337,885</u>

<b>CHC VII, LTD.</b> <b>TEST YEAR ENDED 12/31/2021</b> <b>SCHEDULE OF WASTEWATER RATE BASE</b>		<b>SCHEDULE NO. 1-B</b> <b>DOCKET NO. 20220033-WS</b>	
DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUST.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$760,130	(\$5,976)	\$754,154
2. LAND & LAND RIGHTS	5,082	0	5,082
3. ACCUMULATED DEPRECIATION	(517,954)	46,023	(471,931)
4. CIAC	0	0	0
5. ACCUMULATED AMORT. CIAC	0	0	0
6. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>24,707</u>	<u>24,707</u>
WASTEWATER RATE BASE	<u>\$247,258</u>	<u>\$64,754</u>	<u>\$312,012</u>

<b>CHC VII, LTD.</b>		<b>SCHEDULE NO. 1-C</b>	
<b>TEST YEAR ENDED 12/31/2021</b>		<b>DOCKET NO. 20220033-WS</b>	
<b>ADJUSTMENTS TO RATE BASE</b>			
	<b><u>WATER</u></b>	<b><u>WASTEWATER</u></b>	
<b><u>UTILITY PLANT IN SERVICE</u></b>			
1. To reflect auditing adjustments.	\$10,110	\$20,669	
2. To reflect appropriate retirements.	0	(4,225)	
3. To reflect appropriate transportation balances.	(375)	(375)	
4. To reflect staff's adjustment to capitalize generator.	0	875	
5. To reflect averaging adjustments.	(4,105)	(48,719)	
6. To reflect pro forma additions.	3,611	103,196	
7. To reflect pro forma retirements.	<u>(2,708)</u>	<u>(77,397)</u>	
Total	<u>\$6,533</u>	<u>(\$5,976)</u>	
<b><u>ACCUMULATED DEPRECIATION</u></b>			
1. To reflect auditing adjustments.	\$11,604	(\$45,037)	
2. To reflect appropriate retirements.	0	4,225	
3. To reflect appropriate transportation balances.	230	(1,658)	
4. To reflect staff's adjustment to capitalize generator.	0	(88)	
5. To reflect averaging adjustments.	13,656	12,216	
6. To reflect pro forma adjustments.	<u>2,655</u>	<u>76,365</u>	
Total	<u>\$28,145</u>	<u>\$46,023</u>	
<b><u>WORKING CAPITAL ALLOWANCE</u></b>			
To reflect 1/8 of test year O&M expenses.	<u>\$16,819</u>	<u>\$24,707</u>	

CHC VII, LTD TEST YEAR ENDED 12/31/2021 SCHEDULE OF CAPITAL STRUCTURE						SCHEDULE NO. 2 DOCKET NO. 20220033-WS	
CAPITAL	BALANCE PER UTILITY	SPECIFIC ADJUST- MENTS	PRO RATA ADJUST- MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. LONG-TERM DEBT	\$56,615,000	\$0	(\$55,965,103)	\$649,897	100.00%	3.48%	3.48%
2. SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
3. COMMON EQUITY	(15,759,236)	15,759,236	0	0	0.00%	10.45%	0.00%
4. CUSTOMER	0	0	0	0	0.00%	2.00%	0.00%
5. DEFERRED INCOME	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
TOTAL CAPITAL	<u>\$40,855,764</u>	<u>\$15,759,236</u>	<u>(\$55,965,103)</u>	<u>\$649,897</u>	<u>100.00%</u>		<u>3.48%</u>
<b>RANGE OF REASONABLENESS</b>						<u>LOW</u>	<u>HIGH</u>
RETURN ON EQUITY						9.45%	11.45%
OVERALL RATE OF RETURN						3.48%	3.48%

CHC VII, LTD TEST YEAR ENDED 12/31/2021 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 20220033-WS		
	TEST YEAR PER UTILITY	COMMISSION ADJUST- MENTS	COMMISSION ADJUSTED TEST YEAR	ADJUST FOR INCREASE	REV. REQ.
1. TOTAL OPERATING REVENUES	<u>\$144,438</u>	<u>\$28</u>	<u>\$144,466</u>	<u>\$40,098</u> 27.76%	<u>\$184,564</u>
<b>OPERATING EXPENSES</b>					
2. OPERATION & MAINTENANCE	\$138,622	(\$2,744)	\$135,877	\$0	\$135,877
3. DEPRECIATION	24,810	2,554	27,364	0	27,364
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	7,747	13	7,760	1,804	9,564
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$171,178</u>	<u>(\$177)</u>	<u>\$171,001</u>	<u>\$1,804</u>	<u>\$172,805</u>
7. OPERATING INCOME / LOSS	(\$26,740)		(\$26,535)		\$11,758
8. WATER RATE BASE	\$286,388				\$337,885
9. RATE OF RETURN					3.48%

CHC VII, LTD TEST YEAR ENDED 12/31/2021 SCHEDULE OF WASTEWATER OPERATING INCOME			SCHEDULE NO. 3-B DOCKET NO. 20220033-WS		
	TEST YEAR PER UTILITY	COMMISSION ADJUST- MENTS	COMMISSION ADJUSTED TEST YEAR	ADJUST FOR INCREASE	REV. REQ.
1. TOTAL OPERATING REVENUES	<u>\$168,182</u>	<u>(\$120)</u>	<u>\$168,062</u>	<u>\$91,180</u> 54.25%	<u>\$259,242</u>
<b>OPERATING EXPENSES</b>					
2. OPERATION & MAINTENANCE	\$199,565	(\$597)	\$198,969	\$0	\$198,969
3. DEPRECIATION	17,393	18,011	35,404	0	35,404
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	9,571	337	9,908	4,103	14,011
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$226,530</u>	<u>\$17,751</u>	<u>\$244,281</u>	<u>\$4,103</u>	<u>\$248,384</u>
7. OPERATING INCOME / LOSS	(\$58,348)		(\$76,219)		\$10,858
8. WASTEWATER RATE BASE	\$247,258				\$312,012
9. RATE OF RETURN					3.48%

<b>CHC VII, LTD.</b>	<b>SCHEDULE NO. 3-C</b>	
<b>TEST YEAR ENDED 12/31/2021</b>	<b>DOCKET NO. 20220033-</b>	
<b>ADJUSTMENTS TO OPERATING INCOME</b>	<b>PAGE 1 OF 2</b>	
	<b><u>WATER</u></b>	<b><u>WASTEWATER</u></b>
<b>OPERATING REVENUES</b>		
1. To reflect auditing adjustments to service revenues.	\$9,258	\$277
2. To reflect the appropriate test year service revenues.	<u>(9,230)</u>	<u>(397)</u>
Total	<u>\$28</u>	<u>(\$120)</u>
<b>OPERATION &amp; MAINTENANCE EXPENSE</b>		
1. Materials and Supplies (620/720)		
To reflect capitalizing a generator.	<u>\$0</u>	<u>(\$875)</u>
2. Contractual Services – Professional (631/731)		
To reflect inclusion of missing invoice.	<u>\$0</u>	<u>\$2,875</u>
3. Contractual Services – Testing (635/735)		
To reflect 3-year amortization of triennial sampling testing.	<u>(\$1,400)</u>	<u>\$0</u>
4. Contractual Services – Other (636/736)		
a. To reflect removal of a duplicate invoice.	(\$171)	\$0
b. To reclassify FRWA membership to acct. 675.	(560)	0
c. To reflect water tank coating pro forma, amortized over 5 years.	<u>1,600</u>	<u>0</u>
Subtotal	<u>\$869</u>	<u>\$0</u>
5. Transportation Expense (650/750)		
To reflect capitalization of vehicle investments..	<u>(\$3,983)</u>	<u>(\$3,354)</u>
6. Insurance Expense (655/755)		
To reflect appropriate insurance premiums.	<u>\$172</u>	<u>\$172</u>
7. Rate Case Expense (665/765)		
To reflect 1/4 rate case expense.	<u>\$1,326</u>	<u>\$1,311</u>
8. Bad Debt Expense (670/770)		
To reflect average of three years of bad debt expenses.	<u>(\$289)</u>	<u>(\$725)</u>
9. Miscellaneous Expense (675/775)		
To reflect reclassification of FRWA membership.	<u>\$560</u>	<u>\$0</u>
<b>TOTAL O&amp;M ADJUSTMENTS</b>	<b><u>(\$2,744)</u></b>	<b><u>(\$597)</u></b>

<b>CHC VII, LTD.</b>	<b>SCHEDULE NO. 3-C</b>	
<b>TEST YEAR ENDED 12/31/2021</b>	<b>DOCKET NO. 20220033-</b>	
<b>ADJUSTMENTS TO OPERATING INCOME</b>	<b>PAGE 2 OF 2</b>	
	<b><u>WATER</u></b>	<b><u>WASTEWATER</u></b>
<b>DEPRECIATION EXPENSE</b>		
1. To reflect auditing adjustments.	\$2,563	\$14,075
2. To reflect appropriate depreciation for acct. 371.	0	2,878
3. To reflect appropriate balance in transportation accounts.	(62)	(62)
4. To reflect depreciation expense for generator.	0	88
5. To reflect pro forma additions.	<u>53</u>	<u>1,032</u>
Total	<u>\$2,554</u>	<u>\$18,011</u>
<b>TAXES OTHER THAN INCOME</b>		
1. To reflect auditing adjustments.	\$417	\$12
2. To reflect appropriate test year RAFs.	(415)	(18)
3. To reflect property taxes associated with pro forma.	<u>12</u>	<u>342</u>
Total	<u>\$13</u>	<u>\$337</u>
<b>TOTAL OPERATING EXPENSE ADJUSTMENTS</b>	<b><u>(\$177)</u></b>	<b><u>\$17,751</u></b>

<b>CHC VII, LTD.</b>		<b>SCHEDULE NO. 3-D</b>		
<b>TEST YEAR ENDED 12/31/2021</b>		<b>DOCKET NO. 20220033-WS</b>		
<b>ANALYSIS OF WATER O&amp;M EXPENSES</b>				
<b>ACCT. #</b>	<b>DESCRIPTION</b>	<b>TOTAL PER UTILITY</b>	<b>COMMISSION ADJUST- MENT</b>	<b>TOTAL PER STAFF</b>
601	Salaries and Wages – Employees	\$78,181	\$0	\$78,181
615	Purchased Power	6,483	0	6,483
618	Chemicals	6,771	0	6,771
620	Materials and Supplies	7,566	0	7,566
630	Contractual Services – Billing	457	0	457
631	Contractual Services – Professional	1,777	0	1,777
635	Contractual Services – Testing	3,840	(1,400)	2,440
636	Contractual Services – Other	16,532	869	17,400
650	Transportation Expense	10,540	(3,983)	6,557
655	Insurance Expense	3,473	172	3,645
665	Rate Case Expense	0	1,326	1,326
670	Bad Debt Expense	760	(289)	471
675	Miscellaneous Expenses	<u>2,243</u>	<u>560</u>	<u>2,803</u>
	Total O&M Expenses	<u>\$138,622</u>	<u>(\$2,744)</u>	<u>\$135,877</u>
	Working Capital is 1/8 O&M less RCE			\$16,819

<b>CHC VII, LTD.</b>		<b>SCHEDULE NO. 3-E</b>		
<b>TEST YEAR ENDED 12/31/2021</b>		<b>DOCKET NO. 20220033-WS</b>		
<b>ANALYSIS OF WASTEWATER O&amp;M EXPENSES</b>				
<b>ACCT. #</b>	<b>DESCRIPTION</b>	<b>TOTAL PER UTILITY</b>	<b>COMMISSION ADJUST- MENT</b>	<b>TOTAL PER STAFF</b>
701	Salaries and Wages – Employees	\$74,800	\$0	\$74,800
711	Sludge Removal Expense	14,030	0	14,030
715	Purchased Power	18,557	0	18,557
718	Chemicals	9,072	0	9,072
720	Materials and Supplies	9,708	(875)	8,833
731	Contractual Services – Professional	5,275	2,875	8,150
735	Contractual Services – Testing	1,742	0	1,742
736	Contractual Services – Other	53,352	0	53,352
750	Transportation Expense	8,728	(3,354)	5,374
755	Insurance Expense	3,473	172	3,645
765	Rate Case Expense	0	1,311	1,311
770	Bad Debt Expense	<u>828</u>	<u>(725)</u>	<u>103</u>
	Total O&M Expenses	<u>\$199,565</u>	<u>(\$597)</u>	<u>\$198,969</u>
	Working Capital is 1/8 O&M less RCE			\$24,707

<b>CHC VII, LTD.</b>		<b>SCHEDULE NO. 4-A</b>	
<b>TEST YEAR ENDED 12/31/2021</b>		<b>DOCKET NO. 20220033-WS</b>	
<b>MONTHLY WATER RATES</b>			
	<b>UTILITY'S EXISTING 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" x 3/4"	\$5.50	\$6.67	\$0.05
3/4"	\$8.25	\$10.01	\$0.08
1"	\$13.75	\$16.68	\$0.13
1 1/4"	\$22.00	\$26.68	\$0.20
1-1/2"	\$27.50	\$33.35	\$0.25
2"	\$44.00	\$53.36	\$0.40
3"	\$88.00	\$106.72	\$0.80
4"	\$137.50	\$166.75	\$1.25
6"	\$275.00	\$333.50	\$2.51
8"	\$440.00	\$533.60	\$4.01
Charge per 1,000 gallons - Residential			
0-5,000 gallons	\$1.38	N/A	N/A
Over 5,000 gallons	\$1.82	N/A	N/A
Charge per 1,000 gallons - Residential			
0-5,000 gallons		\$1.90	\$0.01
5,001-10,000 gallons		\$2.14	\$0.02
Over 10,000 gallons		\$3.21	\$0.02
Charge per 1,000 gallons - General Service	\$1.50	\$2.10	\$0.02
<b><u>Irrigation</u></b>			
Base Facility Charge for All Meter Sizes	\$5.50	\$6.67	\$0.05
Charge per 1,000 gallons – Irrigation	\$1.50	\$2.10	\$0.02
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
5,000 Gallons	\$12.40	\$16.17	
8,000 Gallons	\$17.86	\$22.59	
10,000 Gallons	\$21.50	\$26.87	

<b>CHC VII, LTD.</b>		<b>SCHEDULE NO. 4-B</b>	
<b>TEST YEAR ENDED 12/31/2021</b>		<b>DOCKET NO. 20220033-WS</b>	
<b>MONTHLY WASTEWATER RATES</b>			
	<b>UTILITY'S EXISTING RATES</b>	<b>COMMISSION RECOMMENDED RATES</b>	<b>4-YEAR RATE REDUCTION</b>
<b><u>Residential</u></b>			
Base Facility Charge - All Meter Sizes	\$8.26	\$12.37	\$0.07
Charge Per 1,000 gallons			
8,000 gallon cap	\$1.92	\$3.09	\$0.02
<b><u>General Service</u></b>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$8.26	\$12.37	\$0.07
3/4"	\$12.39	\$18.56	\$0.10
1"	\$20.65	\$30.93	\$0.16
1-1/4"	\$33.04	\$49.48	\$0.26
1 1/2"	\$41.30	\$61.85	\$0.33
2"	\$66.08	\$98.96	\$0.52
3"	\$132.16	\$197.92	\$1.05
4"	\$206.50	\$309.25	\$1.64
6"	\$413.00	\$618.50	\$3.28
8"	\$660.80	\$989.60	
Charge per 1,000 gallons	\$2.31	\$3.71	\$0.02
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
4,000 Gallons	\$15.94	\$24.73	
6,000 Gallons	\$19.78	\$30.91	
10,000 Gallons	\$19.78	\$30.91	