

State of Florida



FILED OCT 22, 2015
DOCUMENT NO. 06753-15
FPSC - COMMISSION CLERK

Public Service Commission

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FROM: Division of Economics (Thompson, Hudson) *SH KT*
 Division of Accounting and Finance (Monroe, Bulecza-Banks, Fletcher, Norris) *to CREB*
 Division of Engineering (Matthews, Vickery) *Bo*
 Office of the General Counsel (Tan) *TH*

RE: Docket No. 140239-WS – Application for staff-assisted rate case in Polk County by Orchid Springs Development Corporation.

AGENDA: 11/5/15 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: 04/07/16 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None



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Case Background

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

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

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

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

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

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

Discussion of Issues

Issue 1: Is the overall quality of service provided by Orchid Springs satisfactory?

Recommendation: Yes. Staff recommends that the overall quality of service for the Orchid Springs system in Polk County is satisfactory. The utility is currently meeting all applicable DEP water quality standards, and appears to be responsive to its customers and to the DEP. (Matthews)

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

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

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

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

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

utility has purchased wastewater treatment from the City on a bulk flow basis, and only operates its wastewater collection system.

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

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

The Utility's Attempt to Address Customer Satisfaction

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

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

Conclusion

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

Issue 2: What are the used and useful (U&U) percentages of Orchid Springs' water treatment plant (WTP), water distribution system, and wastewater collection systems?

Recommendation: Orchid Springs' water treatment plant (WTP), water distribution system and wastewater collection systems should all be considered 100 percent Used and Useful (U&U). Staff recommends that a 5.8 percent adjustment to purchased power and chemical expenses be made for excessive unaccounted for water. No adjustments should be made for excessive infiltration and inflow. (Matthews)

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

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

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

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

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

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

Excessive Unaccounted for Water

Unaccounted for water is all water produced that is not documented in the records of the utility as having been sold to customers, or for which the utility has otherwise accounted. Rule 25-

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

30.4325, F.A.C., describes excessive unaccounted for water (EUW) as water in excess of ten percent of the amount produced for which the utility cannot account. When establishing the Rule, the Commission recognized that some uses of water are readily measurable and others are not. The Rule provides that, in order to determine the necessity for adjustments to plant and operating expenses such as purchased electrical power and chemical costs, the Commission will consider the possible reasons for EUW, solutions implemented to correct problems, and the economic feasibility of any proposed solutions. Unaccounted for water is calculated by summing the total gallons sold to customers with the total gallons used for other purposes, such as flushing, and then subtracting the sum from the total gallons produced during the test year.

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

Infiltration and Inflow

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

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

Next, the amount of wastewater expected to be returned from the system is calculated. This figure is determined by summing 80 percent of water sold to residential users with 90 percent of water sold to non-residential users. The amount calculated is 17,450,900 gallons during the test year. In order to find the total amount of wastewater allowed, the I&I allowance and the expected

return are summed, yielding 22,055,359 gallons. Finally, this total is compared to the total wastewater actually treated during the test year, which in this case is 18,506,000 gallons. The total wastewater treated does not exceed the total wastewater allowed. Therefore, there is no excessive I&I.

Conclusion

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

Issue 3: What is the appropriate average test year water rate base and wastewater rate base for Orchid Springs?

Recommendation: The appropriate average test-year water rate base is \$34,696 and the average test-year wastewater rate base is \$110,940. If the land associated with the wastewater treatment plant that was formerly in rate base is sold, the utility must notify the Commission in writing within 60 days of the transaction. At the time that it notifies the Commission, the utility shall also submit all documentation regarding the transaction, including, but not limited to, the market value of the land. The utility shall also submit its proposal as to how this transaction should be treated for ratemaking purposes. (Monroe, Norris, Fletcher)

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

Utility Plant in Service (UPIS)

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

**Table 3-1
 Summary of Adjustments to Water & Wastewater UPIS**

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

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

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

expenses associated with the WWTP removal and the remediation of the land associated with the two percolation ponds are discussed in Issue 6.

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

Pro Forma Adjustment

Orchid Springs’ initial filing in this docket did not contain any pro forma requests. However, following the staff site visit on June 12, 2015, discussions between Orchid Springs personnel and staff revealed that substantial work had been done on the wastewater plant since the end of the test year, and that more work is planned for early 2016. Staff requested and Orchid Springs provided documentation of work already performed, and estimates for the planned work. Staff reviewed the invoices and estimates which were submitted in response to a staff data request. Staff recommends several adjustments to wastewater plant. Table 3-2 provides a summary of staff’s recommended pro forma plant adjustments.

**Table 3-2
 Staff’s Recommended Pro Forma Plant Adjustments**

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

Miscellaneous Repairs

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

Video Line Inspection

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

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

Engineering Work

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

Replace 130 feet of Clay Pipe

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

Rebuild Manhole

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

Land & Land Rights

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

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

Non-Used and Useful (U&U) Plant

As discussed in Issue 2, the utility's water system is 100 percent built out, and the utility's WWTP was demolished in 2009. Therefore, a U&U adjustment is not necessary.

Accumulated Depreciation

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

Contributions In Aid of Construction (CIAC)

The utility recorded CIAC balances of \$171,516 for water and \$302,109 for wastewater. Based on staff's review, no adjustments are necessary. Therefore, staff's recommended CIAC is \$171,516 and \$302,109 for water and wastewater, respectively.

Accumulated Amortization of CIAC

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

Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$9,353 for water (based on 1/8 O&M expense of \$74,824), and \$20,905 for wastewater (based on 1/8 O&M expense of \$167,239).

Rate Base Summary

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

Issue 4: What is the appropriate return on equity and overall rate of return for Orchid Springs?

Recommendation: The appropriate return on equity (ROE) is 9.38 percent with a range of 8.38 percent to 10.38 percent. The appropriate overall rate of return is 7.39 percent. (Monroe, Noris, Fletcher)

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

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

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

Third, based on staff's calculation, the simple average balance for customer deposits is \$14,798. Accordingly, staff recommends customer deposits be reduced by \$192 (\$14,990 - \$14,798).

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

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

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

Issue 5: What are the appropriate test year revenues for the utility's water and wastewater systems?

Recommendation: The appropriate test year revenues for the Orchid Springs' water and wastewater systems are \$93,453 and \$119,803, respectively. (Thompson)

Staff Analysis: Orchid Springs recorded total test year revenues of \$95,103 for water and \$120,827 for wastewater. The water revenues included service revenues of \$89,973 and miscellaneous revenues of \$5,130. The wastewater revenues did not include any miscellaneous revenues. Based on staff's review of the utility's billing determinants and the rates that were in effect during the test year, staff determined service revenues for water should be decreased by \$167 to reflect test year service revenues of \$89,806. Service revenues for wastewater should be decreased by \$1,024 to reflect test year service revenues of \$119,803. Staff also made an adjustment to miscellaneous revenues to account for late payment charges and non-sufficient funds charges (NSF) that were inappropriately collected. The utility's current tariff does not authorize the collection of late payment charges or NSF charges. In Issue Nos. 10 and 11, staff is recommending the approval of a \$7.00 late payment charge and the statutory NSF charges. Staff has determined miscellaneous revenues based on the recommended charges.

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

Issue 6: What is the appropriate amount of operating expense?

Primary Recommendation: The appropriate amount of operating expense for Orchid Springs is \$86,293 for water and \$190,768 for wastewater. (Monroe, Bulecza-Banks, Norris, Fletcher)

Alternative Recommendation: Alternative staff concurs with primary staff with its recommendations on operating expenses with the exception of the amortization period related to costs associated with the abandonment of Orchid Springs' wastewater treatment plant. Alternate staff believes the appropriate period to amortize the costs associated with the abandonment of Orchid Springs' wastewater treatment plant is 10 years. Based on a 10-year amortization period, the appropriate amount of operating expense for Orchid Springs is \$195,035 for wastewater. (Bulecza-Banks)

Staff Analysis:

Operation and Maintenance Expenses

Purchased Water (610) – The utility recorded purchased water expense of \$1,149 for the test year. The utility purchases water from the City of Winter Haven for emergency purposes only. Purchased water was reduced by \$67 to reflect a 5.8 percent excessive unaccounted for water (EUW) adjustment. This adjustment results in a purchased water expense of \$1,082.

Purchased Power (615/715) – The utility recorded purchased power expense of \$3,000 for water and \$4,676 for wastewater. Based on invoices for the test year, staff increased purchased power by \$220 for water and decreased purchased power for wastewater by \$525. Staff also decreased purchased power for water by \$187 to reflect a 5.8 percent EUW adjustment. Therefore, the appropriate purchased power expense is \$3,033 ($\$3,000 + \$220 - \187) for water and \$4,151 ($\$4,676 - \525) for wastewater.

Chemicals (618) – The utility recorded chemical invoices totaling \$3,440 for water in the test year. Based on invoices for the test year, staff increased this account by \$31. Staff also decreased this amount by \$201 to reflect a 5.8 percent EUW adjustment. Therefore, the appropriate chemical expense is \$3,270 ($\$3,440 + \$31 - \201).

Contractual Services – Professional/Management (631/731) – The utility recorded Contractual Services – Professional/Management expense of \$7,304 for water and \$7,304 for wastewater in the test year. Included in the expense were salaries for the secretary and the utility manager of \$3,000 and \$4,304, respectively, for each system. In its last rate case, the Commission approved a total of \$67,872, of which \$33,936 was assigned to each system for management services provided by Cassidy Organization, Inc. The utility pays the Cassidy Organization, Inc. for the services of a secretary, utility manager, and an officer. Staff's analysis in the instant docket reviewed this expense in light of current duties and responsibilities as well as the utility's change in operations.

In its last case, the secretary was allowed a salary of \$26,000 annually, \$13,000 for each system. In the current case, the utility requested a salary of \$31,694 annually for the secretary in its

correspondence with staff dated June 26, 2015. To evaluate the reasonableness of the utility's request, staff applied the Commission-approved price indices from 1998 to 2015 to the salary approved in the last rate case. Based on this analysis, staff believes the utility's request is appropriate, and staff recommends a salary of \$31,694, \$15,847 for each system, for the secretary. As such, staff increased Contractual Services – Management by \$12,847 (\$15,847 - \$3,000) for each system.

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

The president was allowed a salary of \$25,000 in the utility's last rate case, \$12,500 for each system. In the utility's last SARC, the expense for the same president, Al Cassidy, was determined based on the duties performed and the efficiency of the management provided. At that time, staff believed that a strict comparison of hourly officer rates was not appropriate. However, the Order⁸ did note that this allowance would be reviewed in future rate case filings to determine if circumstances had changed. Since Orchid Springs' last rate case, the utility has interconnected with the City of Winter Haven (City) for emergency water service. Under this contract with the City, the City performs some water system maintenance and repairs. In addition, the utility has interconnected with the City for all wastewater treatment and the City performs wastewater system maintenance and repairs. In light of the current operating posture, staff believes that it is appropriate to use an hourly rate to calculate the president's salary. The president devotes ten hours per week to utility business. Staff believes that the duties and responsibilities required of the president are similar to the duties of the president of a water reseller of similar size. In a recent Order,⁹ the Commission approved an hourly rate of \$20/hr for a president of a reseller whose duties and responsibilities are similar to Mr. Cassidy. Based on the duties the president performs, staff believes that an hourly rate of \$20/hr is appropriate for the president's salary. Staff calculated the president's total salary to be \$10,400 (\$20 x 10 x 52), allocated evenly between the two systems. Staff believes that the level of oversight that the president provides is on a total utility basis. Based on staff's analysis, Contractual Services – Management should be increased by \$24,038 (\$12,847 + \$5,991 + \$5,200) for water and increased by \$18,891 (\$12,847 + \$844 + \$5,200) for wastewater. The result of staff's

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

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

adjustments are Contractual Services – Management expense of \$31,342 (\$7,304 + \$24,038) for water and \$26,195 (\$7,304 + \$18,891) for wastewater.

Contractual Services – Testing (635) – The utility recorded \$108 for water in this account. The utility did not add the December 2014 invoice to the general ledger. As such, staff increased Contractual Services – Testing by \$133.

Contractual Services – Other (636/736) – The utility recorded Contractual Services - Other expense in the amount of \$40,661 for water and \$18,192 for wastewater. Staff reduced this expense by \$7,026 for water and \$6,353 for wastewater due to unsupported invoices and discrepancies between the general ledger and support documentation. Staff also reduced this expense for water by \$3,094 in order to amortize a one-time paving expense over five years. Staff reduced this expense by \$2,272 for water to capitalize meter replacements that were incorrectly expensed. Finally, staff decreased this amount by \$263 for water and wastewater in order to amortize a one-time accounting expense over five years. The result of staff's adjustments is an expense of \$28,006 (\$40,661 - \$7,026 - \$3,094 - \$2,272 - \$263) for water and \$11,576 (\$18,192 - \$6,353 - \$263) for wastewater.

Rent Expense (640/740) – The utility was allowed \$3,070 for rent expense in its last rate case and recorded this amount during the test year. In response to one of staff's data requests, the utility provided a lease agreement showing rent expense amounting to \$9,000 per year. When applying the Commission-approved price indices to the rent expense from 1998 to 2015, staff believes that the requested additional \$2,860 is within a reasonable range for rent expense. Staff allocated the rent expense based on the Equivalent Residential Connections (ERCs) of the systems and subsequently increased rent expense by \$1,784 (\$2,860 x 53.9%) for water and \$1,076 (\$2,860 x 46.1%) for wastewater.

Insurance Expense (655/755) – The utility recorded insurance expense of \$699 for both water and wastewater, respectively. An updated invoice of the general liability policy premium for 2015 supported insurance expense of \$1,380. The expense was allocated to water and wastewater based on each system's percentage of the total adjusted plant balance (33 percent for water and 67 percent for wastewater). The appropriate balances are \$457 (\$1,380 x 0.33) and \$923 (\$1,380 x 0.67) for water and wastewater, respectively. As such, water insurance expense should be decreased by \$242 (\$457 - \$699) and wastewater insurance expense should be increased by \$224 (\$923 - \$699).

Regulatory Commission Expense (665/765) – Regarding the instant case, the utility booked its filing fee of \$2,000 and outside consultant fees of \$2,000 to water and wastewater Regulatory Commission Expense evenly. The utility is required by Rule 25-22.0407, F.A.C., to provide notices to its customers of the customer meeting and notices of interim and final rates in this case. In this docket, staff has calculated cost of noticing customers of the customer meeting, interim rates, and final rates to be \$587. The utility also incurred consulting fees for the instant case in the amount of \$4,700. Travel and lodging to the agenda conference was estimated to be \$750. Based on the above, staff recommends that total rate case expense is \$8,037 (\$2,000 + \$4,700 + \$587 + \$750). When amortized over four years, this represents an

annual expense of \$2,009, with \$1,064 ($(\$8,037 \times 0.53) / 4$) allocated to water and \$945 ($(\$8,037 \times .47) / 4$) allocated to wastewater annually based on each system's ERCs.

Bad Debt Expense (670/770) – The utility included bad debt expense of \$115 for both water and wastewater, respectively. Based on a three-year average, staff believes that \$419 is the appropriate amount of bad debt expense to include in the test year for each system. Accordingly, this expense should be increased by \$304 for both water and wastewater, respectively.

Miscellaneous Expense (675/775) – The utility recorded miscellaneous expense of \$2,364 for water and \$1,584 for wastewater. The invoices provided in support of this expense totaled \$1,490 and included shared expenses such as monthly billing mail-outs. As such, staff believes it is appropriate to divide this expense based on ERC allocations. The appropriate amount for this account is \$804 ($\$1,490 \times 53.9\%$) for water and \$686 ($\$1,490 \times 46.1\%$) for wastewater. This represents a \$1,619 ($\$2,364 - \895) reduction for water and an \$839 ($\$1,584 - \745) reduction for wastewater.

Operation and Maintenance Expense (O&M) Summary

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

Depreciation Expense (Net of Amortization of CIAC)

The utility recorded depreciation expense of \$1,736 for water and \$11,134 for wastewater during the test year. Staff recalculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff increased depreciation expense by \$3,892 for water and decreased depreciation expense by \$9,329 for wastewater to reflect the appropriate depreciation expense. Orchid Springs recorded amortization expense of CIAC as \$479 for water during the test year, and no amount for wastewater because CIAC is fully amortized. However, based on staff's adjustment to fully amortize water CIAC, addressed in Issue 2, amortization expense of CIAC should be removed. Staff increased depreciation expense for wastewater by \$1,729 associated with pro forma plant additions. Staff also increased depreciation expense for water by \$134 to reflect capitalized meters. Staff's net adjustment results in an increase of \$3,547 ($\$3,892 - \$479 + \134) to water depreciation expense and a decrease of \$7,599 ($-\$9,329 + \$1,730$) to wastewater depreciation expense, resulting in a total depreciation expense of \$5,283 ($\$1,736 + \$3,547$) for water and \$3,535 ($\$11,134 - \$7,599$) for wastewater.

Amortization of WWTP Removal and Land Remediation Costs – Primary Staff

As the result of a DEP consent order dated May 23, 2007, Orchid Springs ceased treating its wastewater and connected to the City for this function. The utility incurred environmental compliance costs to demolish the wastewater treatment plant (WWTP) and to remediate the land associated with two percolation ponds, which, pursuant to Chapter 367.081(2)(a)(6), Florida Statutes (F.S.), should be fully recovered by the utility. The utility provided staff with a list of invoices during the years 2008, 2009, and 2010 for these costs. Staff identified costs totaling \$122,250 and amortized the sum over 15 years consistent with Rule 25-30.433(8), F.A.C., for

non-recurring expenses. Based on staff's adjustments to wastewater rate base addressed in Issue 3, these costs are not included in rate base. The standard amortization period in Rule 25-30.433(8) is five years, unless a shorter or longer period of time can be justified. Staff chose a 15-year amortization period based on the following factors: the magnitude of the expense and Commission practice for an expense of this magnitude. The expense of \$122,250 is larger than the utility's wastewater rate base of \$118,891. Therefore, staff believes that the expense should be recovered over a period longer than five years so as to mitigate rate shock. In addition, prior Commission practice has shown that the Commission approved 15-year amortization periods for substantial non-recurring expenses.¹⁰ The annual amortization for wastewater is \$8,150 (\$122,250/15).

Section 367.081(2)(a)(6), F.S. states, "Notwithstanding the provisions of this paragraph, the commission shall approve rates for service which allow a utility to recover from customers the full amount of environmental compliance costs." The statute goes on to state, "For purposes of this requirement, the term "environmental compliance costs" includes all reasonable expenses and fair return on any prudent investment incurred by a utility in complying with the requirements or conditions contained in any permitting, enforcement, or similar decisions of the United States Environmental Protection Agency, the Department of Environmental Protection, a water management district, or any other governmental entity with similar regulatory jurisdiction."

The DEP gave the utility two options to come into compliance:

1. The utility could discharge excess effluent that could not be disposed of in its own ponds to the City of Winter Haven directly from the plant to the force main.
2. The facility could go off line and be abandoned, and all the effluent would go to the City of Winter Haven #3 WWTF.

The utility decided to proceed with option two, and the lift station and interconnect were completed. The final step in coming into compliance with the DEP was the abandonment of the WWTP.

The utility submitted multiple abandonment plans to bring the facility into compliance, one of which included covering of its percolation ponds with two feet of soil. The utility submitted testing of the sedimentation material that settled at the bottom of its percolation ponds during their use, and the samples were within accepted DEP guidelines. The DEP rejected this plan because it believed that wastewater residuals lost from the treatment process over several decades remained in the ponds. In addition, the DEP cited customer complaints of respiratory problems as well as odors being emitted from the ponds and flies surrounding the ponds as further reasons why the sludge buildup had to be removed as opposed to covered.

¹⁰Order No. PSC-07-0865-PAA-SU, issued October 29, 2007, in Docket No. 060285-SU, *In re: Application for increase in wastewater rates in Charlotte County by Utilities, Inc. of Sandalhaven.*; Order No. PSC-96-1147-FOF-WS, issued September 12, 1996, in Docket No. 951258-WS, *In re: Application for a rate increase in Brevard County by Florida Cities Water Company (Barefoot Bay Division).*

The utility subsequently submitted a request to build a fence around one of the ponds and plant 300 cypress and/or maple trees in the bottom of the pond and leave the pond in its natural state to serve as a wetland area. The DEP rejected this plan as well, citing the customer complaints of respiratory problems as well as odors being emitted from and flies surrounding the pond. The DEP was adamant that all of the sludge had to be removed. The sludge buildup was considered an environmental risk as well as a public nuisance. The only abandonment plan approved by the DEP included removal of six inches of sedimentation from each of its percolation ponds. In the instant case, the \$122,250 incurred by the utility in WWTP removal costs, most of which consisted of sludge removal from the percolation ponds, was required by the DEP to properly abandon the wastewater plant facility. Staff believes that the costs were prudently incurred by the utility in order to bring the facility into compliance with the DEP.

The concept of deferral accounting allows companies to defer costs due to events beyond their control and seek recovery through rates at a later time. The alternative would be for the company to seek a rate case each time it experiences an exogenous event. Often times, this is not feasible for a Class C utility. Typically, larger utilities seek the Commission's approval to defer significant costs prior to the utility implementing this practice. Staff believes that Section 367.081(2)(a)(6), F.S., which calls for full recovery of environmental compliance costs, does not require prior approval by the Commission to practice deferral accounting for costs of this nature. Rather, the statute calls for full recovery of environmental compliance costs. Staff believes that the current case is an instance when deferral accounting should be used for cost recovery, as it balances the needs of both the utility, to recover its environmental compliance costs when it proposed alternative and less expensive abandonment options, and the customers, who received the environmental and aesthetic benefit of the sludge removal from the percolation ponds. Staff recommends that the utility be allowed to recover the WWTP removal and land remediation costs as they are necessary, non-recurring, and substantial. Therefore, staff believes the costs should be recovered in full, and the amortization period should begin on the effective date of the Final Order for this docket and continue for 15 years. When the amortization period has concluded, the utility should file modified tariff sheets with the Commission to remove the recovery of this expense from its rates as discussed further in Issue 11.

Amortization of WWTP Removal and Land Remediation Costs - Alternative Staff

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

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

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

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

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

Alternative staff recognizes that the five-year difference between the primary and alternative recommendations increases revenue requirement by \$4,267. However, if the cost of removal were embedded in the depreciation rates, and the investment was fully depreciated, the utility would have recovered the removal costs over the life of the plant with recovery beginning with the in-service date.

Pursuant to Section 367.081(2)(a)(6), F.S., Orchid Springs is entitled to fully recover the costs associated with mandates by the DEP. In alternative staff’s view, requiring Orchid Springs to wait any longer than 10 years to recover the costs it is entitled by statute to fully recover does not reflect the spirit of the law. In fact, had the impact on rates not been as significant, alternative staff would support an amortization period of five years, which is typically applied to non-recurring expenses.

Taxes Other Than Income (TOTI)

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

In addition, as discussed in Issue 8, staff has calculated a revenue increase of \$214 for water and increased by \$79,159 for wastewater. As a result, TOTI should be increased by \$10 for water and by \$3,562 for wastewater to reflect RAFs of 4.5 percent on the change in revenues. Staff's net adjustments are increases of \$460 ($\$414 + \$36 + \10) for water and \$4,465 ($-\$111 + \$1,014 + \$3,562$) for wastewater. Therefore, staff recommends TOTI of \$6,186 and \$11,845 for water and wastewater, respectively.

Income Tax

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

Operating Expenses Summary

The application of staff's recommended adjustments to Orchid Springs' operating expenses result in staff's recommended operating expenses of \$86,293 for water and \$190,768 for wastewater. The operating expenses for wastewater of \$190,768 are based on staff's primary recommendation for the amortization of WWTP removal and land remediation costs. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-C.

Issue 7: Should the Commission utilize the operating ratio methodology as an alternative means to calculate the water revenue requirement for Orchid Springs, and, if so, what is the appropriate margin?

Recommendation: Yes, the Commission should utilize the operating ratio methodology for calculating the water revenue requirement for Orchid Springs. The margin should be 10.00 percent of O&M expense. (Monroe, Norris, Fletcher)

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

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

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

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

1) Whether the utility's O&M expense exceeds rate base. The operating ratio method substitutes O&M expense for rate base in calculating the amount of return. A utility generally would not benefit from the operating ratio method if rate base exceeds O&M expense. The decision to use the operating ratio method depends on the determination of whether the primary risk resides in capital costs or operating expenses. In the instant case, water rate base is significantly less than water O&M expenses. The utility's primary risk resides with covering its operating expense for water. In past annual reports, the utility has reported O&M expenses significantly less than the

¹¹Issued March 13, 1996, in Docket No. 950641-WU, *In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.*

¹²Issued February 10, 1997, in Docket No. 960561-SU, *In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.*

¹³Issued July 16, 2013, in Docket No. 120270-SU, *In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC.*

amount staff deemed as appropriate for continued operation in the instant case. The utility has a water rate base of \$34,561 and net water O&M expenses of \$73,742, and therefore is a candidate for the operating ratio method of calculating revenue requirement for water. The utility's wastewater O&M expenses are also greater than its wastewater rate base. However, the utility has a purchased wastewater expense of \$117,987. When calculating the utility's revenue requirement using the operating ratio method, purchased water and wastewater treatment services are excluded from O&M expenses. Therefore, for operating ratio purposes, wastewater O&M expense is \$49,252 (\$167,239 - \$117,987), which is less than the utility's wastewater rate base of \$110,940. Hence, wastewater revenue requirement is calculated using the traditional return on rate base method.

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

3) Quality of service and condition of plant. As discussed in Issue 1, staff recommends that the overall quality of service for the Orchid Springs water system in Polk County is satisfactory.

4) Whether the utility is developer-owned. The current utility owner is a developer, however, being developer-owned does not, in itself, disqualify a utility from the operating ratio method.¹⁴ As mentioned previously, the system is totally built out and was originally placed into service in 1972. The utility has had the same number of customers for the past 15 years. Therefore, staff believes that there is no potential for future growth.

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

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

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

¹⁴Order No. PSC-96-0357-FOF-WU, Issued March 13, 1996, in Docket No. 950641-WU, *In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.*

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

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

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

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

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

Issue 8: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$93,667 for water and \$198,962 for wastewater. (Monroe, Norris, Fletcher)

Staff Analysis: As mentioned in Issue 7, staff recommends that the operating ratio method be used to calculate water revenue requirement. Using this methodology, Orchid Springs will have an operating margin of 10.00 percent, resulting in an annual increase of \$214 for water. Staff's water revenue requirement calculation is shown on Table 8-1 below:

**Table 8-1
 Water Revenue Requirement**

	Water
Adjusted Net O&M Expense ¹⁵	\$73,742
Operating Margin (%)	<u>x 10.00%</u>
Operating Margin (\$)	\$7,374
Adjusted O&M Expense	74,824
Depreciation Expense	5,283
Amortization Expense	0
Taxes Other Than Income	<u>6,186</u>
Revenue Requirement	\$93,667
Less Adjusted Test Year Revenues	<u>93,453</u>
Annual Increase	<u>\$214</u>
Percent Increase	<u>0.23%</u>

¹⁵The adjusted O&M expense amount was reduced by \$1,082 related to purchased water expense because it is not eligible for the operating margin.

Using the return on rate base methodology, staff recommends an annual increase of \$79,159 (66.07 percent) for wastewater. This will allow the utility the opportunity to recover its expenses and earn a 7.39 percent return on its wastewater investment. Staff's wastewater revenue requirement calculation is shown on Table 8-2 below:

**Table 8-2
 Wastewater Revenue Requirement**

	Wastewater
Adjusted Rate Base	\$110,940
Rate of Return	<u>x 7.39%</u>
Return on Rate Base	\$8,194
Adjusted O&M Expense	167,239
Depreciation Expense	3,535
Amortization Expense	8,150
Taxes Other Than Income	<u>11,845</u>
Revenue Requirement	\$198,962
Less Adjusted Test Year Revenues	<u>119,803</u>
Annual Increase	<u>\$79,159</u>
Percent Increase	<u>66.07%</u>

Issue 9: What are the appropriate rate structures and rates for Orchid Springs' water and wastewater systems?

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

Staff Analysis:

Water Rates

The Orchid Springs water system is located in Polk County within the SWFWMD. The utility provides water service to approximately 228 residential customers and 82 general service customers. Approximately 12 percent of the residential customer bills during the test year had zero gallons indicating a non-seasonal customer base. The average residential water demand is 4,244 gallons per month. Currently, the utility's rate structure consists of a monthly base facility charge (BFC) and uniform gallonage charge for all customers.

Given the small change in the revenue requirement of approximately .23 percent, staff believes that it would be inappropriate to change the utility's existing rate structure or its existing BFC and gallonage charges at this time. Therefore, staff believes it is appropriate from a rate stability perspective to maintain the current rate structure and BFC and gallonage charges until the utility comes before the Commission in the future.¹⁶ Accordingly, staff recommends that the utility's existing rate structure and BFC and gallonage charges remain unchanged.

Wastewater Rates

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

Staff performed an analysis of the utility's billing data in order to evaluate various BFC cost recovery percentages and gallonage caps for the residential wastewater customers. The goal of the evaluation was to select the rate design parameters that: 1) produce the recommended 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.

¹⁶Order No. PSC-11-0010-SC-WU, issued January 3, 2011, *In re: Application for increase in water rates in Franklin County by Water Management Services, Inc.* (In the WMSI case, the revenue increase was a little over one percent in which case the Commission decided to maintain the current rates. In the instant case, the revenue increase of .23% is four times less than the amount in the WMSI case.)

The Commission’s practice is to allocate at least 50 percent of the wastewater revenue to the BFC due to the capital intensive nature of wastewater plants. Therefore, an allocation of 50 percent of the wastewater revenue to the BFC is appropriate. In addition, it is Commission practice to set the wastewater cap at approximately 80 percent of residential water gallons sold. Based on staff’s review of the billing analysis, the 6,000 gallon consumption level is where approximately 80 percent of the water demand is captured. The wastewater gallonage cap recognizes that not all water used by the residential customers is returned to the wastewater system. For this reason, staff recommends that the residential gallonage cap of 10,000 per month be reduced to 6,000 gallons. Staff also recommends that the general service gallonage charge be 1.2 times greater than the residential gallonage charge which is consistent with Commission practice. Furthermore, staff recommends a BFC allocation based on 50 percent of the wastewater revenue requirement. Staff’s recommended rate structure and rates are shown on Schedule No. 4-B. Staff also presents two alternate rate structures to illustrate other BFC allocations in Table 9-1 below.

**Table 9-1
 Staff’s Recommended and Alternative Wastewater Rate Structures and Rates**

ORCHID SPRINGS DEVELOPMENT CORPORATION DOCKET NO. 140239-WS STAFF’S RECOMMENDED AND ALTERNATIVE WASTEWATER RATE STRUCTURES AND RATES			
Test Year Rate Structure and Rates		Recommended Rate Structure and Rates	
Monthly BFC/Uniform Gallonage Charge Rate Structure		Monthly BFC/Uniform Gallonage Charge Rate Structure BFC = 50%	
BFC	\$14.13	BFC	\$23.82
Charge per kgals	\$3.08	Charge per kgal	\$5.43
10 kgal cap		6 kgal cap	
Typical Monthly Bills		Typical Monthly Bills	
Consumption (kgals)		Consumption (kgals)	
0	\$14.13	0	\$23.82
4	\$26.45	4	\$45.54
6	\$32.61	6	\$56.40
10	\$44.93	10	\$56.40
Alternative 1 Rate Structure and Rates		Alternative 2 Rate Structure and Rates	
Monthly BFC/Uniform Gallonage Charge Rate Structure BFC = 40%		Monthly BFC/Uniform Gallonage Charge Rate Structure BFC =60%	
BFC	\$19.06	BFC	\$28.59
Charge per kgals	\$6.51	Charge per kgal	\$4.34
6 kgal cap		6 kgal cap	
Typical Monthly Bills		Typical Monthly Bills	
Consumption (kgals)		Consumption (kgals)	
0	\$19.06	0	\$28.59
4	\$45.10	4	\$45.95
6	\$58.12	6	\$54.63
10	\$58.12	10	\$54.63

Summary

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

Issue 10: Should Orchid Springs' request to implement a \$7 late payment charge be approved?

Recommendation: Yes. Orchid Springs' request to implement a \$7 late payment charge should be approved. Orchid Springs should be required to file a proposed customer notice to reflect the Commission-approved charge. The approved charge should be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Thompson)

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

The utility has a total of 310 customer accounts and, according to the utility, there are a substantial number of customers that do not pay by the due date each billing cycle. Based on historical data, the utility anticipates it will prepare late payment notices for approximately 50 accounts per billing cycle. In the past, the Commission has allowed 10-15 minutes per account per month for clerical and administrative labor to research, review, and prepare the notice.¹⁷ The utility indicated it will spend approximately 12 hours per month processing late payment notices, which results in an average of approximately 11 minutes per account (540 minutes/50 accounts) and is consistent with past Commission decisions. The late payment notices will be processed by the account manager, which results in labor cost of \$6.30 (9x\$35/50) per account. The cost basis for the late payment charge, including the labor, is shown below.

Table 9-1
Cost Basis for Late Payment Charge

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

Source: Utility correspondence dated October 14, 2015

¹⁷Order Nos. PSC-11-0204-TRF-SU, in Docket No. 100413-SU, issued April 25, 2011, *In re: Request for approval of tariff amendment to include a late fee of \$14.00 in Polk County by West Lakeland Wastewater.*; PSC-08-0255-PAA-WS, in Docket No. 070391-WS, issued April 24, 2008, *In re: Application for certificates to provide water and wastewater service in Sumter County by Orange Blossom Utilities, Inc.*; and PSC-01-2101-TRF-WS, in Docket No. 011122-WS, issued October 22, 2001, *In re: Tariff filing to establish a late payment charge in Highlands County by Damon Utilities, Inc.*

Based on staff's research, since the late 1990s, the Commission has approved late payment charges ranging from \$2.00 to \$7.00.¹⁸ The purpose of this charge is not only to provide an incentive for customers to make timely payment, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing delinquent accounts solely upon those who are cost causers.

During the course of staff's audit, it was determined that late payment charges had been collected without the appropriate tariff. The utility has determined the amount of late fees collected from 2011 through 2015 and has already begun issuing credits to customers on their bills. In a response to staff, Orchid Springs states that the refund process will be completed by January 2016. Any unclaimed refunds will be treated as cash contributions-in-aid-of-construction. Therefore, staff believes that enforcement action is not warranted at this time.

Based on the above, staff recommends that Orchid Springs' request to implement a \$7 late payment charge should be approved. Orchid Springs should be required to file a proposed customer notice to reflect the Commission-approved charge. The approved charge should be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

¹⁸Order Nos. PSC-01-2101-TRF-WS, in Docket No. 011122-WS, issued October 22, 2001, *In re: Tariff filing to establish a late payment charge in Highlands County by Damon Utilities, Inc.*; PSC-08-0255-PAA-WS, in Docket No. 070391-WS, issued April 24, 2008, *In re: Application for certificates to provide water and wastewater service in Sumter County by Orange Blossom Utilities, Inc.*; PSC-09-0752-PAA-WU, in Docket No. 090185-WU, issued November 16, 2009, *In re: Application for grandfather certificate to operate water utility in St. Johns County by Camachee Island Company, Inc. d/b/a Camachee Cove Yacht Harbor Utility.*; PSC-10-0257-TRF-WU, in Docket No. 090429-WU, issued April 26, 2010, *In re: Request for approval of imposition of miscellaneous service charges, delinquent payment charge and meter tampering charge in Lake County, by Pine Harbour Water Utilities, LLC.*; and PSC-11-0204-TRF-SU, in Docket No. 100413-SU, issued April 25, 2011, *In re: Request for approval of tariff amendment to include a late fee of \$14.00 in Polk County by West Lakeland Wastewater.* PSC-14-0105-TRF-WS, in Docket No. 130288-WS, issued February 20, 2014, *In re: Request for approval of late payment charge in Brevard County by Aquarina Utilities, Inc.*

Issue 11: Should Orchid Springs be authorized to collect Non-Sufficient Funds (NSF) charges?

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

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

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

Approval of NSF charges are consistent with prior Commission decisions.¹⁹ Furthermore, NSF charges place the cost on the cost-causer, rather than requiring that the costs associated with the return of the NSF checks be spread across the general body of ratepayers. As such, staff recommends that Orchid Springs revise its tariffs to reflect the NSF charges currently set forth in Sections 68.065 and 832.08(5) F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the NSF charges should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given within 10 days of the date of the notice.

¹⁹Order Nos. PSC-10-0364-TRF-WS, issued June 7, 2010, in Docket No. 100170-WS, *In re: Application for authority to collect non-sufficient funds charges, pursuant to Sections 68.065 and 832.08(5), F.S., by Pluris Wedgefield Inc., and PSC-10-0168-PAA-SU, issued March 23, 2010, in Docket No. 090182-SU, In re: Application for increase in wastewater rates in Pasco County by Ni Florida, LLC.*

Issue 12: What are the utility's appropriate initial customer deposits for Orchid Springs' wastewater service?

Recommendation: The appropriate wastewater initial customer deposit should be \$91 for the residential 5/8" x 3/4" meter size. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for wastewater service. The approved customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding. (Thompson)

Staff Analysis: Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the utility and, ultimately, the general body of ratepayers. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.²⁰ Currently, the utility's wastewater initial customer deposit is \$50 for 5/8" x 3/4" meter size and two times the average estimated bill for all other meters sizes. Based on the staff recommended wastewater rates, the appropriate initial customer deposit should be \$91 for wastewater to reflect an average residential customer bill for two months.

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

Staff recommends the appropriate initial customer deposit should be \$91 for the residential 5/8" x 3/4" meter size for wastewater. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for wastewater. The approved customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding.

²⁰Order Nos. PSC-13-0611-PAA-WS, issued November 19, 2013, in Docket No. 130010-WS, *In re: Application for increase in water rates in Lee County and wastewater rates in Pasco County by Ni Florida, LLC.* and PSC-14-0016-TRF-WU, issued January 6, 2014, in Docket No. 130251-WU, *In re: Application for approval of miscellaneous service charges in Pasco County, by Crestridge Utility Corporation.*

Issue 13: What is the appropriate amount by which rates should be reduced in four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

Recommendation: The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Orchid Springs should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Thompson, Monroe, Norris, Fletcher)

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

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

Issue 14: What is the appropriate amount by which rates should be reduced in 15 years after the published effective date to reflect the removal of amortized removal costs associated with the decommissioning of the utility's wastewater treatment plant?

Recommendation: The wastewater rates should be reduced by \$8,534, as shown on Schedule No. 4-B, to remove removal costs grossed-up for regulatory assessment fees (RAFs) and amortized over a 15-year period. The decrease in rates should become effective immediately following the expiration of the 15-year recovery period of removal costs associated with the decommissioning of the utility's wastewater treatment plant (WWTP). Orchid Springs should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized expense. (Thompson, Monroe, Norris, Fletcher)

Staff Analysis: As discussed in Issue 6, staff identified WWTP removal and land remediation costs totaling \$122,250 and amortized the sum over 15 years as set forth in Rule 25-30.433(8), F.A.C. for non-recurring expenses if a period longer than five years can be justified. When the amortization period has concluded, the Utility should remove the recovery of this amortized expense from its rates. The reduction will reflect the removal of revenue associated with the amortization of removal costs and the gross-up for RAFs. The total reduction is \$8,534 for wastewater.

Therefore, the wastewater rates should be reduced by \$8,534, as shown on Schedule No. 4-B, to remove removal costs grossed-up for regulatory assessment fees (RAFs) and amortized over a 15-year period. The decrease in rates should become effective immediately following the expiration of the 15-year recovery period of removal costs associated with the decommissioning of the utility's wastewater treatment plant (WWTP). Orchid Springs should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized expense.

Issue 15: Should the recommended rates be approved for the utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the utility?

Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the utility. Orchid Springs should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Monroe, Norris, Fletcher)

Staff Analysis: This recommendation proposes an increase in water and wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. Orchid Springs should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$52,161. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

If the utility chooses a letter of credit as a security, it should contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect, and,

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

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

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

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

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

Issue 16: Should the utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) associated with the Commission approved adjustments?

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

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

Issue 17: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff. Once these actions are complete, this docket should be closed administratively. (Tan)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff. Once these actions are complete, this docket should be closed administratively.

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

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

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

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

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

ORCHID SPRINGS DEVELOPMENT CORPORATION TEST YEAR ENDED 12/31/14 SCHEDULE OF WASTEWATER OPERATING INCOME						SCHEDULE NO. 3-B DOCKET NO. 140239-WS
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$120,827</u>	<u>(\$1,024)</u>	<u>\$119,803</u>	<u>\$79,159</u> 66.07%	<u>\$198,962</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$154,783	\$12,456	\$167,239	\$0	\$167,239	
3. DEPRECIATION (NET)	11,134	(7,599)	3,535	0	3,535	
4. AMORTIZATION	0	8,150	8,150	0	8,150	
5. TAXES OTHER THAN INCOME	7,379	903	8,282	3,562	11,845	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$173,296</u>	<u>\$13,910</u>	<u>\$187,206</u>	<u>\$3,562</u>	<u>\$190,768</u>	
8. OPERATING INCOME/(LOSS)	<u>(\$52,469)</u>		<u>(\$67,403)</u>		<u>\$8,194</u>	
9. WASTEWATER RATE BASE	<u>\$242,894</u>	<u>(\$131,954)</u>	<u>\$110,940</u>		<u>\$110,940</u>	
10. RATE OF RETURN	<u>(21.60%)</u>		<u>(60.76%)</u>		<u>7.39%</u>	

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

ORCHID SPRINGS DEVELOPMENT CORPORATION
TEST YEAR ENDED 12/31/14
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 140239-WS
PAGE 2 OF 2

		<u>WATER</u>	<u>WASTEWATER</u>
8.	Bad Debt Expense (670/770)		
	a. To reflect the appropriate amount of bad debt expense.	\$304	\$304
	Subtotal	<u>\$304</u>	<u>\$304</u>
9.	Miscellaneous Expense (675/775)		
	To reflect the appropriate amount in invoiced provided to staff	(\$1,560)	(\$898)
	Subtotal	<u>(\$1,560)</u>	<u>(\$898)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS		<u>\$11,599</u>	<u>\$12,456</u>
DEPRECIATION EXPENSE			
1.	To reflect test year depreciation expense calculated per 25-30.140 F.A.C.	\$3,892	(\$9,329)
2.	To remove CIAC amortization expense.	(479)	0
3.	To reflect pro forma plant additions.	0	1,730
4.	To reflect capitalized meters.	134	0
	Total	<u>\$3,547</u>	<u>(\$7,599)</u>
AMORTIZATION			
1.	Amortization of WWTP removal costs.	\$0	\$8,150
	Total	<u>\$0</u>	<u>\$8,150</u>
TAXES OTHER THAN INCOME			
1.	To reflect appropriate test year property taxes and RAFs.	\$414	(\$111)
2.	To reflect appropriate property tax after pro forma plant additions.	0	1,014
3.	To reflect appropriate property tax after capitalization of meters.	36	0
	Total	<u>\$450</u>	<u>\$903</u>

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

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

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

ORCHID SPRINGS DEVELOPMENT CORPORATION TEST YEAR ENDED DECEMBER 31, 2014 MONTHLY WASTEWATER RATES		SCHEDULE NO. 4-B DOCKET NO. 140239-WS			
	RATES AT TIME OF FILING	COMMISSION APPROVED INTERIM	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION	15 YEAR WWTP DECOMMISSIONING REDUCTION
<u>Residential Service</u>					
Base Facility Charge for All Meter Sizes	\$14.13	\$16.42	\$23.82	\$0.12	\$0.98
Charge per 1,000 gallons - Residential					
10,000 gallon cap	\$3.08	\$3.58			
6,000 gallon cap			\$5.43	\$0.03	\$0.22
<u>General Service</u>					
Base Facility Charge by Meter Size					
5/8"X 3/4"	\$14.13	\$16.42	\$23.82	\$0.12	\$0.98
3/4"	\$21.24	\$24.63	\$35.73	\$0.18	\$1.46
1"	\$35.40	\$41.05	\$59.55	\$0.30	\$2.44
1-1/2"	\$70.78	\$82.10	\$119.10	\$0.60	\$4.88
2"	\$113.26	\$131.36	\$190.56	\$0.96	\$7.81
3"	\$226.50	\$262.72	\$381.12	\$1.91	\$15.61
4"	\$353.90	\$410.50	\$595.50	\$2.99	\$24.39
6"	\$707.80	\$821.00	\$1,191.00	\$5.98	\$48.79
Charge per 1,000 gallons	\$3.72	\$4.32	\$6.51	\$0.03	\$0.27
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>					
4,000 Gallons	\$26.45	\$30.74	\$45.54		
6,000 Gallons	\$32.61	\$37.90	\$56.40		
10,000 Gallons	\$44.93	\$52.22	\$56.40		

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