State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: February 22, 2016

TO: Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk

FROM: Robert Graves, Public Utilities Supervisor, Division of Engineering RG

RE: Docket No. 150010-WS- Application for staff-assisted rate case in Brevard County by Aquarina Utilities, Inc.

Please file the attached Staff Report in the above mentioned Docket File.

Thank You

Attachment

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DATE: February 22, 2016

TO: Laura V. King, Chief of Reliability and Resource Planning, Division of Engineering

FROM: Division of Engineering (Lewis) CKL BO MRL JS
Division of Accounting and Finance (Fletcher, Mouring, Smith II)
Division of Economics (Bruce) AP DD
Office of the General Counsel (Murphy) CM

RE: Docket No. 150010-WS – Application for staff-assisted rate case in Brevard County by Aquarina Utilities, Inc.

--STAFF REPORT--

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting on March 10, 2016.

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Case Background

Aquarina Utilities, Inc., (Aquarina or Utility) is a Class B utility providing service to approximately 288 water and wastewater customers in Brevard County. Water and wastewater rates were last established for the Utility in 2003, when it was known as Service Management Systems, Inc.[1] The Utility was transferred to Aquarina in 2012.[2] On January 2, 2015, Aquarina filed an application for a Staff Assisted Rate Case (SARC). Staff selected the test year ending December 31, 2014, for the instant case. According to Aquarina's 2014 Annual Report, its total operating revenues for water and wastewater were $269,405 and $161,736, respectively. The Utility reported a net loss of $45,050 for the water service and net income of $5,320 for the wastewater service.[3]

This Staff Report is a **preliminary** analysis of the Utility prepared by the Commission staff to give Utility customers and the Utility a preview of what staff may be proposing. The final recommendation to the Commission is currently scheduled to be filed on May 26, 2016, for consideration at the June 9, 2016 Commission Conference. The recommendation will be revised as necessary using any updated information and results of customer quality of service concerns or other relevant information received during the customer meeting. The Commission has jurisdiction in this case pursuant to Section 367.0814, Florida Statutes, (F.S.).

[1]Order No., PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, *In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.*
[2]Order No., PSC- PSC-12-0614-CO-WS, issued November 16, 2012, in Docket No. 110061-WS, *In re: Application for authority to transfer assets and Certificate Nos. 517-W and 450-S of Service Management Systems, Inc. to Aquarina Utilities, Inc., in Brevard County.*
[3]Aquarina Utilities, Inc. 2014 Annual Report filed March 13, 2015, with the Commission.
http://www.floridapsc.com/library/financials/WS949-DOCS/ANNUAL-REPORTS/WS949-14-AR.PDF

Discussion of Issues

Issue 1: Is the quality of service provided by Aquarina Utilities, Inc. satisfactory?

Preliminary Recommendation: Staff's recommendation regarding quality of service will not be finalized until after the March 10, 2016 Customer Meeting. (Lewis)

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 the Utility. This is derived from an evaluation of three separate components of the Utility operations. These components are the quality of the Utility's product, the operating conditions of the Utility's plant and facilities, and the Utility's attempt to address customer satisfaction. The rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department over the preceding three-year period 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)(c), F.S.

Aquarina's service area is located near Melbourne, Florida, in Brevard County, and is within the St. Johns River Water Management District (SJRWMD). The Utility's water system provides finished water that is obtained from two wells each rated at 450 gallons per minute (gpm). The Consumptive Use Permit (CUP) issued on November 7, 2011, allows the Utility to withdraw up to 0.12 million gallons per day (mgd) for household and commercial/industrial use. The CUP also allows up to 0.24 mgd for urban irrigation and another 0.23 mgd for golf course irrigation. The Utility's permit for its wastewater treatment plant (WWTP) was renewed on March 24, 2013, and expires on March 23, 2018. The permitted treatment capacity of the facilities is 0.099 mgd.

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

Sanitary surveys of water treatment plants and inspections of wastewater treatment plants are conducted triennially. A Sanitary Survey was conducted on January 14, 2014, and the Utility was marked deficient in its monthly reporting. The wastewater treatment plant was also inspected on January 14, 2014. Both the WTP and WWTP were deemed in compliance by DEP on February 28, 2014. On September 23, 2015, water testing for primary and secondary water standards was conducted by Pace Analytical Services, Inc. and the results were deemed satisfactory on December 8, 2015.

Staff reviewed the Commission's complaint records from January 1, 2010, through December 31, 2014, and found four complaints, which were all resolved in 2011 and 2012. Staff requested copies of complaints filed with the Utility during the test year and four years prior to the test year.[4] The Utility responded that three customer complaints were received during 2011 and none during the test year. Staff also requested complaints against the Utility filed with the DEP for the test year and four years prior. DEP indicated it has not received any complaints against the Utility during the time frame. All quality of service complaints will be investigated and will be taken into consideration during the preparation of staff's final recommendation.

Conclusion

Quality of service will be determined at a later date, pending review of comments made at the March 10, 2016 Customer Meeting.

[4]Document No. 01539-15 filed on March 19, 2015.

Issue 2: What are the used and useful percentages (U&U) of Aquarina Utilities, Inc.'s water treatment plant and distribution system, wastewater treatment plant and collection system, and fire flow and irrigation system?

Preliminary Recommendation: Aquarina's water treatment plant (WTP) should be considered 100 percent U&U and its distribution systems should be considered 62.6 percent U&U. There appears to be no excessive unaccounted for water (EUW); therefore, at this time, staff is not recommending an adjustment be made to operating expenses for chemicals and purchased power. The ground storage tank for the WTP should be considered 47.0 percent U&U. The WWTP and the collection system should be considered 55.9 percent and 65.4 percent U&U, respectively. There appears to be no excessive Inflow & Infiltration (I&I); therefore, at this time, staff is not recommending an adjustment be made to operating expenses for chemicals and purchased power. The fire flow and irrigation water distribution system should be considered 100 percent U&U. (Lewis)

Staff Analysis: Aquarina's water system is served by two 10-inch diameter wells both rated at 450 gpm. The raw water is treated by a reverse osmosis chlorination filtration prior to entering the 150,000-gallon ground storage tank, and then pumped into the water distribution system. The Utility is permitted to withdraw an average of 0.12 mgd up to 0.21 mgd peak for the years 2010 through 2019. There are 37 fire hydrants that receive non-treated water from the separate irrigation system. The WWTP is permitted to treat 0.099 mgd. Analysis of the system indicates there has been no growth of the system in the past five years.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. When establishing the Rule, the Commission recognized that some uses of water are readily measurable and others are not. Unaccounted for water is all water that is produced that is not sold, metered or accounted for in the records of the Utility. The Rule provides that to determine whether adjustments to plant and operating expenses, such as purchased electrical power and chemicals cost, are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible. The unaccounted for water is calculated by subtracting both the gallons used for other purposes, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year. The Monthly Operating Reports (MORs) that the Utility files with the DEP indicated it treated 12,046,000 gallons. The Utility sold 12,322,490 gallons of water for the test year. This indicates the Utility sold more treated water than was produced in the amount of 276,490 gallons which is 2.24 percent. The company indicated its flow meter has an error margin of 6 percent.[5] The flow meter at the WTP measures the water leaving the plant and was last calibrated on February 15, 2013, which indicates the flow meter may need to be calibrated again. There appears to be no unaccounted for water or EUW to be considered. At this time, staff is recommending that no adjustment be made to operating expenses for chemicals and purchase power due to the EUW.

[5] Document No. 04356-15 filed on July 13, 2015.

Water Treatment Plant and Distribution System Used &Useful

The WTP was rated at 120,000 gallons per day (gpd) capacity during the previous SARC. In calculating the Firm Reliable Capacity (FRC) of a water system served by wells, the pumping capacity of the wells, excluding the largest well for those systems with more than one well, is considered the FRC. Normally the FRC is calculated by using pumping capacity of the smallest well in the system which in this case, is rated at 450 gpm based on 16 hours of availability.[6] This would equate to 432,000 gpd of raw water. However, another factor to consider is the treatment capacity of the WTP. The most recent DEP Sanitary Survey states the Max-Day capacity of the WTP to be 86,400 gpd which is much lower than the pumping capacity. Therefore, staff used the Max-Day capacity of the WTP as the FRC.[7] Using 16 hours of availability for the plant, the FRC is adjusted to (86,400 gallons/24 hours x 16 hours) or 57,600 gallons.

The U&U calculation for the WTP is (Max Day - EUW + Fire Flow + Growth)/FRC. The maximum daily usage for the test year was 70,000 gallons. There is no EUW and the fire flow is handled by a separate system. The growth in connections appears to be zero. The resulting U&U calculation for the WTP is [70,000 - 0 + 0 + 0/57,600] equals 122 percent; therefore, the WTP should be considered 100 percent used and useful. In the last SARC the U&U was calculated to be 29.7 percent. The U&U calculation for the WTP storage is (Max Day - EUW + Fire Flow + Growth)/FRC of the water storage tank. The water storage tank is rated at 150,000 gallons. The resulting calculation is [70,000 – 0 + 0 + 0)/150,000] equals 46.7 percent; therefore, the WTP storage should be considered 46.7 percent used and useful. In the last SARC, a used and useful percentage was not determined for WTP storage tank.

The Utility did not provide the size and length of its water mains and has indicated it has incomplete records. Staff is considering the Utility's proposal for Geographic Information System (GIS) mapping of its plant to determine the current connection capacity of the system. Therefore, consistent with the prior Commission decision, the water distribution system should be considered 62.6 percent U&U.

Inflow & Infiltration

Sanitary sewer systems will experience I&I which affect the systems efficiency. Inflow occurs when water enters sewers through manholes during rainy weather. Inflow tends to peak during precipitation events, and causes greater flow variation than infiltration. Inflow is estimated at 80 percent of water usage by residential and commercial customers. The Utility sold 12,322,490 gallons of treated water. The wastewater system is expected to receive 80 percent of water sold plus an allowance for inflow. The amount of water sold during the test year was 12,322,490 gallons. Based on an estimated 80 percent return rate for residential water sold and 90 percent for commercial water sold, the expected amount to be treated equals 9,877,056 gallons sold. An additional allowance of 10 percent is allowed for inflow which equals 1,232,249 gallons. The total amount of expected treatment plus an allowance for inflow is 11,109,365 gallons.

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[6]Per Rule 25-30.4325(6)(b), F.A.C. Firm reliable capacity is expressed in gallons per day, based on 16 hours of pumping, for systems with storage capacity.

[7]Pursuant to Rule-30.4325(3) F.A.C. "An alternative calculation may also be provided, along with supporting documentation and justification, including service area restrictions, factors involving treatment capacity, well drawdown limitations, changes in flow due to conservations or to a reduction in the number of customers, and alternative peaking factors."

Infiltration occurs when groundwater enters sanitary sewers through cracked or broken pipes. The allowance for infiltration is calculated by using 500 gpd per inch diameter pipe per mile. As previously stated, the Utility did not provide the size and length of its wastewater mains and indicated it has incomplete records. Absent this information, the allowance for infiltration cannot be determined. Therefore, staff is not recommending an adjustment be made to operating expenses for chemicals and purchased power at this time.

Wastewater Treatment Plant and Wastewater Collection Used &Useful

Aquarina's permit for its wastewater treatment plant (WWTP) was renewed on March 24, 2013, and expires on March 23, 2018. The facility has a permitted capacity of 0.099 mgd (99,000 gpd). The Annual Average Daily Flow (AADF) from the Discharge Monitoring Reports filed monthly with DEP was 38,296 gpd. The U&U calculation for the WWTP is (AADF + Growth)/permitted capacity. The resulting calculation ((38,296 + 0)/99,000) equals 38.7 percent which is lower than the previous Commission ordered U&U of 55.9 percent. Therefore, consistent with the prior Commission decision, the WWTP should be considered 55.9 percent U&U.

Regarding the wastewater collection system, there appears to have been no additions to the wastewater mains since Aquarina's last rate case, and the Utility has indicated that it has incomplete records. Therefore, consistent with the prior Commission decision the wastewater collection system should be considered 65.4 percent U&U.

Issue 3: What is the appropriate average test year water rate base and wastewater rate base for Aquarina Utilities, Inc.?

Preliminary Recommendation: The appropriate average test year potable water, non-potable water, and wastewater rate bases are $281,306, $37,124, and ($3,348), respectively. (Smith)

Staff Analysis: Aquarina's net book value was last established in its 2012 transfer docket by Order No. PSC-12-0577-PAA-WS.[8] The test year ended December 31, 2014 was used for the instant case. A summary of each rate base component and recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

The Utility recorded UPIS of $1,907,336 for potable water, $22,080 for non-potable water, and $2,116,139 for wastewater. The staff audit identified several adjustments resulting in increases to UPIS for potable water, non-potable water, and wastewater of $50,158, $3,620, and $7,708, respectively. These adjustments are shown on Tables 3-1, 3-2, and 3-3. Staff also made averaging adjustments to decrease UPIS for potable water, non-potable water, and wastewater by $2,329, $31, and $1,436, respectively.

Aquarina states approximately 100 meters have been replaced over the previous four years due to the corrosiveness of the environment with 20 meters needing replacement as of August 2015. The provided meter records indicate 17 residential water meters were replaced during 2014. It appears to be prudent to allow the utility to incorporate a yearly meter replacement that would allow for the replacement of 20 to 25 potable and non-potable water meters per year. In addition, the purchase of protective gear is necessary for personnel safety. As a result, staff made net adjustments increasing UPIS for potable water, non-potable water, and wastewater of $4,024, $2,424, and $2,424, respectively, for pro forma plant addition items. Therefore, staff recommends that the appropriate UPIS balances are $1,959,189 ($1,907,336 + $50,158 - $2,329 + $4,024) for potable water, $28,093 ($22,080 + $3,620 - $31 + $2,424) for non-potable water, and $2,124,835 ($2,116,139 + $7,708 - $1,436 + $2,424) for wastewater.

[8]Order No. PSC-12-0577-PAA-WS, issued October 25, 2012, in Docket No. 110061-WS, *In re: Application for authority to transfer assets and Certificate Nos. 507-W and 450-S of Service Management Systems, Inc. to Aquarina, Inc. in Brevard County.*

Table 3-1

Potable Water Audit Adjustments			
Acct.	Description	Adjustments	Reason for Adjustment
304	Structures & Improvements	$210	Correct transfer amount posted in 2011
311	Pumping Equip.	2,343	Reclassify O&M Expense to capitalize to plant
320	Water Treatment Equip.	5,559	Correct transfer amount posted in 2011
331	T&D Mains	2,188	Correct transfer amount posted in 2011
333	Services	158	Correct transfer amount posted in 2011
334	Meters & Meter Installations	(5,956)	Correct transfer amount posted in 2011
339	Other Plant & Misc. Equip.	899	Correct transfer amount posted in 2011
341	Transportation Equip.	40,596	To reflect the appropriate allocation between water and wastewater
343	Tools, Shop, & Garage Equip.	900	Reclassify O&M Expense to capitalize to plant
344	Lab Equip.	2,000	Reclassify O&M Expense to capitalize to plant
347	Misc. Equip.	1,261	Correct transfer amount posted in 2011
	Total Adjustments	$50,158	

Table 3-2

Non-Potable Water Audit Adjustment			
Acct.	Description	Adjustment	Reason for Adjustment
311	Pumping Equip.	$3,620	Reclassify O&M Expense to capitalize to plant

Table 3-3

Wastewater Audit Adjustments			
Acct.	Description	Adjustments	Reason for Adjustment
354	Structures & Improvements	$774	Correct transfer amount posted in 2011
360	Collection - Sewers Forced	2,872	To capitilize plant addition
364	Flow Mesurement Devices	1,475	Reclassify O&M Expense to capitalize to plant
380	Treatment & Disposal Equip.	(8,077)	Correct transfer amount posted in 2011
390	Office Furniture & Equip.	(10,200)	To remove transfer
391	Transportation Equip.	20,298	To reflect the appropriate allocation between water and wastewater
394	Laboratory Equipment	565	Correct transfer amount posted in 2011
	Total Adjustments	$7,708	

Land & Land Rights

The Utility recorded a test year land value of $62,080 for potable water and $33,680 for wastewater. Based on staff's review, an adjustment was made to allocate a portion of land to non-potable water based on the ratio of potable to non-potable plant. Staff reduced the balance for potable water and increased the balance for non-potable water by $891. Therefore, staff recommends that the appropriate land balances are $61,189 ($62,080 – $891) for potable water, $891 for non-potable water, and $33,680 for wastewater, respectively.

Non-Used and Useful (U&U) Plant
As discussed in Issue 2, the water treatment plant should be considered 100 percent U&U and the wastewater treatment plant should be considered 55.9 percent U&U. The water treatment storage is calculated as 47.0 percent U&U, and the water distribution system is 62.6 percent U&U. The wastewater collection system should be considered 65.4 percent U&U. Based on these U&U percentages, staff has reduced potable water plant by $443,358 and reduced potable water accumulated depreciation by $350,067. Additionally, staff has reduced wastewater plant by $707,068 and reduced accumulated depreciation by $645,770. Based on the above, the non-U&U component for potable water and wastewater is $93,291 ($443,358 - $350,067) and $61,298 ($707,068 - $645,770), respectively.

Accumulated Depreciation
The Utility recorded a test year accumulated depreciation balance of $1,522,797 for potable water and $1,866,188 for wastewater. No accumulated depreciation was recorded for non-potable water. The staff auditor recalculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and increased these accounts by $10,652 for water and $21,421 for wastewater. Staff made an adjustment to allocate the appropriate amount of accumulated depreciation to the non-potable system. This adjustment resulted in a decrease to potable water and an increase to non-potable water of $10,365. Staff made averaging adjustments that resulted in decreases of $20,232 for potable water, $265 for non-potable water, and $14,813 for wastewater. Staff also made adjustments based on pro forma plant additions and retirements resulting in a decrease of $4,521 for potable water, and increases of $45 for non-potable water and wastewater. Staff's adjustments result in accumulated depreciation balances of $1,498,331 ($1,522,797 + $10,652 - $10,365 - $20,232 - $4,521) for potable water, $10,145 ($10,365 - $265 + $45) for non-potable water, and $1,872,841 ($1,866,188 + $21,421 - $14,813 + $45) for wastewater.

Contributions In Aid of Construction (CIAC)
The Utility recorded CIAC balances of $483,149 for potable water and $603,375 for wastewater. No CIAC was recorded for non-potable water. Based on the staff audit, potable water CIAC was decreased by $95,372 and non-potable water was increased by $107,222 to reflect the appropriate CIAC balances. Averaging adjustments were made to decrease the balances for potable water by $13,585, non-potable water by $4,275, and wastewater $6,032. Therefore, staff recommends that the appropriate CIAC balances are $374,192 ($483,149 - $95,372 - $13,585) for potable water, $102,947 ($107,222 - $4,275) for non-potable water, and $597,343 ($603,375 - $6,032) for wastewater.

Accumulated Amortization of CIAC
The Utility recorded accumulated amortization of CIAC of $276,662 for potable water and $299,305 for wastewater. No accumulated amortization of CIAC was recorded for non-potable water. Accumulated amortization of CIAC has been recalculated by staff using composite depreciation rates. As a result, staff decreased the balance by $70,242 for potable water, increased the balance by $107,911 for non-potable water, and increased the balance for wastewater by $58,562. Staff also decreased the balances by $4,657 for potable water, $1,564 for non-potable water, and $7,758 for wastewater to reflect the appropriate averaging adjustments. Staff's recommended accumulated amortization of CIAC balances are $201,763 ($276,662 -

$70,242 - $4,657) for potable water, $106,347 ($107,911 - $1,564) for non-potable water, and $350,109 ($299,305 + $58,562 - $7,758) for wastewater.

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 $24,978 for potable water, $14,885 for non-potable water and $19,510 for wastewater.

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is $281,306 for potable water, $37,124 for non-potable water, and ($3,348) for wastewater. Potable water, non-potable water, and wastewater rate bases are shown on Schedule Nos. 1-A, 1-B and 1-C, respectively. The related adjustments are shown on Schedule No. 1-D.

Issue 4: What is the appropriate return on equity and overall rate of return for Aquarina Utilities, Inc?

Preliminary Recommendation: The appropriate return on equity (ROE) is 11.16 percent with a range of 10.16 percent to 12.16 percent. The appropriate overall rate of return is 3.66 percent. (Smith)

Staff Analysis: According to the staff audit, Aquarina's test year capital structure reflected negative common equity of $505,064 and customer deposits of $193. In accordance with Commission practice, staff set the negative common equity to zero.[9] Staff also reduced customer deposits by $32 to reflect an averaging adjustment. The Utility's long-term debt balance is $863,346. Staff increased long-term debt by $8,921 to correct the outstanding principle balance for a State Revolving Fund Loan on the Utility's general ledger. Additionally, staff reduced this amount to remove related party notes payables totaling $425,516 that the staff auditor believes should not be included for this proceeding. Therefore, staff recommends a long-term debt balance of $446,751 ($863,346 + $8,921 - $425,516).

The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE for the Utility is 11.16 percent based upon the Commission-approved leverage formula currently in effect.[10] Staff recommends an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 3.66 percent. The ROE and overall rate of return are shown on Schedule No. 2.

[9]Order No. PSC-08-0483-PAA-WS, issued July 25, 2008, in Docket No.070627-WU, *In re: Application for staff-assisted rate case in Lake County by Raintree Utilities, Inc*

[10]Order 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 Aquarina's water and wastewater system?

Preliminary Recommendation: The appropriate test year revenues for Aquarina's water and wastewater system are $266,511 and $159,360, respectively. (Bruce)

Staff Analysis: Aquarina recorded total test year revenues of $266,168 for water and $160,261 for wastewater. The water revenues included $263,949 of service revenues and $2,219 of miscellaneous revenues. The wastewater revenues included $159,976 of service revenues and $285 of miscellaneous revenues. In order to determine the appropriate test year service revenues, staff normalized the number of bills by adjusting for customers moving in and out during the test year to reflect 12 months of bills. Based on staff's review of the Utility's billing determinants and the service rates that were in effect during the test year, staff determined test year service revenues should be $264,604 for water and $158,963 for wastewater. This results in an increase of $655 and a decrease of $1,013 for water and wastewater test year service revenues, respectively. Staff also made adjustments to miscellaneous revenues for water and wastewater. The Utility recorded unsupported revenues to water miscellaneous revenues and improperly recorded late payment charges for wastewater. For this reason, staff decreased water miscellaneous service revenues by $312 and increased wastewater miscellaneous service revenues by $112. Table 5-1 below, represents a summary of staff's adjustments for test year revenues.

Table 5-1
Test Year Revenue

	Water	Wastewater
Service Revenues		
Utility Recorded Service Revenues	$263,949	$159,976
Staff's Adjustment	$ 655	($1,013)
Total Service Revenues	$264,604	$158,963
Miscellaneous Revenues		
Utility Recorded Miscellaneous Revenues	$2,219	$285
Staff's Miscellaneous Revenue Adjustments	($ 312)	$112
Total Miscellaneous Revenues	$1,907	$397
Total Test Year Revenues	$ 266,511	$159,360

Based on the above, the appropriate test year revenues for Aquarina's water and wastewater systems, including miscellaneous revenues are $266,511 and $159,360, respectively.

Issue 6: What is the appropriate test year water and wastewater operating expenses for Aquarina Utilities, Inc.?

Preliminary Recommendation: The appropriate amount of operating expense for the Utility is $246,314 for potable water, $135,912 for non-potable water, and $192,958 for wastewater. (Smith)

Staff Analysis: The Utility recorded operating expense of $166,212 for potable water, $116,907 for non-potable water, and $146,926 for wastewater for the test year ended December 31, 2014. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made several adjustments to the Utility's operating expenses as summarized below.

Operation and Maintenance Expenses

Salaries and Wages for Employees (601/701)

The Utility recorded Salaries and Wages expense of $88,756 for potable water, $34,090 for non-potable water, and $61,423 for wastewater. Staff reduced potable water, non-potable water, and wastewater Salaries and Wages expense by $3,102, $1,191, and $2,147, respectively. The adjustments are to normalize Salaries and Wages expense by removing payroll associated with two former employees that were not replaced by the Utility. Also, staff reduced potable water, non-potable water, and wastewater Salaries and Wages expense by $333, $128, and $231, respectively, in order to remove an insurance reimbursement to an employee who no longer works for the Utility and was not replaced. In addition, staff reduced potable water, non-potable water, and wastewater Salaries and Wages expense by $8,737, $3,356, and $6,046, respectively, in order to remove unpaid salary accruals from outside the test year. Further, staff increased potable water, non-potable water, and wastewater Salaries and Wages expense by $52,097, $20,010, and $36,053, respectively, to include three new maintenance workers that were requested by the Utility. Staff has included these employees for this report but will continue to evaluate their prudence. Therefore, staff recommends Salaries and Wages expenses of $128,681 ($88,756 - $3,102 - $333 - $8,737 + $52,097) for potable water, $49,425 ($34,090 - $1,191 - $128 - $3,356 + $20,010) for non-potable water, and $89,052 ($61,423 - $2,147 - $231 - $6,046 + $36,053) for wastewater.

Pension and Benefits for Employees (604/704)

The Utility did not record any Pension and Benefits expense. However, staff increased potable water, non-potable water, and wastewater Pension and Benefits expense by $10,306, $3,958, and $7,132, respectively. These adjustments reclassify $7,132 of insurance expense from Account 659/759 – Insurance Other and annualizes that amount to provide health insurance for the Utility's two employees. The adjustments are based on an annualized premium of $21,396 ($7,132 / 4 months x 12 months). Staff also increased potable water, non-potable water, and wastewater Pension and Benefits expense by $9,898, $3,802, and $6,850, respectively, in order to include health insurance and workers compensation insurance for the three new maintenance employees. Therefore, staff recommends Pension and Benefits expenses of $20,204 ($10,306 + $9,898) for potable water, $7,760 ($3,958 + $3,802) for non-potable water, and $13,982 ($7,132 + $6,850) for wastewater.

Purchased Power (615/715)

The Utility recorded Purchased Power expense of $1,413 for potable water, $33,917 for non-potable water, and $17,665 for wastewater. Staff increased potable and non-potable water by $159 and $3,807, respectively, and reduced wastewater expense by $4,254 to recognize the following adjustments. Staff replaced the December 2013 electric bills that were included in the general ledger with the December 2014 electric bills that resulted in a net increase of $462, and removed a monthly allocation for office purchased power that ceased in May 2014 that resulted in a decrease of $750. The adjustments result in a net reduction of $288 ($462 - $750) to the purchased power expense. Staff also directly charged a lift station power bill to wastewater purchased power expense and reallocated the total common purchased power from 66.67 percent for water and 33.33 percent for wastewater which was used by the Utility to 75 percent for water and 25 percent for wastewater based on staff's engineering evaluation of power usage allocation established in Order No. PSC-03-1342-PAA-WS. Therefore, staff recommends Purchased Power expenses of $1,572 ($1,413 + $159) for potable water, $37,724 ($33,917 + $3,807) for non-potable water, and $13,411 ($17,665 - $4,254) for wastewater.

Materials and Supplies (620/720)

The Utility recorded Materials and Supplies expense of $5,592 for potable water, $5,705 for non-potable water, and $6,023 for wastewater. Staff increased Materials and Supplies expense for potable water, non-potable water, and wastewater by $1,184, $1,207, and $1,196, respectively, to include reimbursement for an October miscellaneous expense voucher that was not posted to the general ledger. Staff also reduced Materials and Supplies expense for potable water by $1,810 and non-potable water by $1,847 to reclassify and capitalize to Account 311 – Pumping Equipment the cost to replace two 7 ½ horse power (hp) booster pumps at the water plant. Staff further reduced Materials and Supplies expense for potable water, non-potable water and wastewater expense by $185, $188, and $186, respectively, to remove non-Utility purchases in June and September of the test year. Therefore, staff recommends Materials and Supplies expenses of $4,781 ($5,592 + $1,184 - $1,810 - $185) for potable water, $4,877 ($5,705 + $1,207 - $1,847 - $188) for non-potable water, and $7,033 ($6,023 + $1,196 - $186) for wastewater.

Contractual Services - Testing (635/735)

The Utility recorded Contractual Services - Testing expense of $331, $338, and $3,107 for potable water, non-potable water, and wastewater, respectively. Staff reduced potable water expense by $198, non-potable water by $203, and wastewater by $1,106. The adjustment removes non-utility testing expenses that were identified during the review of the contract vendors' invoices for testing services. Therefore, staff is recommending Contractual Services – Testing expenses of $133 ($331 - $198) for potable water, $135 ($338 - $203) for non-potable water, and $2,001 ($3,107 - $1,106) for wastewater.

Contractual Services - Other (636/736)

The Utility recorded Contractual Services - Testing expense of $331, $338, and $3,107 for potable water, non-potable water, and wastewater, respectively. Staff reduced potable water by $198, non-potable water by $203, and wastewater by $1,106. These adjustments remove non-Utility testing expenses that were identified during the review of the contract vendors' invoices for testing services. Therefore, staff recommends Contractual Services – Testing expenses of

$133 ($331 - $198) for potable water, $135 ($338 - $203) for non-potable water, and $2,001 ($3,107 - $1,106) for wastewater.

Rental of Building/Property 641/741)

The Utility recorded Rental of Building/Property expense of $634 for potable water, $33 for non-potable water, $333 for wastewater. Staff decreased potable water by $634, non-potable water by $33, and wastewater expense by $333 for the test year. This adjustment reflects the going-forward rental expense at the Utility's new office location. The owners of the Utility also own the office space, which is then rented out to the Utility. While related party transactions require close scrutiny, the fact that the transaction is between related parties does not mean that the transaction is unreasonable. It is the Utility's burden to prove that its costs are reasonable.[11] The burden is even greater when the transaction is between related parties.[12] The court established that the standard to use in evaluating affiliate transactions is whether those transactions exceed the going market rate or are otherwise inherently unfair. Based on its preliminary evaluation, staff increased Rental of Building/Property expense by $5,700 for potable water, $300 for non-potable water, and $3,000 for wastewater to include building rental expense for the Utility's lease of 1,200 square feet (sq. ft.) of space in a 2,400 sq. ft. building at the employee/officers home at a cost of $0.63 per sq. ft.[13] Staff then removed the Utility's office rental expense for 2014. Thus, staff is therefore recommending Rental of Building/Property expense of $5,700, ($634 - $634 + $5,700) for potable water, $300 ($33 - $33 + $300) for non-potable water, and $3,000 ($333 - $333 + $3,000) for wastewater.

Rental of Equipment (642/742)

The Utility recorded Rental of Equipment expense of $14,915 for potable water, $785 for non-potable water, and $7,800 for wastewater. The owners of the Utility own this equipment and lease it to the Utility. Based on its preliminary evaluation, staff reduced potable water by $14,915, non-potable water by $785, and wastewater by $7,800 for the test year.[14] These adjustments remove 2014 water and wastewater annual equipment lease expenses. Staff then increased Rental of Equipment expense by $12,730 for potable water, $670 for non-potable water, and $6,700 for wastewater to include the 2015 water and wastewater lease expense. The 2015 lease requires a combined annual equipment lease payment of $20,100. Thus, staff recommends Rental of Equipment expense of $12,730 ($14,915 - $14,915 + $12,730) for potable water, $670 ($785 - $785 + $670) for non-potable water, and $6,700 ($7,800 - $7,800 + $6,700) for wastewater.

[11] Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982)
[12] In GTE Florida Inc. v. Deason, 642 So. 2d 545 (Fla. 1994)
[13] Staff's preliminary analysis included comparing the square foot cost with similar properties in the area.
[14] Staff's preliminary analysis included comparing lease amounts to a rate of return methodology.

Transportation Expense (650/750)

The Utility recorded Transportation Expense of $6,261 for potable water, $6,387 for non-potable water, and $6,520 for wastewater. During the test year, the Utility paid $3,518 for mileage reimbursements to its employees and contractors.

The office manager uses her personal vehicle to travel to and from the bank, post office and for other related duties. She estimated her monthly mileage to be 645 miles based on historical documents. Accordingly, staff believes the mileage estimate is reasonable, given the remote location of the Utility with respect to commercial centers of business, such as the bank and post office. Staff recommends the office manager be reimbursed for the business use of her personal vehicle at the IRS 2015 mileage rate of $0.575 applied to an annual estimate of 7,740 miles (645 miles per month x 12 months). This results in an annual amount of $4,451 (7,740 x $0.575). Therefore, staff has made a net increase to Transportation Expense of $933 ($4,451 - $3,518), allocated at $308 for potable water, $314 for non-potable water, and $311 for wastewater.

The fuel portion of the Transportation Expense was reduced by $1,230 for potable water, $1,255 for non-potable water, and $1,242 for wastewater to remove reimbursement for non-Utility purchases. Staff also reduced Transportation Expense by $491 for potable water, $501 for non-potable water, and $496 for wastewater to remove repairs for non-Utility vehicles. Further, staff removed expenses of $248 for potable water, $253 for non-potable water, and $250 for wastewater related to unsupported travel costs for airline tickets. Therefore, staff recommends Transportation Expenses of $4,600 ($6,261 + $308 - $1,230 - $491 - $248) for potable water, $4,692 ($6,387 + $314 - $1,255 - $501 - $253) for non-potable water, and $4,843 ($6,520 + $311 - $1,242 - $496 - $250) for wastewater.

Insurance-Vehicles Expense (656/756)

The Utility recorded Vehicle Insurance Expense of $3,283 for potable water, $173 for non-potable water, and $1,728 for wastewater. Staff reduced Vehicle Insurance Expense for potable water by $2,211, for non-potable water by $116, and by $1,163 for wastewater, to remove the 2015 vehicle insurance premiums associated with the electric-powered golf cart and the dump trailer.

Insurance-General Liability (657/757)

The Utility recorded Insurance - General Liability expense of $4,985 for potable water, $262 for non-potable water, and $2,624 for wastewater. Staff reduced potable water by $15, non-potable water by $1, and wastewater expense by $16 to remove the 2014 and include the 2015 general liability insurance premiums to reflect the actual going-forward cost for the Utility. Therefore, staff is recommending Insurance-General Liability expense of $4,970 for potable water, $262 for non-potable water, and $2,609 for wastewater.

Insurance-Other (659/759)

The Utility recorded Insurance - Other expense of $4,517 for potable water, $238 for non-potable water, and $2,377 for wastewater. Staff reduced Insurance - Other expense by $4,517 for potable water, $238 for non-potable water, and $2,377 for wastewater, to remove the 2014 employee health insurance premiums that were reclassified to Account 604/704 – Employee Pension and Benefits.

Regulatory Commission Expense (667/767)

The Utility recorded Regulatory Commission Expense of $25 for both potable and non-potable water, as well as $50 for wastewater. Staff reduced both potable and non-potable water by $25 and wastewater expense by $50 to reclassify the Department of Environmental Regulation (DEP) permit fees to Accounts 675/775 – Miscellaneous Expense. By Rule 25-22.0407, F.A.C., the Utility is required to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, staff has estimated $398 for postage, $325 for printing, and $41 for envelopes. Additionally, the Utility paid a $2,000 rate case filing fee and is estimating $12,000 for consulting services. Based on the above, staff recommends that the total rate case expense is $14,763, which amortized over four years is $3,691. This results in a Regulatory Commission Expense of $913 for potable water, $932 for non-potable water, and $1,845 for wastewater.

Miscellaneous Expense (675/775)

The Utility recorded Miscellaneous Expense of $4,196 for potable water, $4,281 for non-potable water, and $7,116 for wastewater, respectively. Staff made a net reduction to Miscellaneous Expense of $2,230 for potable water, $2,276 for non-potable water, and $2,253 for wastewater. This resulted from removing $9,835 currently in these accounts for telephone and internet expenses and including $2,760 for the going-forward annual cost of one internet and business telephone provider, as well as two cellular telephones used by the Utility's full-time employees. Staff also reduced wastewater expense by $2,872 to reclassify and capitalize to Account 360 – Collection Sewers – Force the cost to refurbish the master lift station pumps. Staff increased potable water by $372, non-potable water by $379, and wastewater by $375, to include reimbursements for an October miscellaneous expense voucher that was not posted to the general ledger. Staff further reduced potable water by $960, non-potable water by $980, and wastewater by $970 to remove reimbursements for non-Utility meal purchases. Staff further increased potable and non-potable water by $25, each, and wastewater by $50 to reclassify DEP permit fees that were recorded in Accounts 667/767 – Regulatory Commission Expense.

Operation and Maintenance Expenses Summary

Based on the above adjustments, staff recommends that the O&M expense balances are $199,825 for potable water, $119,081 for non-potable water, and $156,082 for wastewater. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A through 3-E.

Depreciation Expense

The Utility did not record any Depreciation Expense for the test year. Staff auditors recalculated Depreciation Expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff calculated depreciation expense of $45,851 for potable water, $601 for non-potable water, and $29,628 for wastewater, for the test year. Staff has increased Depreciation Expense by $103 for

potable water, $45 for non-potable water, and $45 for wastewater, to reflect Depreciation Expense related to pro forma plant additions. Based on the U&U percentages addressed in Issue 2, staff has decreased Depreciation Expense by $11,555 for potable water and $4,419 for wastewater. Based on the above, the Utility Depreciation Expense is $34,399 ($45,851 + $103 - $11,555) for potable water, $646 ($601 + $45) for non-potable water, and $25,254 ($29,628 + $45 - $4,419) for wastewater.

CIAC Amortization Expense

The Utility did not record any CIAC Amortization Expense for the test year. Based on staff's calculations, the Utility CIAC Amortization Expenses are $9,758 for potable water, $2,684 for non-potable water, and $15,514 for wastewater.

Taxes Other Than Income (TOTI)

The Utility recorded TOTI of $19,493 for potable water, $16,413 for non-potable water, and $19,126 for wastewater. Staff has decreased property taxes by $45 for potable water, $45 for non-potable water, and $44 for wastewater to reflect the appropriate test year property taxes. Staff also decreased payroll taxes by $237 for potable water, $91 for non-potable water, and $164 for wastewater to remove the payroll taxes associated with the adjustment to salaries described in Staff's Audit Finding No. 8. Additionally, staff increased payroll taxes by $4,592 for potable water, $1,764 for non-potable water, and $3,178 for wastewater to reflect the payroll taxes associated with the new employees described above.

Further, staff increased regulatory assessment fees (RAFs) by $108 for potable water, $62 for non-potable water, and $134 for wastewater to reflect the 2014 RAFs. In addition, staff increased property taxes by $43 for potable water, $38 for non-potable water, and $38 for wastewater to reflect pro forma property taxes. Staff reduced property taxes by $1,772 for potable water and $314 for wastewater associated with the recommended non-U&U components. Finally, as discussed in Issues 7 and 9, revenues have been increased by $91,748 for potable water, $41,228 for non-potable water, and $38,500 for wastewater, to reflect the change in revenue required to cover expenses and allow an opportunity to earn the recommended return on investment. As a result, RAFs should be increased by $4,129 for potable water, $1,855 for non-potable water, $1,733 for wastewater to reflect RAFs of 4.5 percent on the change in revenues. Based on these adjustments, the recommended TOTI expenses for potable water, non-potable water, and wastewater are $26,330, $19,996, and $23,686, respectively.

Income Tax

The Utility did not record any income tax expense for the test year. Aquarina has shown a net loss for the last several years in its Annual Reports and income tax returns. This tax loss carry-forward is in excess of the income tax provision on a going-forward basis, and is expected to continue to be so for at least the next 10 years. In this instance, it is Commission practice to allow no provision for income tax.[15] Therefore, staff is not recommending any income tax provision.

[15]Order Nos. PSC-15-0535-PAA-WU, issued November 19, 2015, in Docket No. 140217-WU, *In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.*; and PSC-10-0124-PAA-WU, issued March 1, 2010, in Docket No. 090244-WU, *In re: Application for staff-assisted rate case in Lake County by TLP Water, Inc.*

Operating Expenses Summary

The application of staff's recommended adjustments to Aquarina's test year operating expenses result in operating expenses of $250,796 for potable water, $137,039 for non-potable water, and $189,508 for wastewater. Operating expenses are shown on Schedule Nos. 3-A, 3-B and 3-C. The related adjustments are shown on Schedule Nos. 3-D, 3-E, and 3-F.

Issue 7: What is the appropriate revenue requirement for potable and non-potable water?

Preliminary Recommendation: The appropriate revenue requirement is $261,090 for potable water and $138,398 for non-potable water, resulting in an annual increase of $91,748 (or 54.18 percent) for potable water and $41,228 (or 42.43 percent) for non-potable water. (Smith)

Staff Analysis: Aquarina should be allowed an annual increase of $91,748 (or 54.18 percent) for potable water and $41,228 (or 42.43 percent) for non-potable water. This will allow the Utility the opportunity to recover its expenses and earn a 3.66 percent return on its water system. The calculations are shown in Tables 7-1 and 7-2 below, for potable water and non-potable water, respectively.

Table 7-1

Potable Water Revenue Requirement	
Adjusted Rate Base	$281,306
Rate of Return	x 3.66%
Return on Rate Base	$10,295
Adjusted O&M Expense	199,825
Depreciation Expense	34,398
CIAC Amortization Expense	(9,758)
Taxes Other Than Income	22,201
Test Year RAFs	(7,620)
Revenue Requirement	$249,341
RAF Gross-up Factor	x 0.955
Total Revenues	$261,090
Less Adjusted Test Year Revenues	169,342
Annual Increase	$91,748
Percent Increase	54.18%

Table 7-2

Non-Potable Water Revenue Requirement	
Adjusted Rate Base	$37,124
Rate of Return	x 3.66%
Return on Rate Base	$1,359
Adjusted O&M Expense	119,081
Depreciation Expense	646
CIAC Amortization Expense	(2,684)
Taxes Other Than Income	18,141
Test Year RAFs	(4,373)
Revenues Before RAFs	$132,170
RAF Gross-up Factor	x 0.955
Total Revenues	$138,398
Less Adjusted Test Year Revenues	97,170
Annual Increase	$41,228
Percent Increase	42.43%

Issue 8: Should the Commission utilize the operating ratio methodology as an alternative means to calculate the wastewater revenue requirement for Aquarina, and, if so, what is the appropriate margin?

Preliminary Recommendation: Yes, the Commission should utilize the operating ratio methodology for calculating wastewater revenue requirement for Aquarina. The margin should be 6.41 percent of O&M expenses. (Smith)

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. Further, Rule 25-30.456, F.A.C., provides, in part, as an alternative to a staff-assisted rate case as described in Rule 25-30.455, F.A.C., that water utilities whose total gross annual operating revenues are less than $275,000 per system may petition the Commission for staff assistance using alternative rate setting.

Although the Utility did not petition the Commission for alternative rate setting under the aforementioned rule, staff believes the Commission should exercise its discretion to employ the operating ratio methodology to set wastewater rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the Utility's rate base, the revenue requirement is based on Aquarina's wastewater O&M expenses plus a margin. This methodology has been applied in cases that satisfy the qualifying criteria discussed below and cases in which the traditional calculation of the revenue requirement would not provide sufficient protection 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.[16] This order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expenses capped at $10,000. This criterion was applied again in Order No. PSC-97-0130-FOF-SU.[17] Most recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-15-0535-PAA-WU.[18]

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:

[16]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.*
[17]Issued February 10, 1997, in Docket No. 960561-SU, *In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.*
[18]Issued July 16, 2013, in Docket No. 120270-SU, *In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC.*

1. Whether the Utility's O&M expenses exceeds rate base. The operating ratio method substitutes O&M expenses 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 expenses. The decision to use the operating ratio method depends partly on the determination of whether the primary risk resides in capital costs or operating expenses. In the instant case, the Utility has a negative rate base and under traditional rate base regulation, the Utility would not be entitled to any return on investment. Based on the staff's recommendation, the adjusted wastewater rate base for the test year is ($3,848), while adjusted wastewater O&M expenses are $189,508. The Utility's primary risk resides with covering its operating expense.

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 $275,000 or less. Even though Aquarina is a Class B utility, the recommended wastewater revenue requirement of $158,378 is well below the threshold level for Class B status ($200,000 per system). Although staff is recommending this methodology for the Staff Report, staff will further evaluate the use of this methodology in its final recommendation.

3. Quality of service and condition of plant. As discussed in Issue 1, staff is still evaluating the overall quality of service. Staff will continue to evaluate this, including receiving feedback at the customer meeting.

4. Whether the Utility is developer-owned. Aquarina is not owned by the developer. This Utility was established almost 30 years ago, and there has been no significant growth in years. Staff does not anticipate any significant growth in the foreseeable future.

5. Whether the Utility operates treatment facilities or is simply a distribution and/or collection system. The issue in general is whether purchased water and/or wastewater costs should be excluded in the computation of the operating margin. Aquarina operates the wastewater treatment plant. Therefore, there is no concern regarding excluding purchased wastewater costs. Based on staff's review of the Utility's situation relative to the above criteria, staff recommends that Aquarina is a viable candidate for the operating ratio methodology. However, staff will further evaluate the use of this methodology in its final recommendation.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, the Commission determined that a margin of 10 percent shall be used unless unique circumstances justify the use of a greater or lesser margin. In addition, this order suggested a cap of $10,000. The important question is not what the percentage should be, but what level of operating margin will allow a utility to provide safe and reliable service and remain a viable entity. In order to answer this question, the particular circumstances of a utility must be reviewed and considered thoroughly.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenue for a utility to cover its interest expense.

Second, the use of the operating ratio methodology rests on the contention that the principal risk to a utility resides in operating costs rather than in cost of the plant. The fair return on a small

rate base may not adequately compensate a utility owner for incurring the risk associated with covering the much larger operating cost. Therefore, staff believes the margin should adequately compensate the utility owner for the principal risk which lies with the operating costs.

Third, in consideration of Aquarina's capital structure being 99.95 percent long-term debt, with an overall cost of capital of 3.66 percent, staff believes that an operating margin of 6.41 percent, which equates to the cap of $10,000, is appropriate. Staff believes this would be sufficient to cover debt service obligations and provide protection against variability in revenues and expenses.

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 Aquarina 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 6.41 percent of O&M expenses for determining the Staff Report wastewater revenue requirement.

Issue 9: What is the appropriate wastewater revenue requirement?

Preliminary Recommendation: The appropriate wastewater revenue requirement is $199,508, resulting in an annual increase of $38,500 (or 23.91 percent. (Lee)

Staff Analysis:

Water Rates

Aquarina should be allowed an annual increase of $38,500 (or 23.91 percent) for wastewater. This will allow the Utility the opportunity to recover its expenses and earn a 6.41 percent margin over its wastewater system's operating and maintenance expenses. The calculations are shown in Table 9 below.

Table 9

Wastewater Revenue Requirement	
O&M Expenses	$156,082
Operating Ratio	x 6.41%
Operating Margin	$10,000
Adjusted O&M Expense	156,082
Depreciation Expense	25,254
CIAC Amortization Expense	(15,514)
Taxes Other Than Income	21,954
Test Year RAFs	(7,245)
Revenue Requirement	$190,531
RAF Gross-Up Factor	x 0.955
Total Revenues	$199,508
Less Adjusted Test Year Revenues	161,008
Annual Increase (Decrease)	$38,500
Percent Increase (Decrease)	23.91%

Issue 10: What are the appropriate rate structures and rates for Aquarina's water and wastewater systems?

Recommendation: The recommended rate structures and monthly water and wastewater 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.

Staff Analysis:
Water Rates

Aquarina is located in Brevard County within the St. Johns River Water Management District (SJRWMD). The Utility provides water service to approximately 267 residential customers and 21 general service customers including master-metered developments, clubhouses, and a fire station. The Utility also provides non-potable irrigation to 106 customers with various meter sizes. Typically, staff evaluates the seasonality of utility customers based on the percentage of bills at zero gallons, which is 13 percent. However, for this Utility, the customers are in residence periodically throughout each month rather than a few months out of the year. Therefore, staff believes it is appropriate to evaluate the seasonality based on the percentage of bills at the 1,000 gallon level, which is 36 percent. As a result, it appears that the customer base is somewhat seasonal. The average residential water demand is 2,150 gallons per month. The average water demand excluding zero gallon bills is 2,479 per month. Currently, the Utility's water rate structure consists of a monthly base facility charge (BFC) and uniform gallonage charge for the residential and general service customers. The non-potable rate structure consists of a gallonage charge-only rate structure.

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

As mentioned above, the customer base is somewhat seasonal. Typically, the Commission allocates no greater than 40 percent of the water revenue to the BFC. However, when the utility's customer base is seasonal, it has been the Commission's practice to allocate greater than 40 percent of the revenue requirement to the BFC to address revenue stability. In this case, staff believes that it is appropriate to allocate 45 percent of the water revenue to the BFC for revenue stability purposes. In addition, the average people per household served by the water system is two; therefore, based on the number of persons per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 3,000 gallons per month. Staff recommends a traditional BFC and gallonage charge rate structure with separate

gallonage charges for discretionary and non-discretionary usage for residential water customers. Staff recommends a traditional BFC and uniform gallonage charge rate structure for general service water customers.

Further, based on the recommended revenue increase of approximately 54 percent, the residential consumption can be expected to decline by 388,000 gallons resulting in anticipated average residential demand of 2,035 gallons per month. Staff recommends a 5.6 percent reduction in total test year residential gallons for rate setting purposes and corresponding reductions of $49 for purchased power, $2 for chemical expense, and $2 for RAFs to reflect the anticipated repression. These adjustments result in a post repression revenue requirement of $259,129.

Irrigation Rates (Non-Potable)

The Utility provides irrigation service to approximately 106 residential and general service customers through a non-potable system. The average non-potable water demand is 97,325 gallons per month. The groundwater is pumped from a dedicated well and piped directly to irrigation customers without treatment. The current rate structure includes a gallonage charge only with no base facility charge, which was approved in Docket No. 021228-WS.[19] Staff is evaluating whether a gallonage charge only rate structure is appropriate on a going-forward basis. Therefore, staff will reserve its recommendation on the irrigation rate structure.

Wastewater Rates

The Utility also provides wastewater service to approximately 265 residential customers and 19 general service customers. Furthermore, the Utility provides wastewater only service to 23 residential customers. These customers receive their water service from the South Brevard Water Cooperative. Currently, the wastewater rate structure for residential customers consists of a monthly uniform BFC for all meter sizes and a gallonage charge with an 8,000 gallon cap. The wastewater-only customers are billed a flat rate, which reflects approximately 2,160 gallons per month of demand. 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.
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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. As mentioned earlier, the customer base is somewhat seasonal; therefore, staff recommends that 55 percent of the wastewater revenue should be allocated to the BFC. It is Commission practice to set the wastewater cap at approximately 80 percent of residential water sold. Based on staff's review of the billing analysis, 96 percent of the gallons are captured at the 8,000 gallon consumption level. 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 gallonage cap of 8,000 per month should be changed to a gallonage cap of 6,000 per month. 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.

As discussed above, staff recommends a repression adjustment for the utility's water system. Because wastewater rates are calculated based on customers' water demand, if those customers'

[19]Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, *In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.*

water demand is expected to decline, then the billing determinants used to calculate wastewater rates should also be adjusted. However, due to the number of gallons between the non-discretionary threshold level and the recommended gallonage cap level, the wastewater repression adjustment is de minimis. Therefore, staff does not recommend a repression adjustment for the wastewater system.

Based on the above, staff recommends a BFC allocation based on 45 percent of the water revenue requirement, a traditional BFC and gallonage charge rate structure with separate gallonage charge for discretionary and non-discretionary usage for residential water customers, and a traditional BFC and gallonage charge rate structure for non-residential water customers. For wastewater, staff recommends a continuation of the BFC and uniform gallonage charge rate structure for the customers with metered water service, a BFC allocation based on 55 percent of the wastewater revenue requirement, a residential gallonage cap of 6,000 gallons, and a gallonage charge for general service customers that is 1.2 times the residential gallonage charge. For the wastewater-only customers, staff recommends a continuation of a flat rate, which reflects approximately 2,160 gallons per month of demand.

Summary

The recommended rate structures and monthly water and wastewater 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 11: 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 RAFs 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. Aquarina 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. (Bruce, Smith)

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. This results in a reduction of $961 for potable water, $980 for non-potable, and $2,055 for wastewater.

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 RAFs 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. Aquarina 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 12: Should Aquarina's miscellaneous service charges be revised?

Preliminary Recommendation: Staff's recommendation regarding the Utility's miscellaneous service charges will not be finalized until after the March 10, 2016 Customer Meeting. (Bruce)

Staff Analysis: Section 367.091, F. S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or services availability charges. The Utility's existing initial connection, normal reconnection, premises visit, and violation reconnection charges were last established on November 27, 1990. [20] Staff will request cost justification from the Utility to determine if the charges should be revised to reflect the utility's current cost.

This recommendation is scheduled to be heard by the Commission at the June 9, 2016 Commission Conference. Staff will reserve its recommendation on revising the Utility's existing miscellaneous service charges until the cost justification information has been received from the Utility and reviewed.

[20]Order No. 23812, issued November 27, 1990, in Docket No. 900168-WS, *In re: Application for a staff-assisted rate case in Brevard County by Aquarina Developments, Inc.*

Issue 13: Should Aquarina's existing service availability charges be revised, and if so, what are the appropriate charges?

Recommendation: Staff's recommendation regarding the utility's service availability charges will not be finalized until after the March 10, 2016 Customer Meeting. (Bruce)

Staff Analysis: The Utility's existing service availability charges were established in the utility's last rate case on November 24, 2003.[21] The service availability charges for water consist of a main extension charge and a plant capacity charge. The main extension charge is $500 per ERC. The plant capacity charge is $780 per ERC. Service availability charges for wastewater consist of a main extension charge of $635 per ERC and $2.27 for all others per gallon. The Utility has requested staff to evaluate its existing service availability charges including any appropriate charges for irrigation service for new connections.

Staff will evaluate the Utility's current contribution level in order to determine the appropriate service availability charges. This recommendation is scheduled to be heard by the Commission at the June 9, 2016 Commission Conference. Staff will reserve its recommendation on revising the Utility's existing service availability charges in its final recommendation.

[21]Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, *In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.*

Issue 14: Should Aquarina's request for a meter box maintenance charge, meter lock-off charge, and direct debit charge be approved?

Preliminary Recommendation: Staff's recommendation regarding a meter box maintenance charge, meter lock-off charge, and direct debit will not be finalized until after the March 10, 2016 Customer Meeting. (Bruce)

Staff Analysis: Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or services availability charges. The Utility is requesting a $25 meter box maintenance charge for all customers who fail to maintain their own meter box, a $25 meter lock-off for customer to avoid any potential excessive water losses when out of residence, and a $2 direct debit charge for those customers who choose this method of payment of their bills. The Utility has responded to staff's data request regarding an explanation of the requested charges. However, staff has requested a cost justification from the Utility to support the charges.

This recommendation is scheduled to be heard by the Commission at the June 9, 2016 Commission Conference. Staff will reserve its recommendation on the $25 meter maintenance charge, $25 meter lock-off charge, and $2 direct debit charge until the cost justification information has been received from the Utility and reviewed.

Issue 15: Should Aquarina be authorized to collect Non-Sufficient Funds (NSF) charges?

Preliminary Recommendation: Yes. Aquarina should be authorized to collect NSF charges. Staff recommends that Aquarina revise its tariffs to reflect the NSF charges currently set forth in Sections 68.065, 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. (Bruce)

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 Aquarina 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 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, or 5 percent of the face amount of the check, whichever is greater.

Approval of NSF charges is consistent with prior Commission decisions.[22] 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 Aquarina 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 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.

[22]Order 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 16: Should the Commission approve a Phase II increase for pro forma items for Aquarina?

Preliminary Recommendation: Yes. The Commission should approve a Phase II revenue requirement associated with pro forma items. The Utility's Phase II revenue requirement is $274,104 for potable water, $143,780 for non-potable water, and $205,484 for wastewater, which equates to increases of 4.98 percent, 3.89 percent, and 3.00 percent, respectively, over the Phase I revenue requirements. Staff recommends that the increase be applied as an across-the-board increase to the Phase I rates.

Implementation of the Phase II rates is conditioned upon Aquarina completing the pro forma items within 12 months of the issuance of a consummating order in this docket. The Utility should be required to submit a copy of the final invoices and cancelled checks or other payment confirmation documentation for all pro forma plant items. The Utility should be allowed to implement the above rates once all pro forma items have been completed and documentation provided showing that the improvements have been made. Once verified, the 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. The rates should not be implemented until notice has been received by the customers. Aquarina should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing. (Smith, Lewis)

Staff Analysis: As discussed in Issue 3, the Utility has requested recognition of several pro forma plant items in the instant case. Several of the pro forma items either have been or will be completed before implementation of the Phase I rates and, therefore, have been included in the Phase I revenue requirement as reflected in previous issues. Table 14 below, summarizes the Phase II pro forma plant items and estimated cost.

Staff is recommending a Phase II revenue requirement associated with the pro forma items for a number of reasons. First, it assures that the pro forma items are completed prior to the Utility's recovery of the investment in rates. In addition, addressing the pro forma items in a single case saves additional rate case expense to the customers because the Utility would not need to file another rate case or limited proceeding to seek recovery for these items. The Commission has approved a Phase-In approach in Docket Nos. 130265-WU, 140175-WU, and 140177-WU.

Staff's adjustment to the Phase II UPIS balance is an increase of $13,058 for potable water and $10,697 for wastewater. Accumulated Depreciation should be decreased by $36,799 for potable water and $29,579 for wastewater for retirements. Also, staff reduced wastewater plant and accumulated depreciation by $3,678 and $239, respectively, for the non-U&U component. Further, staff increased the working capital allowance by $1,221 for potable water, $640 for non-potable water, and $640 for wastewater.

Staff adjustments for Phase II includes an increase in O&M Expenses of $9,769 for potable water, $5,117 for non-potable water, and $5,117 for wastewater. Staff has adjusted depreciation expense to reflect the pro forma additions, retirements, and U&U adjustments resulting in an increase of $593 for potable water and $424 for wastewater. Staff has increased TOTI by $202

for potable water and $166 for wastewater to reflect RAFs of 4.5 percent on the change in revenues. Staff's total adjustment to operating expenses, including additional RAFs, is an increase of $11,150 for potable water, $5,359 for non-potable water, and $5,976 for wastewater. The resulting operating expenses are $261,945 for potable water, $142,399 for non-potable water, and $195,484 for wastewater.

Table 16

Phase II Pro Forma Adjustments			
Description	UPIS	Accum Depr.	Depr. Expense
Potable Water			
Reverse Osmosis Skid	$52,231	($2,374)	$2,374
Retirement	(39,173)	39,173	(1,781)
Total	$13,058	$36,799	$593
Wastewater			
Catwalks at Plant	$9,431	($349)	$349
Blower	27,912	(1,861)	1,861
Sand Filters	5,446	(303)	303
Retirements	(32,092)	32,092	(1,884)
Total	$10,697	$29,579	$628

The Utility's Phase II revenue requirement should be $274,104 for potable water, $143,780 for non-potable water, and $205,484 for wastewater. These totals represent increases of 4.98 percent, 3.89 percent, and 3.00 percent for potable water, non-potable water, and wastewater, respectively, over the recommended Phase I revenue requirements.

Phase II rate base are shown on Schedule Nos. 5A – 5C. The capital structure for Phase II is shown on Schedule No. 6. The revenue requirement are shown on Schedule Nos. 7-A, 7-B, and 7-C. The resulting rates are shown on Schedule Nos. 8A – 8C.

Implementation of the Phase II rates is conditioned upon Aquarina completing the pro forma items within 12 months of the issuance of a consummating order in this docket. The Utility should be required to submit a copy of the final invoices and cancelled checks for all pro forma plant items. The Utility should be allowed to implement the above rates once all pro forma items have been completed and documentation provided showing that the improvements have been made. Once verified, the 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. The rates should not be implemented until notice has been received by the customers. Aquarina should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing.

Issue 17: 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?

Preliminary 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. Aquarina 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. (Smith)

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. Aquarina 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 $86,832. 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.
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.
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 18: Should the Utility be required to notify the Commission 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?

Preliminary 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. Aquarina 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 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. (Smith)

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. Aquarina 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 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 19: Should this docket be closed?

Preliminary 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, and that the Utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Also, the docket should remain open to allow staff to verify that the Phase I and II pro forma items have been completed, and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively. (Murphy)

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, and that the Utility has provided staff with proof that the adjustments for all applicable NARUC USOA primary accounts have been made. Also, the docket should remain open to allow staff to verify that the Phase I and Phase II pro forma items have been completed and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively.

AQUARINA UTILITIES, INC.			SCHEDULE NO. 1-A
TEST YEAR ENDED 12/31/2014			DOCKET NO. 150010-WS
SCHEDULE OF POTABLE WATER RATE BASE PHASE I			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	$1,907,336	$51,853	$1,959,189
LAND & LAND RIGHTS	62,080	(891)	61,189
NON-USED AND USEFUL COMPONENT	0	(93,291)	(93,291)
ACCUMULATED DEPRECIATION	(1,522,797)	24,466	(1,498,331)
CIAC	(483,149)	108,957	(374,192)
AMORTIZATION OF CIAC	276,662	(74,899)	201,763
WORKING CAPITAL ALLOWANCE	0	24,978	24,978
WATER RATE BASE	$240,132	$41,173	$281,306

AQUARINA UTILITIES, INC.			SCHEDULE NO. 1-B
TEST YEAR ENDED 12/31/2014			DOCKET NO. 150010-WS
SCHEDULE OF NON-POTABLE WATER RATE BASE PHASE I			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	$22,080	$6,013	$28,093
LAND & LAND RIGHTS	0	891	891
NON-USED AND USEFUL COMPONENT	0	0	0
ACCUMULATED DEPRECIATION	0	(10,145)	(10,145)
CIAC	0	(102,947)	(102,947)
AMORTIZATION OF CIAC	0	106,347	106,347
WORKING CAPITAL ALLOWANCE	0	14,885	14,885
WATER RATE BASE	$22,080	$15,045	$37,124

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 SCHEDULE OF WASTEWATER RATE BASE PHASE I			SCHEDULE NO. 1-C DOCKET NO. 150010-WS
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	$2,116,139	$8,696	$2,124,835
LAND & LAND RIGHTS	33,680	0	33,680
NON-USED AND USEFUL COMPONENT	0	(61,298)	(61,298)
ACCUMULATED DEPRECIATION	(1,866,188)	(6,653)	(1,872,841)
CIAC	(603,375)	6,032	(597,343)
AMORTIZATION OF CIAC	299,305	50,804	350,109
WORKING CAPITAL ALLOWANCE	0	19,510	19,510
WASTEWATER RATE BASE	($20,439)	$17,091	($3,348)

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 ADJUSTMENTS TO RATE BASE PHASE I		SCHEDULE NO. 1-D DOCKET NO. 150010-WS PAGE 1 OF 1	
	WATER	NP-WATER	WASTEWATER
UTILITY PLANT IN SERVICE			
1. To reflect the appropriate plant balances. (AF 1)	$50,158	$3,620	$7,708
2. To reflect the appropriate averaging adjustment.	(2,329)	(31)	(1,436)
3. To reflect the appropriate pro forma additions.	4,024	2,424	2,424
Total	$51,853	$6,013	$8,696
LAND & LAND RIGHTS			
To reflect appropriate land balances.	($891)	$891	$0
NON-USED AND USEFUL COMPONENT			
1. To reflect the appropriate Non-U&U UPIS.	($443,358)	$0	($707,068)
2. To reflect the appropriate Non-U&U Accumulated Depreciation.	350,067	0	645,770
Total	($93,291)	$0	($61,298)
ACCUMULATED DEPRECIATION			
1. To reflect the appropriate Accumulated Depreciation balances. (AF 5)	($10,652)	$0	($21,421)
2. To reflect pro rata Potable/NP split.	10,365	(10,365)	0
3. To reflect the appropriate averaging adjustment.	20,232	265	14,813
4. To reflect the appropriate pro forma additions.	4,521	(45)	(45)
Total	$24,466	($10,145)	($6,653)
CIAC			
1. To reflect the appropriate CIAC balance. (AF 4)	$95,372	($107,222)	$0
2. To reflect the appropriate CIAC averaging adjustments.	13,585	4,275	6,032
Total	$108,957	($102,947)	$6,032
AMORTIZATION OF CIAC			
1. To reflect the appropriate Accumulated Amortization of CIAC. (AF 6)	($70,242)	$107,911	$58,562
2. To reflect the appropriate averaging adjustment.	(4,657)	(1,564)	(7,758)
Total	($74,899)	$106,347	$50,804
WORKING CAPITAL ALLOWANCE			
To reflect 1/8 of test year O & M expenses.	$24,978	$14,885	$19,510

AQUARINA UTILITIES, INC.
TEST YEAR ENDED 12/31/2014
SCHEDULE OF CAPITAL STRUCTURE - PHASE I

SCHEDULE NO. 2
DOCKET NO. 150010-WS

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	$0	$0	$0					
2. RETAINED EARNINGS	0	0	0					
3. PAID IN CAPITAL	0	0	0					
4. OTHER COMMON EQUITY	(505,064)	505,064	0					
TOTAL COMMON EQUITY	($505,064)	$505,064	$0	$0	$0	0.00%	11.16%	0.00%
5. LONG-TERM DEBT	$863,346	($416,595)	$446,751	($131,830)	$314,921	99.95%	3.66%	3.66%
6. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
TOTAL DEBT	$863,346	($416,595)	$446,751	($131,830)	$314,921	99.95%		
7. CUSTOMER DEPOSITS	193	(32)	161	0	161	0.05%	2.00%	0.00%
8. TOTAL	$358,475	$88,437	$446,912	($131,830)	$315,082	100.00%		3.66%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	10.16%	12.16%
OVERALL RATE OF RETURN	3.66%	3.66%

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 SCHEDULE OF WATER OPERATING INCOME PHASE I					SCHEDULE NO. 3-A DOCKET NO. 150010-WS
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	$169,239	$103	$169,342	$91,748 54.18%	$261,090
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	$145,277	$54,548	$199,825	$0	$199,825
DEPRECIATION EXPENSE	0	34,398	34,398	0	34,398
CIAC AMORTIZATION EXPENSE	0	(9,758)	(9,758)	0	(9,758)
TAXES OTHER THAN INCOME	19,493	2,708	22,201	4,129	26,330
INCOME TAXES	1,442	(1,442)	0	0	0
TOTAL OPERATING EXPENSES	$166,212	$80,455	$246,667	$4,129	$250,796
OPERATING INCOME/(LOSS)	$3,027		($77,325)		$10,294
WATER RATE BASE	$240,132		$281,306		$281,306
RATE OF RETURN	1.26%		-27.49%		3.66%

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 SCHEDULE OF NON-POTABLE WATER OPERATING INCOME PHASE I				SCHEDULE NO. 3-B DOCKET NO. 150010-WS	
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	$96,929	$241	$97,170	$41,228 42.43%	$138,398
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	$99,052	$20,029	$119,081	$0	$119,081
DEPRECIATION EXPENSE	0	646	646	0	646
CIAC AMORTIZATION EXPENSE	0	(2,684)	(2,684)	0	(2,684)
TAXES OTHER THAN INCOME	16,413	1,728	18,141	1,855	19,996
INCOME TAXES	1,442	(1,442)	0	0	0
TOTAL OPERATING EXPENSES	$116,907	$18,277	$135,184	$1,855	$137,039
OPERATING INCOME/(LOSS)	($19,978)		($38,014)		$1,358
WATER RATE BASE	$22,080		$37,124		$37,124
RATE OF RETURN	-90.48%		-102.40%		3.66%

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 SCHEDULE OF WASTEWATER OPERATING INCOME PHASE I					SCHEDULE NO. 3-C DOCKET NO. 150010-WS
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	$160,261	$747	$161,008	$38,500 23.91%	$199,508
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	$126,358	29,724	$156,082	$0	$156,082
DEPRECIATION EXPENSE	0	25,254	25,254	0	25,254
CIAC AMORTIZATION EXPENSE	0	(15,514)	(15,514)	0	(15,514)
TAXES OTHER THAN INCOME	19,126	2,828	21,954	1,733	23,686
INCOME TAXES	1,442	(1,442)	0	0	0
TOTAL OPERATING EXPENSES	$146,926	$40,850	$187,776	$1,733	$189,508
OPERATING INCOME/(LOSS)	$13,335		($26,768)		$10,000
WASTEWATER O&M EXPENSE	$126,358		$156,082		$156,082
OPERATING MARGIN	10.55%		-17.15%		6.41%

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 ADJUSTMENTS TO OPERATING INCOME PHASE I			Schedule No. 3-D DOCKET NO. 150010-WS Page 1 of 2
	WATER	WATER-NP	WASTEWATER
OPERATING REVENUES			
To reflect appropriate revenues for the systems.	$103	$241	$747
OPERATION AND MAINTENANCE EXPENSES			
Salaries and Wages - Employees (601/701)			
To normalize salary expense to remove payroll for former employees. (AF 8)	($3,102)	($1,191)	($2,147)
To remove insurance reimbursement to former employee.	(333)	(128)	(231)
To remove unpaid salary accruals from outside the test year.	(8,737)	(3,356)	(6,046)
To include maintenance employees	52,097	20,010	36,053
	$39,925	$15,335	$27,629
Employee Pensions and Benefits (604/704)			
To reflect the appropriate amount of pensions and benefits. (AF 8)	$10,306	$3,958	$7,132
To reflect the increase for new maintenance employees.	9,898	3,802	6,850
Subtotal	$20,204	$7,760	$13,982
Purchased Power (615/715)			
To reflect the correct amount of purchase power expense. (AF 8)	$159	$3,807	($4,254)
Materials and Supplies (620/720)			
a. To include reimbursement for October expense voucher.	$1,184	$1,207	$1,196
b. To reclassify booster pumps.	(1,810)	(1,847)	0
c. To remove non-utility purchases	(185)	(188)	(186)
	($811)	($828)	$1,010
Contractual Services - Testing (635/735)			
To remove non-utility testing expenses. (AF 8)	($198)	($203)	($1,106)
Contractual Services - Other (636/736)			
a. To capitalize non-potable pump that was expensed. (AF 8)	$0	($3,620)	$0
b. Pump service expense that was not posted to ledger (AF 8)	2,703	720	0
c. To reflect amortiztion of pro forma well pump repair.	0	899	0
Subtotal	$2,703	($2,001)	$0
Rental of Building/Property (641/741)			
a. To remove 2014 amount of rental expensse for office space. (AF 8)	($634)	($33)	($333)
b. To include 2015 storage building rental expense. (AF 8)	5,700	300	3,000
Subtotal	$5,066	$267	$2,667
Rental of Equipment (642/742)			
a. To remove 2014 amount of equipment rental expensse. (AF 8)	($14,915)	($785)	($7,800)
b. To include 2015 rental expense. (AF No. 8)	12,730	670	6,700
Subtotal	($2,185)	($115)	($1,100)
Transportation Expenses (650/750)			
a. To reflect the correct amount of mileage expenses. (AF 8)	$308	$314	$311
b. To reflect the correct amount of mileage expenses. (AF 8)	(1,230)	(1,255)	(1,242)
c. To removed repairs to non-utility vehicles. (AF 8)	(491)	(501)	(496)
d. To remove unsupported airline tickets. (AF 8)	(248)	(253)	(250)
Subtotal	($1,661)	($1,695)	($1,677)

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 ADJUSTMENTS TO OPERATING INCOME PHASE I	WATER	WATER-NP	WASTEWATER
			Schedule No. 3-D DOCKET NO. 150010-WS Page 2 of 2
Insurance - Vehicle Expenses (656/756)			
To reflect the appropriate amount of insuranc vehicle expense. (AF 8)	($2,211)	($116)	($1,163)
Insurance - General Liability Expenses (657/757)			
To reflect the correct amount of general liability insurance. (AF 8)	($19)	($1)	($11)
Insurance - Other Expenses (659/759)			
To reflect appropriate amount of insurance other expenses. (AF 8)	($4,517)	($238)	($2,377)
Regulatory Commission Expense (667/767)			
a. To reflect the correct amount of regulatory commission expense. (AF 8)	($25)	($25)	($50)
b. To reflect the appropriate amount of rate case expense.	913	932	1,845
Subtotal	$889	$907	$1,795
Miscellaneous Expense (675/775)			
a. To reflect communication costs. (AF 8)	($2,230)	($2,276)	($2,253)
b. To reclassify and capitalize to Account 360.	0	0	(2,872)
c. To reflect reimbursements for October Misc. expenses.	372	379	375
d. To remove non-utility reimbursements.	(960)	(980)	(970)
e. To reflect reclassification for DEP permits .	25	25	50
Subtotal	($2,794)	($2,851)	($5,670)
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	$54,548	$20,029	$29,724
DEPRECIATION EXPENSE			
a. To reflect appropriate depreciation expense.	$45,851	$601	$29,628
b. To reflect pro forma depreciation expense.	103	45	45
c. Non-U&U depreciation expense.	(11,555)	0	(4,419)
Total	$34,399	$646	$25,254
AMORTIZATION OF CIAC EXPENSE			
To reflect appropriate amount of CIAC amortization expense.	($9,758)	($2,684)	($15,514)
TAXES OTHER THAN INCOME			
a. To reflect the correct amount of property taxes.	($45)	($45)	($44)
b. To reflect the correct amount of payroll taxes.	(237)	(91)	(164)
c. To reflect the appropriate amount of payroll taxes for new employees.	4,592	1,764	3,178
d. To reflect the appropriate amount of regulatory assessment fees. (RAFs).	108	62	134
e. To reflect pro forma property taxes.	62	38	38
f. Non-U&U property taxes.	(1,772)	0	(314)
Total	$2,708	$1,728	$2,828
INCOME TAX			
To reflect the correct amount of income tax expenses.	($1,442)	($1,442)	($1,442)

AQUARINA UTILITIES, INC.
TEST YEAR ENDED DECEMBER 31, 2014
MONTHLY WATER RATES (PHASE I)

SCHEDULE NO. 4-A
DOCKET NO. 150010-WS

	RATES AT TIME OF FILING	STAFF RECOMMENDED PHASE I RATES	4 YEAR RATE REDUCTION
Residential and General Service			
Base Facility Charge by Meter Size			
5/8" x 3/4"	$19.16	$27.32	$0.10
3/4"	$28.74	$40.98	$0.15
1"	$47.90	$68.30	$0.25
1-1/2"	$95.79	$136.60	$0.51
2"	$153.27	$218.56	$0.81
3"	$306.55	$437.12	$1.62
4"	$478.96	$683.00	$2.53
6"	$957.93	$1,366.00	$5.06
Charge per 1,000 gallons – Residential and General Service	$6.95		
0-3,000 gallons		$11.57	$0.04
Over 3,000 gallons		$13.60	$0.05
Charge Per 1,000 gallons – General Service		$11.94	$0.04
IRRIGATION SERVICE			
Charge per 1,000 gallons	$0.78	$1.11	$0.01
Typical Residential 5/8" x 3/4" Meter Bill Comparison			
3,000 Gallons	$40.01	$62.03	
6,000 Gallons	$60.86	$102.83	
8,000 Gallons	$74.76	$130.03	

AQUARINA UTILITIES, INC. | **SCHEDULE NO. 4-B**
TEST YEAR ENDED DECEMBER 31, 2014 | **DOCKET NO. 150010-WS**
MONTHLY WASTEWATER RATES (PHASE I)

	RATES AT TIME OF FILING	STAFF RECOMMENDED PHASE I RATES	4 YEAR RATE REDUCTION
Residential			
Base Facility Charge - All Meter Sizes	$22.13	$24.80	$0.24
Charge Per 1,000 gallons			
8,000 gallon cap	$4.79		
6,000 gallon cap		$6.96	$0.07
Flat Rate Service	$34.69	$39.83	$0.39
General Service			
Base Facility Charge by Meter Size			
5/8" x 3/4"	$22.13	$24.80	$0.24
3/4"	$33.16	$37.20	$0.36
1"	$55.28	$62.00	$0.61
1-1/2"	$110.56	$124.00	$1.21
2"	$176.90	$198.40	$1.94
3"	$353.81	$396.80	$3.88
4"	$552.83	$620.00	$6.06
6"	$1,105.67	$1,240.00	$12.13
Charge per 1,000 gallons	$5.76	$8.36	$0.08
Typical Residential 5/8" x 3/4" Meter Bill Comparison			
2,000 Gallons	$31.71	$38.72	
6,000 Gallons	$50.87	$66.56	
8,000 Gallons	$60.45	$66.56	

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 SCHEDULE OF WATER RATE BASE Phase II			SCHEDULE NO. 5-A DOCKET NO. 150010-WS
DESCRIPTION	PHASE I BALANCE	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	$1,959,189	$13,058	$1,972,247
LAND & LAND RIGHTS	61,189	0	61,189
NON-USED AND USEFUL COMPONENT	(93,291)	0	(93,291)
ACCUMULATED DEPRECIATION	(1,498,331)	36,799	(1,461,531)
CIAC	(374,192)	0	(374,192)
AMORTIZATION OF CIAC	201,763	0	201,763
WORKING CAPITAL ALLOWANCE	24,978	1,221	26,199
WATER RATE BASE	$281,306	$51,078	$332,384

AQUARINA UTILITIES, INC.			SCHEDULE NO. 5-B
TEST YEAR ENDED 12/31/2014			DOCKET NO. 150010-WS
SCHEDULE OF NON-POTABLE WATER RATE BASE - Phase II			
DESCRIPTION	PHASE I BALANCE	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	$28,093	$0	$28,093
LAND & LAND RIGHTS	891	0	891
NON-USED AND USEFUL COMPONENT	0	0	0
ACCUMULATED DEPRECIATION	(10,145)	0	(10,145)
CIAC	(102,947)	0	(102,947)
AMORTIZATION OF CIAC	106,347	0	106,347
WORKING CAPITAL ALLOWANCE	14,885	640	15,525
WATER RATE BASE	$37,124	$640	$37,764

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 SCHEDULE OF WASTEWATER RATE BASE PHASE II			SCHEDULE NO. 5-C DOCKET NO. 150010-WS
DESCRIPTION	PHASE I BALANCE	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	$2,124,835	$10,697	$2,135,532
LAND & LAND RIGHTS	33,680	0	33,680
NON-USED AND USEFUL COMPONENT	(61,298)	(3,439)	(64,738)
ACCUMULATED DEPRECIATION	(1,872,841)	29,579	(1,843,262)
CIAC	(597,343)	0	(597,343)
AMORTIZATION OF CIAC	350,109	0	350,109
WORKING CAPITAL ALLOWANCE	19,510	640	20,150
WASTEWATER RATE BASE	($3,348)	$37,477	$34,129

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 ADJUSTMENTS TO RATE BASE			SCHEDULE NO. 5-D DOCKET NO. 150010-WS
	WATER	WATER-NP	WASTEWATER
UTILITY PLANT IN SERVICE			
To reflect the appropriate pro forma additions.	$13,058	$0	$10,697
NON-USED AND USEFUL COMPONENT			
To reflect the appropriate Non-U&U UPIS.	$0	$0	($3,678)
To reflect the appropriate Non-U&U Accumulated Depreciation.	0	0	239
Total	$0	$0	($3,439)
ACCUMULATED DEPRECIATION			
To reflect the appropriate pro forma additions.	$36,799	$0	$29,579
WORKING CAPITAL ALLOWANCE			
To reflect 1/8 of test year O & M expenses.	$1,221	$640	$640

AQUARINA UTILITIES, INC.
TEST YEAR ENDED 12/31/2014
SCHEDULE OF CAPITAL STRUCTURE- PHASE II

SCHEDULE NO. 6
DOCKET NO. 150010-WS

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	$0	$0	$0					
2. RETAINED EARNINGS	0	0	0					
3. PAID IN CAPITAL	0	0	0					
4. OTHER COMMON EQUITY	(505,064)	505,064	0				11.16%	
TOTAL	($505,064)	$505,064	$0	$0	$0	0.00%	11.16%	0.00%
5. LONG-TERM DEBT	$446,751	$0	$446,751	($21,317)	$425,434	99.96%	3.66%	3.66%
6. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
TOTAL DEBT	$446,751	$0	$446,751	($21,317)	$425,434	99.96%	0.00%	0.00%
7. CUSTOMER DEPOSITS	161	0	161	0	161	0.04%	2.00%	0.00%
8. TOTAL	($58,152)	$505,064	$446,912	($21,317)	$425,595	100.00%		3.66%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	10.16%	12.16%
OVERALL RATE OF RETURN	3.66%	3.66%

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 SCHEDULE OF WATER OPERATING INCOME PHASE II				SCHEDULE NO. 7-A DOCKET NO. 150010-WS	
	PHASE I	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	$261,090	$0	$261,090	$13,014 4.98%	$274,104
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	$199,825	$9,769	$209,595	$0	$209,595
DEPRECIATION (NET)	34,398	593	34,991	0	34,991
AMORTIZATION OF CIAC	(9,758)	0	(9,758)	0	(9,758)
TAXES OTHER THAN INCOME	26,330	202	26,532	586	27,117
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	$250,796	$10,564	$261,360	$586	$261,945
OPERATING INCOME/(LOSS)	$10,294		($270)		$12,159
WATER RATE BASE	$281,306		$332,384		$332,384
RATE OF RETURN	3.66%		-0.08%		3.66%

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 SCHEDULE OF NON-POTABLE WATER OPERATING INCOME PHASE II					SCHEDULE NO. 7-B DOCKET NO. 150010-WS
	PHASE I	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	$138,398	$0	$138,398	$5,383 3.89%	$143,780
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	$119,081	$5,117	$124,199	$0	$124,199
DEPRECIATION (NET)	646	0	646	0	646
AMORTIZATION OF CIAC	(2,684)	0	(2,684)	0	(2,684)
TAXES OTHER THAN INCOME	19,996	0	19,996	242	20,239
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	$137,039	$5,117	$142,156	$242	$142,399
OPERATING INCOME/(LOSS)	$1,358		($3,759)		$1,382
WATER RATE BASE	$37,124		$37,764		$37,764
RATE OF RETURN	3.66%		-9.95%		3.66%

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 SCHEDULE OF WASTEWATER OPERATING INCOME PHASE II				SCHEDULE NO. 7-C DOCKET NO. 150010-WS	
	PHASE I	STAFF ADJS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	$199,508	$0	$199,508	$5,976 3.00%	$205,484
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	$156,082	$5,117	$161,200	$0	$161,200
DEPRECIATION EXPENSE	25,254	424	25,678	0	25,678
AMORTIZATION OF CIAC	(15,514)	0	(15,514)	0	(15,514)
TAXES OTHER THAN INCOME	23,686	166	23,852	269	24,121
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	$189,508	$5,707	$195,215	$269	$195,484
OPERATING INCOME/(LOSS)	$10,000		$4,293		$10,000
WASTEWATER OPERATING EXPENSES	$156,082		$161,200		$161,200
OPERATING MARGIN	6.41%		2.66%		6.20%

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 ADJUSTMENTS TO OPERATING INCOME			Schedule No. 7-D DOCKET NO. 150010-WS
	WATER	WATER-NP	WASTEWATER
OPERATION AND MAINTENANCE EXPENSES			
Contractual Services - Professional (632/732)			
RO Service Contract.	$4,652	$0	$0
Contractual Services - Other (636/736)			
To reflect amortization of GIS Mapping.	$5,117	$5,117	$5,117
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	$9,769	$5,117	$5,117
DEPRECIATION EXPENSE			
a. To reflect pro forma depreciation expense.	$593	$0	$628
b. To reflect Non-U&U depreciation expense.	0	0	(204)
Total	$593	$0	$424
TAXES OTHER THAN INCOME			
To reflect pro forma property taxes.	$202	$0	$166

AQUARINA UTILITIES, INC. TEST YEAR ENDED DECEMBER 31, 2014 MONTHLY WATER RATES (PHASE II)		SCHEDULE NO. 8-A DOCKET NO. 150010-WS
	STAFF RECOMMENDED PHASE I RATES	STAFF RECOMMENDED PHASE II RATES
Residential and General Service		
Base Facility Charge by Meter Size		
5/8" x 3/4"	$27.32	$28.69
3/4"	$40.98	$43.04
1"	$68.30	$71.73
1-1/2"	$136.60	$143.45
2"	$218.56	$229.52
3"	$437.12	$459.04
4"	$683.00	$717.25
6"	$1,366.00	$1,434.50
Charge per 1,000 gallons – Residential Service		
0-3,000 gallons	$11.57	$12.15
Over 3,000 gallons	$13.60	$14.28
Charge per 1,000 gallons – General Service	$11.94	$12.54
Irrigation Service		
Charge per 1,000 gallons	$1.11	$1.15
Typical Residential 5/8" x 3/4" Meter Bill Comparison		
3,000 Gallons	$62.03	$65.14
6,000 Gallons	$102.83	$107.98
8,000 Gallons	$130.03	$136.54

AQUARINA UTILITIES, INC. TEST YEAR ENDED DECEMBER 31, 2014 MONTHLY WASTEWATER RATES		SCHEDULE NO. 8-B DOCKET NO. 150010-WS
	STAFF RECOMMENDED PHASE I RATES	STAFF RECOMMENDED PHASE II RATES
Residential		
Base Facility Charge - All Meter Sizes	$24.80	$25.54
Charge Per 1,000 gallons		
6,000 gallon cap	$6.96	$7.17
Flat Rate Service	$39.83	$41.02
General Service		
Base Facility Charge by Meter Size		
5/8" x 3/4"	$24.80	$25.54
3/4"	$37.20	$38.31
1"	$62.00	$63.85
1-1/2"	$124.00	$127.70
2"	$198.40	$204.32
3"	$396.80	$408.64
4"	$620.00	$638.50
6"	$1,240.00	$1,277.00
Charge per 1,000 gallons	$8.36	$8.61
Typical Residential 5/8" x 3/4" Meter Bill Comparison		
2,000 Gallons	$38.72	$39.88
6,000 Gallons	$66.56	$68.56
8,000 Gallons	$66.56	$68.56