

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-**

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**DATE:** April 11, 2016  
**TO:** Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk  
**FROM:** Phillip Ellis, Public Utilities Supervisor, Division of Engineering *POE*  
**RE:** Docket No. 150236-WU-Application for staff-assisted rate case in Lake County, by Lake Idlewild Utility Company.

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

Thank you.

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State of Florida



## Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

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**DATE:** April 11, 2016

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

**FROM:** Division of Engineering (Ellis) <sup>PE</sup>  
Division of Accounting and Finance (T. Brown) <sup>AB</sup>  
Division of Economics (Hudson) <sup>HL</sup>  
Office of the General Counsel (Murphy) <sup>CM</sup>

**RE:** Docket No. 150236-WU – Application for staff-assisted rate case in Lake County, by Lake Idlewild Utility Company.

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**--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 May 12, 2016.**

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## Case Background

Lake Idlewild Utility Company (Lake Idlewild) is a Class C utility providing water service to approximately 77 residential customers in Lake County. Effective March 23, 2015, Lake Idlewild acquired Certificate No. 531-W by Order No. PSC-15-0140-PAA-WU, which approved a transfer from W.B.B. Utilities, Inc. (W.B.B. Utilities).<sup>1</sup> The water system serves a subdivision of the same name, Lake Idlewild, and produces and treats its own water. On December 23, 2015, Lake Idlewild officially filed its application for a Staff-Assisted Rate Case (SARC). According to Lake Idlewild's 2015 Annual Report, total gross revenues were \$33,764 and total operating expenses were \$36,917, resulting in a net loss of \$3,153.

This Staff Report is a **preliminary** analysis of the Utility prepared by the Commission staff to give utility customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed June 23, 2016, for the July 7, 2016 Commission Conference) will be revised as necessary using updated information and results of customer quality of service comments or other relevant comments received at the May 12, 2016 Customer Meeting. The Commission has jurisdiction in this case pursuant to Section 367.0814, Florida Statutes (F.S.).

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<sup>1</sup>Order No. PSC-15-0140-PAA-WU, issued March 23, 2015, in Docket No. 140170-WU, *In re: Application for approval of transfer of Certificate No. 531-W from W.B.B. Utilities, Inc. to Lake Idlewild Utility Company in Lake County.*

## Discussion of Issues

**Issue 1:** Is the overall quality of service provided by Lake Idlewild satisfactory?

**Preliminary Recommendation:** Staff's recommendation regarding quality of service will not be finalized until after the May 12, 2016 Customer Meeting. (Ellis)

**Staff Analysis:** Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water and wastewater rate cases, the Commission shall determine the overall quality of service provided by a utility. This is derived from an evaluation of three separate components of the Utility operations. These components are the quality of the Utility's product, the operational 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 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.

Lake Idlewild's service territory is located in Lake County within the St. John's River Water Management District (SJRWMD), with a consumptive use permit expiring in August 2020. Lake Idlewild serves residential customers in one subdivision from water it produces and treats with its own water system.

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

Staff reviewed the latest DEP Sanitary Survey Report, dated July 23, 2014, which was conducted when the prior owners, W.B.B. Utilities operated the system. No deficiencies were found, and DEP determined that the system was in compliance with its rules and regulations. Staff reviewed the chemical analysis with samples dated April 23, 2015. All of the primary and secondary contaminants were below the Maximum Contaminant Level established by DEP. A final determination regarding the operating condition of the utility's plant will be made after an inspection of the facilities and the Customer Meeting.

### The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the PSC's complaint records and found no complaints recorded for the period September 30, 2011, through September 30, 2015. Staff requested copies of complaints filed with the Utility during the test year and four years prior. The Utility did not provide customer complaint records from the previous owner, but reported a total of 22 complaint contacts associated with 17 different accounts during the test year. The complaints include seven billing complaints, nine interruptions of service, two water quality issues, two reconnections, and two general inquiries. All quality of service complaints will be investigated and will be taken into consideration during the preparation of staff's final recommendation.

### Summary

Quality of service will be determined at a later date, pending review of comments made at the May 12, 2016 Customer Meeting.

**Issue 2:** What is the Used and Useful percentage (U&U) of Lake Idlewild's water treatment and distribution system?

**Preliminary Recommendation:** The Utility's water treatment and distribution systems should be considered 100 percent U&U, and no adjustments should be made for Excessive Unaccounted for Water (EUW). (Ellis)

**Staff Analysis:** Lake Idlewild's water system is served by two wells, 6-inch and 8-inch in diameter, capable of producing 50 and 750 gallons per minute (gpm), respectively. The raw water is treated by hypochlorination prior to entering the water distribution system. The Water Treatment Plant (WTP) recently reduced its permitted capacity to 252,000 gallons per day (gpd). The Utility is permitted to withdraw an average of 60,000 gpd on an annual basis through August 2020 and is currently in compliance with its permit. Analysis of the system indicates there has been no growth of the system in the past five years.

The distribution system is a network of approximately 5,025 linear feet of 4-inch PVC pipe and 942 linear feet of 2-inch PVC pipe. The distribution system seems to be properly sized and engineered to meet pressure and supply demands.

#### **Excessive Unaccounted for Water**

Rule 25-30.4325, F.A.C., describes Excessive Unaccounted for Water (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 chemical costs, are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether the 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. Review of the Monthly Operating Reports (MORs) that the Utility files with the DEP and the Utility's water sales indicates a EUW value of less than 10 percent. Therefore, there appears to be no EUW to be considered, and at this time staff is recommending that no adjustment be made to operating expenses for chemicals and purchase power due to EUW.

#### **Water Treatment System Used & Useful**

Rule 25-30.4325, F.A.C., describes the calculation of U&U for WTP as the sum of the maximum peak demand, plus fire flow demand, plus a growth allowance minus EUW, all divided by the water system's firm reliable capacity. As the system does not have significant storage capacity, this calculation is based on its flow rate in gpm. The Commission previously calculated a 100 percent U&U for the WTP based on a single well.<sup>2</sup> As the system has expanded since the last SARC to include a second well, staff has recalculated the U&U based upon the current water treatment system.

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<sup>2</sup>Order No. PSC-94-0236-FOF-WU, issued March 3, 1994, in Docket No. 930656-WU, *In re: Application for a staff-assisted rate case in Lake County by W.B.B. Utilities, Inc.*

The firm reliable capacity is defined for systems with more than one well as the pumping capacity of all wells combined minus the largest individual well. For Lake Idlewild, this yields a value of 50 gpm. DEP rates the treatment facilities at a capacity of 252,000 gpd, or 175 gpm. Therefore the well-based capacity is not constrained by treatment capacity.

Based on the MORs provided by the Utility, it experienced a peak day on August 10, 2015, with a daily flow of 106,000 gallons. Utility records indicate a line break was present this day, which disqualifies it from consideration. The second highest peak day during the test year is May 8, 2015, with a daily flow of 80,000 gallons, with regular operating conditions. Converting this value to a gpm basis and doubling it to represent a peak hourly flow period results in a maximum peak demand of 111 gpm. As noted in Lake Idlewild's application, Lake County requires a fire flow of 750 gpm. Lastly, no growth allowance or EUW have been identified for this system.

The final calculation of U&U ( $[\text{Peak Demand} + \text{Fire Flow} + \text{Growth} - \text{EUW}] / \text{Capacity}$ ) exceeds 100 percent. Based on this, the WTP should be considered 100 percent used and useful.

### **Water Distribution System Used & Useful**

Pursuant to Rule 25-30.431, F.A.C., the U&U calculation for the distribution system is based on the average customers during the test year plus a growth allowance, divided by the distribution system capacity. The Commission found in the last rate case the system to be 90.91 percent U&U based upon a total of 30 customers including a growth allowance and a system capacity of 33 customers.<sup>3</sup> During the current test year, approximately 77 customers were present, with a system capacity of 80 due to expansion of the water distribution system since the last SARC. It appears at this time that the system is built-out, and therefore should be considered 100 percent used and useful. Staff will verify this information during its field inspection, which is scheduled for May 12, 2016.

### **Summary**

The Utility's water treatment and distribution systems should be considered 100 percent U&U, and no adjustments should be made for EUW.

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<sup>3</sup>Order No. PSC-94-0236-FOF-WU, issued March 3, 1994, in Docket No. 930656-WU, *In re: Application for a staff-assisted rate case in Lake County by W.B.B. Utilities, Inc.*

**Issue 3:** What is the appropriate average test year rate base for Lake Idlewild?

**Preliminary Recommendation:** The appropriate average test year rate base for Lake Idlewild is \$52,564. (T. Brown)

**Staff Analysis:** The appropriate components of the Utility's rate base include Utility plant in service, land, Contributions-In-Aid-of-Construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. Lake Idlewild's net book value was last determined by Order No. PSC-15-0140-PAA-WU in a 2014 certificate transfer docket.<sup>4</sup> Rate base was last established in the Utility's last SARC in 1994.<sup>5</sup> Staff selected the test year ended September 30, 2015, for the instant case. Commission audit staff determined that the Utility's books and records are in compliance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). A summary of each component of rate base and the recommended adjustments are discussed below.

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

The Commission approved a Utility Plant in Service (UPIS) balance of \$192,336 in the Utility's 2014 transfer docket. In the current docket, the Utility recorded \$192,336 in UPIS. No exceptions to the Utility's UPIS balances were noted in the Lake Idlewild audit. No averaging adjustment is necessary for ratemaking; therefore, staff recommends a UPIS balance of \$192,336.

#### **Land and Land Rights**

The Commission approved a land balance of \$1,905 in the Utility's 2014 transfer docket. Audit staff determined that there has been no activity related to land since this case, therefore, no adjustments are necessary. Staff recommends a land and land rights balance of \$1,905.

#### **Non-Used and Useful Plant**

As discussed in Issue 2, Lake Idlewild's water treatment plant and distribution system are considered 100 percent U&U. Therefore, a U&U adjustment is not necessary.

#### **Contribution in Aid of Construction (CIAC)**

The Utility recorded CIAC balances of \$91,720 for water. Commission audit staff found no additions in the test year, and determined that no adjustments are necessary. As such, staff recommends a CIAC balance of \$91,720.

#### **Accumulated Depreciation**

Lake Idlewild recorded a test year accumulated depreciation balance of \$99,717. Staff calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff decreased total accumulated depreciation by \$3,091 to reflect an averaging adjustment. As such, staff recommends an accumulated depreciation balance of \$96,626.

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<sup>4</sup>Order No. PSC-15-0140-PAA-WU, issued March 23, 2015, in Docket No. 140170-WU, *In re: Application for approval of transfer of Certificate No. 351-W from W.B.B. Utilities, Inc. to Lake Idlewild Utility Company in Lake County.*

<sup>5</sup>Order No. PSC-94-0236-FOF-WU, issued March 3, 1994, in Docket No. 930656-WU, *In re: Application for staff-assisted rate case in Lake County by W.B.B. Utilities, Inc.*



**Accumulated Amortization of CIAC**

Lake Idlewild recorded an amortization of CIAC balance of \$44,231. Staff calculated amortization of CIAC using composite depreciation rates, and determined that no adjustments are necessary. Staff decreased this account by \$1,470 to reflect an averaging adjustment. Staff recommends an accumulated amortization of CIAC balance of \$42,761.

**Working Capital Allowance**

Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses of the Utility. 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 \$3,908 (based on O&M expense of \$31,265/8).

**Rate Base Summary**

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$52,564. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

**Issue 4:** What is the appropriate return on equity and overall rate of return for Lake Idlewild?

**Preliminary Recommendation:** The appropriate Return on Equity (ROE) is 8.74 percent with a range of 7.74 percent to 9.74 percent. The appropriate overall rate of return is 8.74 percent. (T. Brown)

**Staff Analysis:** Lake Idlewild's capital structure consists of \$52,538 in common equity. Audit staff verified that the Utility has no debt. In addition, audit staff verified that the Utility does not collect customer deposits and does not have a tariff in effect for customer deposits. Therefore, no adjustments are necessary.

The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE is 8.74 percent based upon the Commission-approved leverage formula currently in effect.<sup>6</sup> Staff recommends an ROE of 8.74 percent, with a range of 7.74 percent to 9.74 percent, and an overall rate of return of 8.74 percent. The ROE and overall rate of return are shown on Schedule No. 2.

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<sup>6</sup>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 the Lake Idlewild's water system?

**Preliminary Recommendation:** The appropriate test year revenues for Lake Idlewild's water system are \$32,466. (Hudson)

**Staff Analysis:** Lake Idlewild recorded total test year revenues of \$32,262. The water revenues included \$31,844 of service revenues and \$418 of miscellaneous revenues. 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 \$32,090. This results in an increase of \$246 (\$32,090-\$31,844) to service revenues for water.

During the test year, the Utility charged incorrect initial and normal connection charges and unauthorized late payment and Non-Sufficient Funds (NSF) charges. The Utility has provided refunds via credits to customer's accounts to reflect the appropriate connection charges and reimbursements for unauthorized late payment and NSF charges. Since refunds were made, staff recommends no enforcement actions are warranted at this time. Subsequent to the test year, the Commission approved late payment and NSF charges for the Utility.<sup>7</sup> Therefore, staff recommends it is appropriate to include the number of occurrences during the test year for late payments and returned checks. Based on staff's review of the number of miscellaneous service occurrences during the test year and the Utility's approved miscellaneous service charges, staff determined miscellaneous revenues should be \$376. This results in a decrease of \$42 (\$418-\$376) to miscellaneous revenues for water. Based on the above, the appropriate test year revenues for Lake Idlewild's water system are \$32,466 (\$32,090+\$376).

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<sup>7</sup>Order Nos. PSC-16-0084-TRF-WS, issued February 22, 2016, in Docket No. 150260-WS, *In re: Request for approval of late payment charges and return check (NSF) charge and request for approval of amendment to tariff sheets for miscellaneous service charges in Lake County by Brendenwood Waterworks, Inc., Harbor Waterworks, Inc., Lake Idlewild Waterworks, Inc., and Raintree Waterworks, Inc., and in Highlands County by Country Walk Utilities, Inc.*

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

**Preliminary Recommendation:** The appropriate amount of operating expense for the Utility is \$38,604. (T. Brown)

**Staff Analysis:** Lake Idlewild recorded operating expense of \$40,393 for the test year ended September 30, 2015. 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 (O&M) Expenses**

**Salaries and Wages - Officers (603)**

The Utility recorded \$4,000 in this account for the test year to reflect the president's monthly salary of \$333. According to the Utility's 2014 Annual Report, Lake Idlewild's officers also include a vice-president and administrator who do not receive a salary. Audit staff determined that no adjustments are necessary for accounting purposes. However, staff recommends additional information is needed to make a final determination. Therefore, pending additional review, staff recommends salaries and wages – officers expense for the test year of \$4,000.

**Purchased Power (615)**

The Utility recorded purchased power expense of \$3,199. Lake Idlewild's actual test year purchased power was \$3,199, therefore, no adjustments are necessary. Staff recommends purchased power expense for the test year of \$3,199.

**Chemicals (618)**

The Utility recorded chemicals expense of \$936. Lake Idlewild's actual test year chemicals was \$936, therefore, no adjustments are necessary. Staff recommends chemicals expense for the test year of \$936.

**Contractual Services - Accounting (632)**

The Utility recorded \$1,000 for test year contractual services – accounting expense, for preparation of the Utility's tax return. Lake Idlewild's actual test year accounting expense was \$1,000, therefore, no adjustments are necessary. Staff recommends contractual services – accounting expense for the test year of \$1,000.

**Contractual Services - Legal (633)**

The Utility recorded \$590 for test year contractual services – legal expense. Lake Idlewild's actual test year legal expense was \$590, therefore, no adjustments are necessary. Staff recommends contractual services – legal expense for the test year of \$590.

**Contractual Services - Other (636)**

The Utility recorded \$19,073 in this account for test year contractual services – other expense. Lake Idlewild currently receives all of its operational and administrative services under a contract with U.S. Water Services Corporation (USW), at a monthly rate of \$1,589.

Pursuant to the contract, USW provides licensed and certified employees to operate and maintain the Utility's water treatment and water transmission and distribution systems. In addition to daily physical operation of the systems, USW's contractual work includes, but is not limited to: performing all required tests, including triennial tests; preparing all routine operational reports required by regulatory agencies, such as the Monthly Operating Report (MOR) required by DEP; conducting minor system maintenance and repairs; conducting meter re-reads, turn-on and turn-offs; completing minor service line repairs; performing field work needed to resolve customer complaints; calibrating flow meters; replacing customer meters; conducting annual backflow prevention device testing; performing tank inspections; performing piping locates per the Sunshine State One Call of Florida system; and maintaining the Utility grounds. The contract also covers the cost of all repairs not to exceed \$400 per incident when those repairs can be performed by USW staff without outside assistance, as well as the cost of required routine testing. Repairs exceeding \$400 and non-routine tests are covered by the Utility.

In addition, USW also provides general accounting, administrative, and customer services. USW's contractual work includes, but is not limited to: providing a 24-hour emergency answering service and dispatch; reading meters on a monthly basis; issuing monthly customer bills; collecting customer payments and deposits; maintaining records for each customer account; maintaining the Utility's billing records; preparing and mailing late notices for delinquent accounts; preparing a daily monitoring report; maintaining the Utility's general ledger and balance sheet on a monthly basis; and preparing the Utility's annual report filed with the Commission. USW's services also include maintaining a primary business office and satellite offices for the purpose of Utility management that are open five days a week to assist customers. USW also offers an online, web-based bill payment system to offer customers 24-hour per day access to bill payment options.

Audit staff determined that no adjustments are necessary for accounting purposes. Based on staff's initial review of the contract, this expense appears to be reasonable for the services provided. However, staff recommends additional information is necessary to make a final determination. Therefore, pending additional review, staff recommends contractual services – other expense for the test year of \$19,073.

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

The Utility recorded \$1,341 in this account for test year insurance expense. Lake Idlewild's actual test year accounting expense was \$1,341, therefore, no adjustments are necessary. The Utility provided a copy of the general liability policy as support documentation for this amount. Staff recommends insurance expense for the test year of \$1,341.

#### ***Amortization of Rate Case Expense (666)***

The Utility recorded \$214 in this account. Regarding the instant case, the Utility is required by Rule 25-22.0407, F.A.C., to provide notices of the customer meeting and notices of final rates in this case to its customers. For noticing, staff estimated \$76 for postage expense, \$46 for printing expense, and \$8 for envelopes. This results in \$129 for the noticing requirement. The Utility paid a \$200 rate case filing fee. The Utility also requested additional rate case expense of \$500 to cover travel expenses for two Utility representatives to attend both the Customer Meeting and Commission Agenda Conference (\$250 each trip). Based on staff's initial review, the requested

travel expense appears reasonable, but will be reviewed further during the pendency of this case. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period. Based on the above, staff recommends total rate case expense of \$829 ( $\$129 + \$200 + \$500$ ), which amortized over four years is \$207. Based on the above, staff's total adjustment to this account is a decrease of \$7 ( $\$214 - \$207$ ). Therefore, staff recommends regulatory commission expense of \$207.

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

The Utility recorded \$283 in this account for test year bad debt expense, which equals 0.88 percent of the test year revenues or 0.66 percent of staff's recommended revenue requirement. Staff notes that the previous owners did not report any bad debt expense in the Annual Reports filed with the Commission. While current Commission practice is to calculate bad debt expense using a three-year average, three years of records are not yet available for the current owners. As such, staff recommends the Utility's recorded bad debt expense is reasonable and representative of the Utility's actual first year of operation. Therefore, staff recommends bad debt expense for the test year of \$283.

#### **Miscellaneous Expense (675)**

The Utility recorded \$572 for miscellaneous expense. Audit staff determined that the appropriate balance on September 30, 2015, was actually \$711. According to the Lake Idlewild audit report, this amount was overstated by \$75. As such, staff recommends miscellaneous expense of \$636 ( $\$711 - \$75$ ) for the test year.

#### **Operation and Maintenance Expense (O&M Summary)**

Based on the above adjustments, O&M expense should be reduced by \$82, resulting in total O&M expense of \$31,265. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A, 3-B, and 3-C.

#### **Depreciation Expense (Net of Amortization of CIAC)**

The Utility's records reflect test year depreciation of \$6,182 and CIAC amortization of \$2,940, for a net depreciation expense of \$3,242 ( $\$6,182 - \$2,940 = \$3,242$ ). Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and calculated CIAC amortization based on composite rates. As a result of staff's calculations and the acceptance of several audit findings in Issue 3, staff recommends that no adjustments are necessary. Therefore, staff recommends net depreciation expense of \$3,242.

#### **Taxes Other Than Income (TOTI)**

Lake Idlewild recorded Taxes Other Than Income (TOTI) of \$5,804 for the test year. The Utility recorded \$1,569 for Regulatory Assessment Fees (RAFs). Based on staff's recommended test year revenues of \$32,466 the Utility's RAFs should be \$1,461. Therefore, staff decreased this account by \$108 to reflect the appropriate RAFs. Also, the Utility recorded property tax accruals of \$4,235 during the test year. Audit staff determined that the Utility's actual property taxes for the 2014 tax year were \$2,389. However, subsequent to the audit, the 2015 property tax records became available, indicating that Lake Idlewild paid lower property taxes of \$2,153 for the 2015 tax year. Based on the 2015 property taxes, staff decreased this account by \$2,082 to reflect the appropriate property taxes going forward ( $\$4,235 - \$2,153 = \$2,082$ ). Staff's total adjustment to test year TOTI is a decrease of \$2,190 ( $\$108 + \$2,082 = \$2,190$ ).

In addition, as discussed in Issue 7, revenues have been increased by \$10,732 to reflect the change in revenue required to cover expenses and allow the recommended rate of return. As a result, TOTI should be increased by \$483 to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$4,097.

**Operating Expenses Summary**

The application of staff's recommended adjustments to Lake Idlewild's test year operating expenses result in operating expenses of \$38,604. Operating expenses are shown on Schedule No. 3-A. The adjustments are shown on Schedule No. 3-B.

**Issue 7:** What is the appropriate revenue requirement?

**Preliminary Recommendation:** The appropriate revenue requirement is \$43,198, resulting in an annual increase of \$10,732 (33.06 percent). (T. Brown)

**Staff Analysis:** Lake Idlewild should be allowed an annual increase of \$10,732 (33.06 percent). This will allow the Utility the opportunity to recover its expenses and earn an 8.74 percent return on its investment. The calculations are as follows:

**Table 7-1  
Water Revenue Requirement**

Adjusted Rate Base	\$52,564
Rate of Return	x 8.74%
Return on Rate Base	\$4,594
Adjusted O&M Expense	31,265
Depreciation Expense (Net)	3,242
Taxes Other Than Income	4,097
Income Taxes	0
Revenue Requirement	\$43,198
Less Adjusted Test Year Revenues	32,466
Annual Increase	\$10,732
Percent Increase	33.06%



**Issue 8:** What are the appropriate rate structures and rates for Lake Idlewild's water system?

**Preliminary Recommendation:** The recommended rate structure and monthly water rates are shown on Schedule No. 4. 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. (Hudson)

**Staff Analysis:** Lake Idlewild is located in Lake County within the SJRWMD. The Utility provides water service to approximately 77 residential customers. The Utility has no general service customers. Approximately four percent of the residential customer bills during the test year had zero gallons indicating a non-seasonal customer base. The average residential water demand is 16,854 gallons per month. The Utility's current water system rate structure for residential customers consists of a Base Facility Charge (BFC) and a uniform gallon charge. There is no current rate structure for general service customers.

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.

Due to the average residential water demand of 16,854 gallons, staff recommends 25 percent of the revenue requirement should be recovered through the BFC in order to design gallonage charges that would send the appropriate pricing signals for conservation. 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. Although the Utility does not have customers for general, irrigation services, and private fire protection, the Utility would like to establish and maintain rates for those customer classes. Staff recommends a BFC and uniform gallonage charge rate structure for general and irrigation services. The private fire protection rate should be one-twelfth of the approved BFC pursuant to Rule 25-30.465, F.A.C.

Further, based on the recommended revenue increase of approximately 33 percent, the residential consumption can be expected to decline by 2,179,000 gallons resulting in anticipated average residential demand of 14,226 gallons per month. Staff recommends a 15.6 percent reduction in total test year residential gallons for rate setting purposes and corresponding reductions of \$499 for purchased power, \$146 for chemical expense, and \$30 for RAFs to reflect the anticipated repression. These adjustments result in a post repression revenue requirement of \$42,147.

Date: April 11, 2016

The recommended rate structure and monthly water rates are shown on Schedule No. 4. 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 9:** 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.?

**Preliminary Recommendation:** The water rates should be reduced by \$219 as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility 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 Lake Idlewild 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. (Hudson, T. Brown)

**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 the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return on working capital, and the gross-up for RAFs, which is \$219. Using the Utility's current revenues, expenses, and customer base, the reduction in revenues will result in the rate decrease shown on Schedule No. 4.

Lake Idlewild should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction. If Lake Idlewild 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 10:** What are the appropriate initial customer deposits for Lake Idlewild's water service?

**Recommendation:** The appropriate water initial customer deposit should be \$101 for the residential 5/8" x 3/4" meter size. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water service. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C. (Hudson)

**Staff Analysis:** Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.<sup>8</sup> Currently, the Utility does not have initial customer deposits. Based on the staff recommended water rates and the post repression average residential demand, the appropriate initial customer deposit should be \$101 for water to reflect an average residential customer bill for two months.

Staff recommends that the appropriate water initial customer deposit should be \$101 for the residential 5/8" x 3/4" meter size. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water service. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C.

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<sup>8</sup>Order Nos. PSC-13-0611-PAA-WS, issued November 19, 2013, in Docket No. 130010-WS, *In re: Application for increase in water rates in Lee County and wastewater rates in Pasco County by Ni Florida, LLC.*, and PSC-14-0016-TRF-WU, issued January 6, 2014, in Docket No. 130251-WU, *In re: Application for approval of miscellaneous service charges in Pasco County, by Crestridge Utility Corporation.*

**Issue 11:** Should Lake Idlewild be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision?

**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. Lake Idlewild should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts as shown on Attachment A 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. (T. Brown)

**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. Attachment A reflects the accumulated plant, depreciation, CIAC, and amortization of CIAC balances as of September 30, 2015. Lake Idlewild should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts as shown on Attachment A, 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.

LAKE IDLEWILD UTILITY COMPANY			SCHEDULE NO. 1-A
TEST YEAR ENDED 09/30/15			DOCKET NO. 150236-WU
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$192,336	\$0	\$192,336
LAND & LAND RIGHTS	1,905	0	1,905
NON-USED AND USEFUL COMPONENTS	0	0	0
CIAC	(91,720)	0	(91,720)
ACCUMULATED DEPRECIATION	(99,717)	3,091	(96,626)
AMORTIZATION OF CIAC	44,231	(1,470)	42,761
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>3,908</u>	<u>3,908</u>
WATER RATE BASE	<u>\$47,035</u>	<u>\$5,529</u>	<u>\$52,564</u>

<b>LAKE IDLEWILD UTILITY COMPANY</b>	<b>SCHEDULE NO. 1-B</b>
<b>TEST YEAR ENDED 09/30/15</b>	<b>DOCKET NO. 150236-WU</b>
<b>ADJUSTMENTS TO RATE BASE</b>	<b>PAGE 1 OF 1</b>
<b><u>ACCUMULATED DEPRECIATION</u></b>	
To reflect an averaging adjustment.	<u>\$3,091</u>
<b><u>AMORTIZATION OF CIAC</u></b>	
To reflect an averaging adjustment.	<u>(\$1,470)</u>
<b><u>WORKING CAPITAL ALLOWANCE</u></b>	
To reflect 1/8 of test year O & M expenses.	<u>\$3,908</u>

LAKE IDLEWILD UTILITY COMPANY			SCHEDULE NO. 2						
TEST YEAR ENDED 09/30/15			DOCKET NO. 150236-WU						
SCHEDULE OF CAPITAL STRUCTURE									
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON STOCK	\$0	\$0	\$0						
2. RETAINED EARNINGS	0	0	0						
3. PAID IN CAPITAL	0	0	0						
4. OTHER COMMON EQUITY	<u>54,528</u>	<u>(1,990)</u>	<u>52,538</u>						
TOTAL COMMON EQUITY	\$54,528	(\$1,990)	\$52,538	\$26	\$52,564	100.00%	8.74%	8.74%	
5. LONG TERM DEBT	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
6. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%	
7. PREFERRED STOCK	<u>0</u>	<u>0</u>	0	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%	
TOTAL LONG TERM DEBT	\$0	\$0	\$0	\$0	\$0	0.00%			
8. CUSTOMER DEPOSITS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	2.00%	<u>0.00%</u>	
9. TOTAL	<u>\$54,528</u>	<u>(\$1,990)</u>	<u>\$52,538</u>	<u>\$26</u>	<u>\$52,564</u>	<u>100.00%</u>		<u>8.74%</u>	
RANGE OF REASONABLENESS						<b>LOW</b>	<b>HIGH</b>		
RETURN ON EQUITY						<u>7.74%</u>	<u>9.74%</u>		
OVERALL RATE OF RETURN						<u>7.74%</u>	<u>9.74%</u>		



<b>LAKE IDLEWILD UTILITY COMPANY</b>		<b>SCHEDULE NO. 3-A</b>			
<b>TEST YEAR ENDED 09/30/15</b>		<b>DOCKET NO. 150236-WU</b>			
<b>SCHEDULE OF WATER OPERATING INCOME</b>					
	<b>TEST YEAR PER UTILITY</b>	<b>STAFF ADJUSTMENTS</b>	<b>STAFF ADJUSTED TEST YEAR</b>	<b>ADJUST. FOR INCREASE</b>	<b>REVENUE REQUIREMENT</b>
1. <b>OPERATING REVENUES</b>	<u>\$32,262</u>	<u>\$204</u>	<u>\$32,466</u>	<u>\$10,732</u> 33.06%	<u>\$43,198</u>
<b>OPERATING EXPENSES:</b>					
2. <b>OPERATION &amp; MAINTENANCE</b>	\$31,347	(\$82)	\$31,265	\$0	\$31,265
3. <b>DEPRECIATION (NET)</b>	3,242	0	3,242	0	3,242
4. <b>TAXES OTHER THAN INCOME</b>	5,804	(2,190)	3,614	483	4,097
5. <b>INCOME TAXES</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
6. <b>TOTAL OPERATING EXPENSES</b>	<u>\$40,393</u>	<u>(\$2,272)</u>	<u>\$38,121</u>	<u>\$483</u>	<u>\$38,604</u>
7. <b>OPERATING INCOME/(LOSS)</b>	<u>(\$8,131)</u>		<u>(\$5,655)</u>		<u>\$4,594</u>
8. <b>WATER RATE BASE</b>	<u>\$47,035</u>		<u>\$52,564</u>		<u>\$52,564</u>
9. <b>RATE OF RETURN</b>	<u>(17.29%)</u>		<u>(10.76%)</u>		<u>8.74%</u>

<b>LAKE IDLEWILD UTILITY COMPANY</b>		<b>SCHEDULE NO. 3-B</b>
<b>TEST YEAR ENDED 09/30/15</b>		<b>DOCKET NO. 150236-WU</b>
<b>ADJUSTMENTS TO OPERATING INCOME</b>		<b>Page 1 of 1</b>
		<u><b>WATER</b></u>
<b>OPERATING REVENUES</b>		
1.	To reflect the appropriate test year services revenues.	\$246
2.	To reflect the appropriate test year miscellaneous service revenues.	<u>(42)</u>
	Subtotal	<u>\$204</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>		
1.	Amortization of Rate Case Expense (666)	
	To reflect 4-year amortization of rate case expense.	<u>(\$7)</u>
2.	Miscellaneous Expense (675)	
	To reflect appropriate miscellaneous expense per audit.	<u>(\$75)</u>
	<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>	<u>(\$82)</u>
<b>TAXES OTHER THAN INCOME</b>		
1.	To reflect the appropriate test year RAFs.	(\$108)
2.	To reflect appropriate test year utility property taxes.	<u>(2,082)</u>
	Total	<u>(\$2,190)</u>

LAKE IDLEWILD UTILITY COMPANY		SCHEDULE NO. 4	
TEST YEAR ENDED 9/30/2015		DOCKET NO. 150236-WU	
MONTHLY WATER RATES			
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<b><u>Residential, General Service, and Irrigation*</u></b>			
Base Facility Charge by Meter Size			
5/8"X3/4"	\$12.08	\$12.71	\$0.07
3/4"	\$18.13	\$19.07	\$0.10
1"	\$30.21	\$31.78	\$0.17
1-1/2"	\$60.41	\$63.55	\$0.33
2"	\$96.66	\$101.68	\$0.53
3"	\$181.24	\$203.36	\$1.06
4"	\$302.07	\$317.75	\$1.65
6"	\$604.15	\$635.50	\$3.30
Charge per 1,000 gallons - Residential			
All gallons	\$1.58		
0 - 3,000 gallons		\$2.30	\$0.01
Over 3,000 gallons		\$2.77	\$0.01
Charge per 1,000 gallons - Irrigation and General Service			
	N/A	\$2.68	\$0.01
<b><u>Private Fire Protection</u></b>			
2"	N/A	\$8.47	\$0.04
3"	N/A	\$16.95	\$0.09
4"	N/A	\$26.48	\$0.14
6"	N/A	\$52.96	\$0.28
8"	N/A	\$84.73	\$0.44
10"	N/A	\$121.80	\$0.63
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
3,000 Gallons	\$16.82	\$19.61	
10,000 Gallons	\$27.88	\$39.00	
16,000 Gallons	\$37.36	\$55.62	
*Currently, the utility does not have rates for general and irrigation services.			

LAKE IDLEWILD UTILITY COMPANY			SCHEDULE NO. 5	
TEST YEAR ENDED 9/30/2015			DOCKET NO. 150236-WU	
SCHEDULE OF WATER PLANT, DEPRECIATION, CIAC, & CIAC AMORTIZATION BALANCES				
ACCT. NO.	DEPR. RATE PER RULE 25-30.140	DESCRIPTION	UPIS 9/30/2015 (DEBIT)	ACCUM. DEPR. 9/30/2015 (CREDIT)
303	0.00%	LAND AND LAND RIGHTS (NON-DEPRECIBLE)	\$1,905	\$0
304	3.70%	STRUCTURES AND IMPROVEMENTS	5,642	857
307	3.70%	WELLS AND SPRINGS	19,011	12,301
309	3.13%	SUPPLY MAINS	15,793	5,883
310	5.88%	POWER GENERATION EQUIPMENT	3,038	3,378
311	5.88%	PUMPING EQUIPMENT	20,285	15,178
320	5.88%	WATER TREATMENT EQUIPMENT	20,337	14,874
330	3.03%	DISTRIBUTION RESERVOIRS AND STANDPIPES	32,468	969
331	2.63%	TRANSMISSION AND DISTRIBUTION MAINS	57,238	27,864
333	2.86%	SERVICES	44	40
334	5.88%	METERS AND METER INSTALLATIONS	9,020	10,376
335	2.50%	HYDRANTS	9,460	4,906
		<b>TOTAL INCLUDING LAND</b>	<b><u>\$194,241</u></b>	<b><u>\$96,626</u></b>
			<b>CIAC AMORT. 9/30/2015 (DEBIT)</b>	<b>CIAC 9/30/2015 (CREDIT)</b>
			<b>\$42,761</b>	<b>\$91,720</b>