

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: July 28, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Hill, King) *W TO*
Division of Accounting and Finance (Cicchetti, Vogel) *MC*
Division of Economics (Bruce, Hudson) *W*
Office of the General Counsel (Corbari) *W*

RE: Docket No. 150149-WS – Application for staff-assisted rate case in Glades and Highlands Counties by Silver Lake Utilities, Inc. *CM fix key*

AGENDA: 08/09/16 – Proposed Agency Action – Except for Issue Nos. 11, 12, and 13 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Graham

CRITICAL DATES: 10/20/2016 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

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Case Background

Silver Lake Utilities, Inc. (Silver Lake or Utility) is a Class C utility¹ providing water service to approximately 39 residential and 23 general service customers. The majority of the property in the Utility's service territory is owned by Lykes Bros, Inc., and thus the Utility serves primarily related parties. Silver Lake is located in the South Florida Water Management District (SFWMD). Water rates were last established for Silver Lakes in 2007 when it was certificated.² Silver Lake had two amendments to its territory in 2008 and 2009, expanding water and wastewater service in Highlands County.³

On May 26, 2015, Silver Lake Utilities, Inc. filed an application for a Staff Assisted Rate Case (SARC). Staff selected the test year ended March 31, 2015, for the instant case. According to Silver Lake's 2014 annual report, its total operating revenues for water was \$43,080, and reported a net loss of \$176,636.⁴

On January 1, 2016, staff filed a preliminary recommendation (Staff Report) pending further review of this case. A customer meeting was subsequently held on February 11, 2016, at the Brighton Ranch Office in Okeechobee, Florida, to receive customer questions and comments concerning the Utility's rate case and quality of service. No customers attended the meeting.

On February 8, and April 11, 2016, the Office of Public Counsel (OPC) filed letters outlining its concerns with the Staff Report. The Commission has jurisdiction in this case pursuant to Section 367.0814, Florida Statutes, (F.S.).

¹Section 367.021(12), F.S., defines "Utility" as "a water or wastewater utility and, except as provided Section 367.022, includes every person, lessee, trustee, or receiver owning, operating, managing, or controlling a system, or proposing construction of a system, who is providing, or proposes to provide, water or wastewater service to the public for compensation."

²Order No., PSC-07-0983-PAA-WS, issued December 10, 2007, in Docket No. 060726-WU, *In re: Application for certificates to provide water and wastewater service in Glades County and water service in Highlands County by Silver Lake Utilities, Inc.*

³Order Nos., Public Service Commission-08-0520-FOF-WU, issued August 12, 2008, in Docket No. 080213-WU, *In re: Application for amendment of Certificate 636-W to extend water service area in Highlands County by Silver Lake Utilities, Inc.*, and PSC-09-0086-FOF-SU, issued February 9, 2009, in Docket No. 080613-SU, *In re: Application for amendment of Certificate No. 546-S to extend certain areas in Highlands County by Silver Lake Utilities, Inc.*

⁴Silver Lake Utilities, Inc. 2014 Annual Report filed April 28, 2015, <http://www.floridapsc.com/library/financials/WS907-DOCS/ANNUAL-REPORTS/WS907-14-AR.PDF>.

Discussion of Issues

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

Recommendation: Yes. The overall quality of service provided by Silver Lake Utilities, Inc. should be considered satisfactory. (Hill)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water and wastewater rate cases, the Commission must determine the overall quality of service provided by a utility, which is derived from an evaluation of three separate components of the utility's operations. These components are: (1) the quality of the utility's product; (2) the operating conditions of the utility's plant and facilities; and (3) 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. Additionally, Section 367.0812(1)(c), F.S., requires that the Commission consider the extent to which the utility provides water service that meets secondary water quality standards as established by the DEP.

Silver Lake's service area is located near Okeechobee, Florida, in Highlands and Glades Counties within the South Florida Water Management District. The Utility's water system provides finished water that is obtained from 26 systems with 28 wells.

Quality of Utility's Product

Staff's evaluation of Silver Lake's water quality consisted of a review of the Utility's compliance with the DEP primary and secondary drinking water standards and customer complaints regarding the water quality. Primary standards protect public health, while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water. Staff also considered the Utility's compliance with local health departments.

Staff reviewed the most recent chemical analyses for Silver Lake's systems that are regulated by DEP (Brighton Ranch Office, Lake Placid, and Buckhorn Housing). All results complied with the DEP primary and secondary water quality standards. Additionally, Silver Lake is not currently under citation by the Highlands County or Glades County health departments.

No complaints regarding the quality of Silver Lake's product have been filed with the Commission. Staff also requested complaints against the system filed with DEP for the test year and four years prior. DEP reported that it did not receive any complaints regarding the quality of Silver Lake's product during the period requested.

Based on staff's review, giving consideration to the Utility's current compliance with DEP and county health department standards, as well as the lack of customer complaints, the quality of Silver Lake's product should be considered satisfactory.

Operating Condition of the Utility's Plant and Facilities

Staff's evaluation of Silver Lake's facilities included a review of the Utility's compliance standards of operation as well as a site visit. Staff reviewed the Utility's most recent DEP sanitary survey reports, for Brighton Ranch Office, Lake Placid, and Buckhorn Housing. The DEP found no deficiencies and determined that the system to be in compliance with its rules and regulations. Currently, Silver Lake is not under citation by the Highlands County or Glades County health departments. Staff did not identify any issues or concerns during its February 11, 2016, site visit of the Utility. Therefore, the operating condition of Silver Lake's water treatment plants and facilities should be considered satisfactory.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the Commission's complaint records from April 1, 2011, through July 12, 2016, and found no complaints. Staff also requested copies of complaints filed with the Utility during the test year and four years prior to the test year. Silver Lake responded that no complaints had been filed during the test year and four years prior to the test year.⁵ Staff also requested complaints against the Utility filed with the DEP for the test year and four years prior. The DEP did not indicate it had received any complaints against Silver Lake during the time frame. A customer meeting was held in the service territory on February 11, 2016. No customers attended the meeting, and no customers have provided correspondence in this docket. Given that there have been no customer complaints during staff's period of review, the Utility's attempt to address customer satisfaction should be considered satisfactory.

Conclusion

Based on the foregoing, the overall quality of service provided by Silver Lake Utilities, Inc. should be considered satisfactory.

⁵Document No. 05185-15, filed August 20, 2015.

Issue 2: What are the used and useful percentages (U&U) of Silver Lake Utilities, Inc. water treatment plant and distribution system and storage?

Recommendation: Staff recommends that Silver Lake Utilities, Inc.'s water treatment plant (WTP) should be considered 75.62 percent U&U and its distribution systems should be considered 100 percent U&U. There appears to be no excessive unaccounted for water (EUW), therefore, staff is not recommending an adjustment be made to operating expenses for chemicals and purchased power. (Hill)

Staff Analysis: Silver Lake's water system is served by 28 total wells rated at a combined 856 gallons per minute (gpm). Water treatment varies by system based on quality of the groundwater. Water is treated by chlorination in 16 of the systems, by aeration in 5 of the systems, with a water softener in 3 of the systems, with a carbon filter in 3 of the systems, by ozone in 2 of the systems, and via reverse osmosis provided on the customer's side for 1 system. Eight of these systems are required to be permitted either by the DEP or the SFWMD, and have a combined permitted capacity of 0.17 million gallons per day (MGD). There are no fire hydrants served by the systems. Analysis of the provided data indicates there has been no growth to the system in the past five years.

Water Treatment Plant Used & Useful

The capacity of each WTP is separately rated. Pursuant to Rule 25-30.4325(4), F.A.C., a water treatment system with one well is 100 percent used and useful. Twenty-four of the 26 systems have one well each, and therefore, should be considered 100 percent used and useful. In calculating the Firm Reliable Capacity (FRC) of a water system served by multiple wells, the pumping capacity of the wells, excluding the largest well for those systems with more than one well, is considered the FRC. The two systems with more than one well each are the Brighton Ranch Office WTP and the Brighton Grove Office WTP.

The U&U calculation for a WTP is $((\text{Max Day} - \text{EUW} + \text{Fire Flow} + \text{Growth})/\text{FRC})$. Brighton Ranch Office WTP has an FRC of 25 gpm based on the smallest well. The maximum daily usage for the test year was 4,300 gallons on April 28, 2014.⁶ It does not appear that there was a line break or unusual occurrence on that day. This results in a peak demand (Max Day) of 5.97 gpm $((4,300 / 1,440) * 2)$.⁷ There is no EUW and there is no Fire Flow. The Growth in connections appears to be zero. The resulting U&U calculation for Brighton Ranch Office is 23.9 percent $((5.97 + 0 + 0 + 0) / 25)$.

Silver Lake's Brighton Grove Office WTP has an FRC of 22 gpm based on the smallest well. The peak hour demand is calculated as 7.7 gpm.⁸ There is no EUW and there is no fire flow. The

⁶Document No. 05185-15, filed August 20, 2015.

⁷Per Rule 25-30.4325(7)(a)(1), F.A.C., Water Treatment and Storage Used and Useful Calculations

⁸Per Rule 25-30.4325(7)(a)(2), F.A.C., Water Treatment and Storage Used and Useful Calculations. (Peak hour demand, expressed in gallons per minute, shall be calculated as 1.1 gallons per minute per equivalent residential connection if the actual maximum day flow data is not available). This system is not regulated by DEP and thus daily flow data is not required to be kept and is unavailable.

growth in connections appears to be zero. The resulting U&U calculation for Brighton Grove Office is 35 percent $((7.7 + 0 + 0 + 0) / 22)$.

In its letter dated April 11, 2016, OPC submitted that it would be more appropriate to weigh the U&U percentages for these two systems based on their contribution to the Utility Plant in Service (UPIS) balance. Staff agrees that a weighted average using UPIS contribution is a reasonable method for calculating U&U as it accounts for the investment associated with the individual plants. This methodology differs from that used in the Staff Report, which used a weighted average using ERC contribution and resulted in a U&U of 91 percent. The 24 single-well systems, which are considered 100 percent U&U, combined with the Brighton Ranch Office U&U and the Brighton Grove Office U&U produce an overall value of 75.62 percent U&U for water treatment plant.⁹ The updated calculation is shown in Table 1 below.

Table 1 Summary of WTP U&U

System Name	U&U	UPIS Contribution*	UPIS U&U Contribution
Brighton Grove Office WTP	35.00%	\$105,265.80	\$36,843.03
Brighton Ranch Office WTP	23.90%	\$236,097.80	\$56,427.37
All other systems	100%	\$676,436.00	\$676,436.00
Overall Used and Useful	75.62%	\$1,017,800.00	\$769,706.40

Source: Plant accounts, net of depreciation, per audit.

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 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 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 Silver Lake files with DEP, and the operational records Silver Lake provides for non-DEP systems, indicate an unaccounted for water value of 8 percent. Therefore, there appears to be no EUW to be considered, and staff recommends that no adjustment be made to operating expenses for chemicals and purchased power due to the EUW.

⁹Overall WTP U&U is calculated based on a weighted average which accounts for the relative size of each system (based on asset allocation, e.g. Brighton Ranch accounts for 23.2 percent of the Utility plant in service) and the U&U percentage for each system.

Distribution System Used & Useful

There has been no growth in Silver Lake's service area in the past five years and there are no plans for additional development in the immediate future; therefore, pursuant to Rule 25-30.4325(4), F.A.C., the transmission and distribution lines should be considered 100 percent U&U.

Conclusion

Staff recommends that Silver Lake's WTP should be considered 75.62 percent U&U and its distribution systems should be considered 100 percent U&U. There appears to be no EUW; therefore, staff is not recommending an adjustment be made to operating expenses for chemicals and purchased power.

Issue 3: What is the appropriate average test year rate base for Silver Lake Utilities, Inc.?

Recommendation: The appropriate average test year rate base for Silver Lake Utilities, Inc. is \$519,781. (Vogel)

Staff Analysis: Order No. PSC-07-0983-PAA-WS,¹⁰ reflected the development of the Muse Village project. However, this project has not yet occurred. The test year ended March 31, 2015, was used for the instant case. A summary of each rate base component and recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

Silver Lake recorded UPIS of \$1,246,881. The commission audit noted exceptions to the Utility's UPIS balances. Commission audit staff compiled all subsequent plant additions and retirements. Staff is recommending decreasing UPIS by \$57,525, to remove plant that is being held for future use associated with the Muse Development. Staff is recommending increasing UPIS by \$4,400, to capitalize two plant additions (\$1,805 + \$2,595) that were originally placed in Operation & Maintenance (O&M) expenses. Staff has increased UPIS by \$2,694, to include pro forma plant additions made after the test year along with the appropriate retirements. Staff has also decreased UPIS by \$3,547, to include an averaging adjustment. Staff's adjustments to UPIS result in a net decrease of \$53,978. Therefore, staff recommends that the appropriate UPIS balance is \$1,192,903.

The OPC raised concerns over the utility's 2009 water treatment plant acquisitions totaling \$644,747. The utility explains in a May 27, 2016 response, that the Seminole Tribe of Florida once served two systems, the Brighton Ranch and the Brighton Grove. The Seminole Tribe of Florida decided to construct a new public water supply which drastically increased the costs to Lykes Bros., Inc. for water service to these areas.

Other systems were acquired or constructed to expand the utility's territory, including one to "serve a new commercial/industrial facility in Palmdale." The 2009 acquisitions allow Silver Lake to lower costs to all of these affected systems. Therefore, staff believes the 2009 acquisitions are prudent.

Land & Land Rights

Silver Lake did not record a test year land value. The Utility does not own any land on which the plant operates and all land is used through land lease contracts with Lykes Bros., Inc. approved by Order No. PSC-07-0983-PAA-WS.¹¹ Based on staff's review, no adjustments are necessary. Therefore, staff recommends that the appropriate land balance is \$0.

¹⁰Order No. PSC-07-0983-PAA-WS, issued December 10, 2007, in Docket No. 060726-WS, *In re: Application for certificates to provide water and wastewater service in Glades County and water service in Highlands County by Silver Lake Utilities Inc.*

¹¹*Id.*

Non-Used and Useful (non-U&U) Plant

As discussed in Issue 2, staff is recommending a U&U adjustment. As a result of this adjustment, staff recommends an increase to non-U&U plant of \$184,555. Staff is also recommending a decrease for non-U&U accumulated depreciation of \$78,414. Therefore, staff recommends a net increase of \$106,141 to non-U&U plant.

Contributions In Aid of Construction (CIAC)

Silver Lake did not record a CIAC balance for the test year; however, it did include a CIAC account balance in its original certificate 2006 filing. This account includes all Transmission and Distribution lines. Staff is recommending an increase to CIAC of \$248,963, to include Transmission and Distribution lines. Therefore, staff's recommended CIAC balance is \$248,963.

Accumulated Depreciation

Silver Lake recorded a test year accumulated depreciation balance of \$484,818. Silver Lake used the depreciation rates of a Class B utility because it expected to grow beyond that of a Class C; however this growth has not yet occurred. Class B rates were being used before the 2009 additions. However, at that time, Class C rates would be applied to the new additions and the utility and their accounting firm believed it would be easier to continue under Class B rates for all systems. In an email dated June 30, 2011, Mr. Shoemaker states that Commission staff deemed the Class B rates as acceptable. Staff believes the use of Class B depreciation rates is acceptable for this utility and does not recommend the use of Class C depreciation rates.

Staff recalculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and depreciation associated with plant additions and retirements. Staff increased accumulated depreciation by \$6,724, to reflect the appropriate accumulated depreciation. Staff also recommends increasing accumulated depreciation by \$639, to include pro forma plant and retirements associated with the pro forma items requested by Silver Lake. Staff decreased accumulated depreciation by \$19,938, for an averaging adjustment. Staff's total adjustments to accumulated depreciation result in a net decrease of \$12,575. Therefore, staff recommends an accumulated depreciation balance of \$472,244.

Accumulated Amortization of CIAC

Silver Lake did not record accumulated amortization of CIAC. As stated above, staff is recommending an increase in CIAC for the Utility. To account for this increase, staff is recommending an increase in accumulated amortization of CIAC in the amount of \$134,852. Therefore, staff's recommended accumulated amortization of CIAC balance is \$134,852.

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 O&M expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$19,373 (based on O&M expense of \$154,987/8).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year water rate base for Silver Lake is \$519,781. Water rate base is shown on Schedule No. 1-A, and 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 Silver Lake Utilities, Inc.?

Recommendation: The appropriate return on equity (ROE) for Silver Lake is 10.58 percent, with a range of 9.58 percent to 11.58 percent, and the appropriate overall rate of return is 6.54 percent. (Vogel)

Staff Analysis: According to the Commission audit, Silver Lake's test year capital structure reflected common equity of \$370,892 and long-term debt of \$424,000.

Silver Lake's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE for the Utility is 10.58 percent based upon the Commission-approved leverage formula currently in effect.¹² Staff recommends an ROE of 10.58 percent, with a range of 9.58 percent to 11.58 percent, and an overall rate of return of 6.54 percent. The ROE and overall rate of return are shown on Schedule No. 2.

¹²Order No. PSC-16-0254-PAA-WS, issued June 29, 2016, 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 Silver Lake Utilities, Inc. water system?

Recommendation: The appropriate test year revenues for Silver Lake Utilities, Inc.'s water system are \$47,162. (Bruce)

Staff Analysis: Silver Lake recorded total test year revenues of \$43,397, which consists of only service revenues. During the test year, Silver Lake charged its citrus division the utility's approved base facility charge for a 3" meter and \$0.91 per 1,000 gallons for raw water irrigation service. However, the utility's tariff for raw water irrigation service is designed for bulk raw water service and includes a fixed base charge of \$5,500 based on a minimum demand of 500,000 gallons per month, in addition to the gallonage charge of \$0.91 per 1,000 gallons. The general service potable water rate includes a base facility charge based on meter size and a gallonage charge of \$3.79 per 1,000 gallons. Additionally, there was a discrepancy in the amount of gallons billed and the amount of gallons sold in the billing analysis. Staff corrected Silver Lake's billing determinants, applied the rates that were in effect during the test year, and determined that the service revenues should be increased by \$3,765. As discussed in Issue 8, on a going-forward basis, staff is recommending a new tariff charge for non-bulk raw water customers. Based on the above, staff recommends that the appropriate amount of test year revenues for Silver Lake's water system is \$47,162.

Issue 6: What is the appropriate amount of operating expense for Silver Lake Utilities, Inc.?

Recommendation: The appropriate amount of operating expense for Silver Lake Utilities, Inc. is \$201,132. (Vogel)

Staff Analysis: Silver Lake Utilities, Inc. recorded operating expense of \$201,343 for the test year ended March 31, 2015. Staff reviewed the test year O&M expenses, including invoices, canceled checks, and other supporting documentation, and made several adjustments to the Utility's operating expenses as summarized below.

Operation and Maintenance Expenses

Purchased Water (610)

Silver Lake recorded Purchased Water expense of \$1,256. This expense is related to the royalties required in the land lease contracts. Staff increased this amount by \$108, to include an invoice from December of the test year. Therefore, staff recommends Purchased Water expense of \$1,364.

Purchased Power (615)

The Utility recorded Purchased Power expense of \$6,364. Staff increased this amount by \$47, to include an invoice not previously included. Staff also increased this account by \$96, to reclassify invoices from Account 618. Staff's total adjustments result in an increase of \$143. Therefore, staff recommends Purchased Power expense of \$6,507.

Chemicals (618)

The Utility recorded Chemicals expense of \$2,326. Staff decreased this account by \$96, to remove invoices reclassified to Account 615. Staff increased this account by \$113, to include an invoice not previously included. Staff also decreased this account by \$107, to remove an invoice not supported. Staff's adjustments result in a net decrease of \$90 to Chemicals expense. Therefore, staff recommends Chemicals expense of \$2,236.

Materials and Supplies (620)

Silver Lake recorded Materials and Supplies expense of \$14,757. Staff recommends decreasing this account by \$1,805, to capitalize a plant addition into Account 331. Staff also recommends decreasing this account by \$2,595, to capitalize a plant addition into Account 336. Staff's adjustments result in a decrease of \$4,400 to Materials and Supplies expense. The resulting recommended amount for Materials and Supplies expense is \$10,357.

Contractual Services - Management (634)

Silver Lake recorded Contractual Services – Management expense of \$42,177. This expense includes both management expense and office support for the Utility's operations. OPC disagreed with this account balance in its February 8, 2016 letter. Staff believes that due to the physical size of the Utility's service territory, 350,000 acres, and the remote locations of many of the facilities, this expense is prudent and necessary to operate the Utility. Staff recommends Contractual Services – Management expense of \$42,177.

Contractual Services - Testing (635)

Silver Lake recorded Contractual Services – Testing expense of \$6,346. Staff believes this expense is prudent due to the large number of wells the Utility maintains. Staff recommends Contractual Services – Testing expense of \$6,346.

Contractual Services - Other (636)

The Utility recorded Contractual Services – Other expense of \$37,177. This expense includes all contractual maintenance expenses for the Utility. OPC disagreed with this account balance in its February 8, 2015 letter. Staff believes that due to the physical size of the Utility’s service territory, 350,000 acres, and the remote locations of many of the facilities, this expense is prudent and necessary to operate the Utility. Staff decreased this account by \$720, to amortize the non-recurring expense of \$900 over a five year period. The resulting recommended amount for Contractual Services – Other expense is \$36,457.

Rent of Buildings and Property (640)

Silver Lake recorded Rental of Buildings and Property expense of \$44,095, which includes the land lease contracts for twenty-five well sites and office space. OPC does not believe this expense is reasonable. However, in Order No. PSC-07-0717-FOF-WS,¹³ the Commission approved these contracts as prudent. Staff does not believe any adjustment should be made to this account at this time, and staff recommends Rental of Buildings and Property expense of \$44,095.

Regulatory Commission Expense (665)

The Utility recorded no Regulatory Commission expense for the test year. By Rule 25-30.0407, 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 estimated \$59 for postage expense, \$44 for printing expense, and \$6 for envelopes. These amounts result in \$109 for postage, printing notices, and envelopes. Additionally, Silver Lake paid a \$1,000 rate case filing fee and received legal counsel from Mr. Martin Friedman throughout the course of this case. Staff recommends including these legal fees in the amount of \$9,051. Based on the above, staff recommends a total rate case expense of \$10,160, which amortized over four years is \$2,540 annually. Staff recommends Regulatory Commission expense of \$2,540.

Miscellaneous Expense (675)

Silver Lake recorded Miscellaneous expense of \$2,908 for the test year. Staff does not believe any adjustments should be made to this account at this time, and staff recommends Miscellaneous Expense of \$2,908.

Operation and Maintenance Expenses Summary

Based on the above adjustments, staff recommends that the O&M expenses are \$154,987. Staff’s recommended adjustments to O&M expense are shown on Schedule No. 3-A.

¹³Order No. 07-0717-FOF-WS, issued September 7, 2007, in Docket No. 060726-WS, *In re: Application for certificates to provide water and wastewater service in Glades County and water service in Highlands County by Silver Lake Utilities, Inc.*

Depreciation Expense (Net of Amortization of CIAC)

Silver Lake recorded Depreciation expense during the test year of \$40,778. Staff recalculated Depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, staff decreased Depreciation expense by \$130, to reflect the appropriate Depreciation expense. Also, staff decreased Depreciation expense by \$7,242, to reflect the non-U&U portion of Depreciation expense. Staff's total adjustments to Depreciation expense result in a decrease of \$7,372. Therefore, staff recommends Depreciation expense of \$33,406.

Taxes Other Than Income (TOTI)

Silver Lake recorded a TOTI balance of \$3,159. Staff increased TOTI by \$1,109, to reflect the appropriate test year property taxes. Staff also increased TOTI by \$143, to reflect the appropriate Regulatory Assessment Fees. Staff increased TOTI by \$41, to include the property tax for the new pro forma plant addition. Lastly, staff decreased TOTI by \$171 to reflect the non-U&U portion of TOTI. Staff's adjustments result in an increase of \$1,122.

In addition, as discussed in Issue 7, revenues were increased by \$187,964, to reflect the change in revenue required to cover expenses and allow the recommended return on investment. As a result, TOTI should be increased by \$8,458 to reflect RAFs of 4.5 percent on the change in revenues. Therefore, staff recommends TOTI of \$12,739 ($\$3,159 + \$1,122 + \$8,458$).

Operating Expenses Summary

The application of staff's recommended adjustments to Silver Lake's test year operating expenses results in operating expenses of \$201,132. Operating expenses are shown on Schedule No. 3-A, and the related adjustments are shown on Schedule Nos. 3-B and 3-C.

Issue 7: What is the appropriate revenue requirement for Silver Lake Utilities, Inc.?

Recommendation: The appropriate revenue requirement for Silver Lake Utilities, Inc. is \$235,126, resulting in an annual increase of \$187,964 (398.55 percent). (Vogel)

Staff Analysis: Silver Lake Utilities, Inc. should be allowed an annual increase of \$187,964 (398.55 percent), which will allow the Utility the opportunity to recover its expenses and earn a 6.54 percent return on its water system. The calculation is shown in Table 7-1 below.

**Table 7-1
Water Revenue Requirement**

Adjusted Rate Base	\$519,781
Rate of Return	<u>x 6.54%</u>
Return on Rate Base	\$33,994
Adjusted O&M Expense	154,987
Depreciation Expense (Net)	33,406
Taxes Other Than Income	4,281
Test Year RAFs	<u>8,458</u>
Revenue Requirement	\$235,126
Less Adjusted Test Year Revenues	<u>47,162</u>
Annual Increase	<u>\$187,964</u>
Percent Increase	<u>398.55%</u>

Silver Lake Utilities, Inc. is 100 percent owned by Lykes Bros. Inc. and currently serves 62 customers, all but one of these customers are affiliated with Lykes Bros. Inc. and the customer bills are paid by the divisions of the parent company. The only customer not directly affiliated with Lykes Bros. Inc. is Brighton Baptist Church. In a response to a staff data request, filed March 1, 2016, Silver Lake stated, "the church pays their monthly bill and, upon receipt, Lykes makes a monthly donation to the church in the amount of the bill." Staff believes an increase will not negatively affect any ratepayers not affiliated with Lykes Bros. Inc. and compensatory rates should be approved.

OPC has voiced concerns about the level of revenues based on the amount of customers currently served by the Utility and the possibility of overearnings if the Utility expanded. Silver Lake planned a large development in its service area when it filed for its certificates in 2006. Since 2006, Silver Lake did not experience the anticipated large growth and all but one of its current customers is affiliated with the Utility's parent company as mentioned above.

Date: July 28, 2016

In response to data requests, Silver Lake stated that it does not plan to expand in the immediate future, as the Muse Village development is currently on hold. Due to the Utility's current operating loss of \$150,210, staff recommends compensatory rates be approved. Any expansion or overearning concerns would be detected and addressed when the Utility files its required annual reports.

Issue 8: What is the appropriate rate structure and rates for Silver Lake Utilities, Inc. water system?

Recommendation: The recommended rate structure and monthly water rates for Silver Lake Utilities, Inc. 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 sheets 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. Silver Lake Utilities, Inc. should provide proof of the date notice was given within 10 days of the date of the notice. (Bruce)

Staff Analysis:

Water Rates

Silver Lake's service territory is located in the SFWMD. The majority of the property in the Utility's service territory is owned by Lykes Bros Inc. The property is used primarily for cattle ranching, citrus, timber, sugar cane production, and employee housing. The Utility provides water only service to 39 residential, 23 general service customers, as well as a raw water irrigation customer.

Staff's analysis of the Utility's billing data indicates that approximately 1 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 5,378 gallons per month. Currently, the water system rate structure for residential customers consists of a base facility charge (BFC) and a two-tier inclining block rate structure. The rate blocks are: (1) 0-5,000 gallons and (2) all usage in excess of 5,000 gallons per month. General service customers are billed a BFC based on meter size and a uniform gallonage charge. Silver Lake's existing BFC generates approximately 47 percent of the Utility's water revenues. Silver Lake does not have an approved tariff for non-bulk raw water irrigation service. Silver Lake has tariffed rates for bulk raw water and bulk treated water; however, it does not have any current customers for these services.

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; and 3) implement, where appropriate, water conserving rate structures consistent with Commission practice.

As discussed in Issue 7, the recommended revenue requirement increase for Silver Lake is 398.55 percent. When there is such a significant increase in revenues, staff would typically recommend a repression adjustment. However, in this instance, the customers' bills are paid by the owner of the Utility rather than the customers. Since the customers do not pay for their water service, there would be no pricing signals sent to the customers for conservation efforts. As a result, staff believes it is appropriate to keep the existing rate structure for residential customers and no alternative rate structures have been provided. General service and irrigation rates should be designed to include a BFC and uniform gallonage charge. The raw water irrigation service

gallage charge should be designed to recognize the reduction in cost associated with chemicals and electricity.

Silver Lake's existing rates for bulk treated and raw water services, which were approved in the original certificate docket, were designed based on dedicated facilities with minimum take or pay rates. As previously discussed, the Utility does not currently have bulk customers and those facilities have not been constructed. Staff recommends that the existing bulk potable and raw water service rate be continued. The rates should be reevaluated in the Utility's subsequent rate case.

Summary

For the reasons outlined above, staff recommends continuation of the existing water system rate structure for residential customers, which consists of a BFC and a two-tier inclining block rate structure. The rate blocks are: (1) 0-5,000 gallons and (2) all usage in excess of 5,000 gallons per month. Staff recommends that general service and raw water irrigation customers be billed based on a BFC and a uniform gallage charge. Staff recommends that the raw water irrigation gallage charge should exclude the cost of chemicals and electricity. The existing bulk potable and raw water rates should be continued.

The recommended rate structure and monthly water rates for Silver Lake Utilities, Inc. 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 sheets 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. Silver Lake Utilities, Inc. should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 9: Should Silver Lake Utilities, Inc. existing service availability charges be revised, and if so, what are the appropriate charges?

Recommendation: No. The appropriate service availability charges are the Silver Lake Utilities, Inc.'s existing charges for the water system. (Bruce)

Staff Analysis: Silver Lake's existing service availability charges were last established in Docket No. 060726-WS¹⁴. The main extension charge is \$4,406 per equivalent residential connection (ERC). The plant capacity charge for water is \$2,200 per ERC. Silver Lake also has approved bulk raw water and bulk treated water plant capacity charges of \$875 and \$3,750 per ERC, respectively.

Rule 25-30.580, F.A.C., establishes guidelines for designing service availability charges. Pursuant to the rule, the maximum amount of contributions-in-aid-of construction (CIAC), net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of the Utility's facilities and plant when the facilities and plant are at their designed capacity. The minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution system at design capacity. Staff determined that the Utility's existing contribution level is 16 percent; however, the Utility's facilities are not at their design capacity. Staff believes the existing service availability charges are sufficient, within the guidelines of Rule 25-30.580, F.A.C., and recommends they remain unchanged at this time.

¹⁴Order 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 10: What are the Utility's appropriate initial customer deposits for Silver Lake Utilities, Inc. water service?

Recommendation: The appropriate initial water customer deposit should be \$378 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 wastewater initial customer deposit should remain unchanged. The approved customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. Silver Lake Utilities, Inc. should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding. (Bruce)

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.¹⁵ Currently, the initial water customer deposit is \$76 for 5/8" x 3/4" meter size and two times the average estimated bill for all other meters sizes. Based on the recommended water rates, the appropriate initial customer deposit for water should be \$378 for a residential customer with a 5/8" x 3/4" meter to reflect an average residential customer bill for two months.

Staff recommends the appropriate initial water customer deposit should be \$378 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 wastewater initial customer deposit should remain unchanged. The approved customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. Silver Lake Utilities, Inc. should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding.

¹⁵Order 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: What is the appropriate amount by which Silver Lake Utilities, Inc.'s 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: Silver Lake Utilities, Inc.'s water rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. 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., Silver Lake 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, Vogel)

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. The total recommended reduction is \$2,682.

The water rates should be reduced as shown on Schedule No. 4 to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. 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., Silver Lake 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 the recommended rates be approved for Silver Lake Utilities, Inc. on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for Silver Lake Utilities, Inc. on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility. Silver Lake 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, Silver Lake should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by Silver Lake 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 twentieth 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. (Vogel)

Staff Analysis: This recommendation proposes an increase in water 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 Silver Lake, staff recommends that the recommended rates be approved as temporary rates. Silver Lake 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 \$125,618. Alternatively, Silver Lake 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 express approval 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 twentieth 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 13: Should Silver Lake Utilities, Inc. 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?

Recommendation: Yes. Silver Lake Utilities, Inc. should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. The Utility 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. (Vogel)

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. The Utility 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 14: Should this docket be closed?

Recommendation: No. Except for the granting of temporary rates in the event of protest, the four year rate reduction, and proof of adjustment of books and records, which are final actions, 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 Silver Lake and approved by staff, and Silver Lake has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket should be closed administratively. (Corbari)

Staff Analysis: Except for the granting of temporary rates in the event of protest, the four year rate reduction, and proof of adjustment of books and records, which are final actions, 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 Silver Lake and approved by staff, and Silver Lake has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket should be closed administratively.

SILVER LAKE UTILITIES, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 03/31/15		DOCKET NO. 150149-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$1,246,881	(\$53,978)	\$1,192,903
LAND & LAND RIGHTS	0	0	0
NON-USED AND USEFUL COMPONENTS	0	(106,141)	(106,141)
CIAC	0	(248,963)	(248,963)
ACCUMULATED DEPRECIATION	(484,818)	12,575	(472,244)
AMORTIZATION OF CIAC	0	134,852	134,852
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>19,373</u>	<u>19,373</u>
WATER RATE BASE	<u>\$762,063</u>	<u>(\$242,282)</u>	<u>\$519,781</u>

SILVER LAKE UTILITIES, INC.	SCHEDULE NO. 1-B
TEST YEAR ENDED 03/31/15	DOCKET NO. 150149-WS
ADJUSTMENTS TO RATE BASE	
	<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
1. To remove plant being held for Muse Development.	(\$57,525)
2. To capitalize pumping equipment from Acct. 620.	1,805
2. To capitalize backflow preventers from Acct. 620.	2,595
2. To include pro forma plant additions and retirements.	2,694
2. To reflect an averaging adjustment.	<u>(3,547)</u>
Total	<u>(\$53,978)</u>
<u>NON-USED AND USEFUL PLANT</u>	
1. To reflect non-used and useful plant.	(\$184,555)
2. To reflect non-used and useful accumulated depreciation.	78,414
Total	<u>(\$106,141)</u>
<u>CIAC</u>	
To include the appropriate amount of CIAC.	<u>(\$248,963)</u>
<u>ACCUMULATED DEPRECIATION</u>	
1. To reflect the appropriate Accumulated Depreciation.	(\$6,724)
2. To reflect pro forma plant additions and retirements.	(639)
3. To reflect an averaging adjustment.	19,938
Total	<u>\$12,575</u>
<u>AMORTIZATION OF CIAC</u>	
To include appropriate amount of Amortization of CIAC.	<u>\$134,852</u>
<u>WORKING CAPITAL ALLOWANCE</u>	
To reflect 1/8 of test year O&M expenses.	<u>\$19,373</u>

SILVER LAKE UTILITIES, INC. TEST YEAR ENDED 03/31/15 SCHEDULE OF CAPITAL STRUCTURE							SCHEDULE NO. 2 DOCKET NO. 150149-WS		
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON EQUITY	\$370,892	\$0	\$370,892	(\$36,656)	\$334,236	46.66%	10.58%	4.94%	
2. LONG-TERM DEBT	424,000	0	424,000	(41,904)	382,096	53.34%	3.00%	1.60%	
3. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.08%	
4. PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%	
5. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	2.00%	0.00%	
6. DEFERRED INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
7. TOTAL	<u>\$794,892</u>	<u>\$0</u>	<u>\$794,892</u>	<u>(\$78,560)</u>	<u>\$716,332</u>	<u>100.00%</u>		<u>6.54%</u>	
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>		
RETURN ON EQUITY						<u>9.58%</u>	<u>11.58%</u>		
OVERALL RATE OF RETURN						<u>6.07%</u>	<u>7.00%</u>		

SILVER LAKE UTILITIES, INC. TEST YEAR ENDED 03/31/15 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 150149-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$43,397</u>	<u>\$3,765</u>	<u>\$47,162</u>	<u>\$187,964</u> 398.55%	<u>\$235,126</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$157,406	(\$2,419)	\$154,987	\$0	\$154,987
3. DEPRECIATION (NET)	40,778	(7,372)	33,406	0	33,406
4. TAXES OTHER THAN INCOME	3,159	1,122	4,281	8,458	12,739
5. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
6. TOTAL OPERATING EXPENSES	<u>\$201,343</u>	<u>(\$8,669)</u>	<u>\$192,674</u>	<u>\$8,458</u>	<u>\$201,132</u>
7. OPERATING INCOME/(LOSS)	<u>(\$157,946)</u>		<u>(\$145,472)</u>		<u>\$33,994</u>
8. WATER RATE BASE	<u>\$762,063</u>		<u>\$519,781</u>		<u>\$519,781</u>
9. RATE OF RETURN	<u>(20.73%)</u>		<u>(27.99%)</u>		<u>6.54%</u>

SILVER LAKE UTILITIES, INC.		SCHEDULE NO. 3-B
TEST YEAR ENDED 03/31/15		DOCKET NO. 150149-WS
ADJUSTMENTS TO OPERATING INCOME		
		<u>WATER</u>
	OPERATING REVENUES	
	To reflect the appropriate test year service revenues.	<u>\$3,765</u>
	OPERATION AND MAINTENANCE EXPENSES	
1.	Purchased Water (610) To include an invoice from December of test year.	<u>\$108</u>
2.	Purchased Power (615) a. To include an invoice not previously included. b. To reclassify invoices from Acct. 618. Subtotal	 \$47 96 <u>\$143</u>
3.	Chemicals (618) a. To reclassify invoices from Acct. 615. b. To include invoices not previously included. c. To remove unsupported invoices for chemicals. Subtotal	 (\$96) 113 <u>(107)</u> <u>(\$90)</u>
4.	Material and Supplies (620) a. To reclassify invoices from Acct. 331. b. To reclassify invoices from Acct. 336. Subtotal	 (\$1,805) <u>(2,595)</u> <u>(\$4,400)</u>
5.	Contractual Services - Other (636) To remove amortization of a non-recurring expense.	 <u>(\$720)</u>
6.	Regulatory Commission Expense (665) a. To reflect 4-year amortization of filing fees and noticing expenses. b. To reflect 4-year amortization of legal fees and expenses. Subtotal	 \$277 <u>2,263</u> <u>\$2,540</u>
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$2,419)</u>
	DEPRECIATION EXPENSE	
	a. To reflect appropriate depreciation expense per Rule 25-30.140 F.A.C.	(\$130)
	b. To reflect non-used and useful depreciation expense. Subtotal	<u>(7,242)</u> <u>(\$7,372)</u>
	TAXES OTHER THAN INCOME	
	a. To reflect the appropriate test year property taxes.	\$1,109
	b. To reflect the appropriate RAFs.	143
	d. To include pro forma property taxes	41
	c. To reflect non-used and useful property taxes.	(171)
	d. To reflect change in revenues with recommendation. Total	<u>8,458</u> <u>\$9,580</u>

SILVER LAKE UTILITIES, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 03/31/15		DOCKET NO. 150149-WS	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENTS	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	1,256	108	1,364
(615) PURCHASED POWER	6,364	143	6,507
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	2,326	(90)	2,236
(620) MATERIALS AND SUPPLIES	14,757	(4,400)	10,357
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	42,177	0	42,177
(633) CONTRACTUAL SERVICES - TESTING	6,346	0	6,346
(636) CONTRACTUAL SERVICES - OTHER	37,177	(720)	36,457
(640) RENTS	44,095	0	44,095
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	0	0	0
(665) REGULATORY COMMISSION EXPENSE	0	2,540	2,540
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSE	<u>2,908</u>	<u>0</u>	<u>2,908</u>
TOTAL WATER O&M EXPENSES	<u>\$157,406</u>	<u>(\$2,419)</u>	<u>\$154,987</u>

SILVER LAKE UTILITIES, INC.		SCHEDULE NO. 4	
TEST YEAR ENDED MARCH 31, 2015		DOCKET NO. 150149-WS	
MONTHLY WATER RATES			
	RATES AT TIME OF FILING	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential, General Service, and Raw Water Irrigation</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$19.05	\$86.36	\$0.94
3/4"	\$28.58	\$129.54	\$1.41
1"	\$47.63	\$215.90	\$2.35
1-1/2"	\$95.25	\$431.80	\$4.70
2"	\$152.40	\$690.88	\$7.53
3"	\$304.80	\$1,381.76	\$15.05
4"	\$476.25	\$2,159.00	\$23.52
6"	\$952.50	\$4,318.00	\$57.42
Charge per 1,000 gallons - Residential Service			
0-5,000 gallons	\$3.79	\$19.16	\$0.21
Over 5,000 gallons	\$6.46	\$32.58	\$0.35
Charge per 1,000 gallons - General Service			
	\$3.79	\$21.98	\$0.24
Charge per 1,000 gallons - Raw Water Irrigation Service			
		\$19.54	\$0.21
<u>Bulk Raw Water Service</u>			
Base Facility Charge (2,000 ERCs)	\$5,500.00	\$5,500.00	
Charge per 1,000 gallons - Bulk Raw Water Service	\$0.91	\$0.91	
Minimum 500,000 gpd take or pay			
<u>Bulk Treated Water Service</u>			
Base Facility Charge (1,400 ERCs)	\$21,532.00	\$21,532.00	
Charge per 1,000 gallons - Bulk Treated Water Service	\$3.72	\$3.72	
Minimum 350,000 gpd take or pay			
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$30.42	\$143.84	
5,000 Gallons	\$38.00	\$182.16	
10,000 Gallons	\$70.30	\$345.06	