

-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: September 29, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Lewis, King)
Division of Accounting and Finance (Fletcher, Mouring, Smith II)
Division of Economics (Bruce)
Office of the General Counsel (Murphy)

Handwritten notes:
CKL REH M TS
Bof ALM
SMITH PA JS
cm/lt

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

AGENDA: 10/11/16 – Proposed Agency Action – Except for Issue Nos. 11, 17, and 18 - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: Waived (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

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Case Background

Aquarina Utilities, Inc., (Aquarina or Utility) is a Class B utility providing service to approximately 296 water and 311 wastewater customers in Brevard County. Aquarina also provides non-potable water for irrigation to approximately 107 customers. The Utility began providing service in 1984 when it was known as Aquarina Developments, Inc. In 1989, the Commission granted the Utility water and wastewater certificate numbers 517-W and 450-S, respectively. Water and wastewater rates were last established for the Utility in 2003, when it was known as Service Management Systems, Inc.¹ The Utility was transferred to Aquarina in 2012.²

On January 2, 2015, Aquarina filed an application for a Staff Assisted Rate Case (SARC). Staff selected the test year ending December 31, 2014, for the instant case. According to Aquarina's 2014 Annual Report, its total operating revenues for water and wastewater were \$269,405 and \$161,736, respectively. The Utility reported a net loss of \$45,050 for the water service and net income of \$5,320 for the wastewater service.³ On July 14, 2015, Aquarina submitted additional pro forma request for consideration in which staff received the final quotes on October 19, 2015. On January 19, 2016, the Utility requested consideration of additional well expenses.⁴

A customer meeting was held on March 10, 2016, at the Aquarina Community Center to receive customer questions and comments concerning the Utility's rate case and quality of service. The Commission has jurisdiction in this case pursuant to Section 367.0814, Florida Statutes, (F.S.).

¹Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, *In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.*

²Order No. PSC-12-0614-CO-WS, issued November 16, 2012, in Docket No. 110061-WS, *In re: Application for authority to transfer assets and Certificate Nos. 517-W and 450-S of Service Management Systems, Inc. to Aquarina Utilities, Inc., in Brevard County.*

³Aquarina Utilities, Inc. 2014 Annual Report filed March 13, 2015, with the Commission.

<http://www.floridapsc.com/library/financials/WS949-DOCS/ANNUAL-REPORTS/WS949-14-AR.PDF>

⁴ See Document 00369-16

Discussion of Issues

Issue 1: Should the quality of service provided by Aquarina be considered satisfactory?

Recommendation: Yes. The overall quality of service provided by Aquarina should be considered satisfactory. (Lewis)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water and wastewater rate cases, the Commission shall determine the overall quality of service provided by the utility. This is derived from an evaluation of three separate components of the Utility'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 the Commission to consider the extent to which the utility provides water service that meets secondary water quality standards as established by the DEP.

Quality of Utility's Product

Staff's evaluation of Aquarina's water quality consisted of a review of the Utility's compliance with DEP primary and secondary drinking water standards, county health department standards, as well as customer complaints. Primary standards protect public health while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water.

Staff reviewed chemical analyses of samples dated July 29, 2012, and September 23, 2015. All results were in compliance with the DEP primary and secondary water quality standards. These chemical analyses are performed every three years; therefore, the next scheduled analysis should be in 2018.

At the customer meeting, two customers complained that the water provided by the Utility was discoloring their in-home filters and they had to replace their filters more frequently than in the past. One of these complaints was also filed with the Commission. The Utility responded to one customer by email and stated that the customer could set up an appointment to have the filters examined. Complaints regarding the quality of the Utility's product have been minimal since 2010.

Jurisdiction of Aquarina's wastewater facilities is under the DEP. The Utility's wastewater treatment plant (WWTP) permit was renewed on March 24, 2013, and expires on March 23, 2018. Currently, the DEP has no violations or corrective orders pending against the Utility concerning the treatment and disposal of Aquarina's domestic wastewater.

In addition to being a water and wastewater service provider, the Utility also provides irrigation and fire-flow to its customer base through an isolated non-potable system. The Consumptive Use Permit (CUP) issued by the St. Johns River Water Management District (SJWMD) on November 7, 2011, allows the Utility to withdraw up to 0.12 million gallons per day (mgd) for household and commercial/industrial use. The CUP also allows up to 0.24 mgd for urban irrigation and

another 0.23 mgd for golf course irrigation. The Utility appears to be operating within the parameters of its CUP. All other regulation of the irrigation and fire-flow system is under the jurisdiction of the Office of the Brevard County Fire Rescue. Staff has not received any information from the Brevard County Fire Department indicating concerns about the pressure of the fire flow system.

Operating Condition of the Utility's Plant and Facilities

Aquarina provides finished potable water obtained from two wells, which draw ground water from the aquifer. The raw water is treated by a Reverse Osmosis (RO) system which filters impurities from the raw water. The potable water is then directed into a 3,000-gallon hydropneumatic tank and a 150,000 ground storage tank and then pumped into the water distribution system. The distribution system is composed of PVC pipe.

Sanitary surveys of water treatment plants are conducted triennially. On March 7, 2011, the DEP conducted a Sanitary Survey of Aquarina's water treatment plant and deemed it in compliance on April 25, 2011. On January 14, 2014, the DEP conducted another Sanitary Survey of Aquarina's water treatment plant. The DEP identified the following deficiencies:

- 1) The north well #1 (AAC2808) was noted leaking from the packing seals. Failure to maintain public water system components.
- 2) Failure to provide a smooth-nosed tap for sampling raw well water for well #1 (AAC2808).
- 3) Failure to conduct monitoring for Nitrate/Nitrite annually. The sample collected on December 30, 2013 was invalid due to holding exceedances.

Aquarina's wastewater treatment plant utilizes an extended aeration process. The facility is authorized to accept reject water from the existing RO water treatment plant. Flows (including RO reject water) to the plant are limited to 50,000 gpd which is the permitted capacity of the existing disposal system. A Wastewater Compliance Inspection Report was conducted on January 14, 2014, by the DEP and noted the following deficiencies:

- 1) Not completely filling out its monthly Discharge Monitoring Reports.
- 2) Not having required dual cylinders with automatic switchover or suitable scales for gas chlorination.
- 3) Due to excessive leaking, the sludge seals are in need of repair.

On January 27, 2014, the Utility reported to the DEP that all deficiencies with the water and wastewater treatment plants had been corrected. Subsequently, the DEP deemed the Utility in compliance on February 28, 2014. Staff's review of DEP compliance records indicates that Aquarina had no infractions from 2014 through 2015 for either the water or wastewater systems.

In its previous rate case, the Utility's non-potable water system was not considered satisfactory. At that time, the Utility was deemed to have violated National Fire Protection Association codes concerning the maintenance of the pumping system, maintenance of the distribution system, adequate system pressure, sufficient records of fire hydrant care and testing, etc. Based on discussions with the Brevard County Fire Rescue, the Utility is now in compliance with relevant codes.

The Utility's Attempt to Address Customer Satisfaction

The final component of the overall quality of service that must be assessed is the Utility's attempt to address customer satisfaction. As part of staff's evaluation of customer satisfaction, staff held a customer meeting on March 10, 2016, to receive customer comments concerning Aquarina's quality of service.

Approximately 45 customers attended the customer meeting in which 14 spoke about their experiences and concerns with the Utility's service. Eight of the customers who spoke at the customer meeting objected to the Utility's current rates or the magnitude of the proposed rate increase. As previously discussed in this issue, two customers reported problems associated with in-home filters.

One customer voiced issues with billing, particularly on the matter of incorrect meter readings that occurred in 2014. When contacted by the customer the Utility stated the high bill was due to a possible leak on the customer's property. The customer conducted an investigation of their pool and lanai however no leak was found. A credit was issued to the customer's bill. The customer filed a complaint with the Commission about the matter on March 7, 2016, prior to the customer meeting. The complaint was closed on March 14, 2016, since the matter was resolved in 2014.

Two customers discussed incidents involving the Utility's repair of water lines which caused water mixed with sand and debris to enter the home. The water line was crushed by the weight of an Oak tree. The Utility stated it advised the affected residence to flush their lines via the outside faucets for 15 minutes to clear the lines.

Finally, there were three accounts of the Utility failing to report service interruptions. The Utility stated it placed Boil Water notices on the doors of each residence and placed copies in the lobby of each of the condominium buildings. It also provided notifications via the development's property management office. The Utility has worked with the property manager to obtain emergency contact information for each of the sub-home owners associations in the community in an effort to better facilitate notification of Boil Water notices.

Staff also requested copies of complaints filed with the Utility during the test year and four years prior to the test year.⁵ The Utility responded that three customer complaints were received, all in 2011, all dealt with meter accuracy. A complaint was taken over the telephone; however, the Utility did not record the instance as a complaint. A refund also was provided to the customer.

Staff reviewed the Commission's complaint records from January 1, 2010, through July 13, 2016, and found six complaints, which include the three received by utility and all have been closed. Staff also requested complaints against the Utility filed with DEP for the 2014 test year and four years prior. DEP indicated that it has not received any complaints against the Utility during the requested time frame. Responses to subsequent requests to DEP indicate no complaints were received as of July 13, 2016.

⁵Document No. 01539-15 filed March 19, 2015.

Subsequent to the test year, Commission staff has received two complaints. The first was filed in March 2016 concerning a billing issue from 2014. The second was received on April 6, 2016, and concerned a leaking pipe on the Utility's side of the meter. The issue was resolved when the pipe was repaired on April 20, 2016. Both complaints filed with the Commission in 2016 have been closed. Table 1-1 below, summarizes the customer contacts for Aquarina.

**Table 1-1
Customer Contacts**

Subject of Complaint	PSC's Records (CATS)	Utility's Records	DEP	Customer Meeting*
Billing Related	4	3	0	2
Opposing Rate Increase	0	0	0	7
Quality of Service	2	0	0	9
Other	0	0	0	1
Total	6	0	0	19

*A complaint may appear more than once in this table if it meets multiple categories.

Summary

The Utility is in compliance with all primary and secondary water standards and the DEP deemed the Utility in compliance for both water and wastewater operations on February 28, 2014. Based on the discussion and review above, staff recommends the overall quality of service provided by Aquarina should be considered satisfactory.

Issue 2: What are the used and useful percentages (U&U) of Aquarina’s water treatment plant (WTP), WTP storage, distribution system, wastewater treatment plant, collection system, non-potable plant, non-potable distribution system, and non-potable storage?

Recommendation: Staff is recommending the following U&U percentages for Aquarina’s water, wastewater, and non-potable systems:

Plant	U&U Percentage
Water Treatment Plant	81.0 Percent
Water Distribution	62.6 Percent
Water Plant Storage	46.7 Percent
Wastewater Plant	55.9 Percent
Wastewater Collection System	65.4 Percent
Non-Potable Plant	100 Percent
Non-Potable Distribution	100 Percent
Non-Potable Storage	61.0 Percent

Staff also recommends that no adjustments to operating expenses be made for excessive unaccounted for water (EUW) or excessive inflow & infiltration (I&I). (Lewis)

Staff Analysis: Rates for Aquarina were previously set in 2003. For comparison purposes Table 2-1 below, summarizes the U&U determined in Aquarina’s 2003 rate case and the U&U being recommended by staff in the current case. Staff notes that Rule 25-30.4325, F.A.C., which codifies the Commission’s policy for calculating U&U, became effective in 2008.

Table 2-1

	Used and Useful	
	2003	Recommended
Water Treatment Plant	29.7 Percent	81.0 Percent
Water Distribution	62.6 Percent	62.6 Percent
Water Plant Storage	Not Calculated	46.7 Percent
Wastewater Plant	55.9 Percent	55.9 Percent
Wastewater Collection System	65.4 Percent	65.4 Percent
Non-Potable Plant	100 Percent	100 Percent
Non-Potable Distribution	100 Percent	100 Percent
Non-Potable Storage	Not Calculated	61.0 Percent

Potable Water Treatment Plant Used & Useful

Pursuant to Rule 25-30.4325, F.A.C., the U&U calculation for a WTP is ((Max Day - EUW + Fire Flow + Growth)/ Firm Reliable Capacity). Based on Aquarina's Monthly Operating Reports (MORs) the Max Day usage during the test year was 70,000 gallons. The Utility's MORs additionally indicate that there was no EUW during the test year. Staff's analysis of EUW is discussed in greater detail below. Fire flow is handled by a separate, non-potable system, therefore it is not considered in staff's evaluation of WTP used and useful. Historic flows indicate negative growth since 2011; therefore, staff is not making an adjustment for growth.

Rule 25-30.4325, F.A.C., provides that Firm Reliable Capacity (FRC) is expressed in gallons per day (gpd), based on 16 hours of pumping, for systems with storage capacity such as Aquarina's system. Typically the FRC is calculated by using the pumping capacity of the smallest well in the system which in this case is rated at 450 gpm. Based on 16 hours of availability the FRC equals 432,000 gpd. However, the Rule contains a provision by which an alternative calculation may be considered if supporting justification is provided, including service area or treatment capacity restrictions, changes in flows due to conservation or a reduction in the number of customers, and alternative peaking factors. The most recent DEP sanitary survey, for Aquarina's WTP, states that the Max Day capacity of the WTP is 86,400 gpd. Therefore, staff believes that 86,400 gpd should be used as the FRC. Based on the inputs discussed above, the resulting U&U calculation for the WTP equals 81 percent $(70,000 - 0 + 0 + 0/86,400)$.

In Aquarina's 2003 rate case, the water treatment plant was deemed 29.7 percent U&U. As previously noted, Rule 25-30.4325, F.A.C., became effective subsequent to the Commission's decision in that case. Review of the U&U analysis in the previous case shows that storage was considered in determining the FRC. Rule 25-30.4325(3), F.A.C., states that [s]eparate used and useful calculations shall be made for the water treatment system and storage facilities. Staff's U&U calculation for Aquarina's storage facilities is discussed later.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. When establishing the Rule, the Commission recognized that some uses of water are readily measurable and others are not. Unaccounted for water is all water that is produced that is not sold, metered or accounted for in the records of the Utility. The Rule provides that to determine whether adjustments to plant and operating expenses, such as purchased electrical power and chemicals cost, are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible. The unaccounted for water is calculated by subtracting both the gallons used for other purposes, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year.

Aquarina's MORs show that the Utility treated 12,046,000 gallons and sold 12,322,490 gallons of water during the test year. This indicates the Utility sold 276,490 gallons more than it treated. Therefore, the Utility had an unaccounted for water value of negative 2.24 percent. The Utility explained its flow meter has an error margin of 6 percent.⁶ Even if staff were to recommend an

⁶ Document No. 04356-15 filed July 13, 2015.

adjustment to account for the inaccuracy of the flow meter, the unaccounted for water would not exceed 10 percent. Therefore, staff is recommending that no adjustment be made to operating expenses for chemicals and purchase power due to the EUW.

Potable Water Treatment Plant Storage Used & Useful

Pursuant to Rule 25-30.4325, F.A.C., the U&U calculation for WTP storage is $((\text{Max Day} - \text{EUW} + \text{Fire Flow} + \text{Growth})/\text{usable storage of the water storage tank})$. Aquarina's water storage tank is rated at 150,000 gallons. The resulting calculation, assuming the Max Day discussed in the previous section, equals 46.7 percent $((70,000 - 0 + 0 + 0)/150,000)$.

Potable Water Distribution System Used & Useful

In the Utility's previous rate case, distribution system used and useful was based on the capacity of the system and the number of test year connections measured on the basis of equivalent residential connections (ERCs). A growth allowance of 60 ERCs was also considered in the previous rate case. In response to a staff data request, the Utility stated that it does not have access to records which detail expansion or changes to the distribution system from 2003 to 2011. Due to incomplete records regarding Aquarina's water distribution system, staff is unable to determine the current capacity of the Utility's distribution system. To this point, staff notes that the Utility was obtained by current ownership in 2012.

In Aquarina's 2003 rate case, it was noted that recent approvals from Brevard County expanded the Utility's growth potential from 436 ERCs to 600 ERCs. Therefore, it is reasonable to consider that expansion of the water distribution may have occurred in the 2003 to 2011 timeframe.

Staff additionally considered whether or not the system should be considered built-out which would result in a U&U of 100 percent. Based on staff's review of the area, as well as communication with local community managers, it appears that there is potential for new construction in the area.

Given the lack of available information, staff recommends adhering to the prior Commission decision to consider the water distribution system 62.6 percent U&U. As discussed in Issue 3, staff is recommending granting the Utility's request for Geographic Information System (GIS) mapping of its plant to determine the current connection capacity of its water distribution system. The GIS mapping will allow the Utility to provide accurate information regarding its distribution system.

Wastewater Treatment Plant Used & Useful

In Aquarina's 2003 rate case, the WWTP was found to be 55.9 percent U&U. The Annual Average Daily Flow (AADF) from the Discharge Monitoring Reports filed monthly with DEP was 38,296 gpd. Pursuant to Rule 25-30.432, F.A.C., the U&U calculation for a WWTP is $((\text{AADF} - \text{I\&I} + \text{Growth})/\text{permitted capacity})$. As discussed in greater detail below, I&I for the WWTP cannot be accurately determined at this time, therefore, staff is not including an I&I value in its calculation. Based on historic flows, staff does not believe an adjustment for growth should be made at this time. The facility has a permitted capacity of 99,000 gpd.

Based on the inputs discussed above, the resulting calculation equals 44.8 percent $((38,296 - 0 + 0)/99,000 \text{ gpd})$ which is lower than the previously Commission ordered U&U percentage of 55.9 percent. Therefore, staff recommends adhering to the prior Commission decision to consider the wastewater treatment plant to be 55.9 percent U&U.

Inflow & Infiltration (I&I)

Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider I&I. Additionally, adjustments to operating expenses such as chemical and electrical costs are also considered necessary. Typically, inflow results from water entering a wastewater collection system through manholes or lift stations; whereas, infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints. It is an industry standard and Commission practice to allow 10 percent of water sold as inflow plus 500 gpd per inch diameter pipe per mile for infiltration.⁷ The sum of these amounts is the allowable I&I.

The Utility was not able to provide the size and length of its wastewater mains and indicated that it has incomplete records. Absent this information, an allowance for infiltration cannot be accurately determined. Therefore, staff is recommending no adjustments to operating expenses due to I&I. This recommendation is consistent with the Commission's decision in Aquarina's last rate case in which the Commission identified I&I as N/A and an adjustment was not made.⁸

Wastewater Collection System Used & Useful

For the same reasons discussed in staff's U&U analysis of Aquarina's water distribution system, staff is unable to determine the current capacity of the Utility's wastewater collection system. Therefore, consistent with staff's recommendation regarding the Utility's distribution system, staff recommends adhering to the prior Commission decision to consider the wastewater collection system to be 65.4 percent U&U.

Non-Potable Water System and Water Distribution System Used & Useful

Although a specific rule for non-potable water systems does not exist, staff believes that the U&U equation for a WTP might reasonably be applied to a non-potable water system. Aquarina's non-potable water system is served by a single well. Pursuant to Rule 25-30.4325, F.A.C., a water treatment system is considered 100 percent U&U if the system is served by a single well. Therefore, staff recommends that Aquarina's non-potable water system be considered 100 percent U&U. Moreover, in Aquarina's 2003 rate case, the Utility's non-potable water distribution system was determined to be 100 percent U&U. Staff has not received any information that the non-potable water distribution system has been expanded. Therefore, staff recommends that the non-potable water distribution system be considered 100 percent U&U.

⁷ Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, *In re: Application for rate increase in Martin County by Indiantown Company, Inc.*

⁸ Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, *In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.*

Non-Potable Water Storage Used & Useful

Similar to staff’s evaluation of Aquarina’s non-potable water system, staff recommends that the standards contained in Rule 25-30.4325, F.A.C., might reasonably be used to determine the U&U of the Utility’s non-potable water storage. Therefore, the U&U of Aquarina’s non-potable water system is $((\text{Max Day} - \text{EUW} + \text{Fire Flow} + \text{Growth}) / \text{Firm Reliable Capacity})$. For the Max Day staff relied on test year data and determined a value of 512,052 gallons based on a daily average for the peak month. Based on a response to a staff data request, the Utility is required to maintain 250,000 gallons for fire flow. Historic flows indicate negative growth since 2011, therefore, staff does not believe an adjustment for growth should be made. The FRC of the non-potable water storage is 1.25 million gallons.

Sufficient information was not available to determine EUW, therefore staff has no basis to support an adjustment for EUW. Based on the inputs discussed above, staff recommends that a U&U of 61 percent $((512,052 - 0 + 250,000) / 1,250,000)$ for Aquarina’s non-potable water storage.

Summary

The following U&U percentages for water, wastewater, and non-potable systems should be considered in setting rates for Aquarina.

Plant	U&U Percentage
Water Treatment Plant	81.0 Percent
Water Distribution	62.6 Percent
Water Plant Storage	46.7 Percent
Wastewater Plant	55.9 Percent
Wastewater Collection System	65.4 Percent
Non-Potable Plant	100 Percent
Non-Potable Distribution	100 Percent
Non-Potable Storage	61.0 Percent

Staff also recommends that no adjustments to operating expenses be made for EUW or excessive I&I.

Issue 3: What is the appropriate average test year potable water rate base, non-potable water rate base, and wastewater rate base for Aquarina?

Recommendation: The appropriate average test year potable water, non-potable water, and wastewater rate bases are \$170,153, \$172,587, and (\$2,091), respectively. (L. Smith, Lewis)

Staff Analysis: Aquarina’s net book value was last established in its 2012 transfer docket by Order No. PSC-12-0577-PAA-WS.⁹ The test year ended December 31, 2014, was used for the instant case. A summary of each rate base component and recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

The Utility recorded UPIS of \$1,907,336 for potable water, \$22,080 for non-potable water, and \$2,116,139 for wastewater. The staff audit identified several adjustments resulting in an increase to UPIS for potable water, non-potable water, and wastewater of \$49,635, \$905, and \$7,708 respectively. These adjustments are shown on Table 3-1, Table 3-2, and Table 3-3.

Table 3-1

Potable Water Audit Adjustments			
Acct.	Description	Adjustments	Reason for Adjustment
304	Structures & Improvements	\$210	Correct transfer amount posted in 2011
311	Pumping Equip.	1,820	Reclassify O&M Expense to capitalize to plant net of retirement
320	Water Treatment Equip.	5,559	Correct transfer amount posted in 2011
331	T&D Mains	2,188	Correct transfer amount posted in 2011
333	Services	158	Correct transfer amount posted in 2011
334	Meters & Meter Installations	(5,956)	Correct transfer amount posted in 2011
339	Other Plant & Misc. Equip.	899	Correct transfer amount posted in 2011
341	Transportation Equip.	40,596	To reflect the appropriate allocation between water and wastewater
343	Tools, Shop, & Garage Equip.	900	Reclassify O&M Expense to capitalize to plant
344	Lab Equip.	2,000	Reclassify O&M Expense to capitalize to plant
347	Misc. Equip.	1,261	Correct transfer amount posted in 2011
	Total Adjustments	<u>\$49,635</u>	

Source: Audit

Table 3-2

Non-Potable Water Audit Adjustment			
Acct.	Description	Adjustment	Reason for Adjustment
311	Pumping Equip.	\$905	Reclassify O&M Expense to capitalize to plant net of retirement

Source: Audit

⁹ Order No. PSC-12-0577-PAA-WS, issued October 25, 2012, in Docket No. 110061-WS, *In re: Application for authority to transfer assets and Certificate Nos. 507-W and 450-S of Service Management Systems, Inc. to Aquarina, Inc. in Brevard County.*

Table 3-3

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

Source: Audit

In addition, staff made adjustments to UPIS by decreasing UPIS for potable water and increasing UPIS for non-potable water in order to match the amount of audited Contributions in Aid of Construction (CIAC) for the non-potable system. This resulted in a decrease to potable water UPIS and a corresponding increase to non-potable water UPIS of \$90,305. Staff then reduced UPIS for potable and non-potable water by \$36,324 and \$67,162, respectively, to retire CIAC accounts that were over-amortized.

Staff further reduced potable water UPIS and increased non-potable water UPIS by \$234,124 to reflect Commission-ordered adjustments.¹⁰ Based on conversations with the Chief Operator of the Utility, staff reduced potable water and increased non-potable water by \$149,558, to impute Transmission and Distribution Mains for the non-potable system.

Staff also reduced wastewater UPIS and increased non-potable water UPIS by \$512,792 to reflect previous Commission-ordered adjustments.¹¹ Further, staff made averaging adjustments to decrease UPIS for potable water, non-potable water, and wastewater by \$2,329, \$31, and \$1,436, respectively.

Pro Forma Plant

On July 6, 2015, the Utility submitted a request to replace several critical parts of its aging plant along with acquiring new system maps of its infrastructure.¹²

Water Treatment Plant – Reverse Osmosis Skid

Aquarina requested replacement of its reverse osmosis skid due to its age. The Utility indicated that the unit has been in operation since 1984, it is fully depreciated and replacement parts are

¹⁰ Order Nos. PSC-95-1417-FOF-WS, issued November 21, 1995, in Docket No. 941234-WS, *In re: Application for staff-assisted rate case in Brevard County by Aquarina Developments, Inc.* and PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, *In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.*

¹¹ Order No. PSC-95-1417-FOF-WS, issued November 21, 1995, in Docket No. 941234-WS, *In re: Application for staff-assisted rate case in Brevard County by Aquarina Developments, Inc.*

¹² See Document 04406-15 filed July 14, 2015.

becoming scarce. Aquarina additionally indicated that it requested quotes for service contracts on the system, but none were provided, even from the vendor that sold Aquarina the original system. Staff agrees with the Utility that it is prudent to replace its reverse osmosis skid at this time. The Utility provided five quotes from three manufactures ranging in price from \$42,637 to \$68,430. Aquarina selected the second to lowest bid based on the system's capacity to provide service to its existing and future customer base.¹³ The final quote was \$52,232 and includes maintenance services.¹⁴

Distribution and Collection Systems – GIS Mapping

Upon purchase, the Utility did not receive adequate records indicating the location and scope of its current distribution and collection systems. The maps and plans in the possession of the Utility do not represent the modifications and changes to the system up to this date. Aquarina stated that plans and diagrams are needed to delineate its three systems (potable, non-potable, and sewer). The maps and plans will also allow the Utility to respond to 811 Florida One-Call. Aquarina requested two quotes to perform system mapping. Only one party provided a quote to the Utility in the amount of \$76,768. Based on review of a previous rate case the quote appears to be reasonable.¹⁵ Aquarina service area is larger and has three (two water distribution and a wastewater collection) systems while only wastewater service is provided by the referenced Utility in Docket No. 130178-SU.

Wastewater Treatment Plant – Catwalks & Sand Filter Blowers

The catwalks inside the WWTP are rusted and need repair. Due to the safety concerns, Aquarina requested the replacement of the catwalks. During a plant visit on June 3, 2015, staff observed the condition of the catwalks and agrees that the catwalks should be replaced. A single quote of \$9,431 was provided to replace the catwalks. In addition, the operator stated the blowers for the sand filters needed to be replaced due to their age. During staff's site visit, the blowers appeared to be very aged and worn down by the coastal environment. Staff selected the lower of two quotes (\$5,446 and \$11,296) received to replace the sand filter air compressors.

Wastewater Treatment Plant – Blowers

The Utility stated the WWTP blowers are aged and often need repair. After observing the condition of blowers, staff believes it is prudent for the Utility to replace the blowers to diminish the frequency of repair. The Utility received three quotes ranging from \$27,912 to \$71,500 to perform the requested work. The selected quote to replace the blowers is \$27,912.¹⁶

Meter Retirements and Safety Equipment

Aquarina states several of its residential customer meters are not working properly and need to be replaced. Staff suggested to the Utility to incorporate a meter replacement program into its maintenance program. Based on the information provided by the Utility, staff expects the replacement of 40 meters per year at an estimated cost of \$2,800 per year. The Chief Operator of the Utility, stated approximately 100 meters have been replaced over the previous four years due to the corrosiveness of the environment with 20 meters still needing replacement as of August

¹³ See Document 04356-15 filed July 13, 2015, p. 61.

¹⁴ See Document 06654-15 filed October 19, 2015.

¹⁵ Order No. PSC-16-0204-FOF-SU filed May 19, 2016.

¹⁶ See Document 04356-15 filed July 13, 2015, p. 71.

2015. The provided meter records indicate 17 residential water meters were replaced during 2014. Thus, it appears to be reasonable to allow the Utility to replace approximately of 20 potable and 20 non-potable water meters per year. In addition, the Utility included the cost of protective gear (cones, vests, helmets and boots) which staff agrees is necessary and appropriate for personnel safety.

As a result, staff made net adjustments increasing UPIS for potable water, non-potable water, and wastewater of \$5,896, \$2,774, and \$2,424, respectively, for these pro forma plant additions. Therefore, staff recommends that the appropriate UPIS balances are \$1,450,227 (\$1,907,336 + \$49,635 - \$90,305 - \$36,324 - \$234,124 - \$149,558 - \$2,329 + \$5,896) for potable water, \$945,345 (\$22,080 + \$905 + \$90,305 - \$67,162 + \$234,124 + \$149,558 + \$512,792 - \$31 + \$2,774) for non-potable water, and \$1,612,043 (\$2,116,139 + \$7,708 - \$512,792 - \$1,436 + \$2,424) for wastewater.

Land & Land Rights

The Utility recorded test year land values of \$62,080 for potable water and \$33,680 for wastewater. Based on staff's review, an adjustment was made to allocate a portion of land to non-potable water based on the ratio of potable to non-potable plant. Accordingly, staff reduced the balance for potable water and increased the balance for non-potable water by \$24,498. Therefore, staff recommends that the appropriate land balances are \$37,582 (\$62,080 - \$24,498) for potable water and \$24,498 for non-potable water. No adjustment was required to the Utility's wastewater land balance of \$33,680.

Non-Used and Useful (U&U) Plant

As discussed in Issue 2, the water treatment plant should be considered 81.0 percent U&U. The water treatment storage is calculated as 46.7 percent U&U and the water distribution system is 62.6 percent U&U. The non-potable storage tank should be considered 61.0 percent U&U. The wastewater treatment plant should be considered 55.9 percent U&U and the wastewater collection system should be considered 65.4 percent U&U. Based on these U&U percentages, staff has reduced potable water plant by \$490,147 and reduced potable water accumulated depreciation by \$416,953. Staff also reduced non-potable water plant and accumulated depreciation by \$199,989. Additionally, staff has reduced wastewater plant by \$480,926 and reduced accumulated depreciation by \$418,603. Based on the above, the non-U&U component is \$73,194 (\$490,147 - \$416,953) for potable water, \$0 (\$199,989 - \$199,989) for non-potable water, and \$62,323 (\$480,926 - \$418,603) for wastewater, respectively.

Accumulated Depreciation

The Utility recorded a test year Accumulated Depreciation balance of \$1,522,797 for potable water and \$1,866,188 for wastewater. No Accumulated Depreciation was recorded for non-potable water. The staff auditor recalculated Accumulated Depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and increased these accounts by \$10,652 for potable water and \$18,566 for wastewater. Staff made an adjustment to allocate the appropriate amount of Accumulated Depreciation to the non-potable water system. This adjustment resulted in a decrease to the balance for potable water and an increase to the balance for non-potable water of \$10,365.

Staff also made adjustments to Accumulated Depreciation to match the amount of the audited balances of Accumulated Amortization of CIAC. Staff therefore decreased Accumulated Depreciation for potable water and increased this account for non-potable water by \$99,758. Staff reduced Accumulated Depreciation for potable and non-potable water by \$52,420 and \$86,236, respectively, to reflect the retirements associated with the fully amortized CIAC accounts.

Staff further decreased Accumulated Depreciation for potable water and increased this account for non-potable water by \$202,514, and decreased wastewater and increased non-potable water by \$512,792 to reflect the Commission-ordered adjustments discussed in the UPIS section. Staff decreased Accumulated Depreciation for potable water and increased this account for non-potable water by \$67,369 to reflect the imputation of T&D Mains for the non-potable water system.

Staff made averaging adjustments that resulted in decreases of \$20,232 for potable water, \$265 for non-potable water, and \$14,814 for wastewater. Further, staff made adjustments based on pro forma plant additions and retirements resulting in a decrease of \$9,898 for potable water and \$923 for non-potable water, and an increase of \$45 for wastewater. Staff's adjustments result in Accumulated Depreciation balances of \$1,070,894 ($\$1,522,797 + \$10,652 - \$10,365 - \$99,758 - \$52,420 - \$202,514 - \$67,369 - \$20,232 - \$9,898$) for potable water, \$805,374 ($\$10,365 + \$99,758 - \$86,236 + \$202,514 + \$512,792 + \$67,369 - \$265 - \923) for non-potable water, and \$1,357,193 ($\$1,866,188 + \$18,566 - \$512,792 - \$14,814 + \45) for wastewater.

Contributions In Aid of Construction (CIAC)

The Utility recorded CIAC balances of \$483,149 for potable water and \$603,375 for wastewater. No CIAC was recorded for non-potable water. Based on the staff audit, potable water CIAC was decreased by \$95,372 and non-potable water was increased by \$107,222 to reflect the appropriate CIAC balances. Staff reduced CIAC for potable and non-potable water by \$36,324 and \$67,162, respectively, to reflect retirements staff made to CIAC accounts that were over-amortized. Averaging adjustments were made to decrease the balances for potable water by \$13,585, non-potable water by \$4,275, and wastewater by \$6,032. Therefore, staff recommends that the appropriate CIAC balances are \$337,868 ($\$483,149 - \$95,372 - \$36,324 - \$13,585$) for potable water, \$35,785 ($\$107,222 - \$67,162 - \$4,275$) for non-potable water, and \$597,343 ($\$603,375 - \$6,032$) for wastewater.

Accumulated Amortization of CIAC

The Utility recorded accumulated amortization of CIAC of \$276,662 for potable water and \$299,305 for wastewater. No accumulated amortization of CIAC was recorded for non-potable water. Accumulated amortization of CIAC has been recalculated by staff using composite depreciation rates. As a result, staff decreased the balance by \$70,242 for potable water, increased the balance by \$107,911 for non-potable water, and increased the balance for wastewater by \$58,562. Staff reduced this account for potable and non-potable by \$52,420 and \$86,236, respectively, associated with the CIAC retirements discussed above. Staff also decreased the balances by \$4,657 for potable water, \$1,564 for non-potable water, and \$7,758 for wastewater to reflect the appropriate averaging adjustments. Staff's recommended accumulated amortization of CIAC balances are \$149,343 ($\$276,662 - \$70,242 - \$52,420 - \$4,657$) for potable

water, \$20,111 (\$107,911 - \$86,236 - \$1,564) for non-potable water, and \$350,109 (\$299,305 + \$58,562 - \$7,758) for wastewater.

Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$14,957 for potable water, \$23,792 for non-potable water and \$18,936 for wastewater.

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$170,153 for potable water, \$172,587 for non-potable water, and (\$2,091) for wastewater. Potable water, non-potable water, and wastewater rate bases are shown on Schedule Nos. 1-A, 1-B, and 1-C, respectively. The related adjustments are shown on Schedule No. 1-D.

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

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

Staff Analysis: According to the staff audit, Aquarina's test year capital structure reflected negative common equity of \$505,064 and a long-term debt balance of \$863,346. Staff increased long-term debt by \$8,921 to correct the outstanding principal balance for a State Revolving Fund Loan on the Utility's general ledger. Staff further reduced long-term debt by \$425,516 and included it in common equity. This amount is included in the Utility's Annual Reports as "Advances from Associated Companies" and represents deferred payments to or cash infusions by the Utility owners and related parties. In accordance with Commission practice, staff further reduced the negative common equity to set it to zero.¹⁷ The Utility recorded customer deposits of \$193. Staff reduced customer deposits by \$32 to reflect an averaging adjustment. Therefore, staff recommends a customer deposit balance of \$161 (\$193 - \$32) and a long-term debt balance of \$446,751 (\$863,346 + \$8,921 - \$425,516). Finally, the Utility's capital structure was reconciled with staff's recommended rate base.

The appropriate ROE for the Utility is 11.16 percent based upon the Commission-approved leverage formula currently in effect.¹⁸ Staff recommends an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 3.66 percent. The ROE and overall rate of return are shown on Schedule No. 2.

¹⁷ See e.g., Order No. PSC-08-0483-PAA-WS, issued July 25, 2008, in Docket No. 070627-WU, *In re: Application for staff-assisted rate case in Lake County by Raintree Utilities, Inc.*

¹⁸ Order No. PSC-16-0254-PAA-WS, issued June 29, 2016, in Docket No. 160006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

Issue 5: What are the appropriate test year revenues for Aquarina’s water and wastewater system?

Recommendation: The appropriate test year revenues for Aquarina’s water and wastewater systems are \$268,677 (\$170,848 potable + \$97,829 non-potable) and \$161,821, respectively. (Bruce)

Staff Analysis: Aquarina recorded total test year revenues of \$266,168 for water and \$160,261 for wastewater. The water revenues included \$263,949 of service revenues and \$2,219 of miscellaneous revenues. The wastewater revenues included \$159,976 of service revenues and \$285 of miscellaneous revenues. In order to determine the appropriate test year service revenues, staff normalized the number of bills by adjusting for customers moving in and out during the test year to reflect 12 months of bills. Based on staff’s review of the Utility’s billing determinants and the service rates that were in effect during the test year, staff determined test year service revenues should be \$264,604 for water and \$161,166 for wastewater. This results in increases of \$655 and \$1,190 for water and wastewater test year service revenues, respectively.

Staff also made adjustments to miscellaneous revenues for water and wastewater. The Utility recorded unsupported revenues to miscellaneous water revenues and improperly recorded late payment charges for wastewater. As discussed in Issue 12, staff increased the Utility’s miscellaneous service charges for water and wastewater to allow the cost causer to pay the cost associated with those services; therefore, staff annualized the Utility’s miscellaneous service revenues. For this reason, staff increased miscellaneous water service revenues by \$1,853 and increased miscellaneous wastewater service revenues by \$370. Table 5-1 below, represents a summary of staff’s adjustments for test year revenues.

**Table 5-1
 Test Year Revenues**

	Water*	Wastewater
Service Revenues		
Utility Recorded Service Revenues	\$263,949	\$159,976
Staff’s Adjustment	\$ 655	\$1,190
Total Service Revenues	\$264,605	\$161,166
Miscellaneous Revenues		
Utility Recorded Miscellaneous Revenues	\$2,219	\$285
Staff’s Miscellaneous Revenue Adjustments	\$1,853	\$370
Total Miscellaneous Revenues	\$4,072	\$655
Total Test Year Revenues	\$ 268,677	\$161,821
* Includes both potable and non-potable revenues		

Source: Utility’s general ledger and staff’s calculations.

Based on the above, the appropriate test year revenues for Aquarina’s water and wastewater systems, including miscellaneous revenues are \$268,677 and \$161,821, respectively.

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

Recommendation: The appropriate amount of operating expense for the Utility is \$152,028 for potable water, \$240,466 for non-potable water, and \$169,664 for wastewater. (L. Smith, Lewis)

Staff Analysis: Aquarina recorded operating expense of \$113,009 for potable water, \$170,010 for non-potable water, and \$146,926 for wastewater for the test year ended December 31, 2014. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made several adjustments to the Utility's operating expenses as summarized below.

Operation and Maintenance Expenses

Salaries and Wages for Employees (601/701)

Aquarina recorded Salaries and Wages for Employees expense of \$48,832 for potable water, \$74,014 for non-potable water, and \$61,423 for wastewater. Staff reduced potable water, non-potable water, and wastewater Salaries and Wages for Employees expense by \$1,707, \$2,587, and \$2,147, respectively. The adjustments are to normalize Salaries and Wages for Employees expense by removing payroll associated with two former employees that were not replaced by the Utility. Also, staff reduced potable water, non-potable water, and wastewater Salaries and Wages for Employees expense by \$183, \$278, and \$231, respectively, in order to remove an insurance reimbursement to an employee who no longer works for Aquarina and was not replaced. In addition, staff reduced potable water, non-potable water, and wastewater Salaries and Wages for Employees expense by \$4,807, \$7,286, and \$6,046, respectively, in order to remove unpaid salary accruals from outside the test year. Further, staff increased potable water, non-potable water, and wastewater Salaries and Wages for Employees expense by \$28,663, \$43,444, and \$36,053, respectively, to include three new maintenance workers that were requested by the Utility. Aquarina's facilities are more than 30 years old. The new employees are needed to help maintain the system and to respond to customer complaints. Staff believes the addition of three employees is reasonable and necessary.

All common O&M expenses were allocated between potable water and non-potable water based on the methodology described in the last rate case with the exception of accounts 632, 634, 635, 667, and 675.¹⁹ Staff believes the expenses included in these accounts are either directly allocable or reflect fixed costs and has adjusted the percentages accordingly. The portions of the expenses that are fixed were allocated between potable water and non-potable water based on ERCs. The variable portion of these expenses are allocated based on gallons sold. This allocation method is shown on Attachment A. Therefore, staff recommends Salaries and Wages for Employees expenses of \$70,798 (\$48,832 - \$1,707 - \$183 - \$4,807 + \$28,663) for potable water, \$107,308 (\$74,014 - \$2,587 - \$278 - \$7,286 + \$43,444) for non-potable water, and \$89,052 (\$61,423 - \$2,147 - \$231 - \$6,046 + \$36,053) for wastewater.

¹⁹ Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, p. 40, in Docket No. 021228-WS, *In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.*

Employee Pension and Benefits (604/704)

The Utility did not record any Employee Pension and Benefits expense. Staff increased potable water, non-potable water, and wastewater Employee Pension and Benefits expense by \$5,670, \$8,594, and \$7,132, respectively. These adjustments reclassify \$7,132 of insurance expense from Account 659/759 – Insurance Other and annualize that amount to provide health insurance for Aquarina’s two existing employees. The adjustments are based on an annualized premium of \$21,396 ($\$7,132 / 4 \text{ months} \times 12 \text{ months}$). Staff also increased potable water, non-potable water, and wastewater Employee Pension and Benefits expense by \$5,446, \$8,254, and \$6,850, respectively, in order to include health insurance and workers compensation insurance for the three new maintenance employees. Therefore, staff recommends Employee Pension and Benefits expenses of \$11,116 ($\$5,670 + \$5,446$) for potable water, \$16,848 ($\$8,594 + \$8,254$) for non-potable water, and \$13,982 ($\$7,132 + \$6,850$) for wastewater.

Purchased Power (615/715)

The Utility recorded Purchased Power expense of \$3,180 for potable water, \$32,150 for non-potable water, and \$17,665 for wastewater. Staff increased the expense for potable and non-potable water by \$357 and \$3,609, respectively, and reduced wastewater expense by \$4,254 to recognize the following adjustments. Staff replaced the December 2013 electric bills that were included in the general ledger with the December 2014 electric bills resulting in a net increase of \$462, and removed a monthly allocation for office purchased power that ceased in May 2014 resulting in a decrease of \$750. The adjustments result in a net reduction of \$288 ($\$462 - \750) to Purchased Power expense. Staff also directly charged a lift station power bill to wastewater Purchased Power expense and reallocated the total common purchased power from 66.67 percent for water and 33.33 percent for wastewater which was used by Aquarina to 75 percent for water and 25 percent for wastewater based on staff’s engineering evaluation of power usage allocation established in Order No. PSC-03-1342-PAA-WS. Therefore, staff recommends Purchased Power expenses of \$3,537 ($\$3,180 + \357) for potable water, \$35,759 ($\$32,150 + \$3,609$) for non-potable water, and \$13,411 ($\$17,665 - \$4,254$) for wastewater.

Chemicals (618/718)

The Utility recorded Chemical expense of \$1,564 for potable water, \$48 for non-potable water, and \$1,289 for wastewater. Staff has reviewed the invoices and charges to this account and finds this amount to be reasonable. Therefore, staff recommends Chemical expense of \$1,564 for potable water, \$48 for non-potable water, and \$1,289 for wastewater.

Materials and Supplies (620/720)

The Utility recorded Materials and Supplies expense of \$6,424 for potable water, \$4,873 for non-potable water, and \$6,023 for wastewater. Staff increased Materials and Supplies expense for potable water, non-potable water, and wastewater by \$705, \$1,686, and \$1,196, respectively, to include reimbursement for an October miscellaneous expense voucher that was not posted to the general ledger. Staff also reduced Materials and Supplies expense for potable water by \$1,079 and non-potable water by \$2,578 to reclassify and capitalize to Account 311 – Pumping Equipment the cost to replace two 7 ½ horse power (hp) booster pumps at the water plant. Staff further reduced Materials and Supplies expense for potable water, non-potable water and wastewater expense by \$110, \$263, and \$186, respectively, to remove non-utility purchases in June and September of the test year. Therefore, staff recommends Materials and Supplies

expense of \$5,941 (\$6,424 + \$705 - \$1,079 - \$110) for potable water, \$3,717 (\$4,873 + \$1,686 - \$2,578 - \$263) for non-potable water, and \$7,033 (\$6,023 + \$1,196 - \$186) for wastewater.

Contractual Services - Professional (632/732)

Aquarina recorded Contractual Services – Professional expense of \$3,807 for potable water, non-potable water, and wastewater. This account consists of expenses related to income tax and PSC Annual Report preparation. Staff reduced this account by \$533 (\$666 - \$133) for potable water, non-potable water, and wastewater to remove accounting expenses associated with filing an extension for income taxes. Since this expense is non-recurring, staff has decreased this account by \$666 for potable water, non-potable water, and wastewater, to remove the expense and increased this expense by \$133 for potable water, non-potable water, and wastewater to amortize the amount over five years. Therefore, staff recommends Contractual Services Professional Expense of \$3,274 for potable water, non-potable water, and wastewater.

Contractual Services – Management Fees (634/734)

Aquarina recorded Contractual Services – Management Fees expense of \$1,930 for potable water, non-potable water, and wastewater. Staff believes this amount is reasonable, but would note that we are not recommending an increase related to payroll processing for the new employees requested by the Utility.

Contractual Services - Testing (635/735)

Aquarina recorded Contractual Services - Testing expense of \$669 for potable water and \$3,107 for wastewater. Staff reduced potable water by \$401 and wastewater by \$1,106. These adjustments remove non-utility testing expenses that were identified during the review of the contract vendors' invoices for testing services. Therefore, staff recommends Contractual Services – Testing expenses of \$268 (\$669 - \$401) for potable water and \$2,001 (\$3,107 - \$1,106) for wastewater.

Contractual Services - Other (636/736)

Aquarina recorded Contractual Services - Other expense of \$2,737 for potable water, \$6,541 for non-potable water, and \$2,154 for wastewater. Staff reduced non-potable water expense by \$3,620 to reclassify and capitalize to Account 311 – Pumping Equipment, the cost to replace a 75-hp non-potable well pump at the water plant. Staff increased potable water by \$2,703 and non-potable water by \$720 to include contract labor to service the potable booster pumps shown on an October miscellaneous expense voucher that was not posted to the general ledger.

Staff also increased this expense for potable water by \$1,160, for non-potable water by \$36, and wastewater by \$298 to reflect an amortized amount of pro forma repairs. Since this increase is non-recurring, staff has amortized this amount over five years in accordance with Rule 25-30.433(8), F.A.C. Staff also reduced this expense by \$783 for potable water, \$1,872 for non-potable water, and \$390 for wastewater to remove charges for meter reading that will be performed by one of the new employees covered earlier.

Staff further reduced this expense by \$183 for potable water, \$437 for non-potable water, and \$584 for wastewater to remove and amortize non-recurring expenses in this account. Therefore, staff recommends Contractual Services – Other expense of \$5,634 (\$2,737 + \$2,703 + \$1,160 - \$783 - \$183) for potable water, \$1,368 (\$6,541 - \$3,620 + \$720 + \$36 - \$1,872 - \$437) for non-potable water, and \$1,478 (\$2,154 + \$298 - \$390 - \$584) for wastewater.

Rental of Building/Property 641/741)

Aquarina recorded Rental of Building/Property expense of \$334 for potable and non-potable water, and \$333 for wastewater. Staff decreased this expense for potable and non-potable water by \$334, and wastewater expense by \$333 for the test year. This adjustment removes the 2014 office rental expense for an office at the owner's home. That office is no longer needed as the Utility now has an onsite office. Staff then increased Rental of Building/Property expense by \$3,000 for potable water, non-potable water, and wastewater to reflect the rental of 1,200 square feet of a 2,400 square foot maintenance/storage building on the owner's property. This represents a price per square foot of \$0.63. While related party transactions require close scrutiny, the fact that the transaction is between related parties does not mean that the transaction is unreasonable. However, it is a Utility's burden to prove that its costs are reasonable.²⁰ The burden is even greater when the transaction is between related parties. The Florida Supreme Court established that the standard to use in evaluating affiliate transactions is whether those transactions exceed the going market rate or are otherwise inherently unfair.²¹ Based on its analysis, staff reduced Rental of Building/Property expense by \$396 for potable water, non-potable water, and wastewater to reflect a price per square foot of \$0.54. This price was derived by taking the average rental price for seven similarly sized warehouse rentals in the City of Melbourne. Thus, staff recommends Rental of Building/Property expense of \$2,604 ($\$334 - \$334 + \$3,000 - \396) for potable and non-potable water, and \$2,604 ($\$333 - \$333 + \$3,000 - \396) for wastewater.

Rental of Equipment (642/742)

Aquarina recorded Rental of Equipment expense of \$7,800 for potable water, non-potable water, and wastewater. The owners of the Utility own this equipment and lease it to the Utility. Staff reduced this expense for potable water, non-potable water, and wastewater by \$7,800 for the test year.²² These adjustments remove 2014 water and wastewater annual equipment lease expenses. Staff then increased Rental of Equipment expense by \$6,000 for potable water, non-potable water, and wastewater to include the 2015 water and wastewater lease expense. Staff further reduced Rental of Equipment expense by \$1,200 for potable water, non-potable water, and wastewater. This adjustment removes the lease for a lawn mower because Aquarina has now purchased a mower. This adjustment also includes a reduction to a separate lawn equipment lease. This adjustments further removes the electric golf cart and dump trailer which were deemed to be duplicative given the other equipment already rented by the Utility. Thus, staff recommends Rental of Equipment expense of \$4,800 ($\$7,800 - \$7,800 + \$6,000 - \$1,200$) for potable water, non-potable water, and wastewater.

Transportation Expense (650/750)

Aquarina recorded Transportation expense of \$3,731 for potable water, \$8,917 for non-potable water, and \$6,520 for wastewater. During the test year, Aquarina paid \$3,518 for mileage reimbursements to its employees and contractors.

²⁰ *Florida Power Corp. v. Cresse*, 413 So. 2d 1187, 1191 (Fla. 1982).

²¹ *GTE Florida Inc. v. Deason*, 642 So. 2d 545 (Fla. 1994). (Court applying higher standard.).

²² Staff's analysis included comparing lease amounts to a rate of return methodology.

The office manager uses her personal vehicle to travel to and from the bank, post office, and for other related duties. She estimated her monthly mileage to be 645 miles based on historical documents. Accordingly, staff believes the mileage estimate is reasonable given the remote location of the Utility with respect to commercial centers of business, such as the bank and post office. Staff recommends the office manager be reimbursed for the business use of her personal vehicle at the IRS 2015 mileage rate of \$0.575 applied to an annual estimate of 7,740 miles (645 miles per month x 12 months). This results in an annual amount of \$4,451 (7,740 x \$0.575). Therefore, staff has made a net increase to Transportation expense of \$933 (\$4,451 - \$3,518), allocated at \$183 for potable water, \$439 for non-potable water, and \$311 for wastewater.

The fuel portion of the Transportation expense was reduced by \$733 for potable water, \$1,752 for non-potable water, and \$1,242 for wastewater to remove reimbursement for non-utility purchases. Staff also reduced Transportation expense by \$292 for potable water, \$699 for non-potable water, and \$496 for wastewater to remove repairs for non-utility vehicles. Further, staff removed expenses of \$148 for potable water, \$352 for non-potable water, and \$250 for wastewater related to unsupported costs for airline tickets. Therefore, staff recommends Transportation expense of \$2,742 (\$3,731 + \$183 - \$733 - \$292 - \$148) for potable water, \$6,552 (\$8,917 + \$439 - \$1,752 - \$699 - \$352) for non-potable water, and \$4,843 (\$6,520 + \$311 - \$1,242 - \$496 - \$250) for wastewater.

Insurance - Vehicles (656/756)

Aquarina recorded Insurance - Vehicle expense of \$1,728 for potable water, non-potable water, and wastewater. Staff reduced Insurance - Vehicle expense for potable water, non-potable water, and wastewater by \$1,162 to remove the 2015 vehicle insurance premiums associated with the electric-powered golf cart and the dump trailer. Therefore, staff recommends Insurance - Vehicle expense of \$566 (\$1,728 - \$1,162) for potable water, non-potable water, and wastewater.

Insurance - General Liability (657/757)

Aquarina recorded Insurance - General Liability expense of \$2,624 for potable water, non-potable water, and wastewater. Staff reduced potable water and non-potable water by \$10, and wastewater expense by \$11 to remove the 2014 premium and include the 2015 general liability insurance premiums to reflect the actual going-forward cost for Aquarina. Therefore, staff recommends Insurance - General Liability expense of \$2,614 (\$2,624 - \$10) for potable water and non-potable water, and \$2,613 (\$2,624 - \$11) for wastewater.

Insurance - Other Expense (659/759)

Aquarina recorded Insurance - Other expense of \$2,378 for potable water and non-potable water, and \$2,377 for wastewater. Staff reduced Insurance - Other expense by \$2,378 for potable water and non-potable water, and \$2,377 for wastewater, to remove the 2014 employee health insurance premiums that were reclassified to Account 604/704 – Employee Pension and Benefits expense.

Regulatory Commission Expense (667/767)

Aquarina recorded Regulatory Commission expense of \$25 for potable water and non-potable water, and \$50 for wastewater. Staff reduced potable water and non-potable water by \$25 and reduced wastewater expense by \$50 to reclassify the Department of Environmental Regulation

(DEP) permit fees to Accounts 675/775 – Miscellaneous expense. By Rule 25-22.0407, F.A.C., the Utility is required to mail notices of the customer meeting and notices of the Phase I and final rates in this case to its customers. For these notices, staff has estimated \$581 for postage, \$406 for printing, and \$61 for envelopes. Additionally, Aquarina paid a \$2,000 rate case filing fee. The Utility also provided invoices and estimates for legal fees of \$7,670. This work relates to data requests, reviewing staff's report and recommendation, and attending the agenda conference. Staff reviewed the billing rates and hours for this expense. Staff reduced the estimated attorney's fees by \$1,440 (4 hours at \$360 per hour) in order to split the estimated driving time to attend the Commission Conference with another Utility is representing on the same Commission Conference. Based on the above, staff recommends that the total Regulatory Commission expense is \$9,277, which amortized over four years is \$2,319. This results in a Regulatory Commission expense of \$773 for potable water, non-potable water, and wastewater.

Miscellaneous Expense (675/775)

Aquarina recorded Miscellaneous expense of \$4,239 for potable water, \$4,239 for non-potable water, and \$7,116 for wastewater, respectively. Staff made a net reduction to Miscellaneous expense of \$2,253 for potable water, non-potable water, and wastewater. This resulted from removing \$9,835 currently in these accounts for telephone and internet expenses and including \$2,760 for the going-forward annual cost of one internet and business telephone provider, as well as two cellular telephones used by Aquarina's full-time employees.

Staff also reduced wastewater expense by \$2,872 to reclassify and capitalize to Account 360 – Collection Sewers – Force the cost to refurbish the master lift station pumps. Staff increased this expense for potable water and non-potable water by \$376 and wastewater by \$375, to include reimbursements for an October miscellaneous expense voucher that was not posted to the general ledger. Staff further reduced this expense for potable water, non-potable water, and wastewater by \$970 to remove reimbursements for non-utility meal purchases. Staff further increased this expense by \$34 for potable water, and by \$33 for non-potable water and wastewater to reclassify DEP permit fees that were recorded in Accounts 667/767 – Regulatory Commission expense. Staff therefore recommends a Miscellaneous Expense of \$1,425 ($\$4,239 - \$2,253 + \$376 - \$970 + \34) for potable water, \$1,424 ($\$4,239 - \$2,253 + \$376 - \$970 + \33) for non-potable water, and \$1,429 ($\$7,116 - \$2,253 - \$2,872 + \$375 - \$970 + \33) for wastewater.

Operation and Maintenance Expenses Summary

Based on the above, staff recommends that the O&M expense balances are \$119,658 for potable water, \$190,332 for non-potable water, and \$151,489 for wastewater. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A through 3-E.

Depreciation Expense

Aquarina did not record any Depreciation expense for the test year. Staff recalculated Depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff calculated Depreciation expense of \$45,851 for potable water, \$601 for non-potable water, and \$28,200 for wastewater, for the test year. Staff has decreased Depreciation expense for potable water and increased this expense for non-potable water by \$9,782 to reflect the reclassification of UPIS from the potable to the non-potable water system. Staff also reduced this expense for

potable water and increased it for non-potable by \$3,576 to reflect the imputation of the T&D Mains discussed above.

Staff also increased Depreciation expense for non-potable water and decreased this expense for wastewater by \$12,820 to reflect the reclassification of the non-potable water tank. Staff also decreased Depreciation expense for potable water by \$908 and non-potable by \$2,150 to reflect the retirements associated with CIAC.

Staff has increased Depreciation expense by \$163 for potable water, \$127 for non-potable water, and \$45 for wastewater, to reflect Depreciation expense related to pro forma plant additions. Based on the U&U percentages addressed in Issue 2, staff has decreased Depreciation expense by \$10,950 for potable water, and by \$4,419 for wastewater. Based on the above, Aquarina's Depreciation expense is \$20,797 ($\$45,851 - \$9,782 - \$3,576 - \$908 + \$163 - \$10,950$) for potable water, \$24,757 ($\$601 + \$9,782 + \$3,576 + \$12,820 - \$2,150 + \127) for non-potable water, and \$11,006 ($\$28,200 - \$12,820 + \$45 - \$4,419$) for wastewater.

CIAC Amortization Expense

Aquarina did not record any CIAC Amortization expense for the test year. Based on staff's audit calculations, the Utility CIAC Amortization expenses are \$9,758 for potable water, \$2,684 for non-potable water, and \$15,514 for wastewater. As discussed in Issue 3, staff has reduced these amounts by \$908 for potable water and by \$2,150 for non-potable water to reflect retirements. Therefore, staff recommends CIAC Amortization expense of \$8,849 ($\$9,758 - \908) for potable water, \$534 ($\$2,684 - \$2,150$) for non-potable water, and \$15,514 for wastewater.

Taxes Other Than Income (TOTI)

Aquarina recorded TOTI of \$19,493 for potable water, \$16,413 for non-potable water, and \$19,126 for wastewater. Staff has decreased property taxes by \$118 for potable water, non-potable water, and wastewater to reflect the appropriate test year property taxes. Staff also decreased payroll taxes by \$130 for potable water, \$198 for non-potable water, and \$164 for wastewater to remove the payroll taxes associated with the adjustment to salaries described in Staff's Audit Finding No. 8. Additionally, staff increased payroll taxes by \$2,527 for potable water, \$3,830 for non-potable water, and \$3,178 for wastewater to reflect the payroll taxes associated with the new employees described above.

Further, staff increased regulatory assessment fees (RAFs) by \$108 for potable water, \$62 for non-potable water, and \$134 for wastewater to reflect the 2014 RAFs. In addition, staff increased property taxes by \$91 for potable water, \$43 for non-potable water, and \$38 for wastewater to reflect pro forma property taxes. Staff reduced property taxes by \$980 for potable water, by \$825 for non-potable water, and \$314 for wastewater associated with the recommended non-U&U components. Finally, as discussed in Issues 7 and 9, revenues have been decreased by \$12,593 for potable water, increased by \$148,954 for non-potable water and \$17,842 for wastewater, to reflect the change in revenue required to cover expenses and allow an opportunity to earn the recommended return on investment. As a result, RAFs should be decreased by \$567 for potable water, and increased by \$6,703 for non-potable water and \$803 for wastewater to reflect RAFs of 4.5 percent on the change in revenues. Based on these adjustments, the recommended TOTI

expenses for potable water, non-potable water, and wastewater are \$20,423, \$25,911, and \$22,683, respectively.

Income Tax Expense

Aquarina recorded \$1,442 for Income Tax expense for potable water, non-potable water, and wastewater. Staff reduced this amount to zero based on the staff audit. Aquarina has shown a net loss for the last several years in its Annual Reports and income tax returns. This tax loss carry-forward is in excess of the income tax provision on a going-forward basis, and is expected to continue to be so for at least the next 10 years. In this instance, it is Commission practice to allow no provision for income tax.²³ Therefore, staff recommends no income tax provision.

Operating Expenses Summary

The application of staff's recommended adjustments to Aquarina's test year operating expenses result in operating expenses of \$152,028 for potable water, \$240,466 for non-potable water, and \$169,664 for wastewater. Operating expenses are shown on Schedule Nos. 3-A, 3-B, and 3-C. The related adjustments are shown on Schedule Nos. 3-D, 3-E, and 3-F.

²³ See e.g., Order Nos. PSC-15-0535-PAA-WU, issued November 19, 2015, in Docket No. 140217-WU, *In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.*; and PSC-10-0124-PAA-WU, issued March 1, 2010, in Docket No. 090244-WU, *In re: Application for staff-assisted rate case in Lake County by TLP Water, Inc.*

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

Recommendation: The appropriate revenue requirement is \$158,255 for potable water, resulting in an annual decrease of \$12,593 (or -7.37 percent). The appropriate revenue requirement is \$246,783 for non-potable water, resulting in an annual increase of \$148,954 (or 152.26 percent). (L. Smith)

Staff Analysis: The appropriate revenue requirement for the potable system results in a decrease of \$12,593 (or -7.37 percent). However, staff recommends not changing revenues for the potable system and the disposition of the revenue decrease will be addressed in Issue 10. The calculations are shown in Tables 7-1 and 7-2 for potable water and non-potable water, respectively. Aquarina should be allowed an annual increase of \$148,954 (or 152.26 percent) for non-potable water. This increase will allow the Utility the opportunity to recover its expenses and earn a 3.66 percent return on the investment for the non-potable water system.

Table 7-1

Potable Water Revenue Requirement	
Adjusted Rate Base	\$170,153
Rate of Return	<u>x 3.66%</u>
Return on Rate Base	\$6,226
Adjusted O&M Expense	119,658
Depreciation Expense	20,797
CIAC Amortization Expense	(8,849)
Taxes Other Than Income	20,990
Test Year RAFs	<u>(7,688)</u>
Revenue Before RAFs	\$151,134
RAF Gross-up Factor	<u>x 0.955</u>
Total Revenues	\$158,255
Less Adjusted Test Year Revenues	<u>170,848</u>
Annual Increase	<u>(\$12,593)</u>
Percent Increase	<u>-7.37%</u>

Table 7-2

Non-Potable Water Revenue Requirement	
Adjusted Rate Base	\$172,587
Rate of Return	<u>x 3.66%</u>
Return on Rate Base	\$6,317
Adjusted O&M Expense	190,332
Depreciation Expense	24,757
CIAC Amortization Expense	(534)
Taxes Other Than Income	19,208
Test Year RAFs	<u>(4,402)</u>
Revenues Before RAFs	\$235,678
RAF Gross-up Factor	<u>x 0.955</u>
Total Revenues	\$246,783
Less Adjusted Test Year Revenues	<u>97,829</u>
Annual Increase	<u>\$148,954</u>
Percent Increase	<u>152.26%</u>

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

Recommendation: Yes. The Commission should utilize the operating ratio methodology for calculating wastewater revenue requirement for Aquarina. The margin should be 6.60 percent of O&M expenses. (L. Smith)

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

Although the Utility did not petition the Commission for alternative rate setting under the aforementioned rule, staff believes the Commission should exercise its discretion to employ the operating ratio methodology to set wastewater rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the Utility's rate base, the revenue requirement is based on Aquarina's wastewater O&M expenses plus a margin. This methodology has been applied in cases that satisfy the qualifying criteria discussed below and cases in which the traditional calculation of the revenue requirement would not provide sufficient protection against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU, the Commission, for the first time, utilized the operating ratio methodology as an alternative means for setting rates.²⁴ This order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expenses capped at \$10,000. This criterion was applied again in Order No. PSC-97-0130-FOF-SU.²⁵ Recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-15-0535-PAA-WU.²⁶

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

1) Whether the Utility's O&M expenses exceeds rate base. The operating ratio method substitutes O&M expenses for rate base in calculating the amount of return. A utility generally

²⁴ Issued March 13, 1996, in Docket No. 950641-WU, *In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.*

²⁵ Issued February 10, 1997, in Docket No. 960561-SU, *In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.*

²⁶ Issued November 19, 2015, in Docket No. 140217-WU, *In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.*

would not benefit from the operating ratio method if rate base exceeds O&M expenses. The decision to use the operating ratio method depends partly on the determination of whether the primary risk resides in capital costs or operating expenses. In the instant case, the Utility has a negative rate base and under traditional rate base regulation, Aquarina would not be entitled to any return on investment. Based on the staff's recommendation, the adjusted wastewater rate base for the test year is (\$2,091), while adjusted wastewater O&M expenses are \$151,489. The Utility's primary risk resides with covering its operating expense.

2) Whether the Utility is expected to become a Class B Utility in the foreseeable future. Pursuant to Rule 25-30.456, F.A.C., the alternative form of regulation being considered in this case only applies to small utilities with gross annual revenue of \$275,000 or less. Even though Aquarina is a Class B Utility, the recommended wastewater revenue requirement of \$179,663 is well below the threshold level for Class B status (\$200,000 per system).

3) Quality of service and condition of plant. As discussed in Issue 1, staff has recommended that the quality of service is satisfactory.

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

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

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU²⁷, the Commission determined that a margin of 10 percent shall be used unless unique circumstances justify the use of a greater or lesser margin. In addition, this order suggested a cap of \$10,000. The important question is not what the percentage should be, but what level of operating margin will allow a utility to provide safe and reliable service and remain a viable entity. In order to answer this question, the particular circumstances of a utility must be reviewed and considered thoroughly.

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

Second, the use of the operating ratio methodology rests on the contention that the principal risk to a utility resides in operating costs rather than in cost of the plant. The fair return on a small rate base may not adequately compensate a utility owner for incurring the risk associated with covering the much larger operating cost. Therefore, staff believes the margin should adequately compensate the utility owner for the principal risk, which lies with the operating costs.

²⁷ Issued February 10, 1999, in Docket No. 960561-WU, *In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.*

Third, in consideration of Aquarina's capital structure being 99.95 percent long-term debt, with an overall cost of capital of 3.66 percent, staff believes that an operating margin of 6.60 percent, which equates to the cap of \$10,000, is appropriate. Staff believes this would be sufficient to cover debt service obligations associated with regulated operations and provide protection against variability in revenues and expenses.

Conclusion

The above factors show that the Utility needs a higher margin of revenue over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide Aquarina with adequate cash flow to provide some assurance of safe and reliable service, staff recommends application of the operating ratio methodology at a margin of 6.60 percent of O&M expenses for determining the wastewater revenue requirement.

Issue 9: What is the appropriate wastewater revenue requirement?

Recommendation: The appropriate wastewater revenue requirement is \$179,094, resulting in an annual increase of \$17,273 (or 10.67 percent). (L. Smith)

Staff Analysis: Aquarina should be allowed an annual increase of \$17,842 (or 11.03 percent) for wastewater. This will allow the Utility the opportunity to recover its expenses and earn a 6.60 percent margin over its wastewater system’s operating and maintenance expenses. The calculations are shown in Table 9-1.

Table 9-1

Wastewater Revenue Requirement	
O&M Expenses	\$151,489
Operating Ratio	<u>x 6.60%</u>
Operating Margin	\$10,000
Adjusted O&M Expense	151,489
Depreciation Expense	11,006
CIAC Amortization Expense	(15,514)
Taxes Other Than Income	21,880
Test Year RAFs	<u>(7,282)</u>
Revenue Before RAFs	\$171,579
RAF Gross-Up Factor	<u>x 0.955</u>
Total Revenues	\$179,663
Less Adjusted Test Year Revenues	<u>161,821</u>
Annual Increase (Decrease)	<u>\$17,842</u>
Percent Increase (Decrease)	<u>11.03%</u>

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

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

Staff Analysis: Water Rates (Potable)

Aquarina is located in Brevard County within the St. Johns River Water Management District (SJRWMD). The Utility provides water service to approximately 271 residential customers and 25 general service customers including master-metered developments, clubhouses, and a fire station. Typically, staff evaluates the seasonality of utility customers based on the percentage of bills at zero gallons, which is 13 percent. However, for this Utility, the customers are in residence periodically throughout each month rather than a few months out of the year. Therefore, staff believes it is appropriate to evaluate the seasonality based on the percentage of bills at the 1,000 gallon level, which is 36 percent. As a result, it appears that the customer base is somewhat seasonal. The average residential water demand is 2,150 gallons per month. The average water demand excluding zero gallon bills is 2,479 per month. Currently, the Utility's water rate structure consists of a monthly base facility charge (BFC) and uniform gallonage charge for the residential and general service customers.

As discussed in Issue 7, the potable water system is overearning by 7.37 percent (or \$12,593). To the extent possible, when there are overearnings for a water and wastewater system, staff believes it is appropriate to avoid decreasing water rates by netting the revenues of the systems if the customer bases are similar. Staff believes decreasing the potable water rates undermine conservation efforts. In this case, there is a minimal difference in the potable water and wastewater customer bases. There are 296 potable customers and 311 wastewater customers, which is a difference of 15 customers (approximately 5 percent). Due to the low percentage difference between potable water and wastewater customers, staff believes it is appropriate to net the water system overearnings against the wastewater system increase. This will allow the water rates to remain unchanged rather than decrease. Furthermore, since staff is recommending the rates remain unchanged, a repression adjustment is not appropriate in this case.

Irrigation Rates (Non-Potable)

The Utility provides irrigation service to approximately 107 residential and general service customers including a golf course and master-metered irrigation systems through a non-potable system. Although the customer base is seasonal, the customers irrigate while out of residence. The average non-potable water demand is 97,325 gallons per month. The groundwater is pumped from a dedicated well and piped directly to irrigation customers without treatment. The current

rate structure consists of a gallonage charge only and no base facility charge because the Utility was unable to locate the various meters.²⁸

Staff evaluated whether a gallonage charge only rate structure is appropriate on a going-forward basis. In this case, the Utility was able to locate all irrigation meters. Staff believes that it is appropriate to implement a BFC and uniform gallonage charge for irrigation customers to provide a fixed revenue stream while sending the appropriate pricing signals to target those customers with high levels of consumption. Therefore, staff recommends 30 percent of the non-potable revenues be allocated to the BFC for ratesetting purposes. This will allow lower bills for irrigation and promote the continued use of non-potable water for irrigation purposes.

Wastewater Rates

The Utility provides wastewater service to approximately 269 residential customers and 19 general service customers who also receive water service from Aquarina. The Utility also provides wastewater only service to 23 residential customers who receive their water service from the South Brevard Water Cooperative. Currently, the wastewater rate structure for residential customers consists of a monthly uniform BFC for all meter sizes and a gallonage charge with an 8,000 gallon cap. The wastewater-only customers are billed a flat rate, which reflects approximately 2,622 gallons per month of demand. General service customers are billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

As discussed earlier, staff recommends netting the potable water system's overearnings against the wastewater system's increase to avoid a decrease in rates. Netting the potable water and wastewater systems' revenues results in an increase of 3.25 percent for the wastewater system. However, a 3.15 percent increase reflects the recommended revenue increase excluding miscellaneous revenue. Due to the low overall increase for wastewater, staff recommends an across-the-board increase of 3.15 to the existing rates.

Summary

Based on the above, staff recommends that the potable water system overearnings be netted against the wastewater system increase. The potable water rate structure and rates should remain unchanged. Staff recommends a BFC and uniform gallonage charge rate structure with 30 percent of the revenues allocated to the BFC for non-potable water. The wastewater rate structure should be an across-the-board increase to the existing rates.

The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has

²⁸Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, *In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.*, p. 45.

approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 11: What is the appropriate amount by which rates should be reduced in four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S?²⁹

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

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. This results in a reduction of \$813 for potable water, \$813 for non-potable water, and \$810 for wastewater.

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

²⁹ Section 367.0816, F.S., was repealed effective July 1, 2016. The Statute was in effect at the time Aquarina filed its staff-assisted rate case, therefore, the Statute applies.

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

Recommendation: Yes. Aquarina's miscellaneous service charges should be revised. The charges should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges 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. (Bruce)

Staff Analysis: Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. During the course of this proceeding, the Utility requested a \$25 meter box maintenance charge, \$40 meter lock-off charge, and a \$200 emergency call out charge. The Utility provided cost justification in support of its requested charges. Although titled differently by the Utility, staff believes the Utility's proposed charges are consistent with the services provided under its existing miscellaneous service charges as provided in Rule 25-30.460, F.A.C.

Aquarina's current initial connection, normal reconnection, premises visit, and violation reconnection charges were last established on November 27, 1990.³⁰ However, in reviewing the Utility's cost justification for the proposed charges, staff determined that the existing miscellaneous service charges may not adequately recover the cost of the respective service. Staff believes that the cost justification provided for the requested charges is consistent with the information needed to update the Utility's existing miscellaneous service charges. The charges are designed to ensure that as these services are provided by the Utility, the cost burden is placed on the cost causer consistent with Commission practice. The changes and additions to the Utility's miscellaneous service charges are discussed below.

Initial Connection Charge

Currently, the Utility's initial connection charge is \$15 for water and wastewater. The initial connection charge is levied for service initiation at a location where service did not exist previously. The Utility representative makes one trip when performing the service of an initial connection. While the Utility did not specifically request an increase in the initial connection charge, based on labor and transportation to and from the service territory, staff recommends initial connection charges of \$26 and \$32 for normal and after hours, respectively for water and wastewater service. Staff's calculation is shown below in Table 12-1.

³⁰Order No. 23812, issued November 27, 1990, in Docket No. 900168-WS, *In re: Application for a staff-assisted rate case in Brevard County by Aquarina Developments, Inc.*

**Table 12-1
 Initial Connection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00	Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00
Labor (Field) (\$36/hr x 1/3 hr)	\$12.00	Labor (Field) (\$54/hr x 1/3hr)	\$18.00
Transportation (\$.54/mile x 10 miles-to/from)	\$5.40	Transportation (\$.54/mile x 10 miles-to/from)	\$5.40
Total	\$26.40	Total	\$32.40

Source: Utility's cost justification documentation.

Normal Reconnection Charge

The Utility's existing normal reconnection charge is \$15 for water and wastewater. Normal reconnection is a charge to be levied for the transfer of service to a new customer account at a previously served location, or reconnection of service subsequent to a customer requested disconnection. A normal reconnection requires two trips, which includes one to turn service on and the other to turn service off.

The Utility requested a \$40 meter lock-off charge. The majority of Aquarina's customer base is seasonal and the Utility encourages the customers to have their meter locked off to avoid any potential excessive water losses when they are not in residence. The Utility indicated that there is a fair amount of water from theft, running toilets, and damaged water heaters. The Utility believes it is a legitimate service to offer and requested a charge of \$25, which includes a premises visit and its existing normal reconnection charge. Subsequent to its original requested charge of \$25, Aquarina revised its requested meter box lock-off charge to \$40, which includes two premises visits of \$10, a normal reconnection charge of \$15, and \$5 to cover the expense of the lock.

Staff believes the Utility could use its normal reconnection charge to achieve the same result without any special designation for meter box lock-off. As stated earlier, a normal reconnection charge includes two trips, which would cover the Utility turning off the service and subsequently turning on the service when the customer returns. Staff does not believe the \$5 lock charge is appropriate. The Utility indicated that the locks will be re-useable. Therefore, staff believes that the lock should be a cost of doing business.

Based on labor and transportation to and from the service territory, staff recommends that the normal reconnection charge should be \$38 and \$47 for normal and after hours, respectively for water and wastewater service. Staff's calculations are shown below in Table 12-2.

**Table 12-2
 Normal Reconnection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00	Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00
Labor (Field) (\$36/hr x 1/4 hr x 2)	\$18.00	Labor (Field) (\$54/hr x 1/4hr x 2)	\$27.00
Transportation (\$.54/mile x 10 miles-to/from x 2)	<u>\$10.80</u>	Transportation (\$.54/mile x 10 miles-to/from x 2)	<u>\$10.80</u>
Total	\$37.80	Total	\$46.80

Source: Utility's cost justification documentation.

Violation Reconnection Charge

The Utility's existing violation reconnection charge is \$15 for water and actual cost for wastewater. The violation reconnection charge is levied prior to reconnection of an existing customer after discontinuance of service for cause. The service performed for violation reconnection requires two trips, which includes one trip to turn off service and a subsequent trip to turn on service once the violation has been remedied. Based on labor and transportation to and from the service territory, staff recommends water violation reconnection charges of \$38 and \$47 for normal and after hours, respectively. Due to the labor intensive nature of a wastewater disconnection and pursuant to Rule 25-30.460, F.A.C., wastewater violation reconnection is and should remain at actual cost. Staff's calculations for water violation reconnection charges are shown below in Table 12-3.

**Table 12-3
 Violation Reconnection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00	Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00
Labor (Field) (\$36/hr x 1/4 hr x 2)	\$18.00	Labor (Field) (\$54/hr x 1/4hr x 2)	\$27.00
Transportation (\$.54/mile x 10 miles-to/from x 2)	<u>\$10.80</u>	Transportation (\$.54/mile x 10 miles-to/from x 2)	<u>\$10.80</u>
Total	\$37.80	Total	\$46.80

Source: Utility's cost justification documentation.

Premises Visit

The Utility's existing premises visit is \$10 for water and wastewater. The premises visit charge is levied when a service representative visits a premises at the customer's request for complaint resolution and the problem is found to be the customer's responsibility. In addition, the premises visit can be levied when a service representative visits a premises for the purpose of

discontinuing service for nonpayment of a due and collectible bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. A premises visit requires one trip.

Aquarina requested a \$200 emergency hours call out charge to cover costs incurred when the Utility owners travel from their home after hours and on holidays at the customer's request. The Utility's proposed charge included two hours of labor for two people and mileage to and from the service area. Staff does not believe that labor should be included for two people. Staff believes the Utility could use its premises visit charge to achieve the same result without any special designation for an emergency call out charge. Staff believes its recommended after hours premises visit charge recovers the appropriate cost incurred for after hours emergency calls. For the after hours calculation, staff included additional labor time and miles since the Utility representative would be traveling from a location other than the Utility's office. Based on labor and transportation to and from the service territory, staff recommends premises visit charges of \$26 and \$99 for normal and after hours, respectively for water and wastewater service. Staff's calculations are shown below in Table 12-4.

**Table 12-4
 Premises Visit Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00	Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00
Labor (Field) (\$36/hr x 1/3 hr)	\$12.00	Labor (Field) (\$54/hr x 1.10 hr)	\$59.40
Transportation (\$.54/mile x 10 miles-to/from)	\$5.40	Transportation (\$.54/mile x 28 miles-to/from)	\$30.24
Total	\$26.40	Total	\$98.64

Source: Utility's cost justification documentation.

The Utility requested a \$25 meter box maintenance charge and this charge should not be approved because it is the Utility's responsibility to maintain the customer's meters as provided by Rules 25-30.230 and 25-30.231, F.A.C. Below, in Table 12-5 are staff's recommended miscellaneous service charges.

**Table 12-5
 Summary of Staff's Recommended Miscellaneous Service Charges**

Miscellaneous Service Charges	Water		Wastewater	
	During Hours	After Hours	During Hours	After Hours
Initial Connection Charge	\$27	\$32	\$27	\$32
Normal Reconnection Charge	\$38	\$47	\$38	\$47
Violation Reconnection Charge	\$38	\$47	Actual Cost	Actual Cost
Premises Visit Charge (in lieu of Disconnection)	\$26	\$99	\$26	\$99

Summary

Aquarina's miscellaneous service charges should be revised. The charges should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges 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 13: Should Aquarina’s request for direct debit charge be approved?

Recommendation: Yes. Aquarina’s request for a direct debit charge should be approved. The direct debit charge should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charge 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. (Bruce)

Staff Analysis: Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. During the course of this proceeding, the Utility requested a direct debit charge. The Utility provided cost justification in support of the requested charge.

Aquarina requested to implement a direct debit charge. The purpose of the charge is to cover the costs of Aquarina’s bank debiting the bank account of a customer for its utility bill. The Utility mailed response cards to its customers to determine how many would actually use this method of payment and 55 customers provided the information required to use this payment option. For 40 or more debit items, Aquarina’s bank charges a \$10 monthly maintenance charge, \$45 for an automatic clearing house (ACH) Module (monthly service charge), \$12 per file sent (batch), and \$.14 per debit item. Staff believes a direct debit charge is appropriate because it places the cost on the cost causer. Below in Table 13-1, is the calculation of staff’s recommended direct debit charge.

Table 13-1
Direct Debit Charge Calculation

Aquarina Bank Charges	
Monthly Maintenance	\$10.00
ACH Module	\$45.00
Charge Per File	<u>\$12.00</u>
Total Fixed Charges	\$67.00
# of customers per month	55
Per Customer Fixed Charge	\$1.22
Charge Per Debit Sent	<u>\$0.14</u>
Direct Debit Charge	\$1.36

Source: Utility’s cost justification documentation.

Summary

Aquarina’s request for a direct debit charge should be approved. The direct debit charge should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charge 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 14: Should Aquarina be authorized to collect Non-Sufficient Funds (NSF) charges?

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

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

- 1) \$25, if the face value does not exceed \$50.
- 2) \$30, if the face value exceeds \$50 but does not exceed \$300.
- 3) \$40, if the face value exceeds \$300.
- 4) Or 5 percent of the face amount of the check, whichever is greater.

Approval of NSF charges is consistent with prior Commission decisions.³¹ Furthermore, NSF charges place the cost on the cost-causer, rather than requiring that the costs associated with the return of the NSF checks be spread across the general body of ratepayers. As such, Aquarina should be authorized to collect NSF charges for both systems. Staff recommends that Aquarina revise its tariff sheet to reflect the NSF charges currently set forth in Section 68.065, F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. Furthermore, the NSF charges should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within 10 days of the date of the notice.

³¹ See e.g., Order Nos. PSC-14-0198-TRF-SU, issued May 2, 2014, in Docket No. 140030-SU, *In re: Request for approval to amend Miscellaneous Service charges to include all NSF charges by Environmental Protection Systems of Pine Island, Inc.*; and PSC-13-0646-PAA-WU, issued December 5, 2013, in Docket No. 130025-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*

Issue 15: Should Aquarina’s existing service availability charges be revised, and if so, what are the appropriate charges?

Recommendation: No. The appropriate service availability charges are the Utility’s existing charges for the potable and non-potable water systems. The wastewater main extension charge should be discontinued. (Bruce)

Staff Analysis: The Utility’s existing service availability charges for the potable water system consist of a \$500 main extension charge, a \$780 plant capacity charge, and a \$150 meter installation charge. The non-potable water system’s existing service availability charges consist of a \$50 main extension charge, \$250 plant capacity charge, and a \$150 meter installation charge. For the wastewater system, the existing service availability charge is a \$635 main extension charge.

Service availability charges are one-time charges applicable to new connections, which allows a customer to pay its pro rata share of the facilities and plant cost. 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 or wastewater collection system. The existing contribution levels are 63 percent, 7 percent, and 97 percent for potable water, non-potable water, and wastewater, respectively. Below in Table 15-1, is a summary of the contributions-in-aid-of contribution levels for each system based on the recommended rate base.

**Table 15-1
 Contributions-in- Aid-of-Construction Levels**

	Potable Water	Non-Potable Water	Wastewater
Utility Plant in Service	\$1,300,669	\$1,094,903	\$1,612,043
Accumulated Depreciation	\$1,003,525	\$872,742	\$1,357,193
CIAC	\$337,868	\$35,785	\$597,343
Amortization of CIAC	\$149,343	\$20,111	\$350,109
Contribution Level	63%	7%	97%

The Utility requested that staff evaluate its existing service availability charges, including any appropriate charges for irrigation service for new connections. Aquarina requested its service availability charges be increased to account for growth that may not materialize due to a major development in the Utility’s certificated territory being at an indefinite stalemate. In addition, the

Utility is concern that its existing service availability charges do not reflect current costs of maintaining the plant in today’s economy.

The design and development plans of Aquarina’s certificated territory have changed over time. According to the Utility, various lines have been constructed, connected, interconnected, and abandoned. The Utility requested and staff has recommended approval of pro forma revenue for GIS mapping. The GIS mapping will allow the Utility to delineate the potable, non-potable, and wastewater distribution and collection systems. At that time, staff would be able to determine the appropriate number of equivalent residential connections to use in development of revised service availability charges. Staff believes the existing potable and non-potable service availability charges are sufficient within the guidelines of Rule 25-30.580 F.A.C., and should remain unchanged at this time. However, the wastewater system’s contribution level exceeds the maximum amount of 75 percent pursuant to Rule 25-30.580, F.A.C.; therefore, the Utility’s existing main extension charge for wastewater should be discontinued. Staff notes that once the GIS mapping is completed the Utility can file a service availability application and have its service availability charges evaluated.

Summary

The appropriate service availability charges are the Utility’s existing charges for the potable and non-potable water systems. The wastewater main extension charge should be discontinued.

**Table 15-2
 Current and Recommended Service Availability Charges**

	Current and Recommended		Current and Recommended	
	Potable	Non Potable	Wastewater	
Meter Extension Charge	\$500	\$50	\$635	\$0
Plant Capacity Charge	\$780	\$250	N/A	N/A
Meter Installation Charge	\$150	\$150	N/A	N/A

Issue 16: Should the Commission approve a Phase II increase for pro forma items for Aquarina?

Recommendation: Yes. The Commission should approve a Phase II revenue requirement associated with pro forma items. The Utility's Phase II revenue requirement is \$171,277 for potable water, \$252,165 for non-potable water, and \$185,657 for wastewater, which equates to increases of 8.23 percent, 2.18 percent, and 3.34 percent, respectively, over the Phase I revenue requirements. Staff recommends that the potable water rates remain unchanged for Phase II. The Phase II wastewater rates should be designed to produce revenues of \$185,002, excluding miscellaneous revenues.

Implementation of the Phase II rates is conditioned upon Aquarina completing the pro forma items within 12 months of the issuance of a consummating order in this docket. The Utility should be required to submit a copy of the final invoices and cancelled checks or other payment confirmation documentation for all pro forma plant items. The Utility should be allowed to implement the above rates once all pro forma items have been completed and documentation provided showing that the improvements have been made. Once verified by staff, the rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until notice has been received by the customers. Aquarina should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing. (Lewis, L. Smith)

Staff Analysis: As discussed in Issue 3, the Utility has requested recognition of several pro forma plant items in the instant case. Several of the pro forma items either have been or will be completed before implementation of the Phase I rates and, therefore, staff has included these items in the Phase I revenue requirement as reflected in previous issues. In addition, the Utility has additional pro forma items that are to be completed after Phase I rates become effective. Table 16-1 summarizes the Phase II pro forma plant items and estimated cost.

Staff is recommending a Phase II revenue requirement associated with the pro forma items for a number of reasons. First, it assures that the pro forma items are completed prior to the Utility's recovery of the investment in rates. In addition, addressing the pro forma items in a single case saves additional rate case expense to the customers because the Utility would not need to file another rate case or limited proceeding to seek recovery for these items. The Commission has approved a Phase-In approach in Docket Nos. 140175-WU and 140177-WU.³²

Staff's adjustment to the Phase II UPIS balances results in increases of \$13,434 for potable water and \$11,005 for wastewater. Staff reduced accumulated depreciation by \$37,859 for potable water and \$30,431 for wastewater for retirements. Staff also reduced wastewater plant and accumulated depreciation by \$3,784 and \$245, respectively, for non-U&U components. Further,

³² Order Nos. PSC-15-0592-PAA-WU, issued December 30, 2015, in Docket No. 140175-WU, *In re: Application for staff-assisted rate case in Pasco County by Crestridge Utilities, LLC.*; and PSC-15-0588-PAA-WU, issued December 29, 2015, in Docket No. 140177-WU, *In re: Application for staff-assisted rate case in Pasco County by Holiday Gardens Utilities, LLC.*

staff increased the working capital allowance by \$1,221 for potable water, \$640 for non-potable water, and \$640 for wastewater.

Staff adjustments for Phase II include an increase in O&M expenses of \$9,769 for potable water, \$5,117 for non-potable water, and \$5,117 for wastewater. Staff has adjusted depreciation expense to reflect the pro forma additions, retirements, and U&U adjustments resulting in increases of \$610 for potable water and \$436 for wastewater. Staff has increased TOTI by \$208 for potable water and \$170 for wastewater to reflect the increase in property taxes related to pro forma additions. Staff's total adjustment to operating expenses, including additional RAFs, results in increases of \$11,173 for potable water, \$5,360 for non-potable water, and \$5,993 for wastewater. The resulting operating expenses are \$163,201 for potable water, \$245,825 for non-potable water, and \$175,657 for wastewater.

Table 16-1

Phase II Pro Forma Adjustments			
Description	UPIS	Accum Depr.	Depr. Expense
<u>Potable Water</u>			
Reverse Osmosis Skid	\$53,736	(\$2,443)	\$2,443
Retirement	<u>(40,302)</u>	<u>40,302</u>	<u>(1,832)</u>
Total	<u>\$13,434</u>	<u>\$37,859</u>	<u>\$611</u>
<u>Wastewater</u>			
Catwalks at Plant	\$9,703	(\$359)	\$359
Blower	28,716	(1,914)	1,914
Sand Filters	5,603	(311)	311
Retirements	<u>(33,016)</u>	<u>33,016</u>	<u>(1,939)</u>
Total	<u>\$11,005</u>	<u>\$30,431</u>	<u>\$646</u>

The Utility's Phase II revenue requirement should be \$171,277 for potable water, \$252,165 for non-potable water, and \$185,657 for wastewater. These totals represent increases of 8.23 percent, 2.18 percent, and 3.34 percent for potable water, non-potable water, and wastewater, respectively, over the recommended Phase I revenue requirements. As previously mentioned in Issue 10, staff recommends netting the Phase I potable water systems' overearnings and wastewater systems' revenues. The netting of wastewater revenues to potable water revenues avoided a reduction to Phase I potable water rates. Including miscellaneous revenues, the Phase I rates generate 99.7 percent of the Phase II potable water revenue requirement. As a result, the potable water rates should remain unchanged for Phase II. The wastewater rates should be design to generate revenues of \$185,002, excluding miscellaneous revenues. The BFC allocation should remain the same as the test year revenue allocation of 60 percent. The residential gallonage cap

should remain at 8,000 gallons. The general service gallonage charge should continue at 1.2 times the residential gallonage charge consistent with Commission practice.

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

Implementation of the Phase II rates is conditioned upon Aquarina completing the pro forma items within 12 months of the issuance of a consummating order in this docket. The Utility should be required to submit a copy of the final invoices and cancelled checks for all pro forma plant items. The Utility should be allowed to implement the above rates once all pro forma items have been completed and documentation provided showing that the improvements have been made. Once verified by staff, the rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until notice has been received by the customers. Aquarina should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing.

Issue 17: Should the recommended rates be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

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

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

The Utility should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$102,802. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

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

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

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

Issue 18: Should the Utility be required to notify the Commission within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) associated with the Commission approved adjustments?

Recommendation: Yes. The Utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Aquarina should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (L. Smith)

Staff Analysis: The Utility should be required to notify the Commission, in writing that it has adjusted its books in accordance with the Commission's decision. Aquarina should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Issue 19: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the outstanding Phase I pro forma items have been completed, the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and the Utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Also, the docket should remain open to allow staff to verify that the Phase II pro forma items have been completed, and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively. (Murphy)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the outstanding Phase I pro forma items have been completed, the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and the Utility has provided staff with proof that the adjustments for all applicable NARUC USOA primary accounts have been made. Also, the docket should remain open to allow staff to verify that the Phase II pro forma items have been completed and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively.

AQUARINA UTILITIES, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS	
SCHEDULE OF POTABLE WATER RATE BASE PHASE I			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$1,907,336	(\$457,110)	\$1,450,227
LAND & LAND RIGHTS	62,080	(24,498)	37,582
NON-USED AND USEFUL COMPONENT	0	(73,194)	(73,194)
ACCUMULATED DEPRECIATION	(1,522,797)	451,903	(1,070,894)
CIAC	(483,149)	145,281	(337,868)
AMORTIZATION OF CIAC	276,662	(127,319)	149,343
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>14,957</u>	<u>14,957</u>
WATER RATE BASE	<u>\$240,132</u>	<u>(\$69,980)</u>	<u>\$170,153</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 1-B	
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS	
SCHEDULE OF NON-POTABLE WATER RATE BASE PHASE I			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$22,080	\$923,265	\$945,345
LAND & LAND RIGHTS	0	24,498	24,498
NON-USED AND USEFUL COMPONENT	0	0	0
ACCUMULATED DEPRECIATION	0	(805,374)	(805,374)
CIAC	0	(35,785)	(35,785)
AMORTIZATION OF CIAC	0	20,111	20,111
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>23,792</u>	<u>23,792</u>
WATER RATE BASE	<u>\$22,080</u>	<u>\$150,507</u>	<u>\$172,587</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 1-C	
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS	
SCHEDULE OF WASTEWATER RATE BASE PHASE I			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$2,116,139	(\$504,096)	\$1,612,043
LAND & LAND RIGHTS	33,680	0	33,680
NON-USED AND USEFUL COMPONENT	0	(62,323)	(62,323)
ACCUMULATED DEPRECIATION	(1,866,188)	508,995	(1,357,193)
CIAC	(603,375)	6,032	(597,343)
AMORTIZATION OF CIAC	299,305	50,804	350,109
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>18,936</u>	<u>18,936</u>
WASTEWATER RATE BASE	<u>(\$20,439)</u>	<u>\$18,348</u>	<u>(\$2,091)</u>

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 ADJUSTMENTS TO RATE BASE PHASE I	SCHEDULE NO. 1-D DOCKET NO. 150010-WS PAGE 1 OF 1		
	WATER-P	NP-WATER	WASTEWATER
UTILITY PLANT IN SERVICE			
1. To reflect the audited plant balances. (AF 1)	\$49,635	\$905	\$7,708
2. To match CIAC adjustments in audit	(90,305)	90,305	0
3. To reflect retirements related to CIAC	(36,324)	(67,162)	0
4. To reflect reclassification from Potable to NP	(234,124)	234,124	0
5. To impute T&D Mains for NP system.	(149,558)	149,558	0
6. To reflect reclassification from Wastewater to NP	0	512,792	(512,792)
7. To reflect the appropriate averaging adjustment.	(2,329)	(31)	(1,436)
8. To reflect the appropriate pro forma additions.	5,896	2,774	2,424
Total	<u>(\$457,110)</u>	<u>\$923,265</u>	<u>(\$504,096)</u>
LAND & LAND RIGHTS			
To reflect appropriate land balances.	<u>(\$24,498)</u>	<u>\$24,498</u>	<u>\$0</u>
NON-USED AND USEFUL COMPONENT			
1. To reflect the appropriate Non-U&U UPIS.	(\$490,147)	(\$199,989)	(\$480,926)
2. To reflect the appropriate Non-U&U Accumulated Depreciation.	<u>416,953</u>	<u>199,989</u>	<u>418,603</u>
Total	<u>(\$73,194)</u>	<u>\$0</u>	<u>(\$62,323)</u>
ACCUMULATED DEPRECIATION			
1. To reflect the appropriate Accumulated Depreciation balances. (AF 5)	(\$10,652)	\$0	(\$18,566)
2. To reflect pro rata Potable/NP split.	10,365	(10,365)	0
3. To match CIAC adjustments in audit	99,758	(99,758)	0
4. To reflect retirements related to CIAC	52,420	86,236	0
5. To reflect reclassification from Potable to NP	202,514	(202,514)	0
6. To reflect reclassification from Wastewater to NP	0	(512,792)	512,792
7. To reflect imputation of T&D Mains for NP system.	67,369	(67,369)	0
8. To reflect the appropriate averaging adjustment.	20,232	265	14,814
9. To reflect the appropriate pro forma additions.	<u>9,898</u>	<u>923</u>	<u>(45)</u>
Total	<u>\$451,903</u>	<u>(\$805,374)</u>	<u>\$508,995</u>
CIAC			
1. To reflect the appropriate CIAC balance. (AF 4)	\$95,372	(\$107,222)	\$0
2. To reflect retirements	36,324	67,162	0
3. To reflect the appropriate CIAC averaging adjustments.	<u>13,585</u>	<u>4,275</u>	<u>6,032</u>
Total	<u>\$145,281</u>	<u>(\$35,785)</u>	<u>\$6,032</u>
AMORTIZATION OF CIAC			
1. To reflect the audited Accumulated Amortization of CIAC balance. (AF 6)	(\$70,242)	\$107,911	\$58,562
2. To reflect retirement of CIAC	(52,420)	(86,236)	0
3. To reflect the appropriate averaging adjustment.	<u>(4,657)</u>	<u>(1,564)</u>	<u>(7,758)</u>
Total	<u>(\$127,319)</u>	<u>\$20,111</u>	<u>\$50,804</u>
WORKING CAPITAL ALLOWANCE			
To reflect 1/8 of test year O & M expenses.	<u>\$14,957</u>	<u>\$23,792</u>	<u>\$18,936</u>

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 SCHEDULE OF CAPITAL STRUCTURE - PHASE I							SCHEDULE NO. 2 DOCKET NO. 150010-WS		
CAPITAL COMPONENT	PER UTILITY	SPECIFIC 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>(505,064)</u>	<u>505,064</u>	<u>0</u>						
TOTAL COMMON EQUITY	<u>(\$505,064)</u>	<u>\$505,064</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	<u>11.16%</u>	<u>0.00%</u>	
5. LONG-TERM DEBT	\$863,346	(\$416,595)	\$446,751	(\$106,263)	\$340,488	99.95%	3.66%	3.66%	
6. SHORT-TERM DEBT	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%	
TOTAL DEBT	\$863,346	(\$416,595)	\$446,751	(\$106,263)	\$340,488	99.95%			
7. CUSTOMER DEPOSITS	<u>193</u>	<u>(32)</u>	<u>161</u>	<u>0</u>	<u>161</u>	<u>0.05%</u>	<u>2.00%</u>	<u>0.00%</u>	
8. TOTAL	<u>\$358,475</u>	<u>\$88,437</u>	<u>\$446,912</u>	<u>(\$106,263)</u>	<u>\$340,649</u>	<u>100.00%</u>		<u>3.66%</u>	
RANGE OF REASONABLENESS						LOW	HIGH		
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>		
OVERALL RATE OF RETURN						<u>3.66%</u>	<u>3.66%</u>		

AQUARINA UTILITIES, INC.			SCHEDULE NO. 3-A		
TEST YEAR ENDED 12/31/2014			DOCKET NO. 150010-WS		
SCHEDULE OF POTABLE WATER OPERATING INCOME PHASE I					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	<u>\$169,239</u>	<u>\$1,609</u>	<u>\$170,848</u>	<u>(\$12,593)</u> -7.37%	<u>\$158,255</u>
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	\$92,074	\$27,582	\$119,658	\$0	\$119,658
DEPRECIATION EXPENSE	0	20,797	20,797	0	20,797
CIAC AMORTIZATION EXPENSE	0	(8,849)	(8,849)	0	(8,849)
TAXES OTHER THAN INCOME	19,493	1,497	20,990	(567)	20,423
INCOME TAXES	<u>1,442</u>	<u>(1,442)</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$113,009</u>	<u>\$39,586</u>	<u>\$152,595</u>	<u>(\$567)</u>	<u>\$152,028</u>
OPERATING INCOME/(LOSS)	<u>\$56,230</u>		<u>\$18,253</u>		<u>\$6,226</u>
WATER RATE BASE	<u>\$240,132</u>		<u>\$170,153</u>		<u>\$170,153</u>
RATE OF RETURN	<u>23.42%</u>		<u>10.73%</u>		<u>3.66%</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 3-B			
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS			
SCHEDULE OF NON-POTABLE WATER OPERATING INCOME PHASE I					
	TEST YEAR	STAFF	STAFF	ADJUST.	REVENUE
	PER UTILITY	ADJUSTMENTS	ADJUSTED	FOR	REQUIREMENT
			TEST YEAR	INCREASE	
OPERATING REVENUES	<u>\$96,929</u>	<u>\$900</u>	<u>\$97,829</u>	<u>\$148,954</u> 152.26%	<u>\$246,783</u>
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	\$152,155	\$38,180	\$190,332	\$0	\$190,332
DEPRECIATION EXPENSE	0	24,757	24,757	0	24,757
CIAC AMORTIZATION EXPENSE	0	(534)	(534)	0	(534)
TAXES OTHER THAN INCOME	16,413	2,795	19,208	6,703	25,911
INCOME TAXES	<u>1,442</u>	<u>(1,442)</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$170,010</u>	<u>\$63,755</u>	<u>\$233,763</u>	<u>\$6,703</u>	<u>\$240,466</u>
OPERATING INCOME/(LOSS)	<u>(\$73,081)</u>		<u>(\$135,934)</u>		<u>\$6,317</u>
WATER RATE BASE	<u>\$22,080</u>		<u>\$172,587</u>		<u>\$172,587</u>
RATE OF RETURN	<u>-330.99%</u>		<u>-78.76%</u>		<u>3.66%</u>

AQUARINA UTILITIES, INC.			SCHEDULE NO. 3-C		
TEST YEAR ENDED 12/31/2014			DOCKET NO. 150010-WS		
SCHEDULE OF WASTEWATER OPERATING INCOME PHASE I					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	<u>\$160,261</u>	<u>\$1,560</u>	<u>\$161,821</u>	<u>\$17,842</u> 11.03%	<u>\$179,663</u>
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	\$126,358	\$25,131	\$151,489	\$0	\$151,489
DEPRECIATION EXPENSE	0	11,006	11,006	0	11,006
CIAC AMORTIZATION EXPENSE	0	(15,514)	(15,514)	0	(15,514)
TAXES OTHER THAN INCOME	19,126	2,754	21,880	803	22,683
INCOME TAXES	<u>1,442</u>	<u>(1,442)</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$146,926</u>	<u>\$21,935</u>	<u>\$168,861</u>	<u>\$803</u>	<u>\$169,664</u>
OPERATING INCOME/(LOSS)	<u>\$13,335</u>		<u>(\$7,040)</u>		<u>\$10,000</u>
WASTEWATER O&M EXPENSE	<u>\$126,358</u>		<u>\$151,489</u>		<u>\$151,489</u>
OPERATING MARGIN	<u>10.55%</u>		<u>-4.65%</u>		<u>6.60%</u>

AQUARINA UTILITIES, INC.	Schedule No. 3-D		
TEST YEAR ENDED 12/31/2014	DOCKET NO. 150010-WS		
ADJUSTMENTS TO OPERATING INCOME PHASE I	Page 1 of 3		
	WATER-P	WATER-NP	WASTEWATER
OPERATING REVENUES			
To reflect appropriate revenues for the systems.	<u>\$1,609</u>	<u>\$900</u>	<u>\$1,560</u>
OPERATION AND MAINTENANCE EXPENSES			
Salaries and Wages - Employees (601/701)			
a. To normalize salary expense to remove payroll for former employees. (AF 8)	(\$1,707)	(\$2,587)	(\$2,147)
b. To remove insurance reimbursement to former employee.	(183)	(278)	(231)
c. To remove unpaid salary accruals from outside the test year.	(4,807)	(7,286)	(6,046)
d. To include maintenance employees	<u>28,663</u>	<u>43,444</u>	<u>36,053</u>
	<u>\$21,966</u>	<u>\$33,294</u>	<u>\$27,629</u>
Employee Pensions and Benefits (604/704)			
a. To reflect the appropriate amount of pensions and benefits. (AF 8)	\$5,670	\$8,594	\$7,132
b. To reflect the increase for new maintenance employees.	<u>5,446</u>	<u>8,254</u>	<u>6,850</u>
Subtotal	<u>\$11,116</u>	<u>\$16,848</u>	<u>\$13,982</u>
Purchased Power (615/715)			
To reflect the correct amount of purchase power expense. (AF 8)	<u>\$357</u>	<u>\$3,609</u>	<u>(\$4,254)</u>
Materials and Supplies (620/720)			
a. To include reimbursement for October expense voucher. (AF8)	\$705	\$1,686	\$1,196
b. To reclassify potable booster pumps. (AF8)	(1,079)	(2,578)	0
c. To remove non-utility purchases. (AF8)	<u>(110)</u>	<u>(263)</u>	<u>(186)</u>
Subtotal	<u>(\$484)</u>	<u>(\$1,155)</u>	<u>\$1,010</u>
Contractual Services - Professional			
To remove and amortize non-recurring accounting fees	<u>(\$533)</u>	<u>(\$533)</u>	<u>(\$533)</u>
Contractual Services - Testing (635/735)			
To remove non-utility testing expenses. (AF 8)	<u>(\$401)</u>	<u>\$0</u>	<u>(\$1,106)</u>
Contractual Services - Other (636/736)			
a. To capitalize non-potable pump that was expensed. (AF 8)	\$0	(\$3,620)	\$0
b. Pump service expense that was not posted to ledger (AF 8)	2,703	720	0
c. To reflect amortization of pro forma repairs.	1,160	36	298
d. To remove meter reading expense.	(783)	(1,872)	(390)
e. To remove and amortize non-recurring repairs.	<u>(183)</u>	<u>(437)</u>	<u>(584)</u>
Subtotal	<u>\$2,897</u>	<u>(\$5,173)</u>	<u>(\$676)</u>
Rental of Building/Property (641/741)			
a. To remove 2014 amount of rental expense for office space. (AF 8)	(\$334)	(\$334)	(\$333)
b. To include 2015 storage building rental expense. (AF 8)	3,000	3,000	3,000
c. To reflect reduction in price per square foot.	<u>(396)</u>	<u>(396)</u>	<u>(396)</u>
Subtotal	<u>\$2,270</u>	<u>\$2,270</u>	<u>\$2,271</u>
Rental of Equipment (642/742)			
a. To remove 2014 amount of equipment rental expense. (AF 8)	(\$7,800)	(\$7,800)	(\$7,800)
b. To include 2015 rental expense. (AF 8)	6,000	6,000	6,000
c. To adjust rental expense.	<u>(1,200)</u>	<u>(1,200)</u>	<u>(1,200)</u>
Subtotal	<u>(\$3,000)</u>	<u>(\$3,000)</u>	<u>(\$3,000)</u>

AQUARINA UTILITIES, INC.	Schedule No. 3-D		
TEST YEAR ENDED 12/31/2014	DOCKET NO. 150010-WS		
ADJUSTMENTS TO OPERATING INCOME PHASE I	Page 2 of 3		
	WATER-P	WATER-NP	WASTEWATER
Transportation Expenses (650/750)			
a. To reflect the correct amount of mileage expenses. (AF 8)	\$183	\$439	\$311
b. To reflect the correct amount of mileage expenses. (AF 8)	(733)	(1,752)	(1,242)
c. To removed repairs to non-utility vehicles. (AF 8)	(292)	(699)	(496)
d. To remove unsupported airline tickets. (AF 8)	(148)	(352)	(250)
Subtotal	<u>(\$989)</u>	<u>(\$2,365)</u>	<u>(\$1,677)</u>
Insurance - Vehicle Expenses (656/756)			
To reflect the appropriate amount of insuranc vehicle expense. (AF 8)	<u>(\$1,162)</u>	<u>(\$1,162)</u>	<u>(\$1,162)</u>
Insurance - General Liability Expenses (657/757)			
To reflect the correct amount of general liability insurance. (AF 8)	<u>(\$10)</u>	<u>(\$10)</u>	<u>(\$11)</u>
Insurance - Other Expenses (659/759)			
To reflect appropriate amount of insurance other expenses. (AF 8)	<u>(\$2,378)</u>	<u>(\$2,378)</u>	<u>(\$2,377)</u>
Regulatory Commission Expense (667/767)			
a. To reflect the correct amount of regulatory commission expense. (AF 8)	(\$25)	(\$25)	(\$50)
b. To reflect the appropriate amount of rate case expense.	773	773	773
Subtotal	<u>\$748</u>	<u>\$748</u>	<u>\$723</u>
Miscellaneous Expense (675/775)			
a. To reflect communication costs. (AF 8)	(\$2,253)	(\$2,253)	(\$2,253)
b. To reclassify and capitalize to Account 360.	0	0	(2,872)
c. To reflect reimbursements for October Misc. expenses.	376	376	375
d. To remove non-utility reimbursements.	(970)	(970)	(970)
e. To reflect reclassification for DEP permits .	34	33	33
Subtotal	<u>(\$2,814)</u>	<u>(\$2,815)</u>	<u>(\$5,687)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$27,582</u>	<u>\$38,180</u>	<u>\$25,131</u>
DEPRECIATION EXPENSE			
a. To reflect audited depreciation expense.	\$45,851	\$601	\$28,200
b. To reflect reclassification from Potable to Non-Potable.	(9,782)	9,782	0
c. To reflect retirements imputation of T&D Mains for NP system.	(3,576)	3,576	0
d. To reflect reclassification from Wastewater to Non-Potable	0	12,820	(12,820)
e. To reflect retirements.	(908)	(2,150)	0
f. To reflect pro forma depreciation expense.	163	127	45
g. Non-U&U depreciation expense.	<u>(10,950)</u>	<u>0</u>	<u>(4,419)</u>
Total	<u>\$20,797</u>	<u>\$24,757</u>	<u>\$11,006</u>
AMORTIZATION OF CIAC EXPENSE			
a. To reflect audited amount of CIAC amortization expense.	(\$9,758)	(\$2,684)	(\$15,514)
b. To reflect retirements.	908	2,150	0
Total	<u>(\$8,849)</u>	<u>(\$534)</u>	<u>(\$15,514)</u>

AQUARINA UTILITIES, INC.	Schedule No. 3-D		
TEST YEAR ENDED 12/31/2014	DOCKET NO. 150010-WS		
ADJUSTMENTS TO OPERATING INCOME PHASE I	Page 3 of 3		
	<u>WATER-P</u>	<u>WATER-NP</u>	<u>WASTEWATER</u>
TAXES OTHER THAN INCOME			
a. To reflect the correct amount of property taxes.	(\$118)	(\$118)	(\$118)
b. To reflect the correct amount of payroll taxes.	(130)	(198)	(164)
c. To reflect the appropriate amount of payroll taxes for new employees.	2,527	3,830	3,178
d. To reflect the appropriate amount of regulatory assessment fees. (RAFs).	108	62	134
e. To reflect pro forma property taxes.	91	43	38
f. Non-U&U property taxes.	<u>(980)</u>	<u>(825)</u>	<u>(314)</u>
Total	<u>\$1,497</u>	<u>\$2,795</u>	<u>\$2,754</u>
INCOME TAX			
To reflect the correct amount of income tax expenses.	<u>(\$1,442)</u>	<u>(\$1,442)</u>	<u>(\$1,442)</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 3-E	
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS	
ANALYSIS OF POTABLE WATER OPERATION AND MAINTENANCE EXPENSE PHASE I			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$48,832	\$21,966	\$70,798
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	11,116	11,116
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	3,180	357	3,537
(616) FUEL FOR POWER PRODUCTION	74	0	74
(618) CHEMICALS	1,564	0	1,564
(620) MATERIALS AND SUPPLIES	6,424	(484)	5,941
(632) CONTRACTUAL SERVICES - PROFESSIONAL	3,807	(533)	3,274
(634) CONTRACTUAL SERVICES - MANAGEMENT FEES	1,930	0	1,930
(635) CONTRACTUAL SERVICES - TESTING	669	(401)	268
(636) CONTRACTUAL SERVICES - OTHER	2,737	2,897	5,634
(640) RENTS	0	0	0
(641) RENTAL OF BUILDING/PROPERTY	334	2,270	2,604
(642) RENTAL OF EQUIPMENT	7,800	(3,000)	4,800
(650) TRANSPORTATION EXPENSE	3,731	(989)	2,742
(656) INSURANCE - VEHICLE	1,728	(1,162)	566
(657) INSURANCE - GENERAL LIABILITY	2,624	(10)	2,614
(659) INSURANCE - OTHER	2,378	(2,378)	0
(667) REGULATORY COMMISSION EXPENSE	25	748	773
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSE	<u>4,239</u>	<u>(2,814)</u>	<u>1,425</u>
Total	<u>\$92,074</u>	<u>\$27,583</u>	<u>\$119,658</u>

AQUARINA UTILITIES, INC.	SCHEDULE NO. 3-F		
TEST YEAR ENDED 12/31/2014	DOCKET NO. 150010-WS		
ANALYSIS OF NON-POTABLE WATER OPERATION AND MAINTENANCE EXPENSE PHASE I			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$74,014	\$33,294	\$107,308
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	16,848	16,848
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	32,150	3,609	35,759
(616) FUEL FOR POWER PRODUCTION	750	0	750
(618) CHEMICALS	48	0	48
(620) MATERIALS AND SUPPLIES	4,873	(1,155)	3,717
(632) CONTRACTUAL SERVICES - PROFESSIONAL	3,807	(533)	3,274
(634) CONTRACTUAL SERVICES - MANAGEMENT FEES	1,930	0	1,930
(635) CONTRACTUAL SERVICES - TESTING	0	0	0
(636) CONTRACTUAL SERVICES - OTHER	6,541	(5,173)	1,368
(640) RENTS	0	0	0
(641) RENTAL OF BUILDING/PROPERTY	334	2,270	2,604
(642) RENTAL OF EQUIPMENT	7,800	(3,000)	4,800
(650) TRANSPORTATION EXPENSE	8,917	(2,365)	6,552
(656) INSURANCE - VEHICLE	1,728	(1,162)	566
(657) INSURANCE - GENERAL LIABILITY	2,624	(10)	2,614
(659) INSURANCE - OTHER	2,378	(2,378)	0
(667) REGULATORY COMMISSION EXPENSE	25	748	773
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSE	<u>4,239</u>	<u>(2,815)</u>	<u>1,424</u>
Total	<u>\$152,155</u>	<u>\$38,179</u>	<u>\$190,332</u>

AQUARINA UTILITIES, INC.	SCHEDULE NO. 3-G		
TEST YEAR ENDED 12/31/2014	DOCKET NO. 150010-WS		
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE PHASE I			
	TOTAL PER UTILITY*	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$61,423	\$27,629	\$89,052
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	13,982	13,982
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	0	0	0
(715) PURCHASED POWER	17,665	(4,254)	13,411
(716) FUEL FOR POWER PRODUCTION	412	0	412
(718) CHEMICALS	1,289	0	1,289
(720) MATERIALS AND SUPPLIES	6,023	1,010	7,033
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(732) CONTRACTUAL SERVICES - PROFESSIONAL	3,807	(533)	3,274
(733) CONTRACTUAL SERVICES - LEGAL	0	0	0
(734) CONTRACTUAL SERVICES - MANAGEMENT FEES	1,930	0	1,930
(735) CONTRACTUAL SERVICES - TESTING	3,107	(1,106)	2,001
(736) CONTRACTUAL SERVICES - OTHER	2,154	(676)	1,478
(741) RENTAL OF BUILDING/PROPERTY	333	2,271	2,604
(742) RENTAL OF EQUIPMENT	7,800	(3,000)	4,800
(750) TRANSPORTATION EXPENSE	6,520	(1,677)	4,843
(756) INSURANCE - VEHICLE	1,728	(1,162)	566
(757) INSURANCE - GENERAL LIABILITY	2,624	(11)	2,613
(759) INSURANCE OTHER	2,377	(2,377)	(0)
(767) REGULATORY COMMISSION EXPENSES	50	723	773
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSE	<u>7,116</u>	<u>(5,687)</u>	<u>1,429</u>
TOTAL O&M EXPENSES	<u>\$126,358</u>	<u>\$25,131</u>	<u>\$151,489</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 4-A	
TEST YEAR ENDED SEPTEMBER 30, 2014		DOCKET NO. 150010-WS	
MONTHLY WATER RATES (PHASE I)			
	RATES AT TIME OF FILING	STAFF RECOMMENDED PHASE I RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$19.16	\$19.16	\$0.10
3/4"	\$28.74	\$28.74	\$0.15
1"	\$47.90	\$47.90	\$0.25
1-1/2"	\$95.79	\$95.79	\$0.50
2"	\$153.27	\$153.27	\$0.80
3"	\$306.55	\$306.55	\$1.61
4"	\$478.96	\$478.96	\$2.52
6"	\$957.93	\$957.93	\$5.03
Charge per 1,000 gallons - Residential and General Service	\$6.95	\$6.95	\$0.04
<u>Irrigation Service - Non-Potable</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"		\$16.90	\$0.06
3/4"		\$25.35	\$0.08
1"		\$42.25	\$0.14
1-1/2"		\$84.50	\$0.28
2"		\$135.20	\$0.45
3"		\$270.40	\$0.89
4"		\$422.50	\$1.40
6"		\$845.00	\$2.79
Charge per 1,000 gallons - Irrigation Service	\$0.78	\$1.38	\$0.00
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$33.06	\$33.06	
6,000 Gallons	\$60.86	\$60.86	
8,000 Gallons	\$74.76	\$74.76	

*Phase I water rates will remain at the current rates.

AQUARINA UTILITIES, INC.		SCHEDULE NO. 4-B	
TEST YEAR ENDED SEPTEMBER 30, 2014		DOCKET NO. 150010-WS	
MONTHLY WASTEWATER RATES (PHASE I)			
	RATES AT TIME OF FILING	STAFF RECOMMENDED PHASE I RATES	4 YEAR RATE REDUCTION
<u>Residential</u>			
Base Facility Charge - All Meter Sizes			
Charge Per 1,000 gallons	\$22.13	\$22.83	\$0.11
8,000 gallon cap	\$4.79	\$4.94	
Flat Rate Service	\$34.69	\$35.78	\$0.18
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$22.13	\$22.83	\$0.11
3/4"	\$33.16	\$34.25	\$0.17
1"	\$55.28	\$57.08	\$0.28
1-1/2"	\$110.56	\$114.15	\$0.56
2"	\$176.90	\$182.64	\$0.90
3"	\$353.81	\$365.28	\$1.79
4"	\$552.83	\$570.75	\$2.80
6"	\$1,105.67	\$1,141.50	\$5.60
Charge per 1,000 gallons - General Service	\$5.76	\$5.94	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$31.71	\$32.71	
6,000 Gallons	\$50.87	\$52.47	
8,000 Gallons	\$60.45	\$62.35	

*Phase I wastewater rates will remain at the current rates.

AQUARINA UTILITIES, INC.		SCHEDULE NO. 5-A	
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS	
SCHEDULE OF POTABLE WATER RATE BASE PHASE II			
DESCRIPTION	PHASE I BALANCE	STAFF	BALANCE
		ADJUSTMENTS TO UTIL. BAL.	PER STAFF
UTILITY PLANT IN SERVICE	\$1,450,227	\$13,434	\$1,463,661
LAND & LAND RIGHTS	37,582	0	37,582
NON-USED AND USEFUL COMPONENT	(73,194)	0	(73,194)
ACCUMULATED DEPRECIATION	(1,070,894)	37,859	(1,033,035)
CIAC	(337,868)	0	(337,868)
AMORTIZATION OF CIAC	149,343	0	149,343
WORKING CAPITAL ALLOWANCE	<u>14,957</u>	<u>1,221</u>	<u>16,178</u>
WATER RATE BASE	<u>\$170,153</u>	<u>\$52,514</u>	<u>\$222,667</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 5-B	
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS	
SCHEDULE OF NON-POTABLE WATER RATE BASE - PHASE II			
DESCRIPTION	PHASE I BALANCE	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$945,345	\$0	\$945,345
LAND & LAND RIGHTS	24,498	0	24,498
NON-USED AND USEFUL COMPONENT	0	0	0
ACCUMULATED DEPRECIATION	(805,374)	0	(805,374)
CIAC	(35,785)	0	(35,785)
AMORTIZATION OF CIAC	20,111	0	20,111
WORKING CAPITAL ALLOWANCE	<u>23,792</u>	<u>640</u>	<u>24,432</u>
WATER RATE BASE	<u>\$172,587</u>	<u>\$640</u>	<u>\$173,227</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 5-C	
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS	
SCHEDULE OF WASTEWATER RATE BASE PHASE II			
DESCRIPTION	PHASE I BALANCE	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$1,612,043	\$11,005	\$1,623,048
LAND & LAND RIGHTS	33,680	0	33,680
NON-USED AND USEFUL COMPONENT	(62,323)	(3,538)	(65,861)
ACCUMULATED DEPRECIATION	(1,357,193)	30,431	(1,326,762)
CIAC	(597,343)	0	(597,343)
AMORTIZATION OF CIAC	350,109	0	350,109
WORKING CAPITAL ALLOWANCE	<u>18,936</u>	<u>640</u>	<u>19,576</u>
WASTEWATER RATE BASE	<u>(\$2,091)</u>	<u>\$38,538</u>	<u>\$36,447</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 5-D		
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS		
ADJUSTMENTS TO RATE BASE				
	<u>WATER-P</u>	<u>WATER-NP</u>	<u>WASTEWATER</u>	
<u>UTILITY PLANT IN SERVICE</u>				
To reflect the appropriate pro forma additions.	<u>\$13,434</u>	<u>\$0</u>	<u>\$11,005</u>	
<u>NON-USED AND USEFUL COMPONENT</u>				
To reflect the appropriate Non-U&U UPIS.	\$0	\$0	(\$3,784)	
To reflect the appropriate Non-U&U Accumulated Depreciation.	<u>0</u>	<u>0</u>	<u>245</u>	
Total	<u>\$0</u>	<u>\$0</u>	<u>(\$3,538)</u>	
<u>ACCUMULATED DEPRECIATION</u>				
To reflect the appropriate pro forma additions.	<u>\$37,859</u>	<u>\$0</u>	<u>\$30,431</u>	
<u>WORKING CAPITAL ALLOWANCE</u>				
To reflect 1/8 of test year O & M expenses.	<u>\$1,221</u>	<u>\$640</u>	<u>\$640</u>	

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 SCHEDULE OF CAPITAL STRUCTURE- PHASE II							SCHEDULE NO. 6 DOCKET NO. 150010-WS		
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	WEIGHTED 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>(505,064)</u>	<u>505,064</u>	<u>0</u>				11.16%		
TOTAL	<u>(\$505,064)</u>	<u>\$505,064</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	<u>11.16%</u>	<u>0.00%</u>	
5. LONG-TERM DEBT	\$446,751	\$0	\$446,751	(\$7,285)	\$439,466	99.96%	3.66%	3.66%	
6. SHORT-TERM DEBT	<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>	
TOTAL DEBT	\$446,751	\$0	\$446,751	(\$7,285)	\$439,466	99.96%	0.00%	0.00%	
7. CUSTOMER DEPOSITS	161	0	161	0	161	<u>0.04%</u>	<u>2.00%</u>	<u>0.00%</u>	
8. TOTAL	<u>(\$58,152)</u>	<u>\$505,064</u>	<u>\$446,912</u>	<u>(\$7,285)</u>	<u>\$439,627</u>	<u>100.00%</u>		<u>3.66%</u>	
RANGE OF REASONABLENESS						LOW	HIGH		
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>		
OVERALL RATE OF RETURN						<u>3.66%</u>	<u>3.66%</u>		

AQUARINA UTILITIES, INC.		SCHEDULE NO. 7-A			
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS			
SCHEDULE OF POTABLE WATER OPERATING INCOME PHASE II					
	PHASE I	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	<u>\$158,255</u>	<u>\$0</u>	<u>\$158,255</u>	<u>\$13,022</u> 8.23%	<u>\$171,277</u>
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	\$119,658	\$9,769	\$129,427	\$0	\$129,427
DEPRECIATION (NET)	20,797	610	21,407	0	21,407
AMORTIZATION OF CIAC	(8,849)	0	(8,849)	0	(8,849)
TAXES OTHER THAN INCOME	20,423	208	20,631	586	21,217
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$152,028</u>	<u>\$10,587</u>	<u>\$162,615</u>	<u>\$586</u>	<u>\$163,201</u>
OPERATING INCOME/(LOSS)	<u>\$6,226</u>		<u>(\$4,361)</u>		<u>\$8,075</u>
WATER RATE BASE	<u>\$170,153</u>		<u>\$222,667</u>		<u>\$222,667</u>
RATE OF RETURN	<u>3.66%</u>		<u>-1.96%</u>		<u>3.63%</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 7-B			
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS			
SCHEDULE OF NON-POTABLE WATER OPERATING INCOME PHASE II					
	PHASE I	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	<u>\$246,783</u>	<u>\$0</u>	<u>\$246,783</u>	<u>\$5,382</u> 2.18%	<u>\$252,165</u>
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	\$190,332	\$5,117	\$195,450	\$0	\$195,450
DEPRECIATION (NET)	24,757	0	24,757	0	24,757
AMORTIZATION OF CIAC	(534)	0	(534)	0	(534)
TAXES OTHER THAN INCOME	25,911	0	25,911	242	26,153
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$240,466</u>	<u>\$5,117</u>	<u>\$245,583</u>	<u>\$242</u>	<u>\$245,825</u>
OPERATING INCOME/(LOSS)	<u>\$6,317</u>		<u>\$1,200</u>		<u>\$6,340</u>
WATER RATE BASE	<u>\$172,587</u>		<u>\$173,227</u>		<u>\$173,227</u>
RATE OF RETURN	<u>3.66%</u>		<u>0.69%</u>		<u>3.66%</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 7-C			
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS			
SCHEDULE OF WASTEWATER OPERATING INCOME PHASE II					
	PHASE I	STAFF ADJS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	<u>\$179,663</u>	<u>\$0</u>	<u>\$179,663</u>	<u>\$5,994</u> 3.34%	<u>\$185,657</u>
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	\$151,489	\$5,117	\$156,607	\$0	\$156,607
DEPRECIATION EXPENSE	11,006	436	11,442	0	11,442
AMORTIZATION OF CIAC	(15,514)	0	(15,514)	0	(15,514)
TAXES OTHER THAN INCOME	22,683	170	22,853	270	23,123
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$169,664</u>	<u>\$5,724</u>	<u>\$175,388</u>	<u>\$270</u>	<u>\$175,657</u>
OPERATING INCOME/(LOSS)	<u>\$9,999</u>		<u>\$4,275</u>		<u>\$10,000</u>
WASTEWATER OPERATING EXPENSES	<u>\$151,489</u>		<u>\$156,607</u>		<u>\$156,607</u>
OPERATING MARGIN	<u>6.60%</u>		<u>2.73%</u>		<u>6.39%</u>

AQUARINA UTILITIES, INC.	Schedule No. 7-D		
TEST YEAR ENDED 12/31/2014	DOCKET NO. 150010-WS		
ADJUSTMENTS TO OPERATING INCOME			
	<u>WATER-P</u>	<u>WATER-NP</u>	<u>WASTEWATER</u>
OPERATION AND MAINTENANCE EXPENSES			
Contractual Services - Professional (632/732) RO Service Contract.	<u>\$4,652</u>	<u>\$0</u>	<u>\$0</u>
Contractual Services - Other (636/736) To reflect amortization of GIS Mapping.	<u>\$5,117</u>	<u>\$5,117</u>	<u>\$5,117</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$9,769</u>	<u>\$5,117</u>	<u>\$5,117</u>
DEPRECIATION EXPENSE			
a. To reflect pro forma depreciation expense.	\$610	\$0	\$646
b. To reflect Non-U&U depreciation expense.	<u>0</u>	<u>0</u>	<u>(210)</u>
Total	<u>\$610</u>	<u>\$0</u>	<u>\$436</u>
TAXES OTHER THAN INCOME			
To reflect pro forma property taxes.	<u>\$208</u>	<u>\$0</u>	<u>\$170</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 8-A	
TEST YEAR ENDED SEPTEMBER 30, 2014		DOCKET NO. 150010-WS	
MONTHLY WATER RATES (PHASE II)			
	STAFF RECOMMENDED PHASE I RATES	STAFF RECOMMENDED PHASE II RATES	
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$19.16	\$19.16	
3/4"	\$28.74	\$28.74	
1"	\$47.90	\$47.90	
1-1/2"	\$95.79	\$95.79	
2"	\$153.27	\$153.27	
3"	\$306.55	\$306.55	
4"	\$478.96	\$478.96	
6"	\$957.93	\$957.93	
Charge per 1,000 gallons - Residential and General Service	\$6.95	\$6.95	
<u>Irrigation Service - Non-Potable</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$16.90	\$17.26	
3/4"	\$25.35	\$25.89	
1"	\$42.25	\$43.15	
1-1/2"	\$84.50	\$86.30	
2"	\$135.20	\$138.08	
3"	\$270.40	\$276.16	
4"	\$422.50	\$431.50	
6"	\$845.00	\$863.00	
Charge per 1,000 gallons - Irrigation Service	\$1.38	\$1.41	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$33.06	\$33.06	
6,000 Gallons	\$60.86	\$60.86	
8,000 Gallons	\$74.76	\$74.76	

*Phase I & II water rates will remain unchanged.

AQUARINA UTILITIES, INC.		SCHEDULE NO. 8-B	
TEST YEAR ENDED SEPTEMBER 30, 2014		DOCKET NO. 150010-WS	
MONTHLY WASTEWATER RATES (PHASE II)			
	STAFF RECOMMENDED PHASE I RATES	STAFF RECOMMENDED PHASE II RATES	
<u>Residential</u>			
Base Facility Charge - All Meter Sizes			
Charge Per 1,000 gallons	\$22.83	\$25.05	
8,000 gallon cap	\$4.94	\$5.68	
Flat Rate Service	\$35.78	\$37.32	
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$22.83	\$25.05	
3/4"	\$34.25	\$37.58	
1"	\$57.08	\$62.63	
1-1/2"	\$114.15	\$125.25	
2"	\$182.64	\$200.40	
3"	\$365.28	\$400.80	
4"	\$570.75	\$626.25	
6"	\$1,141.50	\$1,252.50	
Charge per 1,000 gallons - General Service	\$5.94	\$6.81	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$32.71	\$36.41	
6,000 Gallons	\$52.47	\$59.13	
8,000 Gallons	\$62.35	\$70.49	

	Cost Recovery Allocation			Fixed Allocations		Variable Allocations	
	Common Costs	Fixed	Variable	Potable - 50%	NP - 50%	Potable - 9%	NP - 91%
(601) SALARIES AND WAGES - EMPLOYEES	\$122,846	75.00%	25.00%	\$46,067	\$46,067	\$2,764	\$27,947
(604) EMPLOYEE PENSIONS AND BENEFITS	0	75.00%	25.00%	\$0	\$0	\$0	\$0
(615) PURCHASED POWER	35,330	0.00%	100.00%	\$0	\$0	\$3,180	\$32,150
(616) FUEL FOR POWER PRODUCTION	824	0.00%	100.00%	\$0	\$0	\$74	\$750
(618) CHEMICALS	0	0.00%	100.00%	\$0	\$0	\$0	\$0
(620) MATERIALS AND SUPPLIES	6,570	50.00%	50.00%	\$1,642	\$1,642	\$296	\$2,989
(632) CONTRACTUAL SERVICES - PROFESSIONAL	7,613	100.00%	0.00%	\$3,807	\$3,807	\$0	\$0
(634) CONTRACTUAL SERVICES - MANAGEMENT FEES	3,860	100.00%	0.00%	\$1,930	\$1,930	\$0	\$0
(635) CONTRACTUAL SERVICES - TESTING	0	50.00%	50.00%	\$0	\$0	\$0	\$0
(636) CONTRACTUAL SERVICES - OTHER	9,278	50.00%	50.00%	\$2,320	\$2,320	\$418	\$4,221
(641) RENTAL OF BUILDING/PROPERTY	667	100.00%	0.00%	\$334	\$334	\$0	\$0
(642) RENTAL OF EQUIPMENT	15,600	100.00%	0.00%	\$7,800	\$7,800	\$0	\$0
(650) TRANSPORTATION EXPENSE	12,648	50.00%	50.00%	\$3,162	\$3,162	\$569	\$5,755
(656) INSURANCE - VEHICLE	3,456	100.00%	0.00%	\$1,728	\$1,728	\$0	\$0
(657) INSURANCE - GENERAL LIABILITY	5,247	100.00%	0.00%	\$2,624	\$2,624	\$0	\$0
(659) INSURANCE - OTHER	4,755	100.00%	0.00%	\$2,378	\$2,378	\$0	\$0
(667) REGULATORY COMMISSION EXPENSE	50	100.00%	0.00%	\$25	\$25	\$0	\$0
(675) MISCELLANEOUS EXPENSE	8,477	100.00%	0.00%	\$4,239	\$4,239	\$0	\$0
	<u>\$237,221</u>			<u>\$78,054</u>	<u>\$78,054</u>	<u>\$7,301</u>	<u>\$73,812</u>