

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 21, 2017

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Lewis, Graves) *CL*
Division of Accounting and Finance (Golden, Wilson) *ms KLY MC TB*
Division of Economics (Bruce, Hudson) *pd SH AB CRBB ACM*
Office of the General Counsel (Murphy) *CM TW*

RE: Docket No. 20160195-WS – Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.

AGENDA: 10/03/17 – Proposed Agency Action – Except for Issue Nos. 11, 12, and 13 - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: 01/04/2018 (15-Month Statutory Deadline (SARC))

SPECIAL INSTRUCTIONS: None

TABLE OF CONTENTS

Case Background	1
Issue 1 Quality of Service	2
Issue 2 Used and Useful.....	7
Issue 3 Test Year Rate Base.....	10
Issue 4 Rate of Return.....	20
Issue 5 Test Year Revenues	21
Issue 6 Operating Expenses	22
Issue 7 Revenue Requirement.....	33
Issue 8 Appropriate Rate Structures	35
Issue 9 Customer Deposits.....	39
Issue 10 Non-Sufficient Funds Charges	40
Issue 11 Four Year Rate Reduction	41
Issue 12 Temporary Rates.....	42
Issue 13 Proof of Adjustments.....	44
Issue 14 Docket Closure	45
Schedule No. 1-A Water Rate Base.....	46
Schedule No. 1-B Wastewater Rate Base.....	47
Schedule No. 1-C Adjustments To Rate Base	48
Schedule No. 2 Capital Structure.....	50
Schedule No. 3-A Water Operating Income	51
Schedule No. 3-B Wastewater Operating Income	52
Schedule No. 3-C Adjustments to NOI.....	53
Schedule No. 3-D Water O&M Expense.....	55
Schedule No. 3-E Wastewater O&M Expense	56
Schedule No. 4-A Monthly Water Rates	57
Schedule No. 4-B Monthly Wastewater Rates	58
Schedule No. 5-A Water Plant, Depreciation, CIAC, & CIAC Amortization Balances	59
Schedule No. 5-B Wastewater Plant, Depreciation, CIAC, & CIAC Amortization Balances	60

Case Background

Lakeside Waterworks Inc., (Lakeside or Utility) is a Class C utility providing service to approximately 185 (182 residential and 3 general service) water customers and 171 (170 residential and 1 general service) wastewater customers in Lake County. Approximately 74 customers subscribe to the Utility's irrigation service. The Utility was originally owned by Shangri-La by the Lakes, Inc. (Shangri-La) which started providing service to 140 customers in 1983. The Florida Public Service Commission (Commission) granted Shangri-La certificate numbers 567-W and 494-S in 1996.¹ The Utility was transferred from Shangri-La to Lakeside in 2013.²

The Utility requested a Staff Assisted Rate Case (SARC) before the Commission in 2013. On November 21, 2014, the Office of Public Counsel (OPC) and the Utility filed a Joint Motion Requesting Approval of Settlement Agreement between OPC, the Utility, and the Homeowners (Joint Motion) which resolved all issues in the rate case. The Joint Motion was approved at the November 25, 2014 Commission Conference.³ Lakeside also requested a price index increase which was approved on June 26, 2015.

In April 2015, the water treatment plant (WTP) experienced a collapsed well and repairs to it failed. A new well was constructed and placed into service in April 2016.⁴ During this time, Lakeside's wastewater treatment plant (WWTP) was deemed out-of-compliance after an inspection by the Department of Environmental Protection (DEP) on October 13, 2015, due to structural issues. As a result, the DEP issued a permit to replace the WWTP on June 27, 2016.⁵ These two events necessitated the filing of this SARC by the Utility.

On August 26, 2016, Lakeside filed an application for a SARC. The official filing date of the SARC is October 4, 2016, when the balance of the required filing fee was paid by the Utility. Staff selected the 12-month period ended June 30, 2016, as the test year for the instant case. According to Lakeside's 2016 Annual Report, its total operating revenues for water and wastewater were \$64,036 and \$57,680, respectively. The Utility reported a net income of \$637 for the water service and net income of \$1,703 for the wastewater service.

The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.081(8) and (9), 367.0814, 367.101, and 367.121, Florida Statutes (F.S.).

¹Order No. PSC-96-0062-FOF-WS, issued January 12, 1996, in Docket No. 19940653-WS, *In re: Application for certificates to provide water and wastewater services in Lake County by Shangri-La by the Lake Utilities, Inc.*

²Order No. PSC-13-0425-PAA-WS, issued September 18, 2013, in Docket No. 20120317-WS, *In re: Application for approval to transfer water and wastewater system Certificate Nos. 567-W and 494-S in Lake County from Shangri-La by the Lake Utilities, Inc. to Lakeside Waterworks, Inc.*

³Order No. PSC-15-0013-PAA-WS, issued January 2, 2015, in Docket No. 20130194-WS, *In re: Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.*

⁴See Document No. 07026-16, p. 44.

⁵See Document No. 07026-16, p. 66.

Discussion of Issues

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

Recommendation: No. The Utility is in compliance with all primary and secondary water standards and the DEP has deemed the Utility to be in compliance for both water and wastewater operations. It also appears that the Utility has actively responded to concerns raised by its customers. However, water aesthetics and foul smells from the lift station continue to be a customer concern. Staff recommends that the overall quality of service provided by Lakeside be considered marginal. In addition, the Utility should meet with its customers with the help of the Office of Public Counsel (OPC) to discuss the options and cost to resolve these issues. Lakeside should provide a progress report of the results of such meetings to the Division of Engineering within six months of the consummating order being issued in the docket. (Lewis)

Staff Analysis: Pursuant to Section 367-081(2)(a)1, F.S., in water and wastewater rate cases, the Commission shall consider the overall quality of service provided by a utility. Rule 25-30.433(1), Florida Administrative Code (F.A.C.), provides for the evaluation of three separate components of the utility's operations. The components evaluated 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

WTP

The responsibility of inspecting and monitoring of Lakeside's water facilities is under the DEP. Staff's evaluation of Lakeside's water quality consisted of a review of the Utility's compliance with the DEP's 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. On April 22, 2015, the DEP conducted testing at Lakeside and the Utility was deemed in compliance with all primary and secondary water standards. Chemical analyses of all primary and secondary standards are performed every three years; therefore, the next scheduled analysis should occur in 2018.

During the customer meeting on June 1, 2017, customers pointed out DEP and Lakeside had notified them of a Maximum Contaminant Level (MCL) exceedance of Disinfection By-Products that occurred on August 18, 2015.⁶ As a result, the DEP required Lakeside to conduct quarterly testing for Trihalomethanes (TTHMs) and Haloacetic Acids (HAA5). Lakeside was informed of the new testing requirements on November 9, 2016 and on November 10, 2016, performed its

⁶Document No. 05290-17, filed June 12, 2017, p. 5.

first test.⁷ The results of that test showed the Utility was in compliance with the DEP standards. The Utility was required to sample four consecutive quarters through 2017. They also tested for TTHMs and HAA5s on February 2, 2017, April 10, 2017, and August 14, 2017. All three tests were deemed in compliance.

WWTP

The Utility was issued a permit for a new WWTP and the new plant was placed into service towards the end of February 2017. On June 27, 2017, the Utility received an emergency call due to sewage discharging from a manhole. Upon investigation, a technician discovered that lightning had tripped the breakers for the lift station. The Utility reported to the DEP that 10 to 20 gallons of sewage was discharged, to which the affected area was cleaned and treated by the technician prior to departure. A review of the DEP records indicates the Utility has no violations or corrective orders pending concerning the treatment and disposal of wastewater.

Operating Condition of the Utility's Plant and Facilities

WTP

Lakeside's service area is located next to Lake Eustis, near Leesburg, Florida, in Lake County and is within the St. Johns Water Management District (SJWMD). The raw water source is ground water, which is obtained from two wells in the service area and is treated. The water treatment processing sequence is to pump raw water from the aquifer, perform an aeration process, inject calcium hypochlorite, store the treated water in a tank, and distribute.

In April 2015, one of the Utility's two water wells collapsed. The facility was able to operate effectively with the remaining well. A new 8-inch well was constructed and completed on September 24, 2015, and approved by the DEP on April 15, 2016. There was no change to the capacity of the water treatment plant. The DEP conducted a Sanitary Survey of Lakeside's WTP on August 3, 2016, and on August 23, 2016, and the WTP was deemed in compliance.

WWTP

Lakeside's WWTP is an extended aeration activated sludge facility with chlorinated effluent sent to a spray field with a backup percolation pond for wet weather conditions. The DEP inspected the WWTP on October 13, 2015, and deemed the facility out-of-compliance on November 24, 2015; due to several maintenance and structural issues. Due to the condition of the aged facility (estimated to be 33 years); the Utility replaced the WWTP. On June 27, 2016, the DEP approved a new WWTP permit authorizing construction of a new splitter box, three new 5,000 gallon aeration chambers, one new 5,000 gallon digester, and piping modifications to provide 15,000 gallons per day (gpd) based on a three month average daily flow (TMADF) permitted capacity. The new WWTP consists of aeration, secondary clarification, chlorination, and aerobic digestion of bio solids. The new WWTP was placed into service on February 17, 2017. As discussed previously, the Utility has no corrective actions or violations pending with the DEP.

⁷Document No. 05290-17, filed June 12, 2017, p. 14.

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. The Utility's last SARC before the Commission was finalized in January 2015, in which the Commission found the overall quality of service for the Utility's water and wastewater systems to be satisfactory. Therefore, staff's analysis of customer satisfaction in this case focused on customer complaints that have occurred since the last rate case. Staff reviewed customer complaint records provided by the Utility as well as complaints filed with the Commission. Staff also requested complaints against the Utility filed with the DEP. The DEP indicated it had not received any complaints against the Utility.

Lakeside's customer complaint records reflect 75 complaints and 11 inquiries for the period with four duplicate complaints or follow-ups from the same customer. Twenty-eight of the complaints were due to repairs including: (1) three concerning water pressure problems on February 4, 2015; (2) nine complaints for smelly and bad tasting water from December 31, 2015, through January 4, 2016; (3) five complaints between March 4 through March 9, 2016, due to cloudy water; and (4) eleven complaints because of a tank inspection resulting in the water service being interrupted on September 13, 2016. The remaining 47 complaints for the period involved cloudy/dirty looking water and billing disputes including meter reading issues.

The 26 complaints filed directly with the Commission were all due to billing issues. Twenty-two of the complaints were caused by a billing error that occurred in March 2016, upon the implementation of Phase II rates from the previous rate case. An error in Lakeside's billing code applied a Base Facility Charge (BFC) for irrigation services to all customers. The error was corrected and all related complaints were closed by May 27, 2016. The remaining complaints were related to billing issues, all of which have been closed.

As part of staff's evaluation of customer satisfaction, staff also held a customer meeting on June 1, 2017, in Leesburg, Florida, at the Shangri-La by the Lakes clubhouse within the Utility's service territory. Approximately 53 residents were in attendance, 44 of which made comments. The OPC addressed the assembly before customer comments commenced. The main areas of concern were: (1) errant meter readings; (2) ongoing water pressure problems; (3) smelly and undrinkable water; and (4) foul smells from the lift station across the street from to the clubhouse. The Utility provided a letter in response to the concerns raised during the customer meeting.

Meter Readings

In response to the customers' comments regarding meter reading, Lakeside reported that it terminated one employee, in the December 2016/January 2017 timeframe. The Utility explained that the employee was terminated for "curbing" meter readings. The meter readings were reported inaccurately by the employee probably in an effort to shorten their work day. Lakeside additionally represented that its contractor, U.S. Water Services has various procedures to safeguard accurate monthly meter readings.⁸

⁸Document No. 05922-2017 filed July 7, 2017.

Water Pressure

On July 17, 2017, the Utility rebuilt two high service pumps at the WTP. This was undertaken in response to the customer comments concerning water pressure issues given at the customer meeting. The high service pumps are also necessary to provide the required fire flow for the County. Additionally, Lakeside has two hydropneumatic tanks. Lakeside is modifying the interconnection of the two hydropneumatic tanks in an effort to further address system water pressure issues. In addition, the pump for well #1 failed on July 18, 2017, and was subsequently replaced on July 26, 2017.⁹ Lakeside is also replacing its old control panel within the WTP with a newer more up to date panel. This includes the installation of pressure switches for the pumps. The replacement of the control panel will assist in addressing the pressure issues within the distribution system.

Water Aesthetics

The smell and taste of the water are concerns that were also discussed in the 2013 SARC. In response to the customer's concerns, Lakeside explained that it has made improvements to the aeration treatment for the naturally occurring hydrogen sulfides which can cause a "rotten egg" smell in the water. The Utility additionally stated that the issue of odor can be exacerbated in systems that serve a seasonal customer base such as Lakeside.

Lakeside submitted that it is ready and able to make improvements necessary to address the customer's water quality concerns. The Utility asserted that the cost of such improvements, estimated to be \$993,750, would cause a significant upward pressure on water rates. The Utility continued that it is willing to work with the customers if they would like to do an assessment and contribute towards the cost.¹⁰

Lift Station

Foul smells emanating from the lift station next to the clubhouse is a continuing issue of displeasure expressed by the customers during the previous SARC and at the customer meeting held on June 1, 2017. The Utility estimated that the cost to rehabilitate the lift station is \$75,000. Lakeside also stated it had planned to upgrade the lift station during the previous SARC but decided not to due to opposition from its customers and OPC. The Utility further stated that the upgrade was originally estimated to cost \$41,000 and would have addressed many of the customers' concerns.¹¹ Staff recommends the Utility meet with its customers with the help of the OPC to discuss the options and cost to resolve this issue.

Conclusion

The Utility is in compliance with all primary and secondary water standards and the DEP has deemed the Utility to be in compliance for both water and wastewater operations. It also appears that the Utility has actively responded to concerns raised by its customers. However, water aesthetics and foul smells from the lift station continue to be a customer concern. Staff recommends that the overall quality of service provided by Lakeside be considered marginal. In addition, the Utility should meet with its customers with the help of the OPC to discuss the options and cost to resolve these issues. Lakeside should provide a progress report of the results

⁹Document No. 06614-2017 filed August 4, 2017.

¹⁰Document No. 05920-17 filed June 12, 2017, p. 4.

¹¹Document No. 05920-17 filed June 12, 2017, p. 6.

of such meetings to the Division of Engineering within six months of the consummating order being issued in the docket.

Issue 2: What are the used and useful percentages (U&U) of Lakeside's WTP, water storage facilities, WWTP, water distribution, and wastewater collection systems?

Recommendation: Lakeside's WTP should be considered 81 percent U&U, and the water storage facilities should be considered 100 percent U&U. Lakeside's WWTP should be considered 92 percent U&U. The Utility's water distribution and wastewater collection systems should be considered 100 percent U&U. Staff recommends that no adjustment be made to purchased power and chemical expenses since there appears to be no excessive unaccounted for water (EUW) and there is no indication of excessive inflow and infiltration (I&I). (Lewis)

Staff Analysis: Lakeside's water system has two wells rated at 850 gallons per minute (gpm) and 270 gpm.¹² Storage consists of a 20,000-gallon concrete ground storage tank with aeration, and two steel hydropneumatic tanks with capacities of 3,000 gallons and 5,000 gallons. A hypochlorination system is used for disinfection and water from the tanks is pumped into the water distribution system.

The distribution system is a composite network of approximately 2,820 linear feet of 10-inch PVC pipe, 2,828 linear feet of 8-inch PVC pipe, 3,450 linear feet of 6-inch PVC pipe, 1,700 linear feet of 4-inch PVC pipe, and 2,800 linear feet of 1.5-inch PVC pipe. According to the Utility, there are 11 fire hydrants in its service area.

The newly permitted WWTP is a 15,000 gpd extended aeration activated sludge facility. The chlorinated effluent is sent to a 3.2 acre restricted public access spray field with a backup percolation pond for wet weather conditions. The collection system is a composite network of force mains, collecting mains, and four lift stations. The force mains consist of approximately 3,211 linear feet of 4-inch PVC pipe and 2,324 linear feet of 3-inch PVC pipe. The collecting mains consist of approximately 9,768 linear feet of 4-inch PVC pipe and 4,277 linear feet of 3-inch PVC pipe. According to the Utility, there are 15 manholes.

Excessive Unaccounted for Water

Rule 25-30.4325 (1)(e) , F.A.C., defines EUW as unaccounted for water in excess of 10 percent of the amount produced. Unaccounted for water is all water that is produced that is not sold, metered, or accounted for in the records of the Utility. Rule 25-30.4325(10), F.A.C., provides that to determine whether adjustments to plant and operating expenses, such as purchased electrical power and chemicals cost, are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible. The unaccounted for water is calculated by subtracting both the gallons used for other purposes, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year.

The Utility's Monthly Operating Reports (MORs) filed with the DEP indicate 9,367,465 gallons of finished water were produced during the test year of which 7,859,000 gallons of water were sold to customers. The MORs filed during the test year do not reflect any gallons used for other purposes. Lakeside has a flushing program but did not record the gallons used.¹³ However, in its

¹²See Document No. 07047-16 filed on August 26, 2016.

¹³Document No. 05814-2017 filed July 7, 2017.

application the Utility identifies 560,962 gallons used for other purposes.¹⁴ The resulting calculation for unaccounted for water $((7,859,000+560,962)/(9,367,465))$ equals 10.1 percent, yielding an EUW of 0.1 percent. Therefore, staff is recommending that no adjustment be made to operating expenses for chemicals and purchased power due to the EUW.

Water Treatment Plant Used & Useful

Pursuant to Rule 25-30.4325, F.A.C., the U&U calculations are defined for a water treatment system and storage facilities. For a water treatment plant with more than one well and storage capacity, the U&U is calculated using the following equation: $([\text{Peak Demand} + \text{Fire Flow} + \text{Growth} - \text{Excessive Unaccounted for Water}]/\text{Firm Reliable Capacity})$. The peak demand is the single maximum day in the test year where there are no unusual occurrences and is measured in gallons per day. Based on Lakeside's MORs the Max Day usage during the test year was 100,000 gallons which occurred on May 20, 2016. Staff noted the significant increase from 42,300 gallon peak day recorded in the 2013 SARC and it appears no new construction has occurred since the last SARC. As stated previously, Lakeside has a flushing program but did not specifically identify dates and gallons flushed. Therefore, staff utilized the average monthly peak day from July 2015 through June 2016 as a reasonable peak based upon the data available. The average monthly peak day usage for the system was 55,525 gallons. Staff believes this value is a better reflection of the peak day demand for the system.

In the 2013 SARC, the Utility served 187 Equivalent Residential Connections (ERCs); however, this declined to 185 ERCs for the current test year. The service area has approximately 24 lots available for development in the new Eagles Point subdivision – Phase I. As it appears that no new construction has occurred since the filing of the last rate case, staff believes it is prudent to not include an allowance for customer growth in the near future. Therefore, the growth ERC allowance should be considered as zero.

Because the Utility has storage capacity, the Firm Reliable Capacity (FRC) is based on 16 hours of pumping, excluding the largest well. The Utility has two wells rated at 850 gpm and 270 gpm. The Utility's FRC is calculated by the smallest well capacity x 16 hours $(270 \text{ gpm} \times 60 \text{ min/hr} \times 16 \text{ hrs})$ which equates to 259,200 gallons. However, this is greater than the permitted capacity of 180,000 gpd for the plant. Therefore, 180,000 gpd should be considered the FRC for the system. Fire flow for the Utility's service area is 750 gpm for two hours, or 90,000 gpd. Based on the inputs discussed above, the resulting U&U calculation for the WTP $(55,525 + 90,000 + 0 - 0)/180,000$ equals 81 percent.

Storage Used & Useful

Pursuant to Rule 25-30.4325(8), F.A.C., for water systems with storage, if the storage capacity is less than the peak demand, the storage system should be considered 100 percent U&U. Lakeside has a 20,000 gallon ground storage tank and two hydropneumatic tanks rated at 3,000 gallons and 5,000 gallons, respectively. Since the storage capacity (28,000 gallons) is less than the peak demand (55,525 gallons), the storage system should be considered 100 percent U&U. The storage capacity was rated at 100 percent in the Utility's previous rate case before the Commission.

¹⁴Document No. 07026-16 filed August 26, 2016, p. 36.

Wastewater Treatment Plant Used & Useful

Pursuant to Rule 25-30.432, F.A.C., the U&U analysis of a utility's WWTP is described by the following equation: $((\text{Customer Demand} - \text{I\&I} + \text{Growth}) / \text{Permitted Capacity})$. In this calculation, customer demand is measured on the same basis as permitted capacity.

The Three Month Average Daily Flow (TMADF) from November 2015 through January 2016 was 13,725 gpd. As discussed in more detail below, the monthly Discharge Monitoring Reports (DMR) indicate no I&I. Also, as previously discussed, the expected growth is zero. The DEP permitted plant capacity, based on a TMADF, is 15,000 gpd. Based on the inputs described above the final calculation of U&U for Lakeside's WWTP is 92 percent $([13,725 - 0 + 0] / 15,000)$.

Inflow & Infiltration

Infiltration occurs from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas, inflow results from water entering a wastewater collection system through manholes or lift stations. The allowance for infiltration is 500 gallons per day, per inch diameter pipe per mile, and an additional 10 percent of water sold is allowed for inflow. The allowance for Inflow is 10 percent of the water sold. The Utility's DMRs which were filed with the DEP indicate that there was no excessive I&I for the test year.

Water Distribution and Wastewater Collection Systems Used & Useful

In the previous rate case before the Commission, the U&U analysis for the water distribution and wastewater collection systems were determined by dividing the number of lots connected to the systems by the number of lots fronting mains in the service area. Consideration is given for growth, if applicable. Staff believes the lines in the Utility's service territory appear to be built-out. Therefore, the water distribution and wastewater collection systems should be considered 100 percent U&U. The water distribution and wastewater collection systems were rated at 100 percent in the Utility's previous rate case before the Commission.

Conclusion

Lakeside's WTP should be considered 81 percent U&U, and the water storage facilities should be considered 100 percent U&U. Lakeside's WWTP should be considered 92 percent U&U. The Utility's water distribution and wastewater collection systems should be considered 100 percent U&U. Staff recommends that no adjustment be made to purchased power and chemical expenses since there appears to be no EUW and no indication of excessive I&I.

Issue 3: Should the Commission approve a year-end rate base for Lakeside, and if so, what is the appropriate year-end water and wastewater test year rate base?

Recommendation: Yes. The Commission should approve a year-end rate base for Lakeside. The appropriate year-end water test year rate base is \$143,573, and the appropriate year-end wastewater test year rate base is \$134,117. (Golden, Wilson, Lewis)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service, contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. Rate base was last established in Lakeside's 2013 SARC.¹⁵ The Utility requested the test year ended June 30, 2016, for the instant case. Commission audit staff determined that the Utility's books and records are in compliance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). The OPC filed a Letter of Concern in this docket on May 26, 2017.¹⁶ The Utility subsequently filed a response letter on June 6, 2017.¹⁷ Staff has incorporated adjustments based on both letters. A summary of each component of rate base and the recommended adjustments are discussed below.

Year-End Rate Base

In its application, the Utility requested a year-end rate base for its water system in order to have an opportunity to recover its allowed rate of return on the significant capital improvements that were made during the test year to install a new well and make additional plant improvements to address water quality concerns. Based on staff's review, Lakeside's water improvements including applicable retirements represent an increase of \$85,179 or 63.31 percent since the Utility's rate base was last established. If an average rate base were used, the Utility would not be afforded the opportunity to recover its allowed rate of return on the new investment and would be put in the position of requesting a subsequent SARC at a later date.

The Commission has the authority to apply a year-end rate base, but should only apply a year-end rate base in extraordinary circumstances.¹⁸ Staff believes extraordinary circumstances exist in the instant case. The Utility has made significant improvements to the primary well that supplies water to its customers. In addition, the Utility replaced the automated aeration at the plant and installed new Whitewater Compressors at both of the existing hydropneumatic tanks to address water quality concerns expressed by its customers. The year-end rate base will provide the Utility with an opportunity to recover the investment made to improve water quality and will insure compensatory rates for this Utility in this rate case. The Commission has previously authorized the use of a year-end rate base in other cases involving significant test year

¹⁵Order No. PSC-15-0013-PAA-WS, issued January 2, 2015, in Docket No. 20130194-WS, *In re: Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.*

¹⁶Document No. 05071-17, filed on May 26, 2017, in Docket No. 20160195-WS.

¹⁷Document No. 05300-17, filed on June 13, 2017, in Docket No. 20160195-WS.

¹⁸*See, Citizens of Florida v. Hawkins*, (FLA.1978), 356 So. 2d 254.

improvements.¹⁹ Therefore, staff recommends that the Commission approve a year-end water rate base for Lakeside.

The Utility did not request a year-end rate base for its wastewater system because there were no extraordinary circumstances during the test year that would warrant use of a year-end rate base. However, in its May 26, 2017 letter, OPC proposed that it would be appropriate to use a year-end rate base for both the water and wastewater systems in keeping with the matching principle and to have a consistent test year across all components of the test year. In its June 6, 2017, response to OPC's letter, the Utility indicated that it had relied on past Commission decisions on plant additions when requesting the year-end water rate base, but that it does not contest OPC's request for a year-end rate base for both water and wastewater. Although the wastewater system does not qualify for a year-end rate base on its own, staff agrees that OPC's proposal to use a year-end rate base for both systems is reasonable and will produce a more consistent result. Further, because the Utility did not make any test year additions to wastewater plant or CIAC, the impact of changing from an average to a year-end rate base is minimal. Therefore, staff recommends that the Commission approve a year-end wastewater rate base for Lakeside as well.

Utility Plant in Service (UPIS)

The Utility recorded UPIS of \$263,806 for water and \$153,449 for wastewater. In its May 26, 2017, letter, OPC noted some possible errors in the June 30, 2013, end of test year balances for plant, accumulated depreciation, and accumulated amortization of CIAC that were approved in the last SARC and used as the starting point for the instant SARC. Staff determined that OPC is correct that the end of test year balances inadvertently included several pro forma projects and averaging adjustments that are only used for ratesetting purposes and should not have been included in the end of test year balances. Lakeside properly adjusted its books and records in accordance with the Commission's Order in the last SARC, which resulted in plant being overstated by \$3,512 for water and \$830 for wastewater due to the errors in the end of test year balances. The Utility later corrected its books by reversing the end of test year adjustments and recording the pro forma projects when they were completed. Lakeside's subsequent correction prevented a double counting of the pro forma adjustments and removed the averaging adjustments that are only used for ratesetting purposes. However, the correction also eliminated some test year adjustments that should have remained on the Utility's books, as well as the retirements associated with the pro forma projects.

In order to reflect the correct 2013 test year balances, staff decreased water plant by \$603 to remove an unsupported generator equipment addition from Account No. 310 and decreased wastewater plant by \$245 to remove an unsupported pumping equipment addition from Account No. 371. Also, staff decreased wastewater plant by \$563 to reflect the retirement associated with a 2013 test year pump starter replacement to Account No. 371. Further, in order to correctly

¹⁹Order No. PSC-98-0763-FOF-SU, issued June 3, 1998, in Docket No. 19971182-SU, *In re: Application for staff-assisted rate case in Marion County by BFF Corp.*; Order No. PSC-00-1774-PAA-WU, issued September 27, 2000, in Docket No. 19991627-WU, *In re: Application for rate increase in Polk County by Park Water Company Inc.*; Order No. PSC-01-0323-PAA-WU, issued February 5, 2001, in Docket No. 20000580-WU, *In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Alturas Water Works)*; and Order No. PSC-02-1449-PAA-WS, issued October 21, 2002, in Docket No. 20011451-WS, *In re: Investigation of water and wastewater rates for possible overearnings by Plantation Bay Utility Co. in Volusia County.*

reflect the Commission-approved retirements associated with the four water and one wastewater pro forma projects approved in the last SARC, staff decreased water plant by \$6,563 and decreased wastewater plant by \$2,768.

Based on audit staff's review in the instant docket, staff decreased UPIS by \$463 for water and \$398 for wastewater to remove unsupported organization expenses from Account Nos. 301 and 351. Staff also increased water plant by \$1,165 to reclassify a water line repair that was inadvertently recorded as a wastewater expense during the test year. Staff notes that OPC also expressed a concern about the expensing of this repair and proposed that it should be capitalized to plant instead.

As discussed above, the Utility replaced the primary well that provides water to its customers during the test year. The Utility initially attempted to rehabilitate the existing well, but ultimately found it necessary to drill a new well. The expenses incurred to attempt to rehabilitate the original well and install the new well were already recorded on the Utility's books during the test year. Engineering staff has reviewed the prior bids and actual final costs of these improvements and determined that the final costs are reasonable and that no adjustments are necessary. The Utility subsequently determined that the associated retirement of the replaced well is \$15,956, and the associated retirement for the well rehabilitation work is \$19,153, for a total retirement of \$35,109. Regarding the \$19,153 retirement value, OPC questioned whether the \$2,085 water valve replacement that was performed two days prior to the remaining \$17,068 in rehabilitation work on the collapsed well was damaged in the collapsed well or was able to be reused. In response, Lakeside verified that the new water valve was not retired with the collapsed well and was still in service. Therefore, the well rehabilitation work retirement is \$17,068 rather than \$19,153. The total retirement for the replaced well and rehabilitation work is \$33,024.

However, OPC further expressed concern about the accounting treatment of the well rehabilitation work. Because the well rehabilitation work was only able to be in service for approximately nine months before the new well was drilled, the retirement will deplete the accumulated depreciation balance for Account No. 307 Wells and Springs, resulting in a negative accumulated depreciation balance at the end of the test year. OPC stated that it is not challenging whether the work performed was reasonable, but believes the appropriate treatment would have been to defer the costs pending the outcome of this proceeding and to amortize those costs over a reasonable time frame. OPC is proposing that the loss be amortized over 10 years.

In its response to OPC's letter, the Utility stated that the well rehabilitation work was originally capitalized due to the fact that Lakeside attempted to rehabilitate the well instead of replacing it in an effort to avoid the cost of drilling a new well. The Utility believes it would be appropriate to include these costs with the loss on the retired well and amortize both losses over the same time period.

Staff notes that NARUC Accounting Instruction 5.D., specifies in part that when an item of plant is retired, Account 108 – Accumulated Depreciation and Amortization of Utility Plant in Service, shall be charged and the appropriate plant accounts shall be credited with the entire recorded original cost of plant retired regardless of the amount of depreciation which has been accumulated for this particular item of plant, and that Account 108 shall be charged with the costs of removal of retired plant, and credited with the salvage value, sales price, or other

amounts recovered from plant retired. In addition, NARUC Accounting Instruction 5.E., provides that a different accounting treatment may be required in rare instances when the unexpired early retirement of a major unit of property will eliminate or seriously deplete the existing depreciation. NARUC Accounting Instruction 5.E., specifies in part that in such instances the Commission may authorize or order the loss on retirement to be transferred to Account 186 – Miscellaneous Deferred Debits, and amortized in future periods.

Staff believes the Utility's capitalization of the well rehabilitation work was an appropriate accounting treatment at the time the work was performed and was consistent with NARUC guidelines. Further, the Utility's proposed accounting treatment of the retirement is consistent with the NARUC guidelines. Staff also notes that if the rehabilitation efforts had been successful, that work would have served to extend the useful service life of the well and would have been depreciated normally over time, further supporting the traditional accounting treatment at the time the repairs were completed. Therefore, staff decreased water plant by \$33,024 to reflect the retirement of the collapsed well and well rehabilitation work. In addition, staff believes it would be appropriate to establish a regulatory asset to remove the negative accumulated depreciation that resulted from the retirement of the well rehabilitation work and allow the Utility to amortize the unrecovered well rehabilitation costs. Staff's recommended adjustments to establish the regulatory asset will be discussed later in this issue under the Accumulated Depreciation and Regulatory Asset sections. The calculation of both the amortization period and amortization expense for the water and wastewater early retirement losses will be discussed further in Issue 6.

Subsequent to the test year, Lakeside made several pro forma water plant additions. Therefore, staff increased water plant by \$1,338 to reflect a new customer service line installation, and by \$1,967 to reflect a high service pump repair. In an effort to reduce costs, Lakeside attempted to use the well pump from the collapsed well in the new well. The original pump subsequently failed and was replaced with a new pump. Therefore, staff increased water plant by \$14,012 to reflect the addition of the new well pump. After taking into consideration other plant additions made to pumping equipment in recent years, the remaining balance in Account No. 311 – Pumping Equipment appears to be insufficient to represent the original cost of the pumps on both wells. The original cost of the pump is no longer in plant to be retired; therefore, staff is not recommending a retirement amount associated with the well pump replacement.

OPC expressed concern about U. S. Water Services Corporation's (USWSC) policy of including an 18 percent markup on materials used in the plant upgrades and repair work performed on Lakeside's plants. OPC stated that it has noted several other instances where this markup is applied to services as well as materials. Staff believes OPC is referring to a prior adjustment made in a SARC for one of Lakeside's sister utilities where the markup was inappropriately applied to some services. However, staff has reviewed all the USWSC invoices being considered in this docket and did not find any instances where the markup was applied to labor costs.

The only discrepancy noted by staff was that the markup on one invoice related to the well repair appeared to be overstated. The Utility's supporting documentation showed all of the materials used for that job along with the calculation of the markup, however, a portion of the materials were inadvertently omitted from the final invoice. USWSC issued a subsequent invoice with the

remaining materials that correspond with the supporting documentation and amount of the markup. Therefore, staff increased water plant by \$917 to reflect the additional materials.

In addition, staff noted that some invoices exclude the markup entirely. Staff inquired as to the reason why some invoices are assessed the markup and some are not. A USWSC representative informed staff that the markup is provided for in the USWSC operations contract. However, for all the regulated utilities, USWSC takes into consideration who performed the work. For example, if an outside contractor was called and performed all of the work and supplied all of the material completely with no outside assistance or material provided by USWSC, the markup will not be assessed because no material or labor was supplied by USWSC.

The markup is for USWSC related work and material. This would include jobs or projects where USWSC employees assist with the work or provide additional work, such as specifically identified large projects with job numbers, or supply materials for the job. The markups are designed to cover the overhead for the work related to the materials. For example, when material is supplied, a USWSC employee would have to either order it or go purchase it. Also, for all of the invoices processed through USWSC administrative employees, such as the job costing project, accounts payable and accounting personnel must receive, code, enter, and ultimately pay for the vendors. The markup includes the overhead costs for that process. In addition, the jobs have to be tracked for labor and material, and then ultimately billed out to the regulated utility, which involves additional work.

In its response to OPC's letter, Lakeside stated that the 18 percent markup was derived by using factors of 8 percent overhead and 10 percent profit.²⁰ Lakeside also stated that according to RS Means: (1) the "Average Fixed Overhead for all services across the United States is 17.9 percent; (2) the overhead varied from a low of 11 percent to a high of 16 percent; (3) while the profit across all services was at 10 percent. Further, the overall overhead and profit across all services across the United States varied from a low of 47.4 percent to a high of 80.4 percent. Lakeside also noted that it had previously explained the USWSC 18 percent markup in several past SARC dockets.

As discussed previously, the Utility replaced the WWTP in order to be in compliance with DEP requirements. The WWTP replacement was completed on February 17, 2017. Therefore, staff increased UPIS by \$91,755 to reflect the pro forma replacement of the WWTP and decreased UPIS by \$33,921 to reflect the retirement of the replaced WWTP. Engineering staff reviewed the bids and final costs of the WWTP replacement and determined that the costs are reasonable. Staff also notes that the selected bid was estimated at \$97,103, but the project came in under budget by \$5,348. OPC objected to the inclusion of the 18 percent markup on this project from the related party servicing company. The Commission has previously approved project costs for Lakeside's sister utilities that include the USWSC markup, except those instances where it was not properly applied as noted above. In keeping with prior Commission decisions regarding the related party work and markup, staff does not believe any further adjustments to the markup are necessary.

²⁰Document No. 05300-17, filed on June 13, 2017, in Docket No. 20160195-WS, p. 2.

In addition, staff increased wastewater plant by \$955 to reflect a pro forma WWTP sprayfield pump repair completed after the test year. As discussed above, staff is recommending the use of a year-end rate base for both water and wastewater; therefore, no averaging adjustment is necessary. Further, no averaging adjustments are applied to pro forma additions, consistent with Commission practice. Staff's net adjustments to UPIS are a decrease of \$21,253 for water and an increase of \$54,815 for wastewater. Therefore, staff recommends a UPIS balance of \$242,553 for water and \$208,264 for wastewater.

Non-Used and Useful Plant

As discussed in Issue 2, Lakeside's distribution and collection systems are considered 100 percent U&U. Also, the water treatment plant should be considered 81 percent U&U, and the wastewater treatment plant should be considered 92 percent U&U. As discussed above, staff recommends that the Commission approve a year-end rate base for Lakeside. Therefore, staff applied the non-U&U percentages to the year-end balances for water and wastewater. Application of the non-U&U percentages to plant and the associated accumulated depreciation results in net adjustments of \$18,497 for water and \$7,872 for wastewater. Therefore, water rate base should be reduced by \$18,497 to remove the 19 percent of the water treatment plant that is non-U&U, and wastewater rate base should be reduced by \$7,872 to remove the 8 percent of the wastewater treatment plant that is non-U&U.

Contribution in Aid of Construction (CIAC)

The Utility recorded test year CIAC balances of \$14,251 for water and \$18,388 for wastewater. Staff notes that CIAC was not affected by the end of test year balance errors discussed above, therefore, no correcting adjustments are necessary. Audit staff determined that no adjustments were necessary to the test year. Staff increased water CIAC by \$335 to reflect pro forma additions that occurred after the end of the test year. No averaging adjustments are necessary for ratemaking purposes due to the lack of activity during the test year, and because staff is recommending a year-end rate base for both systems. Staff recommends CIAC balances of \$14,586 for water and \$18,388 for wastewater.

Accumulated Depreciation

The Utility recorded test year accumulated depreciation balances of \$118,074 for water and \$103,869 for wastewater. As discussed above, the June 30, 2013 end of test year balances for accumulated depreciation that were approved in the last SARC inadvertently included several pro forma and averaging adjustments. Lakeside properly adjusted its books and records in accordance with the Commission's Order in the last SARC, which resulted in accumulated depreciation being understated by \$7,673 for water and \$2,788 for wastewater due to the errors in the end of test year balances. The Utility later corrected its books by reversing the end of test year adjustments and recording the pro forma projects when they were completed. Lakeside's subsequent correction prevented a double counting of the pro forma adjustments and removed the averaging adjustments that are only used for ratesetting purposes. However, the correction also eliminated some test year adjustments that should have remained on the Utility's books, as well as the retirements associated with the pro forma projects.

In order to reflect the correct 2013 test year balances, staff increased this account by \$464 for water and decreased this account by \$5,534 for wastewater to restore the 2013 test year balances that were calculated based on Rule 25-30.140, F.A.C. As noted above, the Utility's water plant was decreased to remove unsupported generator equipment during the 2013 test year. Accordingly, staff decreased water Account No. 310 by \$107 to remove the depreciation that the Utility had accumulated on the generator equipment that has been removed again in accordance with the 2013 Order. Further, in order to correctly reflect the Commission-approved retirements associated with the four water and one wastewater pro forma projects approved in the last SARC, staff decreased accumulated depreciation by \$6,563 for water and by \$2,768 for wastewater.

Staff also decreased this account by \$156 for water and \$92 for wastewater to reflect the accumulated depreciation associated with the pro forma retirements.

Based on staff's review in the instant docket, staff increased this account by \$31 for water to reflect the accumulated depreciation associated with the water line repair that was reclassified from a wastewater expense account to a water plant account, as discussed above. Staff decreased water accumulated depreciation by \$33,024 to reflect the retirement of the collapsed well and well rehabilitation work. Staff also decreased this account by \$3,517 to reflect the well abandonment and removal costs associated with abandoning the collapsed well. As discussed above, staff believes it would be appropriate to establish a regulatory asset to remove the negative accumulated depreciation that resulted from the early retirement of the well rehabilitation work. The net unrecovered balance of the well rehabilitation costs is \$16,436, which is the total \$17,068 rehabilitation cost less \$632 in accumulated depreciation that was recovered during the test year while the repairs were in service ($\$17,068 - \$632 = \$16,436$). Therefore, staff increased accumulated depreciation for water by \$16,436 to establish the regulatory asset, thereby, removing the negative accumulated depreciation. Staff's remaining adjustments related to the establishment of the regulatory asset will be discussed below in the Regulatory Asset section. In addition, staff increased this account by \$1,012 to reflect the accumulated depreciation associated with the pro forma water line installation, pump repairs, well pump replacement, and well materials correction.

In addition, staff increased wastewater accumulated depreciation by \$5,835 to reflect the pro forma WWTP replacement. Further, staff decreased this account by \$33,921 for wastewater to reflect the retirement of the replaced WWTP. Staff also decreased this account by \$5,760 to reflect the portion of the WWTP removal costs related to dewatering services. The Utility is currently reviewing options for removing the physical structure of the replaced WWTP. As such, it is anticipated that Lakeside will incur additional removal costs in the future. Staff recommends that the Commission authorize Lakeside to record any additional WWTP removal costs it incurs in the future to Account 186 Miscellaneous Deferred Debits pending Commission review in a future rate proceeding. Subsequent to the test year, the Utility repaired a WWTP sprayfield pump that staff has included in plant above. Accordingly, staff has increased the wastewater accumulated depreciation by \$32 to reflect the depreciation associated with this plant repair.

Finally, staff calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. After taking into consideration the adjustments discussed above, staff determined that an additional increase of \$927 for water and a decrease of \$322 for wastewater is necessary to reflect the appropriate test year balances. Again, no averaging adjustment is necessary to the water or wastewater accumulated depreciation balances due to the use of the year-end rate base method. Staff's net adjustments are decreases of \$24,496 and \$42,530 to water and wastewater, respectively. Therefore, staff recommends accumulated depreciation balances of \$93,578 for water and \$61,339 for wastewater.

Accumulated Amortization of CIAC

Lakeside recorded amortization of CIAC balances of \$7,379 for water and \$7,517 for wastewater. As discussed above, the end of test year balances from the 2013 SARC inadvertently included the averaging adjustments that are only used for ratesetting purpose and should not have

been included in the end of test year balances. Lakeside properly adjusted its books and records in accordance with the Commission's Order in the last SARC, which resulted in accumulated amortization of CIAC being understated by \$245 for water and \$139 for wastewater due to the averaging adjustments. In order to reflect the correct 2013 test year balances, staff increased this account by \$245 for water and \$139 for wastewater. Staff calculated amortization of CIAC using composite depreciation rates. Accordingly, staff decreased water amortization of CIAC by \$359 and decreased wastewater amortization of CIAC by \$463. In addition, staff increased the water account by \$10 to reflect the pro forma amortization of CIAC associated with the pro forma CIAC additions discussed above. Staff's net adjustments are decreases of \$104 for water and \$324 for wastewater. Therefore, staff recommends accumulated amortization of CIAC balances of \$7,275 for water and \$7,193 for wastewater.

Regulatory Asset

As discussed above, staff believes it would be appropriate to establish a regulatory asset to remove the negative accumulated depreciation that resulted from the early retirement of the well rehabilitation work and allow the Utility to amortize the unrecovered balance. Therefore, staff increased Account 186.3 Miscellaneous Deferred Debits – Regulatory Assets by \$16,436 to establish a regulatory asset to allow the Utility to recover the net unrecovered balance of the well rehabilitation costs. As noted above, \$16,436 is the net balance resulting from the total cost of \$17,068 less the accumulated depreciation of \$632 that was accumulated during the test year while the well repairs were in service. Staff believes an appropriate annual amortization expense for the regulatory asset is \$2,348. Accordingly, staff decreased this account by \$2,348 to reflect the accumulated amortization on the regulatory asset, resulting in a net adjustment of \$14,088. Therefore, staff recommends a regulatory asset balance of \$14,088 for the test year. Staff's calculation of the amortization period and annual amortization expense will be discussed in Issue 6.

Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses of the Utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Staff also removed the unamortized balance of rate case expense of \$378 for water and \$243 for wastewater pursuant to Section 367.081(9), F.S.²¹ In addition, staff removed the unamortized balance of rate case expense from the Utility's 2013 SARC of \$339 for water and \$339 for wastewater because it already includes the return component that was approved in that docket. This will be discussed further in Issue 6 in the Regulatory Commission Expense section. Applying this formula, staff recommends a working capital allowance of \$6,318 ($\$50,541/8$) for water, based on the adjusted O&M expense of \$50,541 ($\$51,258 - \$378 - \$339 = \$50,541$). Further, staff recommends a working capital allowance of \$6,259 ($\$50,070/8$) for wastewater, based on the adjusted O&M expense of \$50,070 ($\$50,653 - \$243 - \$339 = \$50,070$).

²¹Section 367.081(9), F.S., which became effective July 1, 2016, states, "A utility may not earn a return on the unamortized balance of the rate case expense. Any unamortized balance of rate case expense shall be excluded in calculating the utility's rate base." Therefore, staff excluded rate case expense from the working capital calculations.

Rate Base Summary

Based on the foregoing, staff recommends that the Commission approve a year-end rate base for Lakeside. The appropriate year-end water test year rate base is \$143,573, and the appropriate year-end wastewater test year rate base is \$134,117. Rate base is shown on Schedule Nos. 1-A and 1-B. The related adjustments are shown on Schedule No. 1-C.

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

Recommendation: The appropriate return on equity (ROE) is 8.85 percent with a range of 7.85 percent to 9.85 percent. The appropriate overall rate of return is 8.45 percent. (Golden, Wilson)

Staff Analysis: Lakeside's capital structure consists of \$158,808 in common equity, \$19,566 in long-term debt, and \$3,430 in customer deposits. Audit staff determined that no test year adjustments are necessary. In May 2017, the Utility issued a \$120,000 call for capital to its three shareholders to fund the new wastewater treatment plant and payoff of a note payable.²² The shareholders provided the requested capital contributions in June 2017. Therefore, staff increased capital stock by \$120,000. For informational purposes, staff notes that the operating ratio method was used in Lakeside's last SARC.²³ However, due to the significant capital improvements that have been made by the Utility since that time, Lakeside is able to return to the traditional rate base rate of return method in the instant case.

The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE is 8.85 percent based upon the Commission-approved leverage formula currently in effect.²⁴ Staff recommends an ROE of 8.85 percent, with a range of 7.85 percent to 9.85 percent, and an overall rate of return of 8.45 percent. The ROE and overall rate of return are shown on Schedule No. 2.

²²Document No. 05290-17, pp. 10 and 121, filed on June 8, 2017, in Docket No. 20160195-WS.

²³Order No. PSC-15-0013-PAA-WS, issued January 2, 2015, in Docket No. 20130194-WS, *In re: Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.*

²⁴Order No. PSC-17-0249-PAA-WS, issued June 26, 2017, in Docket No. 20170006-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 Lakeside's water and wastewater systems?

Recommendation: The appropriate test year revenues for Lakeside's water and wastewater systems are \$62,886 and \$57,123, respectively. (Bruce)

Staff Analysis: Lakeside recorded total revenues of \$59,676 for water and \$54,216 for wastewater. The water revenues included \$58,880 of service revenues and \$796 of miscellaneous revenues. The wastewater revenues consisted of service revenues only. During the test year, the Utility had a Phase II rate increase. Therefore, staff annualized test year revenues by applying the rates in effect as of January 28, 2016, to the water and wastewater billing determinants. Staff determined that service revenues should be \$65,371 for water and \$56,736 for wastewater, which results in increases of \$6,491 and \$2,520 for water and wastewater, respectively.

Staff made adjustments to miscellaneous revenues for water and wastewater. The Utility assessed a \$5.00 late payment charge rather than the Utility's approved charge of \$5.25. In addition, the Utility also charged four customers an unauthorized charge of \$22 for normal reconnection rather the tariff rate of \$15. The Utility refunded each customer overcharged for normal reconnection. Based on the number of occurrences and the Utility's approved miscellaneous charges, the miscellaneous revenues should be \$774. As a result, staff decreased miscellaneous revenues by \$22 (\$796 - \$774). The Utility allocated all of the miscellaneous revenues to the water system. Staff recommends that the miscellaneous revenues be equally distributed between the water and wastewater systems.

Based on the above, the appropriate test year revenues for Lakeside Waterworks' water and wastewater systems, including miscellaneous revenues are \$62,886 (\$62,499 + \$387) for water and \$57,123 (\$56,736 + \$387) for wastewater.

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

Recommendation: The appropriate amount of operating expense for the Utility is \$64,807 for water and \$65,578 for wastewater. (Golden, Wilson)

Staff Analysis: Lakeside recorded operating expense of \$59,593 for water and \$58,116 for wastewater for the test year ended June 30, 2016. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made several adjustments to the Utility's operating expenses as summarized below.

Operation and Maintenance (O&M) Expenses

Purchased Power (615/715)

Lakeside recorded purchased power expense of \$2,737 for water and \$3,479 for wastewater for the test year. Commission audit staff determined that the purchased power expense was understated. Therefore, staff increased this account by \$131 for water and \$60 for wastewater to reflect the correct test year balances. Staff recommends purchased power expense of \$2,868 for water and \$3,539 for wastewater.

Contractual Services - Professional (631/731)

Lakeside recorded negative balances of \$559 for water and \$334 for wastewater in this account. The Utility's test year contractual services – professional expense included adjustments to reverse prior accounting expense accruals of \$1,050 for water and \$825 for wastewater, and test year legal expense of \$982 that was split equally between water and wastewater at \$491 each. The Utility reversed the prior accounting expense accruals because it transferred the accounting services in-house and will no longer be incurring the separate accounting services expense. In order to reflect the correct test year balances for the legal expense portion of this account, staff increased this account by \$1,050 for water and \$825 for wastewater to remove the accounting expense reversals. Staff determined that a portion of the test year legal fees related to shareholder activities represent non-recurring expenses. Therefore, staff decreased this account by \$182 for water and \$182 for wastewater to reflect the five-year amortization of the non-recurring legal fees. Finally, staff increased the wastewater account by \$280 to reflect the annual amortization of the computer-aided design (CAD) system mapping project that was approved in the Utility's last SARC. The rates that included this expense went into effect in January 2015, therefore, the amortization of this expense will continue until early 2020. Staff's adjustments result in net increases of \$868 for water and \$923 for wastewater. Based on the above, staff recommends contractual services – professional expense for the test year of \$309 for water and \$589 for wastewater.

Contractual Services - Other (636/736)

The Utility recorded contractual services – other expense of \$39,390 for water and \$38,452 for wastewater. Lakeside receives all of its operational and administrative services under a contract with an affiliated company, U.S. Water Services Corporation (USWSC). The Commission previously reviewed and approved expenses related to the USWSC management services

contracts for Lakeside in its last SARC, and for six of Lakeside's sister utilities.²⁵ One sister utility, LP Waterworks, Inc., has had two SARCs in which the Commission previously reviewed and approved expenses related to the USWSC management services contract. Subsequent to the test year, USWSC increased Lakeside's annual contract by \$276 for water and \$258 for wastewater to reflect an increase in the national Consumer Price Index (CPI). Consistent with the Commission's prior decisions in related dockets, staff increased these accounts by \$276 for water and \$258 for wastewater to annualize the increase in the monthly contract price. Staff notes that Lakeside has received one price index rate adjustment since its last SARC, which became effective in June 2015, prior to the beginning of the test year. While the price index rate adjustments help utilities to keep up with increasing costs in between rate cases, those limited expense increases are essentially erased in a rate case and do not carry over to the actual test year expenses reviewed within the rate case. Specifically, the test year operation and maintenance expenses will be based on the actual expenses that occurred during the test year, along with any known and measureable changes that are necessary to reflect the actual expenses that are expected to occur going forward, regardless of any price index adjustments that may have been applied in the past. For that reason, staff's recommended adjustment to annualize the pro forma CPI adjustment is necessary to reflect the Utility's actual contractual management services fees going forward and does not result in a double counting of any CPI adjustments.

Subsequent to Lakeside's last SARC, the Commission found USWSC's costing and allocation model to be reasonable in six related dockets with the exception of some allocated expenses related to salary overtime, fuel, and vehicle maintenance which were adjusted in some of those dockets.²⁶ The salary overtime was removed because it was inadvertently included for salaried positions that are not eligible for overtime pay. USWSC determined that Lakeside's contract amounts would be reduced by \$491 each for water and wastewater if similar adjustments were made to remove the salary overtime component.²⁷ The fuel and vehicle maintenance costs were reduced in the related dockets because the actual test year costs were lower than the allocated costs. However, in the instant docket, Lakeside reported that the actual fuel and vehicle maintenance costs were higher than the allocated costs by \$338 for fuel and \$626 for vehicle maintenance. Lakeside does not believe the salary overtime adjustment is appropriate because the contract was first calculated in 2013 and did not include the actual costs for administrative

²⁵Order No. PSC-14-0413-PAA-WS, issued August 14, 2014, in Docket No. 20130153-WS, *In re: Application for staff-assisted rate case in Highlands County, by L.P. Utilities Corporation c/o LP Waterworks, Inc.*; Order No. PSC-15-0013-PAA-WS, issued January 2, 2015, in Docket No. 20130194-WS, *In re: Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.*; Order No. PSC-15-0282-PAA-WS, issued July 8, 2015, in Docket No. 20140158-WS, *In re: Application for increase in water/wastewater rates in Highlands County by HC Waterworks, Inc.*; Order No. PSC-15-0329-PAA-WU, issued August 14, 2015, in Docket No. 20140186-WU, *In re: Application for staff-assisted rate case in Brevard County by Brevard Waterworks, Inc.*; Order No. PSC-15-0335-PAA-WS, issued August 20, 2015, in Docket No. 20140147-WS, *In re: Application for staff-assisted rate case in Sumter County by Jumper Creek Utility Company*; Order No. PSC-16-0256-PAA-WU, issued June 30, 2016, in Docket No. 20150199-WU, *In re: Application for staff-assisted rate case in Lake County by Raintree Waterworks, Inc.*; Order No. PSC-16-0305-PAA-WU, issued July 28, 2016, in Docket No. 20150236-WU, *In re: Application for staff-assisted rate case in Lake County, by Lake Idlewild Utility Company*; Order No. PSC-2017-0334-PAA-WS, issued August 23, 2017, in Docket No. 20160222-WS, *In re: Application for staff-assisted rate case in Highlands County by LP Waterworks, Inc.*

²⁶Order No. PSC-15-0282-PAA-WS; Order No. PSC-15-0329-PAA-WU; Order No. PSC-15-0335-PAA-WS; and Order No. PSC-16-0256-PAA-WU; Order No. PSC-16-0305-PAA-WU; and Order No. PSC-2017-0334-PAA-WS.

²⁷Document No. 03643-17, filed on March 16, 2017, in Docket No. 20160195-WS.

services and operations. Consequently, Lakeside has been receiving a subsidy for the past four years. Specifically, Lakeside reported that the water and wastewater systems are currently receiving annual subsidies of \$5,168 and \$393, respectively.

Subsequent to the test year, USWSC reviewed the contracted amounts and considered revising the contract during the second quarter of 2017. In July 2017, a Utility representative advised staff that USWSC had decided not to revise the contract at this time due to concerns about the rate impact on customers. The Utility and USWSC recognize the current impact caused by the significant capital improvements and did not believe it would be appropriate to increase the contracts in addition to the current SARC rate increases.

While staff recognizes that any reductions to the contract fees will further increase the subsidies, staff believes it is still appropriate to remove the salary overtime component because it should not have been included in the allocated costs. Therefore, staff decreased this account by \$491 for water and \$491 for wastewater to remove the salary overtime component.

The USWSC contract fees include certain repairs that do not exceed \$400. During the test year, the Utility experienced a water line repair and a wastewater lift station repair that exceeded the \$400 limit. Both repairs were recorded to wastewater expense. As discussed previously in Issue 3, staff reclassified the water line repair from this wastewater expense account to water plant Account No. 331, resulting in a decrease to wastewater of \$1,165. Neither repair involved the replacement of plant.

The CPI-adjusted annual contract fees, net of the salary overtime reduction, of \$39,175 for water and \$36,613 for wastewater represent an average of \$202 and \$203 per equivalent residential connection (ERC), for water and wastewater, respectively. This is comparable to the amounts approved by the Commission for Lakeside's sister utilities which ranged from \$170 to \$247 per water ERC.

The Utility confirmed that USWSC's current cost model continues to include 1,000 additional projected ERCs. Inclusion of 1,000 potential future ERCs that are expected to be added through growth or acquisitions serves to spread the costs over a larger base and lowers the cost per ERC. Lakeside is also experiencing additional cost savings related to other expenses such as chemicals, testing, and miscellaneous expenses that are attributable to economies of scale achieved through operations provided by USWSC. USWSC and its managers bring considerable management and operator experience and expertise at a comparably reasonable cost. By spreading costs over multiple systems, and adding ERCs to recognize potential future growth, Lakeside's customers are realizing operational and cost benefits that would not be available if the Utility operated on a stand-alone basis. Staff believes the adjusted cost of the USWSC management services contract is reasonable. Staff's total adjustment to water contractual services – other expense is a decrease of \$215, and staff's net adjustment to wastewater contractual services – other expense is a decrease of \$1,398. Therefore, staff recommends contractual services – other expense for the test year of \$39,175 ($\$39,390 + \$276 - \$491 = \$39,175$) for water and \$37,054 ($\$38,452 + \$258 - \$491 - \$1,165 = \$37,054$) for wastewater.

Rent Expense (640/740)

The Utility recorded test year rent expense for the Utility's land leases of \$2,463 for water and \$2,465 for wastewater. During the test year, the land owner increased the Utility's lease expense slightly for an annual CPI adjustment. Therefore, staff increased this account by \$12 for water and \$12 for wastewater to reflect the Utility's current annual land lease expense. Staff recommends rent expense for the test year of \$2,475 for water and \$2,477 for wastewater.

Insurance Expense (655/755)

The Utility recorded test year insurance expense of \$602 for water and \$534 for wastewater. During the test year, the Utility's general liability insurance policy was renewed at a slightly lower premium of \$1,125, which is split equally between water and wastewater for an expense of \$563 each. Staff decreased this expense for water by \$39 and increased it for wastewater by \$29 to reflect the current annual general liability insurance expense of \$563 each. Therefore, staff recommends insurance expense for the test year of \$563 for water and \$563 for wastewater.

Regulatory Commission Expense (665/765)

The Utility did not record any regulatory commission expense in this account. Staff increased this account by \$339 for water and \$339 for wastewater to reflect the annual amortization of the rate case expense approved in the Utility's 2013 SARC. The rates that included the rate case expense went into effect on January 28, 2015, therefore, the four-year amortization of the rate case expense will continue until January 2019. In order to ensure that the annual rate case expense reflected in this adjustment matches the rate reduction that will occur in 2019, staff included the return component that was approved in the 2013 docket in this adjustment and excluded the rate case expense from the working capital calculation so that no additional return would be added.

Regarding the instant docket, the Utility is required by Rule 25-22.0407, F.A.C., to provide notices of the customer meeting and notices of final rates in this case to its customers. Staff is also recommending that the Utility be required to provide notices of the four-year rate reductions to its customers when the rates are reduced to remove the amortized rate case expense. For noticing, staff estimated \$272 for postage expense, \$185 for printing expense, and \$28 for envelopes. This results in \$485 for the noticing requirement.

The Utility paid a total of \$1,500 in rate case filing fees (\$1,000 for water and \$500 for wastewater). The Utility also requested additional rate case expense of \$500 to cover travel expenses to attend both the customer meeting and Commission Agenda Conference. The Commission previously approved rate case related travel expenses ranging from \$450 to \$1,570 in the six most recent dockets for Lakeside's sister utilities. Based on staff's review, the requested travel expense appears reasonable. Based on the above, staff recommends total rate case expense of \$2,485 (\$485 + \$1,500 + \$500), which amortized over four years is \$621. Staff has allocated the annual rate case expense to the water and wastewater systems based on ERCs, resulting in annual rate case expense of \$378 for water and \$243 for wastewater. Therefore, staff recommends regulatory commission expense of \$717 for water and \$583 for wastewater.

Bad Debt Expense (670/770)

Lakeside recorded \$414 for water and \$375 for wastewater in this account for test year bad debt expense, which represents 0.54 and 0.49 percent of staff's recommended water and wastewater

revenue requirements, respectively. Commission practice is to calculate bad debt expense using a three-year average. However, Lakeside only has two years of data that are representative of a normal year. The remaining two years of data that were reported after the Utility was purchased by the current owners had an unusually high bad debt expense, followed by an unusually high negative bad debt expense that appears to have been a reversing adjustment. Considering the limited data and that the test year bad debt expense is such a low percentage of staff's recommended revenue requirements, staff believes it would be reasonable to use the test year bad debt expense in lieu of the traditional three-year average. However, in its May 2017 letter, OPC expressed concern that the test year bad debt expense is higher than the bad debt expense amounts reported in the Utility's 2015 and 2016 Annual Reports. OPC proposed using a five-year average comprised of the four years of annual report data plus the bad debt expense approved in the 2013 SARC. Staff agrees with OPC that that the test year amounts are higher than the two most recent Annual Reports. However, staff does not agree with OPC's proposed five-year calculation because there is an overlap of data between the 2013 Annual Report and 2013 SARC test year, preventing a true five-year average.

As a compromise, staff believes a four-year average based on the four years of available data will produce a representative average and serves as a reasonable alternative to a traditional three-year average in this case. Based on a four-year average from 2013 through 2016, the average bad debt expense is \$285 for water and \$157 for wastewater, which represents only 0.37 and 0.20 percent of staff's recommended revenue requirement. In its response to OPC's letter, Lakeside indicated that it would defer to staff on this item, but noted that rate increases resulting from rate cases typically cause higher bad debt to be incurred, and suggested that the rate increase should be considered when determining the appropriate level of bad debt expense on a prospective basis when the rates go into effect. Staff believes the four-year average is on the low end as a percentage of the revenue requirement, and may not adequately reflect future bad debt expense following the rate increase. However, in keeping with the Commission's current practice of calculating bad debt expense based on a multi-year average, staff believes it would be acceptable to use the four-year average in this case. Therefore, staff decreased test year bad debt expense by \$129 for water and \$219 for wastewater. Staff recommends bad debt expense of \$285 for water and \$157 for wastewater for the test year.

Miscellaneous Expense (675/775)

The Utility recorded \$2,201 for water miscellaneous expense for the test year and no miscellaneous expense for wastewater. Staff decreased water miscellaneous expense by \$1,655 to remove a regulatory assessment fee (RAF) expense that was incorrectly recorded to this account. The remaining water miscellaneous expense in this account includes the DEP drinking water annual operating license fee of \$500, and several Sunshine State Florida One Call fees totaling \$46. Therefore, staff recommends miscellaneous expense of \$546 for water and no miscellaneous expense for wastewater for the test year.

Operation and Maintenance Expense (O&M Summary)

Based on the above adjustments, O&M expense should be reduced by \$309 for water and \$9 for wastewater, resulting in total O&M expense of \$51,258 for water and \$50,653 for wastewater. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A through 3-E.

Depreciation Expense (Net of Amortization of CIAC)

The Utility's records reflect test year water depreciation expense of \$5,071 and CIAC amortization expense of \$415, resulting in a net water depreciation expense of \$4,656 ($\$5,071 - \$415 = \$4,656$). In addition, the Utility's records reflect test year wastewater depreciation expense of \$4,919 and CIAC amortization expense of \$589, resulting in a net wastewater depreciation expense of \$4,330 ($\$4,919 - \$589 = \$4,330$). Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and increased water depreciation expense by \$1,686 and decreased wastewater depreciation expense by \$2,219 to reflect the appropriate test year depreciation expense. In addition, staff increased this account by \$1,012 to reflect the incremental increase in water depreciation expense resulting from the pro forma water line installation, pump repairs, pump replacement, and well materials correction. Further, staff increased this account by \$5,835 to reflect the incremental increase in wastewater depreciation expense resulting from the pro forma WWTP replacement. Staff also increased this account by \$32 to reflect the increase in wastewater depreciation resulting from the pro forma WWTP sprayfield pump repair. Finally, staff decreased depreciation expense by \$951 for water and \$492 for wastewater to reflect the non-U&U portion of the test year depreciation expense, including the pro forma WWTP replacement.

In addition, staff calculated CIAC amortization based on composite rates, and determined that test year CIAC amortization expense should be increased by \$38 for water and decreased by \$257 for wastewater. This results in CIAC amortization expense of \$453 for water and \$332 for wastewater. Based on the above, staff's net adjustment to water is an increase of \$1,709 ($\$1,686 + \$1,012 - \$951 - \$38 = \$1,709$), resulting in a net depreciation expense for water of \$6,365 ($\$4,656 + \$1,709 = \$6,365$). Further, staff's net adjustment to wastewater is an increase of \$3,413 ($-\$2,219 + \$5,835 + 32 - \$492 + 257 = \$3,413$), resulting in a net depreciation expense for wastewater of \$7,743 ($\$4,330 + \$3,413 = \$7,743$). Therefore, staff recommends net depreciation expense of \$6,365 and \$7,743 for water and wastewater, respectively.

Amortization of Loss on Water Well and WWTP Replacements

As discussed previously, the Utility experienced a well collapse of the primary well supplying potable water to its customers. The Utility attempted to rehabilitate the well with a private well driller, but ultimately was required to replace the well. The Utility believed it was prudent to attempt rehabilitation first because it would have been less costly than drilling the new well. Additionally, as discussed previously, Lakeside found it necessary to replace the WWTP in order to be in compliance with the DEP requirements. The Utility is requesting that the Commission approve the retirement and recovery of the losses on the collapsed well, water well rehabilitation costs, and WWTP that were all retired early.

In its application, Lakeside initially estimated an annual amortization expense of \$3,791 for water and \$224 for wastewater to be recovered over a 10-year amortization period. The Utility proposed the 10-year amortization period because it is consistent with recent prior Commission decisions.²⁸ Staff's review indicates that the Utility acted prudently in both instances, and that

²⁸See e.g., Order No. PSC-15-0569-PAA-WS, issued December 15, 2015, in Docket No. 20140239-WS, *In re: Application for staff-assisted rate case in Polk County by Orchid Springs Development Corporation*; Order No. PSC-16-0013-PAA-SU, issued January 6, 2016, in Docket No. 20150102-SU, *In re: Application for increase in wastewater rates in Charlotte County by Utilities, Inc. of Sandalhaven*.

the replacements and early retirements were necessary to ensure that the customers receive safe and reliable service, as well as ensure that the Utility be in compliance with DEP requirements. Therefore, staff believes it is appropriate to allow the Utility to recover the losses resulting from the early retirement of the collapsed well, water well rehabilitation costs, and WWTP. As discussed previously in Issue 3, staff is recommending that a regulatory asset be established to recover the portion of the Utility's loss related to the well rehabilitation work due to the negative accumulated depreciation that resulted because the repair was in service less than a year. In addition, staff believes it would be appropriate to calculate the amortization expense to recover the losses on the early retirement of the collapsed well and WWTP using Rule 25-30.433(9), F.A.C.

Specifically, Rule 25-30.433(9), F.A.C., provides the formula that shall be used to determine the number of years over which a utility may recover a loss that occurs due to a forced abandonment or prudent early retirement of plant assets. Specifically, Rule 25-30.433(9), F.A.C., states:

The amortization period for forced abandonment or the prudent retirement, in accordance with the National Association of Regulatory Utility Commissioners Uniform System of Accounts, of plant assets prior to the end of their depreciable life shall be calculated by taking the ratio of the net loss (original cost less accumulated depreciation and contributions-in-aid-of-construction (CIAC) plus accumulated amortization of CIAC plus any costs incurred to remove the asset less any salvage value) to the sum of the annual depreciation expense, net of amortization of CIAC, plus an amount equal to the rate of return that would have been allowed on the net invested plant that would have been included in rate base before the abandonment or retirement. This formula shall be used unless the specific circumstances surrounding the abandonment or retirement demonstrate a more appropriate amortization period.

Lakeside subsequently provided additional information regarding the costs it incurred to abandon the collapsed well and remove the WWTP. As discussed previously, staff is recommending several adjustments to the Utility's test year accumulated depreciation and depreciation expense. Staff has determined that there is no CIAC or amortization of CIAC associated with these retirements because Lakeside's CIAC only represents main extension fees, meter installation fees, and the prior imputation of CIAC for the lines. In addition, no salvage values have been identified for the collapsed well or retired WWTP.

Staff's calculation of the net loss, amortization period, and annual amortization expense including the Utility's removal costs and staff's recommended depreciation adjustments for the early retirement losses on the collapsed well and retired WWTP are shown on Tables 6-1 and 6-2 below.

**Table 6-1
 Net Loss Calculation**

	<u>Water</u>	<u>Wastewater</u>
Plant Retired		
Collapsed Well	\$15,956	
Wastewater Treatment Plant		\$33,921
Less Associated Accumulated Depreciation		
Collapsed Well	(\$14,429)	
Wastewater Treatment Plant		(\$27,410)
Less Associated CIAC	\$0	\$0
Plus Associated Amortization of CIAC	\$0	\$0
Plus Removal Cost	\$3,517	\$5,760
Less Salvage Value	<u>\$0</u>	<u>\$0</u>
Equals Net Loss	<u>\$5,044</u>	<u>\$12,271</u>

**Table 6-2
 Amortization Period and Annual Amortization Expense Calculation**

	<u>Water</u>	<u>Wastewater</u>
Net Loss	<u>\$5,044</u>	<u>\$12,271</u>
Divided by the sum of:		
Annual Depreciation Expense	\$590	\$2,263
Less CIAC Amortization Expense	0	0
Plus Return on Net Invested Plant (8.45% ROR) ²⁹	<u>129</u>	<u>550</u>
Annual Total Before Plant Retirement	<u>\$719</u>	<u>\$2,813</u>
Equals Amortization Period (rounded to nearest year)	7 Years	4 Years
Annual Amortization of Loss (Net Loss divided by Amortization Period):	<u>\$721</u>	<u>\$3,068</u>

Based on the formula provided by Rule 25-30.433(9), F.A.C., the appropriate amortization period is seven years for the water loss and four years for the wastewater loss. The rule specifies that this formula shall be used unless the specific circumstances surrounding the abandonment or retirement demonstrate a more appropriate amortization period. In the Staff Report, staff initially recommended amortization periods of eight years for water and three years for wastewater based on the information available at that time. In its May 2017 letter, OPC proposed using a 10-year amortization period for both the water and wastewater losses. OPC also expressed concern that the three-year amortization period was too short for such a material expense. In support of its proposal, OPC cited the two dockets previously referenced by the Utility in which the Commission approved loss amortization periods of 10 years. Although Lakeside initially proposed a 10-year amortization period in its application based on recent prior Commission decisions, the Utility later indicated in its response to OPC's letter that it agreed with staff's preliminary recommendation in the Staff Report to use lower amortization periods that were calculated based on the rule.

Staff disagrees with applying the decisions in the two referenced dockets in this case. In both dockets, the plant was already fully depreciated and the only loss was the cost of removal, which

²⁹Based on staff's recommended overall rate of return of 8.45 percent, as discussed in Issue 4.

is not the case for Lakeside. Order No. PSC-15-0569-PAA-WS stated, “As Orchid Springs has essentially fully depreciated the plant, the costs associated with sludge removal shall be spread over the shortest period of time as the plant is no longer in-service.”³⁰ In both referenced dockets, the rule formula produced a 15-year amortization period, but the Commission’s decision in each of those cases was to allow each utility to recover the loss over a shorter time period. It is clear that the intent of the 10-year amortization period was to reduce the amount of time needed for the Utility to recover the loss, not extend it. Applying a 10-year amortization period in the instant case would have the opposite effect of the Commission’s decision in those cases by requiring Lakeside to recover the losses over a longer period than is required by the rule based on Lakeside’s specific circumstances.

Further, staff does not believe either of those decisions should be applied in this instance because Lakeside’s early retirement losses include the loss of unrecovered depreciation expense in addition to removal costs, which is what the rule is designed to address. Rule 25-30.433(9), F.A.C., specifies that the formula in the rule shall be used unless the specific circumstances surrounding the abandonment or retirement demonstrate a more appropriate amortization period. Staff does not believe there are any unique circumstances surrounding the early retirement of the well and WWTP that warrant a different treatment. Therefore, staff recommends that the appropriate amortization period to recover the losses resulting from the early retirement of the collapsed well and WWTP is seven years for the water loss and four years for the wastewater loss. The resulting annual amortization expenses are \$721 to recover the loss on the collapsed well and \$3,068 to recover the loss on the retired WWTP.

Regarding the appropriate amortization period and annual amortization expense to recover the loss on the well rehabilitation work through the regulatory asset, Rule 25-30.433(8), F.A.C., specifies that non-recurring expenses shall be amortized over a five-year period unless a shorter or longer period of time can be justified. It is generally preferred that a regulatory asset be written off as soon as possible to remove the non-productive asset from a utility’s books. Although staff is recommending a different recovery method for this portion of the loss due to the resulting negative accumulated depreciation, the well rehabilitation work was essentially part of the well that was ultimately abandoned. Therefore, staff believes it would be appropriate to apply the same seven-year amortization period that is being applied to the portion of the loss related to the collapsed well. Staff believes that this offers a reasonable compromise between the preferred shorter five-year amortization period permitted under Rule 25-30.433(8), F.A.C., and OPC’s requested 10-year amortization period. A seven-year amortization period will help to mitigate the impact of the loss amortization expense on rates, while still offering the Utility the opportunity to recover its loss in a reasonable time period. The resulting annual amortization expense is \$2,348, which is the net unrecovered balance of \$16,436 divided by seven years ($\$16,436/7 = \$2,348$).

Therefore, staff recommends annual amortization expenses of \$721 to recover the loss on the collapsed well, and \$2,348 to recover the loss on the well rehabilitation work, for a total water amortization expense of \$3,069 ($\$721 + \$2,348 = \$3,069$). In addition, staff recommends an annual amortization expense for wastewater of \$3,068 to recover the loss on the retired WWTP.

³⁰Issued December 16, 2015, in Docket No. 20140239-WS, *In re: Application for staff-assisted rate case in Polk County by Orchid Springs Development Corporation*, p. 16.

Staff recommends that amortization of the regulatory asset and other losses begin when the rates approved in this docket become effective.

Taxes Other Than Income (TOTI)

Lakeside recorded TOTI of \$3,370 for water and \$3,124 for wastewater for the test year. The Utility recorded RAFs of \$2,686 for water and \$2,440 for wastewater for the test year. Based on staff's recommended test year revenues of \$62,886 for water and \$57,123 for wastewater, the Utility's RAFs should be \$2,830 and \$2,571 for water and wastewater, respectively. Therefore, staff increased these accounts by \$144 for water and \$131 for wastewater to reflect the appropriate test year RAFs. The Utility also recorded property tax accruals of \$684 each for water and wastewater for the test year. Audit staff determined that the Utility's property taxes for the test year were \$676 each for water and wastewater. Subsequent to the audit, the 2016 property tax records became available, indicating that Lakeside's actual property taxes were \$653 each for water and wastewater. Accordingly, staff decreased property taxes by \$31 for water and \$31 for wastewater to reflect the appropriate property taxes going forward. Staff's net adjustments to test year TOTI are an increase of \$113 for water ($\$144 - \$31 = \113) and \$100 for wastewater ($\$131 - \$31 = \100).

In addition, as discussed in Issue 7, revenues have been increased by \$14,052 for water and \$19,788 for wastewater to reflect the change in revenue required to cover expenses and allow the recommended rate of return. As a result, TOTI should be increased by \$632 for water and \$890 for wastewater to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$4,115 for water and \$4,114 for wastewater.

Operating Expenses Summary

The application of staff's recommended adjustments to Lakeside's test year operating expenses results in operating expenses of \$64,807 for water and \$65,578 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The adjustments are shown on Schedule No. 3-C.

Issue 7: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$76,938 for water and \$76,911 for wastewater, resulting in an annual increase of \$14,052 for water (22.35 percent) and \$19,788 for wastewater (34.64 percent). (Golden, Wilson)

Staff Analysis: Lakeside should be allowed an annual increase of \$14,052 for water (22.35 percent) and \$19,788 for wastewater (34.64 percent). This will allow the Utility the opportunity to recover its expenses and earn an 8.45 percent return on its investment. The calculations are shown below, in Tables 7-1 and 7-2 for water and wastewater, respectively:

**Table 7-1
 Water Revenue Requirement**

Adjusted Rate Base	\$143,573
Rate of Return	x 8.45%
Return on Rate Base	\$12,132
Adjusted O&M Expense	51,258
Depreciation Expense (Net)	6,365
Amortization	3,069
Taxes Other Than Income	4,115
Income Taxes	0
Revenue Requirement	\$76,938
Less Adjusted Test Year Revenues	62,886
Annual Increase	\$14,052
Percent Increase	22.35%

Table 7-2
Wastewater Revenue Requirement

Adjusted Rate Base	\$134,117
Rate of Return	x 8.45%
Return on Rate Base	\$11,333
Adjusted O&M Expense	50,653
Depreciation Expense (Net)	7,743
Amortization	3,068
Taxes Other Than Income	4,114
Income Taxes	0
Revenue Requirement	\$76,911
Less Adjusted Test Year Revenues	57,123
Annual Increase	\$19,788
Percent Increase	34.64%

Issue 8: What are the appropriate rate structures and rates for Lakeside'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

Lakeside's water system is located within the SJRWMD. The Utility provides service to approximately 182 residential water customers, of which 74 have separate irrigation meters. In addition, the Utility provides water service to two general service irrigation meters and a clubhouse. Approximately 20 percent of the residential customer bills during the test year had zero gallons indicating a somewhat seasonal customer base. The average residential water demand was 2,386 gallons per month. The average water demand excluding zero gallon bills was 2,775 per month. The Utility's current residential rate structure consists of a base facility charge (BFC) and two-tier inclining block rate structure. The rate blocks are 0-4,000 gallons and all usage in excess of 4,000 gallons per month. The general service rates consist of a BFC and gallonage charge. The residential irrigation rate structure consists of a gallonage charge only.

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

Due to the customers' low average monthly consumption and somewhat seasonal customer base, staff recommends 45 percent of the revenue requirement should be recovered through the BFC in an effort to provide revenue stability. This will allow the Utility to have sufficient cash flow to cover fixed costs. The average number of people per household served by the water system is 2.5; therefore, based on the number of persons per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 4,000 gallons per month. Based on staff's analysis of the billing data, approximately 27 percent of the demand is above 10,000 gallons per month. Therefore, staff recommends a BFC and a three-tier inclining block rate structure, which includes separate gallonage charges for discretionary and non-discretionary usage for residential water customers. The rate blocks should be: (1) 0-4,000 gallons; (2) 4,001-10,000 gallons; and (3) all usage in excess of 10,000 gallons per month. This rate structure sends the appropriate pricing signals because it targets customers with high consumption levels and minimizes price increases for customers at non-discretionary levels. In

addition, the third tier provides an additional pricing signal to customers using in excess of 10,000 gallons of water per month. General service customers should be billed a BFC and uniform gallonage charge.

Currently, the residential irrigation customers are billed a gallonage charge only rate structure. Staff evaluated whether the residential irrigation service should be assessed a BFC. Typically, the configuration of irrigation meters determines whether or not it is appropriate to assess a BFC. Several years ago, the Utility required customers that had improperly connected irrigation systems to correct the cross-connection hazard and properly meter all water consumption. During this time, customers were given options as to how their irrigation system should be configured. A customer could re-pipe their irrigation system to connect to the potable water line behind the existing water meter, install a second water meter on the separate irrigation line, or disconnect their irrigation system from the Utility's main. In a prior rate case for this Utility, the Commission found that the separate irrigation meter did not place any additional demand on the Utility's water system and irrigation customers should only be assessed the gallonage charge for the water usage registered by the separate irrigation meter.³¹ Based on staff's analysis, the residential irrigation customers' average consumption is 808 gallons per month, which does not indicate high usage for irrigation customers with separate meters. Based on the above, staff recommends that the irrigation customers continue a gallonage charge only rate structure.

Based on a recommended revenue increase of 22.5 percent, which excludes miscellaneous revenues, the residential consumption can be expected to decline by 659,000 gallons resulting in anticipated average residential demand of 2,175 gallons per month. Staff recommends an 8.8 percent reduction in test year residential gallons for ratesetting purposes and corresponding reductions of \$229 for purchased power, \$111 for chemicals, and \$16 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$76,195. Table 8-1 on the following page contains staff's recommended rate structure and rates as well as alternative rate structures, which include varying revenue allocations to the BFC and rate blocks. Staff's recommended rate structure minimizes the rate impact for customers at non-discretionary levels of consumption while sending the appropriate pricing signals to target demand in excess of 10,000 gallons per month. Alternative I leaves the current rate structure in place which results in a slightly higher percentage price increase for non-discretionary demand. Alternative II provides a similar percentage increase for non-discretionary demand; however, does not send as significant of a signal to customers using above 10,000 gallons per month.

The Utility does not have customers for private fire protection; however, the Utility would like to maintain a rate structure for that customer class in the event it is needed in the future. The private fire protection rate should be one-twelfth of the approved BFC, pursuant to Rule 25-30.465, F.A.C.

³¹See Order No. PSC-00-0259-PAA-WS, issued February 8, 2000, in Docket No. 19990080-WS, In re: *Complaint and request for hearing by Linda J. McKenna and 54 petitioners regarding unfair rates and charges of Shangri-La by the Lake Utilities, Inc. in Lake County*, p. 28.

**Table 8-1
 Staff's Recommended and Alternative Water Rate Structures and Rates**

	RATES AT TIME OF FILING	STAFF RECOMMENDED RATES (45% BFC)	ALTERNATIVE I (45% BFC)	ALTERNATIVE II (50% BFC)
<u>Residential</u>				
5/8" x 3/4" Meter Size	\$13.76	\$14.75	\$14.78	\$16.41
Charge per 1,000 gallons				
0-4,000 gallons	\$3.47		\$5.36	
Over 4,000 gallons	\$4.49		\$6.02	
0-4,000 gallons		\$4.44		\$4.04
4,001-10,000 gallons		\$5.72		\$4.86
Over 10,000 gallons		\$10.01		\$8.51
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
4,000 Gallons	\$27.64	\$32.51	\$36.22	\$32.57
6,000 Gallons	\$36.62	\$43.95	\$48.26	\$42.29
10,000 Gallons	\$54.58	\$66.83	\$72.34	\$61.73

Wastewater Rates

Lakeside provides wastewater service to approximately 170 residential customers. The Utility's current rate structure for the wastewater system consists of a uniform BFC for all residential meter sizes and a gallonage charge with a 6,000 gallon cap. General service customers are billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

Staff performed an analysis of the Utility's billing data to evaluate various BFC cost recovery percentages and gallonage caps for the residential customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the utility's customers; and (3) implement a gallonage cap that considers approximately the amount of water that may return to the wastewater system.

As mentioned earlier, the customer base is somewhat seasonal; therefore, 50 percent of the wastewater revenue should be allocated to the BFC to help provide revenue stability. The Commission typically establishes monthly residential wastewater gallonage caps at 10,000, 8,000, or 6,000 gallons. The wastewater gallonage cap recognizes that not all water used by the residential customers is returned to the wastewater system. It is Commission practice to set the

wastewater cap at approximately 80 percent of residential water sold. Based on staff’s review of the billing analysis, approximately 80 percent of the residential gallons are captured at the 18,000 gallon consumption level because of low average demand. In this case, an 18,000 gallon cap does not properly reflect the estimated water gallons returned to the wastewater system. For this reason, staff recommends a continuation of the Utility’s current gallonage cap of 6,000 gallons per month. General service customers should continue to be billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge. The expected wastewater repression is de minimis because of the low average customer demand. Therefore, staff does not recommend a repression adjustment for wastewater.

Table 8-2 below contains staff’s recommended rate structure and rates as well an alternative rate structure, which include varying revenue allocations for the BFC. Alternative I provides less revenue stability, which is contrary to rate design for a seasonal customer base.

**Table 8-2
 Staff’s Recommended and Alternative Wastewater Rate Structures and Rates**

	RATES AT TIME OF FILING	STAFF RECOMMENDED RATES (50% BFC)	ALTERNATIVE I (45% BFC)
<u>Residential</u>			
5/8" x 3/4" Meter Size	\$14.49	\$18.25	\$16.43
Charge per 1,000 gallons	\$6.24	\$9.06	\$9.96
6,000 gallon cap			
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
4,000 Gallons	\$39.45	\$54.49	\$46.31
6,000 Gallons	\$51.93	\$72.61	\$76.19
10,000 Gallons	\$51.93	\$72.61	\$76.19

Summary

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

Issue 9: What are the appropriate initial customer deposits for Lakeside's water and wastewater systems?

Recommendation: The appropriate initial customer deposits should be \$49 and \$87 for the residential 5/8 inch x 3/4 inch meter size for water and wastewater, respectively. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding. (Bruce)

Staff Analysis: Rule 25-30.311, F.A.C., provides the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the utility and, ultimately, the general body of ratepayers. An initial customer deposit ensures that the cost of providing service is recovered from the cost causer. Historically,³² the Commission has set initial customer deposits equal to two times the average estimated bill. Currently, the Utility's initial deposit for residential water is \$55 for the 5/8 inch x 3/4 inch meter size and two times the average estimated bill for the general service meter sizes. For wastewater, the current initial customer deposit for the 5/8 x 3/4 inch meter size is \$76 and two times the average estimated bill for the general service meter sizes. Based on the staff recommended water rates and post repression average residential demand, the appropriate initial customer deposit for water should be \$49 to reflect an average residential customer bill for two months. The appropriate initial customer deposit for wastewater should be \$87 to reflect an average residential customer bill for two months.

Staff recommends the appropriate initial customer deposits should be \$49 and \$87 for the residential 5/8 inch x 3/4 inch meter size for water and wastewater, respectively. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved initial customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding.

³²See e.g., Order No. PSC-15-0142-PAA-SU, issued March 26, 2015, in Docket No. 20130178-SU, *In re: Application for staff-assisted rate case in Polk County by Crooked Lake Park Sewerage Company*.

Issue 10: Should Lakeside be authorized to collect Non-Sufficient Funds Charges (NSF)?

Recommendation: Yes. Lakeside should be authorized to collect NSF charges. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved NSF charges. The approved charges should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility should provide proof of noticing within 10 days of rendering its approved notice. (Bruce)

Staff Analysis: Section 367.091 F.S., authorizes the Commission to approve NSF charges. Staff believes that Lakeside 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 five percent of the face amount of the check, whichever is greater.

Approval of NSF charges is consistent with prior Commission decisions.³³ 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 the ratepayers. As such, Lakeside should be authorized to collect NSF charges. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved NSF charges. The approved charges should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility should provide proof of noticing within 10 days of rendering its approved notice.

³³See e.g., Order No. PSC-17-0092-PAA-WU, issued March 13, 2017, in Docket No. 20160144-WU, *In re: Application for transfer of Certificate No. 288-W in Pasco County from Orangeland Water Supply to Orange Land Utilities, LLC*.

Issue 11: What is the appropriate amount by which rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense?

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. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If Lakeside 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, Golden, Wilson) (Final Agency Action)

Staff Analysis: Lakeside's water and wastewater rates should be reduced immediately following the expiration of the four-year rate case expense recovery period by the amount of the rate case expense previously included in the rates, pursuant to Section 367.081(8), F.S. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs which is \$395 and \$255 for water and wastewater, respectively. Using the Utility's current revenues, expenses, and customer base, the reduction in revenues will result in the rate decrease shown on Schedule Nos. 4-A and 4-B.

Lakeside should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction. If Lakeside files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 12: Should the recommended rates be approved for Lakeside on a temporary basis, subject to refund, 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, in the event of a protest filed by a party other than the Utility. 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 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 Office of Commission Clerk no later than the 20th of every 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. (Golden, Wilson) (Final Agency Action)

Staff Analysis: This recommendation proposes an increase in 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. 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 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 \$22,727. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

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

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

The Utility should maintain a record of the amount of the bond, 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 Office of Commission Clerk no later than the 20th of every month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 13: Should Lakeside be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision?

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. Lakeside should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts, as shown on Schedules Nos. 5-A and 5-B, 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. (Golden, Wilson) (Final Agency Action)

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. Schedule Nos. 5-A and 5-B reflects the accumulated plant, depreciation, CIAC, and amortization of CIAC balances as of June 30, 2016. Lakeside should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts, as shown on Schedule Nos. 5-A and 5-B, have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Issue 14: Should this docket be closed?

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

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

LAKESIDE WATERWORKS, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 06/30/2016		DOCKET NO. 20160195-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTILITY BALANCE	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$263,806	(\$21,253)	\$242,553
2. LAND & LAND RIGHTS	0	0	0
3. NON-USED AND USEFUL COMPONENTS	0	(18,497)	(18,497)
4. CIAC	(14,251)	(335)	(14,586)
5. ACCUMULATED DEPRECIATION	(118,074)	24,496	(93,578)
6. AMORTIZATION OF CIAC	7,379	(104)	7,275
7. REGULATORY ASSET	0	14,088	14,088
8. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>6,318</u>	<u>6,318</u>
9. WATER RATE BASE	<u>\$138,860</u>	<u>\$4,713</u>	<u>\$143,573</u>

LAKESIDE WATERWORKS, INC.		SCHEDULE NO. 1-B	
TEST YEAR ENDED 06/30/2016		DOCKET NO. 20160195-WS	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTILITY BALANCE	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$153,449	\$54,815	\$208,264
2. LAND & LAND RIGHTS	0	0	0
3. NON-USED AND USEFUL COMPONENTS	0	(7,872)	(7,872)
4. CIAC	(18,388)	0	(18,388)
5. ACCUMULATED DEPRECIATION	(103,869)	42,530	(61,339)
6. AMORTIZATION OF CIAC	7,517	(324)	7,193
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>6,259</u>	<u>6,259</u>
8. WASTEWATER RATE BASE	<u>\$38,709</u>	<u>\$95,408</u>	<u>\$134,117</u>

LAKESIDE WATERWORKS, INC.		SCHEDULE NO. 1-C	
TEST YEAR ENDED 06/30/2016		DOCKET NO. 20160195-WS	
ADJUSTMENTS TO RATE BASE		Page 1 of 2	
	<u>WATER</u>	<u>WASTEWATER</u>	
<u>UTILITY PLANT IN SERVICE</u>			
1. To remove unsupported generation addition per 2015 Order.	(\$603)	\$0	
2. To remove unsupported pumping equipment addition per 2015 Order.	0	(245)	
3. To reflect retirement related to pump starter addition per 2015 Order.	0	(563)	
4. To reflect retirements for pro forma additions approved by 2015 Order.	(6,563)	(2,768)	
5. To remove unsupported additions from Acct. Nos. 301 and 351.	(463)	(398)	
6. To reclassify water line repair to water Acct. No. 331.	1,165	0	
7. To reflect retirement of collapsed well & rehab work to Acct. No. 307.	(33,024)	0	
8. To reflect pro forma water line installation to Acct. No. 333.	1,338	0	
9. To reflect pro forma high service pump repair to Acct. No. 311.	1,967	0	
10. To reflect pro forma well pump replacement to Acct. No. 311.	14,012	0	
11. To reflect pro forma correction of new well invoice to Acct. No. 307.	917	0	
12. To reflect pro forma WWTP replacement to Acct. No. 380.	0	91,755	
13. To reflect retirement of replaced WWTP to Acct. No. 380.	0	(33,921)	
14. To reflect pro forma WWTP spray field pump repair to Acct. No. 371.	<u>0</u>	<u>955</u>	
Total	<u>(\$21,253)</u>	<u>\$54,815</u>	
<u>NON-USED AND USEFUL PLANT</u>			
1. To reflect non-U&U plant.	(\$23,523)	(\$7,377)	
2. To reflect non-U&U accumulated depreciation.	<u>5,026</u>	<u>(495)</u>	
Total	<u>(\$18,497)</u>	<u>(\$7,872)</u>	
<u>CIAC</u>			
To reflect pro forma CIAC.	<u>(\$335)</u>	<u>\$0</u>	
Continued on next page			

LAKESIDE WATERWORKS, INC.		SCHEDULE NO. 1-C	
TEST YEAR ENDED 06/30/2016		DOCKET NO. 20160195-WS	
ADJUSTMENTS TO RATE BASE (Continued)		Page 2 of 2	
	<u>WATER</u>	<u>WASTEWATER</u>	
<u>ACCUMULATED DEPRECIATION</u>			
1. To reflect 2013 test year balance per 2015 Order.	(\$464)	\$5,534	
2. To reflect test year balance for water Acct. No. 310 per 2015 Order.	107	0	
3. To reflect retirements for pro forma additions approved in 2015 Order.	6,563	2,768	
4. To reflect acc. dep. related to pro forma retirements from 2015 Order.	156	92	
5. To reflect reclassification of line repair to water Acct. No. 331.	(31)	0	
6. To reflect retirement of collapsed well & rehabilitation work.	33,024	0	
7. To reflect well abandonment/removal costs.	3,517	0	
8. To establish a regulatory asset to recover well rehabilitation costs.	(16,436)	0	
9. To reflect various pro forma water projects and well materials correction.	(1,012)	0	
10. To reflect pro forma WWTP replacement.	0	(5,835)	
11. To reflect retirement of replaced WWTP.	0	33,921	
12. To reflect WWTP removal costs.	0	5,760	
13. To reflect pro forma WWTP spray field pump repair.	0	(32)	
14. To reflect accumulated depreciation per Rule 25-30.140, F.A.C.	<u>(927)</u>	<u>322</u>	
Total	<u>\$24,496</u>	<u>\$42,530</u>	
<u>AMORTIZATION OF CIAC</u>			
1. To reverse averaging adjustment recorded from 2015 Order.	\$245	\$139	
2. To reflect appropriate test year amortization of CIAC.	(359)	(463)	
3. To reflect pro forma amortization of CIAC.	<u>10</u>	<u>0</u>	
Total	<u>(\$104)</u>	<u>(\$324)</u>	
<u>REGULATORY ASSET</u>			
1. To establish regulatory asset to recover well rehabilitation costs.	\$16,436	\$0	
2. To reflect accumulated amortization of regulatory asset.	<u>(2,348)</u>	<u>0</u>	
Total	<u>\$14,088</u>	<u>\$0</u>	
<u>WORKING CAPITAL ALLOWANCE</u>			
To reflect 1/8 of test year O&M expenses.	<u>\$6,318</u>	<u>\$6,259</u>	

LAKESIDE WATERWORKS, INC.							SCHEDULE NO. 2		
TEST YEAR ENDED 06/30/2016							DOCKET NO. 20160195-WS		
SCHEDULE OF CAPITAL STRUCTURE (YEAR-END)									
CAPITAL COMPONENT	PER UTILITY	STAFF ADJUSTMENTS	TEST YEAR BALANCE PER STAFF	ADJUSTMENTS TO RECONCILE TO RATE BASE	RECONCILED CAPITAL STRUCTURE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON STOCK	\$0	\$0	\$0	\$0	\$0				
2. CAPITAL STOCK	0	120,000	120,000	(9,698)	110,302				
3. RETAINED EARNINGS	0	0	0	0	0				
4. PAID IN CAPITAL	0	0	0	0	0				
5. OTHER COMMON EQUITY	<u>158,808</u>	<u>0</u>	<u>158,808</u>	<u>(12,835)</u>	<u>145,973</u>				
TOTAL COMMON EQUITY	\$158,808	\$120,000	\$278,808	(\$22,533)	\$256,275	92.29%	8.85%	8.17%	
6. LONG-TERM DEBT	\$19,566	\$0	\$19,566	(\$1,581)	\$17,985	6.48%	4.00%	0.26%	
7. SHORT-TERM DEBT	0	0	0	0	0	0.00%			
8. PREFERRED STOCK	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>			
TOTAL DEBT	\$19,566	\$0	\$19,566	(\$1,581)	\$17,985	6.48%			
9. CUSTOMER DEPOSITS	<u>\$3,430</u>	<u>\$0</u>	<u>\$3,430</u>	<u>\$0</u>	<u>\$3,430</u>	<u>1.24%</u>	2.00%	<u>0.02%</u>	
10. TOTAL	<u>\$181,804</u>	<u>\$120,000</u>	<u>\$301,804</u>	<u>(\$24,114)</u>	<u>\$277,690</u>	<u>100.00%</u>			
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>		
RETURN ON EQUITY						<u>7.85%</u>	<u>9.85%</u>		
OVERALL RATE OF RETURN						<u>7.53%</u>	<u>9.38%</u>		

LAKESIDE WATERWORKS, INC.		SCHEDULE NO. 3-A				
TEST YEAR ENDED 06/30/2016		DOCKET NO. 20160195-WS				
SCHEDULE OF WATER OPERATING INCOME						
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1.	OPERATING REVENUES	<u>\$59,676</u>	<u>\$3,210</u>	<u>\$62,886</u>	<u>\$14,052</u> 22.35%	<u>\$76,938</u>
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	\$51,567	(\$309)	\$51,258	\$0	\$51,258
3.	DEPRECIATION (NET)	4,656	1,709	6,365	0	6,365
4.	AMORTIZATION	0	3,069	3,069	0	3,069
5.	TAXES OTHER THAN INCOME	3,370	113	3,483	632	4,115
6.	INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7.	TOTAL OPERATING EXPENSES	<u>\$59,593</u>	<u>\$4,581</u>	<u>\$64,174</u>	<u>\$632</u>	<u>\$64,807</u>
8.	OPERATING INCOME/(LOSS)	<u>\$83</u>		<u>(\$1,288)</u>		<u>\$12,132</u>
9.	WATER RATE BASE	<u>\$138,860</u>		<u>\$143,573</u>		<u>\$143,573</u>
10.	RATE OF RETURN	<u>0.06%</u>		<u>(0.90%)</u>		<u>8.45%</u>

LAKESIDE WATERWORKS, INC.		SCHEDULE NO. 3-B				
TEST YEAR ENDED 06/30/2016		DOCKET NO. 20160195-WS				
SCHEDULE OF WASTEWATER OPERATING INCOME						
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1.	OPERATING REVENUES	<u>\$54,216</u>	<u>\$2,907</u>	<u>\$57,123</u>	<u>\$19,788</u> 34.64%	<u>\$76,911</u>
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	\$50,662	(\$9)	\$50,653	\$0	\$50,653
3.	DEPRECIATION (NET)	4,330	3,413	7,743	0	7,743
4.	AMORTIZATION	0	3,068	3,068	0	3,068
5.	TAXES OTHER THAN INCOME	3,124	100	3,224	890	4,114
6.	INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7.	TOTAL OPERATING EXPENSES	<u>\$58,116</u>	<u>\$6,572</u>	<u>\$64,688</u>	<u>\$890</u>	<u>\$65,578</u>
8.	OPERATING INCOME/(LOSS)	<u>(\$3,900)</u>		<u>(\$7,565)</u>		<u>\$11,333</u>
9.	WASTEWATER RATE BASE	<u>\$38,709</u>		<u>\$134,117</u>		<u>\$134,117</u>
10.	RATE OF RETURN	<u>(10.08%)</u>		<u>(5.64%)</u>		<u>8.45%</u>

LAKESIDE WATERWORKS, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 06/30/2016		DOCKET NO. 20160195-WS	
ADJUSTMENTS TO OPERATING INCOME		Page 1 of 2	
		<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES			
1.	To reflect appropriate test year service revenues.	\$3,619	\$2,520
2.	To reflect appropriate test year miscellaneous service revenues.	<u>(409)</u>	<u>387</u>
	Subtotal	<u>\$3,210</u>	<u>\$2,907</u>
OPERATION AND MAINTENANCE EXPENSES			
1.	Purchased Power (615/715)		
	a. To reflect appropriate test year purchased power expense.	<u>\$131</u>	<u>\$60</u>
2.	Contractual Services – Professional (631/731)		
	a. To reflect annualized accounting fees.	\$1,050	\$825
	b. To reflect 5-year amortization of non-recurring legal fees.	(182)	(182)
	c. To reflect the annual amortization of CAD system mapping project.	<u>0</u>	<u>280</u>
	Subtotal	<u>\$868</u>	<u>\$923</u>
3.	Contractual Services - Other (636/736)		
	a. To reflect pro forma change in contractual services – other expense.	276	258
	b. To remove overtime component from contractual service – other expense.	(\$491)	(\$491)
	c. To reclassify water line repair from wastewater expense Acct. No. 736 to water plant Acct. No. 636.	<u>0</u>	<u>(1,165)</u>
	Subtotal	<u>(\$215)</u>	<u>(\$1,398)</u>
4.	Rents (640/740)		
	a. To reflect annualized land lease expense.	<u>\$12</u>	<u>\$12</u>
5.	Insurance Expense (655/755)		
	a. To reflect annualized general liability insurance expense.	<u>(\$39)</u>	<u>\$29</u>
6.	Regulatory Commission Expense (665/765)		
	a. To reflect unamortized rate case expense from last SARC	\$339	\$339
	b. To reflect 4-year amortization of rate case expense (\$2,485 total, split \$1,511/4 for water and \$974/4 for wastewater).	<u>378</u>	<u>243</u>
	Subtotal	<u>\$717</u>	<u>\$583</u>
7.	Bad Debt Expense (670/770)		
	a. To reflect appropriate test year bad debt expense.	<u>(\$129)</u>	<u>(\$219)</u>
8.	Miscellaneous Expense (675/775)		
	a. To remove an incorrectly recorded RAF adjustment.	<u>(\$1,655)</u>	<u>\$0</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS		<u>(\$309)</u>	<u>(\$9)</u>

LAKESIDE WATERWORKS, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 06/30/2016		DOCKET NO. 20160195-WS	
ADJUSTMENTS TO OPERATING INCOME (CONTINUED)		Page 2 of 2	
		<u>WATER</u>	<u>WASTEWATER</u>
DEPRECIATION EXPENSE			
1.	To reflect test year depreciation calculated per Rule 25-30.140, F.A.C.	\$1,686	(\$2,219)
2.	To reflect pro forma water line installation, pump repairs, pump replacement, and well materials correction.	1,012	0
3.	To reflect pro forma WWTP replacement.	0	5,835
4.	To reflect pro forma WWTP sprayfield pump repair.	0	32
5.	To reflect non-used and useful test year depreciation.	(951)	(492)
6.	To reflect appropriate test year CIAC amortization expense.	(38)	257
	Total	<u>\$1,709</u>	<u>\$3,413</u>
AMORTIZATION			
1.	To reflect loss on well retirement.	\$721	\$0
2.	To reflect regulatory asset for recovery of well rehabilitation costs.	2,348	0
3.	To reflect loss on WWTP retirement.	<u>0</u>	<u>3,068</u>
	Total	<u>\$3,069</u>	<u>\$3,068</u>
TAXES OTHER THAN INCOME			
1.	To reflect the appropriate test year RAFs.	\$144	\$131
2.	To reflect appropriate test year utility property taxes.	<u>(31)</u>	<u>(31)</u>
	Total	<u>\$113</u>	<u>\$100</u>

LAKESIDE WATERWORKS, INC.		SCHEDULE NO. 3-D	
TEST YEAR ENDED 06/30/2016		DOCKET NO. 20160195-WS	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENTS	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(603) SALARIES AND WAGES - OFFICERS	3,000	0	3,000
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	2,737	131	2,868
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	1,319	0	1,319
(620) MATERIALS AND SUPPLIES	0	0	0
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	(559)	868	309
(635) CONTRACTUAL SERVICES - TESTING	0	0	0
(636) CONTRACTUAL SERVICES - OTHER	39,390	(215)	39,175
(640) RENTS	2,463	12	2,475
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	602	(39)	563
(665) REGULATORY COMMISSION EXPENSE	0	717	717
(670) BAD DEBT EXPENSE	414	(129)	285
(675) MISCELLANEOUS EXPENSE	<u>2,201</u>	<u>(1,655)</u>	<u>546</u>
	<u>\$51,567</u>	<u>(\$309)</u>	<u>\$51,258</u>

LAKESIDE WATERWORKS, INC.	SCHEDULE NO. 3-E		
TEST YEAR ENDED 06/30/2016	DOCKET NO. 20160195-WS		
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENTS	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(703) SALARIES AND WAGES - OFFICERS	3,000	0	3,000
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	2,275	0	2,275
(715) PURCHASED POWER	3,479	60	3,539
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	416	0	416
(720) MATERIALS AND SUPPLIES	0	0	0
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	(334)	923	589
(735) CONTRACTUAL SERVICES - TESTING	0	0	0
(736) CONTRACTUAL SERVICES - OTHER	38,452	(1,398)	37,054
(740) RENTS	2,465	12	2,477
(750) TRANSPORTATION EXPENSE	0	0	0
(755) INSURANCE EXPENSE	534	29	563
(765) REGULATORY COMMISSION EXPENSE	0	583	583
(770) BAD DEBT EXPENSE	375	(219)	157
(775) MISCELLANEOUS EXPENSE	<u>0</u>	<u>0</u>	<u>0</u>
	<u>\$50,662</u>	<u>(\$9)</u>	<u>\$50,653</u>

LAKESIDE WATERWORKS, INC.		SCHEDULE NO. 4-A	
TEST YEAR ENDED 06/30/2016		DOCKET NO. 20160195-WS	
MONTHLY WATER RATES			
	RATES AT TIME OF FILING *	STAFF RECOMMENDED RATES *	4 YEAR RATE REDUCTION
<u>Residential, General Service, and Irrigation</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$13.76	\$14.75	\$0.08
3/4"	\$20.64	\$22.13	\$0.12
1"	\$34.40	\$36.88	\$0.20
1-1/2"	\$68.79	\$73.75	\$0.40
2"	\$110.07	\$118.00	\$0.64
3"	\$220.13	\$236.00	\$1.28
4"	\$343.96	\$368.75	\$2.00
6"	\$687.91	\$737.50	\$4.00
* Residential irrigation customers do not pay a base facility charge.			
Charge per 1,000 Gallons - Residential and Residential Irrigation			
0-4,000 gallons	\$3.47		
Over 4,000 gallons	\$4.49		
0-4,000 gallons		\$4.44	\$0.02
4,000-10,000 gallons		\$5.72	\$0.03
Over 10,000 gallons		\$10.01	\$0.05
Charge per 1,000 gallons - General Service and General Service Irrigation			
	\$3.80	\$5.82	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
4,000 Gallons	\$27.64	\$32.51	
6,000 Gallons	\$36.62	\$43.95	
10,000 Gallons	\$54.58	\$66.83	

LAKESIDE WATERWORKS, INC.		SCHEDULE NO. 4-B	
TEST YEAR ENDED 06/30/2016		DOCKET NO. 20160195-WS	
MONTHLY WASTEWATER RATES			
	RATES AT TIME OF FILING	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential</u>			
Base Facility Charge - All Meter Sizes	\$14.49	\$18.25	\$0.06
Charge Per 1,000 gallons 6,000 gallon cap	\$6.24	\$9.06	\$0.03
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$14.49	\$18.25	\$0.06
3/4"	\$21.74	\$27.38	\$0.10
1"	\$36.23	\$45.63	\$0.16
1-1/2"	\$72.47	\$91.25	\$0.32
2"	\$115.95	\$146.00	\$0.52
3"	\$231.89	\$292.00	\$1.04
4"	\$362.33	\$456.25	\$1.62
6"	\$724.67	\$912.50	\$3.25
Charge per 1,000 gallons	\$7.50	\$10.87	\$0.04
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
4,000 Gallons	\$33.21	\$54.49	
6,000 Gallons	\$51.93	\$72.61	
10,000 Gallons	\$51.93	\$72.61	

LAKESIDE WATERWORKS, INC.			SCHEDULE NO. 5-A	
TEST YEAR ENDED 06/30/2016			DOCKET NO. 20160195-WS	
SCHEDULE OF WATER PLANT, DEPRECIATION, CIAC, & CIAC AMORTIZATION BALANCES				
(YEAR-END RATE BASE)				
ACCT NO.	DEPR. RATE PER 25-30.140	DESCRIPTION	UPIS 6/30/2016 (DEBIT)*	ACCUM. DEPR. 6/30/2016 (CREDIT)*
301	2.50%	ORGANIZATION	\$1,010	\$441
304	3.70%	STRUCTURES AND IMPROVEMENTS	5,000	3,239
307	3.70%	WELLS AND SPRINGS	99,148	9,682
309	3.13%	SUPPLY MAINS	300	216
310	5.88%	POWER GENERATION EQUIPMENT	0	0
311	5.88%	PUMPING EQUIPMENT	9,017	3,484
320	5.88%	WATER TREATMENT EQUIPMENT	10,340	9,833
330	3.03%	DISTRIBUTION RESERVOIRS AND STANDPIPES	5,829	1,631
331	2.63%	TRANSMISSION AND DISTRIBUTION MAINS	53,510	25,702
333	2.86%	SERVICES	7,675	7,675
334	5.88%	METERS AND METER INSTALLATIONS	28,989	28,600
339	5.00%	OTHER PLANT AND MISCELLANEOUS EQUIPMENT	<u>3,501</u>	<u>2,063</u>
		TOTAL	<u>\$224,319</u>	<u>\$92,566</u>
			CIAC AMORT. 6/30/2016 (DEBIT)*	CIAC 6/30/2016 (CREDIT)*
			<u>\$7,265</u>	<u>\$14,251</u>

* The plant, accumulated depreciation, CIAC, and CIAC amortization balances exclude the pro forma adjustments.

LAKESIDE WATERWORKS, INC.			SCHEDULE NO. 5-B	
TEST YEAR ENDED 06/30/2016			DOCKET NO. 20160195-WS	
SCHEDULE OF WASTEWATER PLANT, DEPRECIATION, CIAC, & CIAC AMORT. BALANCES				
(YEAR-END RATE BASE)				
ACCT NO.	DEPR. RATE PER RULE 25-30.140	DESCRIPTION	UPIS 6/30/2016 (DEBIT)*	ACCUM. DEPR. 6/30/2016 (CREDIT)*
351	2.50%	ORGANIZATION	\$1,010	\$441
354	3.70%	STRUCTURES AND IMPROVEMENTS	6,080	6,080
360	3.70%	COLLECTION SEWERS – FORCE	3,138	3,138
361	2.50%	COLLECTION SEWERS – GRAVITY	73,983	28,831
362	2.70%	SPECIAL COLLECTING STRUCTURES	200	121
363	2.86%	SERVICES TO CUSTOMERS	5,145	5,061
364	20.00%	FLOW MEASURING DEVICES	2,474	2,474
365	2.86%	FLOW MEASURING INSTALLATIONS	2,540	1,634
370	4.00%	RECEIVING WELLS	16,000	16,000
371	6.67%	PUMPING EQUIPMENT	1,832	1,453
380	6.67%	TREATMENT AND DISPOSAL EQUIPMENT	33,921	27,410
389	6.67%	OTHER PLANT AND MISCELLANEOUS EQUIPMENT	2,949	2,307
393	6.67%	TOOLS, SHOP, AND GARAGE EQUIPMENT	<u>203</u>	<u>230</u>
		TOTAL	<u>\$149,475</u>	<u>\$95,153</u>
			CIAC AMORT. 6/30/2016 (DEBIT)*	CIAC 6/30/2016 (CREDIT)
			<u>\$7,193</u>	<u>\$18,388</u>

* The plant and accumulated depreciation balances exclude the pro forma adjustments.