

STATE OF FLORIDA

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Public Service Commission

January 16, 2018

VIA EMAIL & US MAIL

Mr. Robert McBride
FIMC Hideaway, Inc.
3300 NW 28th Place
Gainesville, Florida 32605
Jandrmcbride@cox.net

Re: Docket No. 20170147-WS, Application for staff-assisted rate case in Levy County by FIMC Hideaway, Inc.

Dear Mr. McBride:

This will confirm that Commission staff will hold a customer meeting on Thursday, February 1, 2018. We ask that, if at all possible, you or another knowledgeable representative of the Utility attend the meeting in order to answer customer questions. The location of the general meeting will be as follows:

Thursday, February 1, 2018, at 6:00 P.M.
Fat Goose Auction House
14404 US Highway 19 North
Chiefland, FL 32626

As required by Rule 25-22.0407(9)(b), Florida Administrative Code (F.A.C.), the Utility shall provide, in writing, a customer meeting notice to all customers within its service area no less than 14 days and no more than 30 days prior to the date of a customer meeting. A draft customer meeting notice is enclosed. Please note the date has been left blank so that you can fill in the date that the notice is sent to the customers. Please furnish me with a copy of the notice, as reproduced at the time it is distributed to your customers, together with a cover letter indicating the exact date(s) on which the notice was mailed or otherwise delivered to the customers.

In addition, we have enclosed two copies of the staff report. Please ensure that a copy of the completed Application for Staff Assistance and the staff report are available for review, pursuant to Rule 25-22.0407(9)(a), F.A.C., by all interested persons at the following location:

FIMC Hideaway, Inc. Clubhouse
11084 NW 113 ST
Chiefland, FL 32626

For your convenience, I have also enclosed a copy of Rule 25-22.0407(a), F.A.C. Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-6220. In addition, you may contact Matthew Sibley at (850) 413-6516 or Shannon Hudson at (850) 413-7021 with any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Stephanie A. Cuello', with a long horizontal flourish extending to the right.

Stephanie A. Cuello
Attorney

Enclosures

SC/kw

cc: Office of Commission Clerk (Docket No. 20170147-WS)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

NOTICE OF CUSTOMER MEETING

TO THE CUSTOMERS OF FIMC HIDEAWAY, INC.

AND

ALL OTHER INTERESTED PERSONS

DOCKET NO. 20170147-WS

APPLICATION OF FIMC HIDEAWAY, INC.

FOR A STAFF-ASSISTED RATE CASE IN

LEVY COUNTY

Date Issued: _____

NOTICE is hereby given that the Staff of the Florida Public Service Commission (Commission) will conduct a customer meeting to discuss FIMC Hideaway, Inc.'s (FIMC or utility) application for a staff-assisted rate case (SARC) in Levy County. The meeting will be held at the following time and place:

Thursday, February 1, 2018, at 6:00 P.M.

Fat Goose Auction House
14404 US Highway 19 North
Chiefland, FL 32626

All persons who wish to comment are urged to be present at the beginning of the meeting, since the meeting may be adjourned early if no customers are present. One or more Commissioners of the Commission may attend and participate in this meeting. The meeting will begin as scheduled and will continue until all the customers have been heard.

If a named storm or other disaster requires cancellation of the meeting, Commission staff will attempt to give timely direct notice to the parties. Notice of the cancellation of the meeting will also be provided on the Commission's website (<http://www.psc.state.fl.us/>) under the Hot Topics link found on the home page. Cancellation can also be confirmed by calling the Commission's Office of the General Counsel at (850) 413-6199.

Any person requiring some accommodation at the customer meeting because of a physical impairment should call the Office of Commission Clerk at (850) 413-6770 at least five calendar days prior to the meeting. Any person who is hearing or speech impaired should contact the

Commission by using the Florida Relay Service, which can be reached at 1-800-955-8771 (TDD).

PURPOSE

The purpose of this meeting is to give customers and other interested persons an opportunity to offer comments to Commission staff regarding the quality of service the utility provides, the recommended rate increase, and to ask questions and comment on staff's preliminary rates included in this notice as well as other issues. Staff members will summarize FIMC Hideaway, Inc.'s filing, the preliminary work accomplished, and answer questions to the extent possible. A representative from the utility has also been invited to respond to questions.

At the beginning of the meeting, procedures will be established for the order of comments. Commission staff will have sign-up sheets, and customers will be called to speak in the order that they sign up. Staff will be available to coordinate customers' comments and to assist members of the public.

Any person who wishes to comment or provide information to staff may do so at the meetings, orally or in writing. Written comments may also be sent to the Commission at the address given at the end of this notice. Your letter will be placed in the correspondence file of this docket. You may also submit comments through the Commission's toll-free facsimile line at 1-800-511-0809 or online at <https://secure.floridapsc.com/e-filings/efiling.aspx>.

BACKGROUND

FIMC Hideaway, Inc. is a Class C utility, which was granted water and wastewater certificates in 1984 to serve the Hideaway development when Levy County turned jurisdiction over to this Commission in 1983.¹ The Hideaway systems were transferred to Florida Investors Mortgage Corporation Hideaway, Inc. in 1992 following its foreclosure on the utility.² Subsequently, a transfer of majority organizational control was approved to in 2005 when the utility stock was acquired by the current owners.³ In 2009, this Commission approved the transfer of the Springside water and wastewater systems from Par Utilities, Inc. to FIMC Hideaway, Inc.⁴

On June 22, 2017, FIMC filed an application for a staff assisted rate case. Staff selected the test year ended June 30, 2017. According to FIMC's 2016 annual report, combined total gross

¹Order No. 13497, issued July 10, 1984, in Docket No. 19830552-WS, *In re: Application of Hideaway Service, Inc. for a certificate to operate a water and sewer utility in Levy County.*

²Order No. 25584, issued January 8, 1992, in Docket No. 19910672-WS, *In re: Application for transfer of Certificates Nos. 426-W and 362-8 from Hideaway Service, Inc. to FIMC Hideaway, Inc. in Levy County.*

³Order No. PSC-05-0298-PAA-WS, issued March 18, 2005, in Docket No. 20040152-WS, *In re: Application for transfer of majority organizational control of FIMC Hideaway, Inc. in Levy County from Florida Investors Mortgage Corporation, a Florida corporation, to Robert and Janet McBride.*

⁴Order No. PSC-09-0279-PAA-WS, issued April 29, 2009, in Docket No. 20080268-WS, *In re: Joint Application for transfer of the Springside water and wastewater systems from Par Utilities, Inc. in Levy County to FIMC Hideaway, Inc.; amendment of Certificates 426-W and 362-W held by FIMC Hideaway, Inc.; and amendment of Certificate 428-W and cancellation of Certificate 366-S held by Par Utilities, Inc.*

revenues were \$95,403 and total operating expenses were \$88,613. The Hideaway and Springside systems currently serve 197 customers. The utility has not successfully applied for a rate increase since 1992. The Commission has jurisdiction in this case pursuant to Sections 367.081, 367.0812, 367.0814, and 367.091 Florida Statutes, (F.S.).

CURRENT AND PRELIMINARY RATES AND CHARGES

Staff has compiled the following recommended rates for the purpose of discussion at the customer meeting. These rates are preliminary and subject to change based on information gathered at the customer meeting, further staff review, and the final decision by the Commission. The utility's current and staff's recommended preliminary rates are as follows:

FIMC HIDEAWAY		SCHEDULE NO. 4-A		
TEST YEAR ENDED JUNE 30, 2017		DOCKET NO. 20170147-WU		
MONTHLY WATER RATES				
	HIDEAWAY CURRENT RATES	SPRINGSIDE CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>				
Base Facility Charge by Meter Size				
5/8"X3/4"	\$13.85	\$8.74	\$10.56	\$0.05
3/4"	\$20.77	\$13.11	\$15.84	\$0.08
1"	\$34.61	\$21.86	\$26.40	\$0.13
1-1/2"	\$69.23	\$43.71	\$52.80	\$0.26
2"	\$110.77	\$69.94	\$84.48	\$0.41
3"	\$221.53	\$139.88	\$168.96	\$0.83
4"	\$346.14	\$218.56	\$264.00	\$1.29
6"	\$692.29	N/A	\$528.00	\$2.59
Charge per 1,000 gallons - Residential and General Service	\$3.08	\$3.05	\$6.84	\$0.03
<u>Irrigation Service</u>				
Base Facility Charge - All Meter Sizes				
	\$0.00	\$0.00	\$0.00	\$0.00
Charge per 1,000 gallons - Irrigation Service	N/A	\$1.74	\$6.84	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
2,000 Gallons	\$20.01	\$14.84	\$24.24	
6,000 Gallons	\$32.33	\$27.04	\$51.60	
10,000 Gallons	\$44.65	\$39.24	\$78.96	

FIMC HIDEAWAY		SCHEDULE NO. 4-B		
TEST YEAR ENDED JUNE 30, 2017		DOCKET NO. 20170147-WU		
MONTHLY WASTEWATER RATES				
	HIDEAWAY CURRENT RATES	SPRINGSIDE CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential Service</u>				
Base Facility Charge - All Meter Sizes	\$11.81	\$17.85	\$16.13	\$0.04
Charge Per 1,000 gallons 6,000 gallon cap	\$2.67	N/A	\$8.49	\$0.02
Charge Per 1,000 gallons 10,000 gallon cap	N/A	\$5.76	N/A	N/A
Flat Rate	26.61	N/A	\$34.19	\$0.09
<u>General Service</u>				
Base Facility Charge by Meter Size				
5/8" x 3/4"	\$11.81	\$17.85	\$16.13	\$0.04
3/4"	\$17.72	\$26.78	\$24.20	\$0.06
1"	\$29.53	\$44.63	\$40.33	\$0.10
1-1/2"	\$59.06	\$89.27	\$80.65	\$0.20
2"	\$94.50	\$142.83	\$129.04	\$0.32
3"	\$188.99	\$285.66	\$258.08	\$0.64
4"	\$295.30	\$446.34	\$403.25	\$1.00
6"	\$590.59	N/A	\$806.50	\$2.00
Charge per 1,000 gallons	\$3.09	\$6.92	\$10.19	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
2,000 Gallons	\$17.15	\$29.37	\$33.11	
6,000 Gallons	\$27.83	\$52.41	\$67.07	
10,000 Gallons	\$27.83	\$75.45	\$67.07	

STAFF REPORTS AND UTILITY APPLICATION

The results of staff's preliminary investigation are contained in a staff report dated January 11, 2018. Copies of the report may be examined by interested members of the public Monday - Friday from 9:00 a.m. - 4:00 p.m. at the following location:

FIMC Hideaway, Inc. Clubhouse
11084 NW 113 ST
Chiefland, FL 32626

PROCEDURES AFTER CUSTOMER MEETING

After the customer meeting, Commission staff will prepare a recommendation which is tentatively scheduled to be submitted to the Commission on March 30, 2018. The Commission will then vote on staff's recommendation at its April 12, 2018 Commission Conference. The Commission will thereafter issue a proposed agency action (PAA) order containing rates which may be different from those contained in staff's final recommendation. Substantially affected persons have 21 days from the date that the PAA order is issued to protest the Commission's PAA order. Customers are able to obtain a copy of staff's recommendation and all documents filed in this docket under the Clerk's Office tab at the Commission's website (<http://www.floridapsc.com/>).

HOW TO CONTACT THE COMMISSION

Any person who wishes to comment or provide information to Commission staff may do so at the meetings, either orally or in writing. Other written comments regarding the utility and the proposed rates, or requests to be placed on the mailing list for this case, may be directed to this address:

Director, Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

All correspondence should refer to **"Docket No. 20170147-WS, FIMC HIDEAWAY, INC."** Your letter will be placed in the correspondence file of this docket. You may also submit comments through the Florida Public Service Commission's email at clerk@psc.state.fl.us, or the Commission's website available at <http://floridapsc.com/about/contact/form.aspx>.

If you wish to contact the Florida Public Service Commission regarding complaints about service, you may call the Commission's Office of Consumer Assistance and Outreach at the following toll-free number: 1-800-342-3552.

Docket No. 20170147-WS
Date: January 10, 2018

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: January 11, 2018

TO: Patti Daniel, Bureau Chief, Economic Impact and Rate Design

FROM: Division of Economics (Sibley)
Division of Accounting and Finance (Wilson, Brown)
Division of Engineering (Lewis)

RE: Docket No. 20170147-WS – Application for staff-assisted rate case in Levy County by FIMC Hideaway, Inc.

– STAFF REPORT –

This staff report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting.

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Case Background

FIMC Hideaway, Inc. (FIMC or utility) is a Class C utility, which was granted water and wastewater certificates in 1984 to serve the Hideaway development when Levy County turned jurisdiction over to this Commission in 1983.⁵ The Hideaway systems were transferred to Florida Investors Mortgage Corporation (FIMC) Hideaway, Inc. in 1992 following its foreclosure on the utility.⁶ Subsequently, a transfer of majority organizational control was approved to in 2005 when the utility stock was acquired by the current owners.⁷ In 2009, this Commission approved the transfer of the Springside water and wastewater systems from Par Utilities, Inc. to FIMC Hideaway, Inc.⁸ The utility has not successfully applied for a rate increase since 1992.

On June 22, 2017, FIMC filed an application for a staff assisted rate case (SARC). Staff selected the test year ended June 30, 2017. According to FIMC's 2016 annual report, combined total gross revenues were \$95,403 and total operating expenses were \$88,613. The Hideaway and Springside systems currently serve 197 customers.

This staff report is a **preliminary** analysis of the utility prepared by Commission staff to give customers and the utility an advanced look at what staff may be proposing. The final recommendation to the Commission is currently scheduled to be filed March 30, 2018, for consideration at the April 12, 2018 Commission Conference. The recommendation will be revised as necessary using any updated information and results of customer quality of service concerns or other relevant information received during the customer meeting. The Commission has jurisdiction in this case pursuant to Sections 367.081, 367.0812, 367.0814, and 367.091 Florida Statutes (F.S.).

⁵Order No. 13497, issued July 10, 1984, in Docket No. 19830552-WS, *In re: Application of Hideaway Service, Inc. for a certificate to operate a water and sewer utility in Levy County.*

⁶Order No. 25584, issued January 8, 1992, in Docket No. 19910672-WS, *In re: Application for transfer of Certificates Nos. 426-W and 362-8 from Hideaway Service, Inc. to FIMC Hideaway, Inc. in Levy County.*

⁷Order No. PSC-05-0298-PAA-WS, issued March 18, 2005, in Docket No. 20040152-WS, *In re: Application for transfer of majority organizational control of FIMC Hideaway, Inc. in Levy County from Florida Investors Mortgage Corporation, a Florida corporation, to Robert and Janet McBride.*

⁸Order No. PSC-09-0279-PAA-WS, issued April 29, 2009, in Docket No. 20080268-WS, *In re: Joint Application for transfer of the Springside water and wastewater systems from Par Utilities, Inc. in Levy County to FIMC Hideaway, Inc.; amendment of Certificates 426-W and 362-W held by FIMC Hideaway, Inc.; and amendment of Certificate 428-W and cancellation of Certificate 366-S held by Par Utilities, Inc.*

Discussion of Issues

Issue 1: Is the quality of service provided by FIMC Hideaway, Inc. satisfactory?

Preliminary Recommendation: Staff's recommendation regarding quality of service will not be finalized until after the February 1, 2018 customer meeting. (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

In evaluation of FIMC's product quality, staff reviewed the utility's compliance with the DEP primary and secondary drinking water standards. Primary standards protect public health, while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water. On January 8, 2016, DEP informed the utility that it exceeded the maximum contaminate levels for total dissolved solids and sulfates, which are secondary standards, and requested additional samples within 14 days after receipt of the letter. As of the date of this report Commission staff has not been provided documentation indicating the receipt of the additional testing; however, based on preliminary review it appears the DEP currently has no violations or corrective orders pending against the utility concerning the treatment of its water. Testing for primary and secondary water standards are next due in 2018.

The utility's operation of its wastewater treatment system is subject to various environmental requirements such as permitting, testing, and discharge monitoring under the jurisdiction of the DEP. Currently, it appears the DEP has no violations or corrective orders pending against the utility concerning the treatment and disposal of domestic wastewater.

Operating Condition of the Utility's Plant and Facilities

FIMC's service area is located in Chiefland, Florida, in Levy County and is within the Suwannee River Water Management District. The raw water source is ground water which is obtained from two wells in the service area and is treated. DEP personnel conducted a sanitary survey inspection of the facility on November 30, 2015. The system was determined to be in compliance with the DEP's rules and regulations. The next sanitary survey is due to be performed in 2018.

FIMC also operates an extended aeration wastewater treatment facility (WWTF) consisting of two influent lift stations, four aeration basins, one secondary clarifier, two aerobic digesters, and one chlorine contact chamber. Treated effluent is discharged to groundwater via three rapid-rate

infiltration basins. FIMC's WWTF was inspected by DEP on April 26, 2016, and the facility was rated as in-compliance.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the Commission's complaint records from January 2013 through December 2017 and found two complaints. One customer was experiencing a significant reduction in water pressure. During this time, the utility was in the process of replacing its water tank due to a small leak. The complaint was satisfactorily resolved on September 12, 2014. The second complaint was a billing dispute in which the customer disputed the installation charges for a new meter. The company's response indicated that a main extension charge was included and improperly quoted to the customer. PSC staff reviewed the tariff charges with the utility and the proper charges were determined. DEP received one complaint concerning the tank replacement. FIMC's complaint record reflected the billing dispute that staff resolved in 2016. There were no complaints received by the Commission, DEP, or FIMC concerning primary and secondary water standards.

Summary

Quality of service will be determined at a later date, pending review of comments made at the February 1, 2018 Customer Meeting.

Issue 2: What are the used and useful percentages (U&U) of FIMC's water treatment plant (WTP), wastewater treatment plant (WWTP), water distribution system, and wastewater collection system?

Preliminary Recommendation: Staff recommends that FIMC's WTP, WWTP, water distribution system, and wastewater collection system be considered 100 percent U&U at this time. Staff also recommends that no adjustment be made to purchased power and chemical expenses for excessive unaccounted for water (EUW) or excessive inflow and infiltration (I&I). (Lewis)

Staff Analysis: Staff's final evaluation of the utility's U&U will take in to consideration information gathered during its field investigation. Therefore, the numbers presented in this staff report are preliminary in nature.

Water Treatment Plant and Wastewater Treatment Plant Used & Useful

Historically the Commission has given consideration to previous rate cases when evaluating U&U. In FIMC's last rate case (1991) the Commission found the utility's Hideaway WTP and WWTP to be 100 percent U&U. As discussed in the case background, in 2009 the Commission approved a transfer of the Springside water and wastewater systems to FIMC. The systems, which are contiguous, were interconnected in 2013, and the Hideaway WTP and WWTP were subsequently abandoned. Therefore, the utility's system has substantially changed since the last rate case. At the time of preparing this report, Commission staff was still in the process of verifying the specific plant components of FIMC's system that were being used to provide service to customers.

Consistent with prior Commission decisions, staff is preliminarily recommending that FIMC's WTP and WWTP be considered 100 percent U&U. However, for the reasons discussed above, this value is subject to change when full consideration can be given to information obtained during the previously discussed field investigation.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. 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.

FIMC's monthly operating reports (MORs) show that the utility produced 8,837,742 gallons of water during the test year. Based on staff's review of the billing records, the utility sold 4,624,180 gallons of water during the test year and an additional 698,160 gallons of water were sold for irrigation. A review of the MORs does not indicate other uses for water, such as other uses. However, the utility's 2016 Annual Report indicated 2,628,000 gallons were used for other uses. Staff notes that the amount used for flushing is based on calendar year 2016, not the test-year. Considering the inputs discussed above, the amount of water produced, sold, and accounted for as other uses totals $(4,624,180 + 698,160 + 2,628,000) 7,950,340$ gallons.

The amount of unaccounted for water is equal to the gallons produced during the test year minus the total gallons accounted which results in an amount of $(8,837,742 - 7,950,340) 887,402$

gallons. Ten percent of the treated water produced is 883,744 gallons, therefore, the utility's EUW is approximately one percent. Although staff's preliminary calculation results in EUW, staff is recommending that no adjustment be made to operating expenses for chemicals and purchased power at this time. A final determination of EUW will be made when more accurate test year data for flushing is obtained.

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 utility's application states the collection system is a composite network of approximately 6,475 linear feet in the Hideaway subdivision and 4,960 linear feet in the Springside subdivision of various 2, 4, and 6 inch cast iron and PVC piping. The utility could not designate the length for each diameter of pipe; therefore, staff used 4 inches as the average diameter for the piping. The infiltration calculation equates to 4,331 gpd ((4 inches x 500 gpd x (11,435 feet/5,280 feet)) x 365 days) or 1,580,815 gallons per year (gpy). The billing data indicated 4,624,180 gallons were sold during the test year. The allowance for inflow is 10 percent of the water sold which is 462,418 gpy. The total I&I allowance is 2,043,233 (1,580,815 + 462,418) gallons for the test year.

Eighty percent of water sold is expected to flow to the WWTP, therefore, the estimated return of water sold is 3,699,344 (4,624,180 x 80 percent) gallons for the test year. The total estimated I&I is the amount of wastewater treated minus estimated water returned which equals (4,624,180 - 3,699,344) 924,836 gallons. Excessive I&I is the estimated I&I allowance minus the allowable I&I (924,836 - 2,043,393) which is a minus 1,118,557 gallons. Therefore, there appears to be no excessive I&I for the test year.

Water Distribution and Wastewater Collection Systems Used & Useful

The utility has indicated there are about five vacant lots in the service territory and that there are no current plans to build on these lots. Furthermore, the utility's Annual Reports reflect a growth of 4 water and 2 wastewater customers from 2012 through 2016. The lines in the utility's service territory appear to be built-out at this time. Therefore, the water distribution and wastewater collection systems should be considered 100 percent U&U.

Summary

Staff is recommending that FIMC's WTP, WWTP, water distribution system, and wastewater collection system be considered 100 percent U&U at this time. Staff also recommends that no adjustment be made to purchased power and chemical expenses for EUW or I&I.

Issue 3: What is the appropriate average test year rate base for FIMC Hideaway, Inc.?

Preliminary Recommendation: The appropriate average test year water rate base for FIMC is \$43,151 and the average test year wastewater rate base is \$13,287. (Wilson)

Staff Analysis: The appropriate components of the utility's rate base include utility plant in service, land, contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. Rate base was last established for FIMC Hideaway systems as of December 2003,⁹ whereas Springside's net book value was last established in 2009.¹⁰ The test year ended June 30, 2017, was used for the instant case. For ratemaking purposes, the utility has requested that its Hideaway water and wastewater systems be combined with its Springside water and wastewater systems. Staff believes this is appropriate since Hideaway and Springside customers are served by a single, shared water plant and a single, shared wastewater treatment plant. A summary of each water rate base and wastewater rate base component and recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

The utility recorded UPIS of \$251,809 for water and \$322,029 for wastewater. Staff reduced water UPIS by \$7,502 and increased wastewater UPIS by \$2,761 to reflect appropriate plant balances as identified in the audit. In response to staff's First Data Request, the utility requested two post test year items be considered as pro forma. Staff believes only one item, a \$2,000 replacement of 40-50 feet of PVC pipe with galvanized pipe for the wastewater treatment plant should be considered at this time. Staff included this project in the preliminary rate base calculation. A final determination on the prudence of this pro forma item will be evaluated in the staff recommendation. A second item, which totaled approximately \$2,700, was not included in wastewater UPIS as it appeared to be related to a customer conversion from septic to sewer. As shown in Table 3-1, the net increase to wastewater UPIS to reflect the pro forma line replacement is \$500, which includes the associated retirements estimated by staff based on the utility's available records. There are also corresponding adjustments to accumulated depreciation, depreciation expense, and property taxes.

⁹Order No. PSC-05-0298-PAA-WS, issued March 18, 2005, in Docket No. 20040152-WS, *In re: Application for transfer of majority organizational control of FIMC Hideaway, Inc. in Levy County from Florida Investors Mortgage Corporation, a Florida corporation, to Robert and Janet McBride.*

¹⁰Order No. PSC-09-0279-PAA-WS, issued April 29, 2009, in Docket No. 20080268-WS, *In re: Joint Application for transfer of the Springside water and wastewater systems from Par Utilities, Inc. in Levy County to FIMC Hideaway, Inc.; amendment of Certificates 426-W and 362-S held by FIMC Hideaway, Inc.; and amendment of Certificate 428-W and cancellation of Certificate 366-S held by Par Utilities, Inc.*

**Table 3-1
 Pro Forma Plant**

Project	Acct. No.	Description	Amount
WWTP Line Replacement	361	Replace 40-50' of PVC line w/galvanized	\$2,000
	361	Retire replaced line	<u>(1,500)</u>
Net Increase			<u>\$500</u>

Source: Responses to staff data requests

Staff's adjustments to UPIS include a decrease of \$7,502 to water and an increase of \$3,261 to wastewater. Consistent with Commission practice, no averaging adjustments are applied to pro forma additions. Therefore, staff recommends a UPIS balance of \$244,307 for water and \$325,290 for wastewater.

Land and Land Rights

The utility recorded land of \$15,858 for water and \$10,383 for wastewater. Staff verified that the land is owned by the utility and determined there have been no changes to the utility's cost of land since rate base was last established, therefore, no adjustments are necessary. Staff recommends a land and land rights balance of \$15,858 for water and \$10,383 for wastewater.

Non-Used and Useful Plant

As discussed in Issue 2, FIMC's water treatment plant, water distribution system, wastewater treatment plant, and wastewater collection system are considered 100 percent U&U. Therefore, no U&U adjustments are necessary.

Contributions In Aid of Construction (CIAC)

The utility did not record CIAC in their general ledger. Staff calculated CIAC using the beginning balances noted in Order Nos. PSC-05-0298-PAA-WS and PSC-04-0610-PAA-WS and subsequent additions reflected in the utility's annual reports compared to customer growth. Based on these calculations, staff's recommended CIAC balances are \$39,100 for water and \$75,772 for wastewater.

Accumulated Depreciation

According to the utility's general ledger, the accumulated depreciation balance for water was \$146,773 and \$247,550 for wastewater as of June 30, 2017. Test year depreciation expense was not recorded in the general ledger, but was reflected in the 2016 annual report. Staff recalculated accumulated depreciation and depreciation expense using the audited UPIS balances and the depreciation rates established by Rule 25-30.140(2), F.A.C. Staff increased this account by \$60,718 for water and \$48,149 for wastewater to reflect the appropriate balances. Staff also increased wastewater accumulated depreciation by \$13 to reflect the plant addition discussed previously in this issue. In addition, staff reduced accumulated depreciation by \$1,692 for water and \$2,549 for wastewater to reflect the simple average. Staff's adjustments to this account result in accumulated depreciation balances of \$205,799 for water and \$293,163 for wastewater.

Accumulated Amortization of CIAC

The utility did not record accumulated amortization of CIAC in their general ledger. Staff recalculated accumulated amortization of CIAC using the depreciation rates established by Rule 25-30.140(2), F.A.C. As a result, staff increased this account by \$21,634 for water and by \$39,216 for wastewater. Staff's recommended accumulated amortization of CIAC balances are \$21,634 for water and \$39,216 for wastewater.

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, discussed in Issue 6, of \$305 for water and \$184 for wastewater pursuant to Section 367.081(9), F.S.¹¹ Applying this formula, staff recommends a working capital allowance of \$6,251 ($\$50,010/8$) for water, based on the adjusted O&M expense of \$50,010 ($\$50,315 - \$305 = \$50,010$). Further, staff recommends a working capital allowance of \$7,333 ($\$58,661/8$) for wastewater, based on the adjusted O&M expense of \$58,661 ($\$58,845 - \$184 = \$58,661$).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base for water is \$43,151 and the average test year rate base for wastewater is \$13,287. Water and wastewater rate bases are shown on Schedule Nos. 1-A and 1-B. The related adjustments are shown on Schedule No. 1-C.

¹¹The Utility's application was filed on June 22, 2017, after the statute became effective. Therefore, staff excluded rate case expense from the working capital calculations.

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

Preliminary Recommendation: The appropriate return on equity (ROE) is 9.01 percent with a range of 8.01 percent to 10.01 percent. The appropriate overall rate of return is 10.88 percent. (Wilson)

Staff Analysis: FIMC's test year capital structure reflected common equity of \$61,545, long term debt of \$10,371, and no customer deposits. Staff is still determining the appropriate capital structure and cost of capital. The utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE for the utility is 9.01 percent based upon the Commission-approved leverage formula currently in effect.¹² Staff recommends an ROE of 9.01 percent, with a range of 8.01 percent to 10.01 percent, and an overall rate of return of 10.88 percent. The ROE and overall rate of return are shown on Schedule No. 2.

¹²Order 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 the water and wastewater systems of FIMC Hideaway, Inc.?

Preliminary Recommendation: The appropriate test year revenues are \$41,661 for the water system and \$52,484 for the wastewater system. (Sibley)

Staff Analysis: FIMC recorded \$43,813 in test year revenues for its water systems, which includes \$27,317 of test year revenues from the Hideaway system and \$16,496 from the Springside system. The Hideaway system's water test year revenue of \$27,317 includes \$26,685 of service revenues and \$632 of miscellaneous revenues. In addition, the Springside system's water test year revenue of \$16,496 includes \$13,300 of service revenues and \$3,196 of miscellaneous revenues. Further, FIMC recorded \$55,469 in test year revenues for its wastewater systems, which includes \$27,914 of test year revenues from the Hideaway system and \$27,555 from the Springside system. The Hideaway system's wastewater test year revenue of \$27,914 includes \$26,936 of service revenues and \$978 of miscellaneous revenues. Comparatively, the Springside system's wastewater test year revenue of \$27,555 includes \$25,655 of service revenues and \$1,900 of miscellaneous revenues.

During the test year, the utility rates changed due to a price index. Staff annualized the service revenues using the test year billing determinants and the service rates in effect at the end of the test year. Test year revenues include revenues associated with the clubhouse. For miscellaneous revenues, staff applied the appropriate miscellaneous service charges to the test year occurrences. Service revenues and miscellaneous revenues were adjusted to reclassify bookkeeping errors. In addition, miscellaneous revenues were allocated between the water and wastewater systems. Based on the above, the appropriate test revenues for FIMC are \$41,661 for the water system and \$52,484 for the wastewater system.

**Table 5-1
 Test Year Revenues**

	Water*	Wastewater*
Service Revenues		
Utility Recorded Service Revenues	\$ 39,985	\$ 52,591
Staff Adjustment	\$ 967	\$ (928)
Total Service Revenues	\$ 40,952	\$ 51,663
Miscellaneous Revenues		
Utility Recorded Miscellaneous Revenues	\$ 3,828	\$ 2,878
Staff Adjustment	\$ (3,119)	\$ (2,057)
Total Miscellaneous Revenues	\$ 709	\$ 821
Total Test Year Revenues	\$ 41,661	\$ 52,484
* Includes Hideaway and Springside revenues		

Source: Staff's calculations

Issue 6: What is the appropriate amount of operating expense for FIMC Hideaway, Inc.?

Preliminary Recommendation: The appropriate amount of operating expense for the utility is \$61,395 for water and \$70,460 for wastewater. (Wilson, Brown)

Staff Analysis: FIMC recorded operating expense of \$35,580 for water and \$30,292 for wastewater for the test year ended June 30, 2017. 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.

Salaries and Wages - Officers (603/703)

The utility did not record any salaries and wages – officers expense during the test year. The owners of the utility have requested pro forma salaries totaling \$18,000. The owners are responsible for a variety of tasks from billing to tree trimming. The requested increase equates to \$12.50 per hour. In another recent SARC, the Commission approved salaries for a wastewater only utility that averaged \$26.75 per hour.¹³ That particular utility had two part-time officers and approximately 320 customers. FIMC provides both water and wastewater service and has approximately 200 customers. For purposes of the Staff Report, staff applied the \$26.75 per hour rate to the hours provided by FIMC's owners. This results in total pro forma officer salaries of \$41,727. Staff believes the expense should be allocated according to ERCs. As such, staff increased water by \$20,146 ($\$41,727 \times 48.28$ percent) and wastewater by \$21,581 ($\$41,727 \times 51.72$ percent) to reflect the appropriate test year salaries. In addition, staff made a corresponding adjustment in TOTI to reflect the pro forma payroll taxes associated with the increase. Staff included its revised pro forma salary amounts for purposes of the Staff Report, but notes that this increase requires additional review. As such, staff believes that additional information is needed in order to determine the utility's appropriate salaries and wages expense. Therefore, staff's preliminary recommendation for salaries and wages – officers expense is \$20,146 for water and \$21,581 for wastewater.

Sludge Removal Expense (711)

The utility recorded sludge removal expense of \$1,260 for the test year. The utility produced an invoice reflecting \$1,260 for sludge disposal that occurred during the test year.¹⁴ Staff included the sludge removal expense for purposes of the Staff Report, but notes that the frequency of sludge removal may impact the amount ultimately included in the recommendation and, as such, requires additional review. Therefore, staff's preliminary recommendation for sludge removal expense is \$1,260.

Purchased Power (615/715)

FIMC recorded purchased power expense of \$2,121 for water and \$4,477 for wastewater for the test year. Staff decreased this account by \$10 for water and \$37 for wastewater to remove late fees from the test year balances. Therefore, staff recommends purchased power expense of \$2,111 for water and \$4,440 for wastewater.

¹³Order No. Order PSC-2017-0383-PAA-SU, issued October 4, 2017, in Docket No. 20160165-SU, *In re: Application for staff-assisted rate case in Gulf County by ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.*

¹⁴Document No. 09327-2017, filed October 31, 2017.

Materials and Supplies (620/720)

The utility recorded materials and supplies expense of \$2,453 for water and \$32 for wastewater for the test year. Staff decreased the water account by \$626 to reflect the removal of \$248 in unsupported expenses and reclassification of an additional \$378 to Account 636 - Contractual Services-Other. Staff made no adjustments to this account for wastewater. Accordingly, staff recommends materials and supplies expense of \$1,827 for water and \$32 for wastewater.

Contractual Services - Professional (631/731)

FIMC did not record any test year contractual services – professional expense for water, but did include \$1,300 for wastewater. Staff increased water by \$510 related to the utility’s regulatory accountant. Additionally, staff reclassified \$1,500 related to a CPA retainer fee from Account 636 – Contractual Services-Other to Account 631 – Contractual Services-Professional. Staff believes that this is a one-time fee that should be amortized over five years, or \$300 per year. The utility provided supporting documentation for the \$1,300 included in wastewater, indicating that the expense was for engineering fees related to the DEP permit renewal. The DEP permit renewal occurs every five years. As such, staff believes it is appropriate to amortize the expense over a five-year period, which results in \$260 per year. The resulting adjustment is a decrease of \$1,040 (\$260 - \$1,300). Staff also increased wastewater by \$510 related to the utility’s regulatory accountant. Staff’s total adjustment to water contractual services – professional expense is an increase of \$810 (\$510 + \$300), and staff’s net adjustment to wastewater contractual services – professional expense is a decrease of \$530 (\$510 - \$1,040). Therefore, staff recommends contractual services – professional expense for the test year of \$810 for water and \$770 for wastewater.

Contractual Services - Testing (635/735)

The utility recorded testing expense of \$1,165 for water and \$45 for wastewater in this account. Staff made no adjustments to this account for water. Staff decreased wastewater testing by \$45 to reclassify an item to Account 736 – Contractual Services–Other and increased the account by \$960 for the monthly testing performed by the contract operator, which was reclassified from Account 775 – Miscellaneous Expense. Based on the above, staff recommends contractual services – testing expense for the test year of \$1,165 for water and \$960 for wastewater.

Contractual Services - Other (636/736)

The utility recorded contractual services – other expense of \$3,283 for water and \$50 for wastewater. Staff’s adjustments to this account are reflected in Table 6-1.

Table 6-1
Staff Adjustments to Contractual Services – Other

Description	Water Adjustment	Wastewater Adjustment
Reclassification from Account 620 - Materials & Supplies	\$378	\$0
Reclassification to Account 631 - Contractual Services-Professional	(1,500)	0
Reclassification from Account 675 - Miscellaneous Expense	6,884	0
Reclassification from Account 735 - Contractual Services-Testing	0	45
Reclassification from Account 775 - Miscellaneous Expense	190	17,633
Total	<u>\$5,952</u>	<u>\$17,678</u>

Source: Document No. 08747-2017, FIMC Hideaway Audit Report.

As noted above, staff increased this account by \$5,952 for water and \$17,678 for wastewater to reclassify amounts identified during the audit. Therefore, staff recommends contractual services – other expense for the test year of \$9,235 for water and \$17,728 for wastewater.

Rent Expense (640/740)

FIMC recorded rent expense of \$11,000 for water, but recorded no rent expense for wastewater. Staff allocated FIMC’s total rent expense between the water and wastewater systems based on ERCs, or \$5,311 ($\$11,000 \times 48.28$ percent) for water and \$5,689 ($\$11,000 \times 51.72$ percent) for wastewater. Staff’s total adjustments to this account are a decrease of \$5,689 for water and an increase of \$5,689 for wastewater. Staff believes that additional information is needed in order to determine the utility's appropriate rent expense going forward. Therefore, staff’s preliminary recommendation for rent expense is \$5,311 for water and \$5,689 for wastewater.

Transportation Expense (650/750)

The utility did not record any test year transportation expense. The utility provided staff with a mileage log that reflected a total of 2,720 miles for the owner’s utility-related travel. The mileage reflects the utility owner’s three trips per month from Gainesville to Chiefland, where FIMC is located. Staff recommends using the utility's mileage log and IRS standard mileage rates to develop an appropriate amount of transportation expense for the staff report. According to the IRS, the standard mileage rate for business includes the fixed and variable costs of operating a vehicle. Staff believes transportation expense of \$1,456 ($2,720 \text{ miles} \times \0.535 per mile) is appropriate. As such, staff increased this account by \$703 ($\$1,456 \times 48.28$ percent) and \$753 ($\$1,456 \times 51.72$ percent) for water and wastewater, to reflect the allocation of transportation expense. Staff believes that even with the mileage log as support, FIMC may have additional transportation expenses not captured in the mileage log or elsewhere in the utility’s expenses. As such, staff believes that additional information is needed in order to determine the utility's appropriate transportation expense going forward. Therefore, staff’s preliminary recommendation for transportation expense is \$703 for water and \$753 for wastewater.

Insurance Expense (655/755)

The utility did not record test year insurance expense for the test year. However, insurance expense of \$600 for water and \$600 for wastewater was reported in the utility’s 2016 Annual

Report. According to the utility's regulatory accountant, the amounts in the utility's annual report reflect insurance expense which is "self insurance." Staff notes that prior to 2016, the utility's recent annual reports reflect insurance expense of \$1,200 for water and \$1,200 for wastewater. The utility did not provide an explanation for the decrease in insurance expense, but staff believes it would be beneficial to maintain a higher level of self insurance. Staff believes that for purposes of the staff report, a five-year average of the expense reflected in the utility's 2012-2016 Annual Reports should be used to reflect appropriate insurance expense. The result is insurance expense of \$1,080 for water and \$1,080 for wastewater, or \$2,160 total. Similar to the other expenses discussed here, staff believes the expense should be allocated according to ERCs. As such, staff increased water by \$1,043 ($\$2,160 \times 48.28$ percent) and wastewater by \$1,117 ($\$2,160 \times 51.72$ percent) to reflect the appropriate test year insurance expense. Additionally, staff believes that additional information is needed in order to determine the utility's appropriate insurance expense going forward. Therefore, staff's preliminary recommendation for insurance expense is \$1,043 for water and \$1,117 for wastewater.

Regulatory Commission Expense (665/765)

The utility did not record regulatory commission expense for the test year. 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 notice of the four-year rate reduction to its customers when the rates are reduced to remove the amortized rate case expense. For noticing, staff estimated \$250 for postage expense, \$180 for printing expense, and \$26 for envelopes. This results in \$456 ($\$250 + \$180 + \26) for the noticing requirement. The utility paid a total of \$1,500 in rate case filing fees (\$1,000 for water and \$500 for wastewater). Based on the above, staff recommends total rate case expense of \$1,956 ($\$456 + \$1,500$), which amortized over four years is \$489. Staff has allocated the annual rate case expense to the water and wastewater systems based on ERCs, resulting in annual rate case expense of \$305 for water and \$184 for wastewater. Therefore, staff recommends regulatory commission expense of \$305 for water and \$184 for wastewater.

Bad Debt Expense (670/770)

FIMC did not record any bad debt in its general ledger for the test year. However, the utility did include bad debt expense of \$2,696 for water and \$2,995 for wastewater in its 2016 Annual Report, based on a schedule generated from the billing system. Staff notes that no bad debt expense was included in the utility's 2014 or 2015 Annual Reports. In addition, only nominal amounts of bad debt expense were reported in the utility's 2011, 2012, and 2013 Annual Reports.¹⁵ Since a three-year historical average is not available, staff believes it would be more appropriate to use the expense reflected in FIMC's 2016 Annual Report in this case. However, staff believes that additional information is needed in order to determine the utility's appropriate bad debt expense going forward. Staff increased bad debt expense by \$2,696 and \$2,995 for water and wastewater. Therefore, staff's preliminary recommendation for bad debt expense is \$2,696 for water and \$2,995 for wastewater.

¹⁵Based on the Utility's 2011-2013 Annual Reports, FIMC reported combined bad debt expense for water and wastewater of \$948 in 2011, \$948 in 2012, and \$495 in 2011.

Miscellaneous Expense (675/775)

The utility recorded test year miscellaneous expense of \$12,065 for water and \$20,394 for wastewater. Staff decreased the water account by \$50 for disallowed expense, \$168 for insufficient support, and reclassified \$6,884 to Account 636 – Contractual Services-Other. Additionally, staff decreased the wastewater account by \$145 for disallowed expense, \$130 for insufficient support, reclassified \$960 to Account 735 – Contractual Services-Testing, reclassified \$17,633 to Account 736 – Contractual Services-Other, and reclassified \$190 to Account 636 – Contractual Services-Other. Staff's net adjustments are decreases of \$7,102 (\$50 + \$168 + \$6,884) and \$19,058 (\$145 + \$130 + \$960 + \$17,633 + \$190) to water and wastewater. Therefore, staff recommends miscellaneous expense of \$4,963 for water and \$1,336 for wastewater.

Operation and Maintenance Expense (O&M Summary)

Based on the above adjustments, O&M expense should be increased by \$18,228 for water and by \$31,287 for wastewater, resulting in total O&M expense of \$50,315 for water and \$58,845 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 no test year water depreciation expense or CIAC amortization expense. Also, the utility's records reflect no test year wastewater depreciation expense or CIAC amortization expense.¹⁶ Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and increased water and wastewater depreciation expense by \$3,385 and \$5,100, to reflect the appropriate test year depreciation expense. In addition, the utility did not record amortization expense in their general ledger. Staff calculated amortization expense using audited CIAC balances and the depreciation rates established by Rule 25-130.142, F.A.C. Staff also increased amortization expense by \$833 and \$1,202 for water and wastewater, to reflect the appropriate test year depreciation expense. Further, staff made an adjustment to wastewater depreciation expense to reflect a plant addition. Staff increased the water account by \$13 to reflect the additional depreciation expense associated with a plant addition to plant Account No. 361 – Collection Sewers-Gravity equipment that occurred after the end of the test year.

Based on the above, staff's net adjustment to water depreciation expense is an increase of \$3,385. Additionally, staff's total adjustment to wastewater depreciation expense is an increase of \$5,113 (\$5,100 + \$13). Given staff's adjustments, the net depreciation expense for water is \$2,552 (\$3,385 - \$833 = \$2,552), and the net depreciation expense for wastewater is \$3,911 (\$5,113 - \$1,202 = \$3,911). Therefore, staff recommends net depreciation expense of \$2,552 for water and \$3,911 for wastewater.

¹⁶While not reflected in the general ledger, the utility did reflect depreciation expense in its 2016 Annual Report.

Taxes Other Than Income (TOTI)

FIMC recorded TOTI of \$3,493 for water and \$2,734 for wastewater for the test year. Staff increased these accounts by \$41 for water and \$327 for wastewater to reflect the appropriate test year RAFs. Additionally, staff increased property taxes by \$796 for water and \$275 for wastewater to reflect appropriate test year property taxes. The addition to wastewater property tax also includes an \$8 addition associated with a plant repair. Finally, staff increased TOTI by \$3,083 for water and \$3,302 for wastewater to reflect pro forma payroll taxes. Staff's total adjustments are increases of \$3,921 to water and \$3,904 to wastewater.

As discussed in Issue 8, revenues have been increased by \$24,765 for water and \$23,869 for wastewater to reflect the change in revenue required to cover expenses and allow an opportunity to recover the operating margin on water and wastewater. As a result, TOTI should be increased by \$1,114 for water and \$1,074 for wastewater to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$8,528 for water and \$7,712 for wastewater.

Operating Expenses Summary

The application of staff's recommended adjustments to FIMC's test year operating expenses results in operating expenses of \$61,395 for water and \$70,468 for wastewater. Operating expenses are shown on Schedules No. 3-A and 3-B. The adjustments are shown on Schedule No. 3-C.

Issue 7: Should the Commission utilize the operating ratio methodology as an alternative method for calculating the water revenue requirement for FIMC Hideaway, Inc., and if so, what is the appropriate margin?

Preliminary Recommendation: Yes. The Commission should utilize the operating ratio methodology for calculating the water and wastewater revenue requirements for FIMC. The margin should be 10 percent of O&M expense for both water and wastewater. (Wilson, Brown)

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

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

By Order No. PSC-96-0357-FOF-WU,¹⁷ the Commission, for the first time, utilized the operating ratio methodology as an alternative means for setting rates. This order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expense. This criterion was applied again in Order No. PSC-97-0130-FOF-SU.¹⁸ Recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-2017-0459-PAA-WS.¹⁹

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

- 1) Whether the Utility's O&M expense exceeds rate base. The operating ratio method substitutes O&M expense for rate base in calculating the amount of return. A utility generally would not benefit from the operating ratio method if rate base exceeds O&M expense. In the instant case, rate base is less than the level of O&M expense. The

¹⁷Order No. PSC-96-0357-FOF-WU, issued March 13, 1996, in Docket No. 950641-WU, *In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.*

¹⁸Order No. PSC-97-0130-FOF-SU, issued February 10, 1997, in Docket No. 960561-SU, *In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.*

¹⁹Order No. PSC-2017-0459-PAA-WS, issued November 30, 2017, in Docket No. 20160176-WS, *In re: Application for staff-assisted rate case in Polk County by Four Lakes Golf Club, Ltd.*

Utility's primary risk resides with covering its operating expense. Based on staff's recommendation, the adjusted water rate base for the test year is \$43,151, while adjusted O&M expenses are 50,315. The adjusted wastewater rate base for the test year is \$13,287, while adjusted O&M expenses are \$58,845.

- 2) Whether the utility is expected to become a Class B utility in the foreseeable future. Pursuant to Section 367.0814(9), F.S., the alternative form of regulation being considered in this case only applies to small utilities with gross annual revenue of \$250,000 or less per systems. FIMC is a Class C utility and the recommended revenue requirement of \$66,426 for water and \$76,353 for wastewater are substantially below the threshold level for Class B status (\$200,000 per system). The utility's service area has not had any significant growth in the last five years. Therefore, it appears the utility will not become a Class B utility in the foreseeable future.
- 3) Quality of service and condition of plant. As discussed in Issue 1, the recommended quality of service will not be finalized until after the January 11, 2018 Customer Meeting.
- 4) Whether the Utility is developer-owned. The current utility owner is not a developer.
- 5) Whether the Utility operates treatment facilities or is simply a distribution and/or collection system. The issue is whether or not purchased water and/or wastewater costs should be excluded in the computation of the operating margin. FIMC operates the water and wastewater treatment plants.

Based on staff's review of the Utility's situation relative to the above criteria, staff recommends that FIMC is a viable candidate for the operating ratio methodology.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, the Commission determined that a margin of 10 percent shall be used unless unique circumstances justify the use of a greater or lesser margin. The important question is not what the return percentage should be, but what level of operating margin will allow the Utility to provide safe and reliable service and remain a viable entity. The answer to this question requires a great deal of judgment based upon the particular circumstances of the Utility.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenue for the Utility to cover its interest expense. FIMC's interest expense is not a concern in this case.

Second, the operating ratio method recognizes that a major issue for small utilities is cash flow; therefore, the operating ratio method focuses more on cash flow than on investment. In the instant case, the Utility's primary risk resides with covering its operating expense. A traditional calculation of the revenue requirement may not provide sufficient revenue to protect against potential variances in revenues and expenses. Under the rate base methodology, the return to FIMC would be \$4,697 for water and \$1,446 for wastewater. Staff does not believe this would provide the necessary financial cushion to successfully operate this utility.

Third, if the return on rate base method was applied, FIMC could be left with insufficient funds to cover operating expenses in the event revenues or expenses vary from staff's estimates. Therefore, the margin should provide adequate revenue to protect against potential variability in revenues and expenses. If the Utility's operating expenses increase or revenues decrease, FIMC may not have the funds required for day-to-day operations. Using a 10 percent margin in this docket produces an operating margin of \$5,031 and \$5,885 for water and wastewater. Both amounts are below the suggested cap of \$10,000. As such, staff recommends a 10 percent margin in this case.

In conclusion, staff believes the above factors show that the Utility needs a higher margin of revenue over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide FIMC with adequate cash flow to provide some assurance of safe and reliable service, staff recommends application of the operating ratio methodology at a margin of 10 percent of O&M expense for determining the water and wastewater revenue requirements.

Issue 8: What is the appropriate revenue requirement?

Preliminary Recommendation: The appropriate revenue requirement is \$66,426 for water and \$76,353 for wastewater, resulting in an annual increase of \$24,765 for water (59.45 percent) and \$23,869 for wastewater (45.48 percent). (Wilson)

Staff Analysis: FIMC should be allowed an annual increase of \$24,765 for water (59.45 percent) and \$23,869 for wastewater (45.48 percent). This will allow the Utility the opportunity to recover its expenses and earn a 10 percent margin on O&M expenses for its water and wastewater systems. The calculations are shown below, in Tables 8-1 and 8-2 for water and wastewater:

**Table 8-1
Water Revenue Requirement**

Adjusted O&M Expense	\$50,315
Operating Margin (%)	x 10.00%
Operating Margin (\$10,000 Cap)	\$5,031
Adjusted O&M Expense	50,315
Depreciation Expense (Net)	2,552
Taxes Other Than Income	7,414
Test Year RAFs	1,114
Revenue Requirement	\$66,426
Less Adjusted Test Year Revenues	41,661
Annual Increase	<u>\$24,765</u>
Percent Increase	59.45%

Table 8-2
Wastewater Revenue Requirement

Adjusted O&M Expense	\$58,845
Operating Margin (%)	x 10.00%
Operating Margin (\$10,000 Cap)	\$5,885
Adjusted O&M Expense	58,845
Depreciation Expense (Net)	3,911
Taxes Other Than Income	6,638
Test Year RAFs	1,074
Revenue Requirement	\$76,353
Less Adjusted Test Year Revenues	52,484
Annual Increase	<u>\$23,869</u>
Percent Increase	45.48%

Issue 9: What are the appropriate rate structure and rates for FIMC Hideaway's water and wastewater systems?

Preliminary 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 this notice. (Sibley)

Staff Analysis:

Water Rates

FIMC is located in Levy County within the SRWMD. The utility provides water service to approximately 183 residential customers and a clubhouse in the Hideaway and Springside service areas. Approximately 36 percent of the residential customer bills during the test year had zero gallons, indicating the customer base is seasonal. The average residential water demand is 2,127 gallons per customer.

The Hideaway and Springside customers have separate rates as shown water on Schedule No. 4-A. The current rate structures for the residential and general service water customers consist of base facility charges (BFC) based on meter size and uniform gallonage charges. Approximately 77 residential customers in the Springside service area also have separate irrigation meters. The residential irrigation rate structure includes a uniform gallonage charge without a BFC.

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.

The Utility requested uniform rates for its Hideaway and Springside systems. Hideaway customer's currently pay \$5.17 per month more than Springside customers for 2,000 gallons of water. Staff believes uniform rates are appropriate since Hideaway and Springside customers are served by a single water plant. Additionally, billing and accounting functions would be simpler with uniform rates which could result in mitigation of the associated costs. As a result, staff is recommending uniform rates for the FIMC water system.

Due to the customers' low average monthly consumption and somewhat seasonal customer base, staff recommends 50 percent of the revenue requirement should be recovered through the BFC in an effort to provide revenue stability. In addition, the average number of people per household served by the water system is two and one half; 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 would be 3,000 gallons per month. However, staff does not

recommend a non-discretionary threshold or repression adjustment because of the low average monthly demand. Staff recommends continuation of the BFC and uniform gallonage charge rate structure for residential and general service customers.

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. Based on staff's analysis, the residential irrigation customers' average demand is 754 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. The gallonage charge for irrigation service should be consistent with the gallonage charge for residential service.

Wastewater Rates

The utility provides wastewater service to 197 customers. As previously described, the Hideaway and Springside service areas also have separate wastewater rates, as shown on Schedule No. 4-B. The current rate structures for wastewater service consist of uniform BFCs for all residential meter sizes and gallonage charges with caps of 6,000 gallons per month for Hideaway and 10,000 gallons per month for Springside. In addition, there are approximately 15 customers in the service area that are wastewater only customers because they have their own wells. These customers are billed a flat monthly rate for wastewater service. The general service rates include a BFC by meter size and a gallonage charge that is 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 previously discussed, the Hideaway and Springside customers are served by a single wastewater treatment plant. Currently, Springside wastewater customers pay \$12.22 per month more than Hideaway customers for 2,000 gallons per month. Consistent with Staff's recommendation for the water system, staff recommends uniform rates be approved for the Hideaway and Springside wastewater customers.

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. FIMC's current residential wastewater caps are 6,000 gallons for the Hideaway and 10,000 gallons for the Springside systems. It is Commission practice to set the wastewater cap at approximately 80 percent of residential water gallons sold, which typically results in gallonage caps of 6,000, 8,000, or 10,000. The wastewater gallonage cap recognizes that not all water used by the residential customers is returned to the wastewater system. However, due to the seasonality of the utility's customer base, 86 percent of the total water sold is captured at 4,000 gallons, which is lower than gallonage caps typically approved for wastewater systems. Therefore, staff recommends a residential wastewater gallonage cap of 6,000 gallons for the Hideaway and Springside systems. Staff also recommends no repression adjustment for the wastewater system. Staff recommends a residential flat rate based on the recommended BFC and average

consumption of 2,127 gallons per month. Additionally, staff recommends that the general service gallonage charge be 1.2 times greater than the residential gallonage charge which is consistent with Commission practice.

Conclusion

Based on the above, 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 this notice.

Issue 10: 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?

Preliminary Recommendation: FIMC's water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.081(8), F.S. The Utility should be required to file revised tariff sheets 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 FIMC 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. (Sibley, Wilson)

Staff Analysis: FIMC'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 \$319 and \$193 for water and wastewater. 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.

The Utility 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 should also be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction. If FIMC files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall 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 11: What are the appropriate initial customer deposits for FIMC's water and wastewater systems?

Preliminary Recommendation: The appropriate initial customer deposits should be \$49 for water and \$66 for wastewater for the residential 5/8 inch x 3/4 inch meter size. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated monthly bill. 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. (Sibley)

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, the Commission has set initial customer deposits equal to two times the average estimated bill.²⁰ Currently, the utility does not have initial deposits. Based on the staff recommended water rates, the appropriate initial customer deposit for water should be \$42 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 for water and \$66 for wastewater for the residential 5/8 inch x 3/4 inch meter size. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated monthly bill. 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.

²⁰See 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 12: Should the recommended rates be approved for FIMC Hideaway, Inc. on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

Preliminary Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the utility on a temporary basis, subject to refund, 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 Commission Clerk's office 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. (Wilson)

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 \$33,423. 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 Commission Clerk's office 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 the utility be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision?

Preliminary Recommendation: Yes. FIMC should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. FIMC should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all applicable NARUC USOA primary accounts have been made to the utility's books and records. In the event the utility needs additional time to complete the adjustments, notice should be provided not less than seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Wilson)

Staff Analysis: FIMC should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. FIMC 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 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 not less than seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

FIMC HIDEAWAY, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 6/30/17		DOCKET NO. 20170147-WS	
SCHEDULE OF COMBINED WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$251,809	(\$7,502)	\$244,307
2. LAND & LAND RIGHTS	15,858	0	15,858
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	0	(39,100)	(39,100)
5. ACCUMULATED DEPRECIATION	(146,773)	(59,026)	(205,799)
6. AMORTIZATION OF CIAC	0	21,634	21,634
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>6,251</u>	<u>6,251</u>
8. WATER RATE BASE	<u>\$120,894</u>	<u>(\$77,743)</u>	<u>\$43,151</u>

FIMC HIDEAWAY, INC.		SCHEDULE NO. 1-B	
TEST YEAR ENDED 6/30/17		DOCKET NO. 20170147-WS	
SCHEDULE OF COMBINED WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$322,029	\$3,261	\$325,290
2. LAND & LAND RIGHTS	10,383	0	10,383
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	0	(75,772)	(75,772)
5. ACCUMULATED DEPRECIATION	(247,550)	(45,613)	(293,163)
6. AMORTIZATION OF CIAC	0	39,216	39,216
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>7,333</u>	<u>7,333</u>
8. WASTEWATER RATE BASE	<u>\$84,862</u>	<u>(\$71,575)</u>	<u>\$13,287</u>

FIMC HIDEAWAY, INC.		SCHEDULE NO. 1-C	
TEST YEAR ENDED 6/30/17		DOCKET NO. 20170147-WS	
ADJUSTMENTS TO RATE BASE		PAGE 1 OF 1	
	<u>WATER</u>	<u>WASTEWATER</u>	
<u>UTILITY PLANT IN SERVICE</u>			
1. To reflect audit adjustments.	(\$7,502)	\$2,761	
2. To reflect net pro forma plant additions.	<u>0</u>	<u>500</u>	
Total	<u>(\$7,502)</u>	<u>\$3,261</u>	
<u>CIAC</u>			
To reflect audit adjustments.	<u>(\$39,100)</u>	<u>(\$75,772)</u>	
<u>ACCUMULATED DEPRECIATION</u>			
1. To reflect audit adjustments.	(\$60,718)	(\$48,149)	
2. To reflect net pro forma plant additions.	0	(13)	
3. To reflect an averaging adjustment.	<u>1,692</u>	<u>2,549</u>	
Total	<u>(\$59,026)</u>	<u>(\$45,613)</u>	
<u>AMORTIZATION OF CIAC</u>			
To reflect audit adjustments.	<u>\$21,634</u>	<u>\$39,216</u>	
<u>WORKING CAPITAL ALLOWANCE</u>			
To reflect 1/8 of test year O & M expenses.	<u>\$6,251</u>	<u>\$7,333</u>	

FIMC HIDEAWAY, INC. TEST YEAR ENDED 6/30/17 SCHEDULE OF CAPITAL STRUCTURE						SCHEDULE NO. 2 DOCKET NO. 20170147-WS		
CAPITAL COMPONENT	PER UTILITY (YEAR END)	STAFF ADJUSTMENTS	TEST YEAR BALANCE PER STAFF	ADJUST. TO RECONCILE TO RATE BASE	RECONCILED CAPITAL STRUCTURE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON EQUITY	\$61,545	\$0	\$61,545	(13,246)	48,299			
2. CAPITAL STOCK	\$0	0	\$0	0	0			
3. RETAINED EARNINGS	0	0	0	0	0			
4. OTHER PAID IN CAPITAL	0	0	0	0	0			
5. OTHER COMMON EQUITY	0	0	0	0	0			
TOTAL COMMON EQUITY	\$61,545	\$0	\$61,545	(\$13,246)	\$48,299	85.58%	9.01%	7.71%
6. LONG-TERM DEBT	\$10,371	\$0	\$10,371	(\$2,232)	8,139	14.42%	22.00%	3.17%
7. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
8. PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%
TOTAL DEBT	\$10,371	\$0	\$10,371	(\$2,232)	\$8,139	14.42%	22.00%	3.17%
9. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	2.00%	0.00%
10. TOTAL	\$71,916	\$0	\$71,916	(\$15,478)	\$56,438	100.00%		10.88%
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						8.01%	10.01%	
OVERALL RATE OF RETURN						10.03%	11.74%	

FIMC HIDEAWAY, INC. TEST YEAR ENDED 06/30/17 SCHEDULE OF COMBINED WATER OPERATING INCOME		SCHEDULE NO. 3-A DOCKET NO. 20170147-WS			
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$43,813</u>	<u>(\$2,152)</u>	<u>\$41,661</u>	<u>\$24,765</u> 59.45%	<u>\$66,426</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$32,087	\$18,228	\$50,315	\$0	\$50,315
3. DEPRECIATION	0	3,385	3,385	0	3,385
4. AMORTIZATION	0	(833)	(833)	0	(833)
5. TAXES OTHER THAN INCOME	3,493	3,921	7,414	1,114	8,528
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$35,580</u>	<u>\$24,700</u>	<u>\$60,280</u>	<u>\$1,114</u>	<u>\$61,395</u>
8. OPERATING INCOME/(LOSS)	<u>\$8,233</u>		<u>(\$18,619)</u>		<u>\$5,031</u>
9. WATER RATE BASE	<u>\$120,894</u>		<u>\$43,151</u>		<u>\$43,151</u>
10. RATE OF RETURN	<u>6.81%</u>				
11. OPERATING RATIO					<u>10.00%</u>

FIMC HIDEAWAY, INC. TEST YEAR ENDED 06/30/17 SCHEDULE OF COMBINED WASTEWATER OPERATING INCOME		SCHEDULE NO. 3-B DOCKET NO. 20170147-WS				
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	\$55,469	(\$2,985)	\$52,484	<u>\$23,869</u> 45.48%	<u>\$76,353</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$27,558	\$31,287	\$58,845	\$0	\$58,845	
3. DEPRECIATION	0	5,113	5,113	0	5,113	
4. AMORTIZATION	0	(1,202)	(1,202)	0	(1,202)	
5. TAXES OTHER THAN INCOME	2,734	3,904	6,638	1,074	7,712	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$30,292</u>	<u>\$39,102</u>	<u>\$69,394</u>	<u>\$1,074</u>	<u>\$70,468</u>	
8. OPERATING INCOME/(LOSS)	<u>\$25,177</u>		<u>(\$16,910)</u>		<u>\$5,885</u>	
9. WASTEWATER RATE BASE	<u>\$84,862</u>		<u>\$13,287</u>		<u>\$13,287</u>	
10. RATE OF RETURN	<u>29.67%</u>					
11. OPERATING RATIO					<u>10.00%</u>	

FIMC HIDEAWAY, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 6/30/17		DOCKET NO. 20170147-WS	
ADJUSTMENTS TO OPERATING INCOME		Page 1 of 2	
	<u>WATER</u>	<u>WASTEWATER</u>	
OPERATING REVENUES			
1. To reflect the appropriate test year services revenues.	\$967	(\$928)	
2. To reflect the appropriate test year miscellaneous service revenues.	<u>(3,119)</u>	<u>(2,057)</u>	
Subtotal	<u>(\$2,152)</u>	<u>(\$2,985)</u>	
OPERATION AND MAINTENANCE EXPENSES			
1. Salaries and Wages - Officers (603/703)			
To reflect appropriate salaries and wages.	<u>\$20,146</u>	<u>\$21,581</u>	
2. Purchased Power (615/715)			
To remove late fees.	<u>(\$10)</u>	<u>(\$37)</u>	
3. Materials and Supplies (620/720)			
To reflect audit adjustments.	<u>(\$626)</u>	<u>\$0</u>	
4. Contractual Services - Professional (631/731)			
a. To reflect audit adjustment for accountant.	\$510	\$510	
b. To reflect amortization of CPA retainer fee.	300	0	
c. To reflect appropriate amortization of DEP permit fee.	<u>0</u>	<u>(1,040)</u>	
Subtotal	<u>\$810</u>	<u>(\$530)</u>	
5. Contractual Services - Testing (635/735)			
a. To remove and reclassify to Contractual Services – Other.	\$0	(\$45)	
b. To reflect reclassification from miscellaneous expense account.	<u>0</u>	<u>960</u>	
Subtotal	<u>\$0</u>	<u>\$915</u>	
6. Contractual Services - Other (636/736)			
To reflect reclassifications identified in audit.	<u>\$5,952</u>	<u>\$17,678</u>	
7. Rents (640/740)			
To reflect appropriate rent expense.	<u>(\$5,689)</u>	<u>\$5,689</u>	
8. Transportation Expense (650/750)			
To reflect appropriate transportation expense.	<u>\$703</u>	<u>\$753</u>	

Continued on next page

FIMC HIDEAWAY, INC. TEST YEAR ENDED 6/30/17 ADJUSTMENTS TO OPERATING INCOME		SCHEDULE NO. 3-C DOCKET NO. 20170147-WS Page 2 of 2	
		<u>WATER</u>	<u>WASTEWATER</u>
9.	Insurance Expenses (655/755) To reflect appropriate insurance expense.	<u>\$1,043</u>	<u>\$1,117</u>
10.	Regulatory Commission Expense (665/765) To reflect 4-year amortization of rate case expense.	<u>\$305</u>	<u>\$184</u>
11.	Bad Debt Expense (670/770) To reflect appropriate test year bad debt expense.	<u>\$2,696</u>	<u>\$2,995</u>
12.	Miscellaneous Expense (675/775) To reflect appropriate miscellaneous expense.	<u>(\$7,102)</u>	<u>(\$19,058)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS		<u>\$18,228</u>	<u>\$31,287</u>
DEPRECIATION EXPENSE			
1.	To reflect appropriate test year depreciation expense.	\$3,385	\$5,100
2.	To reflect depreciation expense associated with pro forma plant addition.	<u>0</u>	<u>13</u>
	Total	<u>\$3,385</u>	<u>\$5,113</u>
AMORTIZATION			
	To reflect amortization expense adjustment.	<u>(\$833)</u>	<u>(\$1,202)</u>
TAXES OTHER THAN INCOME			
1.	To reflect the appropriate test year RAFs.	\$41	\$327
2.	To reflect appropriate test year utility property taxes.	796	275
3.	To reflect appropriate test year utility payroll taxes.	<u>3,083</u>	<u>3,302</u>
	Total	<u>\$3,921</u>	<u>\$3,904</u>

FIMC HIDEAWAY, INC.	SCHEDULE NO. 3-D		
TEST YEAR ENDED 06/30/17	DOCKET NO. 20170147-WS		
ANALYSIS OF WATER O&M EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(603) SALARIES AND WAGES - OFFICERS	0	20,146	20,146
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	2,121	(10)	2,111
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	0	0	0
(620) MATERIALS AND SUPPLIES	2,453	(626)	1,827
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	0	810	810
(635) CONTRACTUAL SERVICES - TESTING	1,165	0	1,165
(636) CONTRACTUAL SERVICES - OTHER	3,283	5,952	9,235
(640) RENTS	11,000	(5,689)	5,311
(650) TRANSPORTATION EXPENSE	0	703	703
(655) INSURANCE EXPENSE	0	1,043	1,043
(665) REGULATORY COMMISSION EXPENSE	0	305	305
(670) BAD DEBT EXPENSE	0	2,696	2,696
(675) MISCELLANEOUS EXPENSE	<u>12,065</u>	<u>(7,102)</u>	<u>4,963</u>
	<u>\$32,087</u>	<u>\$18,228</u>	<u>\$50,315</u>

FIMC HIDEAWAY, INC.	SCHEDULE NO. 3-E		
TEST YEAR ENDED 06/30/17	DOCKET NO. 20170147-WS		
ANALYSIS OF COMBINED WASTEWATER O&M EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(703) SALARIES AND WAGES - OFFICERS	0	21,581	21,581
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	1,260	0	1,260
(715) PURCHASED POWER	4,477	(37)	4,440
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	0	0	0
(720) MATERIALS AND SUPPLIES	32	0	32
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	1,300	(530)	770
(735) CONTRACTUAL SERVICES - TESTING	45	915	960
(736) CONTRACTUAL SERVICES - OTHER	50	17,678	17,728
(740) RENTS	0	5,689	5,689
(750) TRANSPORTATION EXPENSE	0	753	753
(755) INSURANCE EXPENSE	0	1,117	1,117
(765) REGULATORY COMMISSION EXPENSES	0	184	184
(770) BAD DEBT EXPENSE	0	2,995	2,995
(775) MISCELLANEOUS EXPENSE	<u>20,394</u>	<u>(19,058)</u>	<u>1,336</u>
	<u>\$27,558</u>	<u>\$31,287</u>	<u>\$58,845</u>

FIMC HIDEAWAY		SCHEDULE NO. 4-A		
TEST YEAR ENDED JUNE 30, 2017		DOCKET NO. 20170147-WU		
MONTHLY WATER RATES				
	HIDEAWAY CURRENT RATES	SPRINGSIDE CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>				
Base Facility Charge by Meter Size				
5/8"X3/4"	\$13.85	\$8.74	\$10.56	\$0.05
3/4"	\$20.77	\$13.11	\$15.84	\$0.08
1"	\$34.61	\$21.86	\$26.40	\$0.13
1-1/2"	\$69.23	\$43.71	\$52.80	\$0.26
2"	\$110.77	\$69.94	\$84.48	\$0.41
3"	\$221.53	\$139.88	\$168.96	\$0.83
4"	\$346.14	\$218.56	\$264.00	\$1.29
6"	\$692.29	N/A	\$528.00	\$2.59
Charge per 1,000 gallons - Residential and General Service	\$3.08	\$3.05	\$6.84	\$0.03
<u>Irrigation Service</u>				
Base Facility Charge - All Meter Sizes				
	\$0.00	\$0.00	\$0.00	\$0.00
Charge per 1,000 gallons - Irrigation Service	N/A	\$1.74	\$6.84	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
2,000 Gallons	\$20.01	\$14.84	\$24.24	
6,000 Gallons	\$32.33	\$27.04	\$51.60	
10,000 Gallons	\$44.65	\$39.24	\$78.96	

FIMC HIDEWAY		SCHEDULE NO. 4-B		
TEST YEAR ENDED JUNE 30, 2017		DOCKET NO. 20170147-WU		
MONTHLY WASTEWATER RATES				
	HIDEAWAY CURRENT RATES	SPRINGSIDE CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential Service</u>				
Base Facility Charge - All Meter Sizes	\$11.81	\$17.85	\$16.13	\$0.04
Charge Per 1,000 gallons 6,000 gallon cap	\$2.67	N/A	\$8.49	\$0.02
Charge Per 1,000 gallons 10,000 gallon cap	N/A	\$5.76	N/A	N/A
Flat Rate	26.61	N/A	\$34.19	\$0.09
<u>General Service</u>				
Base Facility Charge by Meter Size				
5/8" x 3/4"	\$11.81	\$17.85	\$16.13	\$0.04
3/4"	\$17.72	\$26.78	\$24.20	\$0.06
1"	\$29.53	\$44.63	\$40.33	\$0.10
1-1/2"	\$59.06	\$89.27	\$80.65	\$0.20
2"	\$94.50	\$142.83	\$129.04	\$0.32
3"	\$188.99	\$285.66	\$258.08	\$0.64
4"	\$295.30	\$446.34	\$403.25	\$1.00
6"	\$590.59	N/A	\$806.50	\$2.00
Charge per 1,000 gallons	\$3.09	\$6.92	\$10.19	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
2,000 Gallons	\$17.15	\$29.37	\$33.11	
6,000 Gallons	\$27.83	\$52.41	\$67.07	
10,000 Gallons	\$27.83	\$75.45	\$67.07	