

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: April 26, 2018

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (M. Watts, Graves)
Division of Accounting and Finance (Norris, Sowards)
Division of Economics (Friedrich, Hudson) MF PD SA GB
Office of the General Counsel (Crawford) *ALM*

RE: Docket No. 20160220-WS-Application for original water and wastewater certificates in Sumter County, by South Sumter Utility Company, LLC.

AGENDA: 05/08/18 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Clark

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On October 11, 2016, South Sumter Utility Company, L.L.C. (SSU or Utility) filed its application for original water and wastewater certificates in Sumter County. The area is in the Southwest Florida Water Management District (SWFWMD) and is not in a water use caution area.

Concurrent with its application for original water and wastewater certificates, the Utility also filed a petition for a temporary waiver of Rules 25-30.033(1)(p) and (q), Florida Administrative Code (F.A.C.), in order to bifurcate the certification and rate setting aspects of the case. The Florida Public Service Commission (Commission) granted Certificate Nos. 669-W and 571-S to SSU to provide water and wastewater service in Sumter County, and granted its request for

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temporary rule waiver.¹ In the Order granting the waiver, the Commission required SSU to file supporting financial information to establish rates and charges by September 29, 2017.

On September 27, 2017, SSU filed a letter advising staff that, due to Hurricane Irma, there would be a two-week delay in filing the supporting financial information required to establish rates and charges. SSU filed the required information on October 12, 2017. This recommendation addresses the initial rates and charges for the Utility's water and wastewater services. The Commission has jurisdiction pursuant to Sections 367.031, 367.045, 367.081, 367.091 and 120.452, Florida Statutes (F.S.).

¹Order No. PSC-17-0059-PAA-WS, issued February 24, 2017, in Docket No. 20160220-WS, *In re: Application for original water and wastewater certificates in Sumter County, by South Sumter Utility Company, LLC.*

Discussion of Issues

Issue 1: What are the appropriate water and wastewater rates and return on investment for South Sumter Utility Company, LLC?

Recommendation: Staff's recommended water and wastewater rates, shown on Schedule Nos. 4-A and 4-B, are reasonable and should be approved. The approved rates 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 charge the approved rates until authorized to change them by the Commission in a subsequent proceeding. A return on equity of 8.74 percent plus or minus 100 basis points should also be approved. (Graves, M. Watts, Sowards, Friedrich)

Staff Analysis: In setting initial rates and charges for a new utility, Commission practice has been to set rates so that the utility will have an opportunity to earn a fair return on its investment when approximately 80 percent of its projected customers are being served.² Typically, in the early years of development, the customer base of a utility is not sufficient to allow the utility to recover its operating and maintenance (O&M) expenses and earn a fair return on its investment. However, as growth reaches 80 percent of a utility's projected design capacity, the initial rates become compensatory.

Pursuant to the requirements of Rule 25-30.033, F.A.C., SSU's filing included schedules intended to show projected plant, operating expenses, and capital structure when the system is operating at 80 percent of the design capacity. The Utility additionally provided proposed tariffs as well as an engineer's report, to support the rates and charges contained in the tariffs. Staff has reviewed the SSU's filing and recommends several adjustments which are discussed below.

Description of the Utility's Service

SSU anticipates providing water and wastewater service to 8,200 residential units as well as an estimated 153 commercial connections at build-out (projected to occur by 2023). The area to be served will be part of The Villages development (Villages), which is a retirement community in central Florida.

The Utility will construct, operate, and maintain the water distribution system within its service territory, while purchasing bulk potable water and fire flow from the City of Wildwood (Wildwood or City). Pursuant to the Utility's franchise agreement with Wildwood, SSU agreed to purchase bulk water from the City. As part of SSU's purchase agreement with Wildwood, SSU committed to construct a water treatment plant (WTP) and transfer the facility to the City for ownership, operation, and maintenance. The Utility determined it would build the WTP to the

²Order Nos. PSC-11-0113-PAA-WS, issued February 11, 2011, in Docket No. 20050192-WS, *In re: Application for certificates to provide water and wastewater service in Sumter County by Central Sumter Utility Company, L.L.C.* and PSC-17-0113-PAA-WS, issued March 28, 2017, in Docket No. 20130105-WS, *In re: Application for certificates to provide water and wastewater service in Hendry and Collier Counties, by Consolidated Services of Hendry & Collier, LLC.*

same standard as the other WTPs serving the Villages, in lieu of paying capacity and connection fees.

In response to a staff data request, the Utility stated “while it would have preferred to own and operate the WTP, the territory to be served is within the City of Wildwood, which has the first right to provide such service.” SSU asserted that City of Wildwood resolutions and Chapter 180, F.S., established Wildwood’s right to provide water and wastewater service.

Pursuant to the previously discussed purchase agreement, the City of Wildwood will also temporarily treat and dispose of wastewater generated by SSU. This term of the agreement is intended to allow sufficient time for the Utility to construct a wastewater transmission connection to the City of Leesburg’s Turnpike Wastewater Treatment Facility. Upon completion of the connection to the City of Leesburg, currently anticipated to occur in April 2019, wastewater will be treated and disposed of in perpetuity through an agreement with the City of Leesburg. SSU will construct, operate, and maintain the wastewater collection and transmission system within its service area. In response to a staff data request the Utility stated that the costs of temporary interconnections with Wildwood’s system as well as interim rates paid to Wildwood were not included in its requested rates.

Projected Rate Base

In support of its proposed rates and charges, SSU provided an engineering study, prepared by Farner, Barley & Associates, Inc., which includes data related to projected costs as well as customer growth. Farner, Barley & Associates, Inc. performed a similar study for Central Sumter Utilities (CSU), which was granted initial rates and charges by the Commission in 2011.³ Staff believes that the estimates and projections included in the engineering study are reasonable because they are based on historical data within the Villages.

Based on SSU’s growth projections, the Utility anticipates operating at 80 percent of its design capacity in 2021. In its filing, SSU presented its projected costs for Utility Plant in Service (UPIS) as \$30,098,803 for its water system and \$41,797,661 for its wastewater systems. The UPIS presented in SSU’s filing included costs through 2022; therefore, the UPIS was not properly adjusted to reflect 80 percent of design capacity. In response to a staff request, the Utility acknowledged that adjustments to its water distribution system and its wastewater collection and transmission system were necessary.

Based on the growth projections provided by SSU, staff recommends a reduction of \$4,467,016 for water and \$5,013,811 for wastewater to reflect plant at 80 percent of design capacity. Staff’s reductions are based on 80 percent design capacity occurring approximately mid-year 2021. Staff notes that a similar approach was used in calculating UPIS for the initial rates and charges that were approved for CSU.

³Order No. PSC-11-0113-PAA-WS, issued February 11, 2011, in Docket No. 20050192-WS, *In re: Application for certificates to provide water and wastewater service in Sumter County by Central Sumter Utility Company, L.L.C.*

As previously discussed, the Utility is proposing to construct a water treatment plant, donate the plant to Wildwood, purchase water from Wildwood, and include the cost of the plant (\$8,544,833) as intangible plant for rate setting purposes. Under traditional purchased water agreements, the purchasing utility would pay an impact fee for plant capacity. In response to a staff data request, SSU states that Wildwood estimated the total impact fee to connect its water system to SSU's water system would be \$5,180,610. Based on the discussion above, staff recommends the Commission include Wildwood's estimated impact fee as intangible plant as opposed to the total cost of the WTP at this time. This results in a reduction of \$3,364,223 to intangible plant.

Based on the discussion above, staff recommends a reduction to SSU's projected plant in service of approximately \$7,831,240 for water, and \$5,013,811 for wastewater. Staff notes that actual costs will be addressed when the Utility comes in for a rate case.

In its filing, SSU projected contributions in aid of construction (CIAC) balances of \$15,264,648 and \$17,584,812 for the water and wastewater systems, respectively, based on its proposed plant capacity charges of \$1,954 per equivalent residential connection (ERC) for water and \$2,251 per ERC for wastewater. As discussed in Issue 10, staff is recommending a main extension charge of \$1,916 for water and \$2,610 for wastewater. In addition, staff is recommending a plant capacity charge of \$450 for wastewater. As such, staff recalculated the projected CIAC balances as a corresponding adjustment. Consistent with the adjustment to plant discussed above, staff adjusted the total ERCs used in its recalculation to recognize 80 percent of design capacity. To recognize the foregoing adjustments, staff recommends a decrease to projected CIAC of \$2,171,470 for water, and an increase of \$3,326,003 for wastewater.

SSU's projected balances of accumulated depreciation and amortization of CIAC for the water system are based on the average service life guidelines, as set forth in Rule 25-30.140, F.A.C. However, the projected amounts for the wastewater system reflect one account that does not follow the guidelines and requires correction. Additionally, corresponding adjustments should be made to both the water and wastewater systems to reflect staff's recommended adjustments to plant and CIAC. In total, staff recommends decreasing projected accumulated depreciation by \$947,770 for water and \$56,898 for wastewater. Further, projected accumulated amortization of CIAC should be decreased by \$12,667 for water and increased by \$343,628 for wastewater.

The Utility projected a working capital allowance of \$191,984 for water and \$188,054 for wastewater based on one-eighth of the estimated O&M expense for each system. Staff recommends a reduction of \$37,575 for water and wastewater, each, to reflect staff's recommended adjustments to O&M expense discussed in the revenue requirement section below.

In total, SSU projected a water rate base of \$13,405,856 and a wastewater rate base of \$22,059,341. Based on the adjustments discussed above, staff recommends that the projected rate base for water be reduced by \$4,762,241 and that the projected rate base for wastewater be reduced by \$7,976,863. Staff believes the adjusted rate base projections of \$8,643,615 for water and \$14,082,478 for wastewater are reasonable and should be approved. Rate base calculations for the water and wastewater systems are shown on Schedule Nos. 1-A and 1-B, respectively. Staff's adjustments are shown on Schedule No. 1-C. Consistent with Commission practice in

applications, for original certificates, projected rate base is established only as a tool to aid the Commission in setting initial rates and is not intended to formally establish rate base.

Cost of Capital

In a deficiency response letter dated November 17, 2017, the Utility provided a projected capital structure at 80 percent of the design capacity, including an assertion that the methods of financing the construction and operation for the Utility remain unchanged from the original application. SSU stated that the initial capitalization and Utility operations will be funded 100 percent through equity provided by the developer of the proposed service area.⁴

SSU proposed a cost of equity of 8.76 percent. Although the Utility reflected the Commission's most recent leverage formula,⁵ it incorrectly calculated one of the variables. The Utility included customer deposits to calculate an equity ratio of 98.52. However, the equity ratio should only reflect investor sources of capital and not include customer deposits. The correct equity ratio of 100 percent results in a cost of equity of 8.74 percent.

In the projected capital structure provided by the Utility, customer deposits were listed at \$526,386. On March 6, 2018, staff contacted SSU for clarification on the calculation of customer deposits, as detailed on lines 19-21 of the projected capital structure. In response, the Utility provided the anticipated customer growth between 2018 and 2022,⁶ which indicated that the Utility based its calculation on an incorrect time period. The appropriate time period to calculate customer deposits should be between 2020 and 2021. Staff recalculated projected customer deposits to reflect the balance at 80 percent of design capacity. As such, staff recommends an increase of \$269,987 to customer deposits for a total of \$796,373.

Based on the adjustments above, staff recommends an overall cost of capital of 8.50 percent. The appropriate return on equity for SSU is 8.74 percent, with a range of plus or minus 100 basis points, as shown on Schedule No. 2.

Net Operating Income

SSU requested net operating income (NOI) for the water and wastewater systems of \$708,684 and \$908,221, respectively, based on the projected rate base of each system and a projected overall cost of capital of 5.29 percent for water and 4.12 percent for wastewater. The Utility explained that it was requesting rates which will generate less than the allowed rate of return by reducing the revenues of the revenue requirement it originally projected. SSU stated that its intent was to attempt to more closely match the rates of other area residents while maintaining financial viability. Staff's recommended NOI of \$735,037 for water and \$1,197,548 for wastewater reflects the full return on investment resulting from recommended projections of rate base and overall cost of capital. The projected NOI for the water and wastewater systems are shown in Schedule Nos. 3-A and 3-B, respectively.

⁴Document No. 09911-2017.

⁵Order No. PSC-2017-0249-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.*

⁶Document No. 02158-2018.

Revenue Requirement

The Utility's projected revenues include O&M expenses, depreciation and CIAC amortization expense, taxes other than income, as well as a return on investment. As a limited liability company, SSU has no income tax expense. Staff believes adjustments are necessary, as addressed below.

Operation and Maintenance Expense

The Utility projected contractual services expense in the amounts of \$903,893 for water and \$925,737 for wastewater. SSU's contractual services expense is comprised of management fees, distribution/collection contractor fees, and engineering fees. Staff recommends adjustments to management and engineering fees as discussed below.

The Utility proposed total management fees of \$751,776, split evenly between the water and wastewater systems at \$375,888 each. In response to staff's data requests, SSU provided information detailing how the management fee was derived. The Utility used CSU's average monthly O&M expenses attributable to management activities included in its customer management fee to develop SSU's projected management fees. Staff believes CSU is an appropriate company to develop projected fees, as both utilities will have similar fees assessed for management and accounting services from The Villages and Village Center Community Development District (VCCDD). These entities handle management and accounting services for SSU and CSU.

Using CSU's average monthly costs for management services of approximately \$97,700, as broken out in Table 1-1 below, SSU estimated a monthly fee of \$7.96 per customer. The Utility also included an additional 10 percent for an escalation adjustment (\$0.80), as well as 10 percent for a contingency adjustment (\$0.80), for a total of \$9.55 ($\$7.96 + \$0.80 + \$0.80$).

Staff reviewed the components of CSU's average monthly costs used to calculate the management fee and believes adjustments are necessary. Staff believes the rent expense, insurance, and organizational costs are duplicative of what is included in overhead fees and contractual services to VCCDD. In addition, inclusion of regulatory assessment fees (RAFs) and property tax are duplicative, as the Utility will recover these items through the revenue requirement. In response to staff's data request, the Utility acknowledged that SSU would have 100 percent equity financing provided by the developer, and would not have an interest expense. SSU acknowledged the error and agreed this expense should be removed from the amount used to develop the Utility's management fee. Staff recommends the amount used to develop the Utility's management fee should be reduced by \$70,800, resulting in a total monthly expense of \$26,800. Table 1- 1 below summarizes staff's adjustments.

**Table 1-1
 Monthly Management Fees**

Expenses	Utility	Staff
CSU Overhead Fees (Villages Accounting, Villages Administration, Villages Planning and Engineering)	\$14,566	\$14,566
Contract Services to VCCDD	12,267	12,267
Rent Expense	4,150	0
Insurance	1,638	0
Organizational Costs	47	0
RAF Fees	16,483	0
Property Tax	273	0
Interest	48,272	0
Total	\$97,696	\$26,833

Source: Utility's Cost Justification

In addition, staff recommends removing the 10 percent escalation and the 10 percent contingency adjustments. The Utility used the escalation adjustment to account for inflation of costs between 2017 and 2021. However, SSU has the opportunity to file for an annual price index increase pursuant to Section 367.081(4)(a), F.S.⁷ Staff believes the Utility's explanation of the contingency adjustment is duplicative of the escalation adjustment explanation. As such, staff recommends removal of SSU's escalation and contingency adjustments.

Based on the adjustments above, staff recommends a reduction to the Utility's projected management fees of \$289,882 for water and \$289,882 for wastewater. This results in a total recommended management fee of \$86,006 for the water system and \$86,006 for the wastewater system.

SSU's annual engineering expenses, \$32,146 for water and wastewater each were estimated based on actual costs incurred by CSU during 2016. Similar to the previously discussed expenses, the Utility included an upward adjustment for escalation as well as a contingency. Removal of the escalation and contingency adjustments results in an engineering expense estimate of \$21,432 for both water and wastewater. Based on staff's estimate, engineering expenses should be reduced by \$10,714.

In total, staff recommends a reduction to O&M expense of \$300,596 (\$289,882 + \$10,714) and \$300,596 (\$289,882 + \$10,714) for water and wastewater, respectively.

⁷Order No. PSC-2017-0480-PAA-WS, issued December 21, 2017, in Docket No. 20170005-WS, *In re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to section 367.081(4)(a), F.S.*

Depreciation and CIAC Amortization Expense

The Utility reflected depreciation expense, net of CIAC amortization, of \$481,464 for water and \$803,038 for wastewater. Based on staff's adjustments to rate base, corresponding adjustments should be made to decrease net depreciation by \$270,972 and \$198,583 for water and wastewater, respectively.

Taxes Other Than Income

In its filing, SSU included RAFs of \$149,924 and \$198,958 for water and wastewater, respectively. The Utility also included property taxes of \$2,368 and \$3,452 for water and wastewater, respectively. Staff determined that the Utility incorrectly calculated RAFs. Accordingly, staff recalculated RAFs using 4.5 percent of operating revenues. As such, staff recommends decreasing RAFs for water and wastewater by \$20,352 and \$45,096, respectively. Corresponding adjustments to decrease property taxes by \$465 for water and \$456 for wastewater were also made in accordance with staff's adjustment to plant in service as shown in Schedule No. 3-C.

Staff recommends adjusted revenue requirements of \$2,286,672 for water and \$3,151,727 for wastewater be used to set initial rates for service. The calculation of SSU's projected water and wastewater revenue requirements are shown on Schedule Nos. 3-A and 3-B, respectively. Staff's adjustments are shown on Schedule No. 3-C.

Rates and Rate Structure

SSU structured its proposed rates in accordance with Rule 25-30.033(2), F.A.C., which requires that a base facility and usage rate structure, as defined in Rule 25-30.437(6), F.A.C., be utilized for metered service. The Utility's proposed rates were designed to generate the Utility's requested revenue requirements of \$2,879,376 for its water system and \$3,419,165 for its wastewater system.

Staff's recommended water rates on Schedule No. 4-A reflect staff's recommended revenue requirement of \$2,286,672 for the water system less projected miscellaneous revenues of \$39,381. Consistent with the Utility's proposed rate structure, staff recommends a traditional BFC and gallonage charge rate structure with an additional gallonage charge for non-discretionary usage for residential water customers. SSU proposed a discretionary threshold of 3,000 for its residential water customers and staff believes this is reasonable. The Utility proposed allocating 59 percent of the water revenues to the base facility charge (BFC); however, staff recommends allocating 40 percent of water revenues to the BFC because SSU indicated that its customer base would not be seasonal. It has been Commission practice to allocate 40 percent of revenues to the water BFC unless a seasonal customer base or other unique circumstance presents itself.⁸

Additionally, staff's recommended wastewater rates on Schedule No. 4-B reflect staff's recommended revenue requirement of \$3,151,727 for the wastewater system less projected

⁸Order Nos. PSC-2016-0256-PAA-WU, issued June 30, 2016, in Docket No. 20150199-WU, *In re: Application for staff-assisted rate case in Lake County by Raintree Waterworks, Inc.*; PSC-2017-0361-FOF-WS, issued September 25, 2017, in Docket No. 20160101-WS, *In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties by Utilities, Inc. of Florida.*

miscellaneous revenues of \$39,381. Staff believes the Utility's proposed wastewater rate structure, which consists of a BFC, gallonage charge, and gallonage cap of 10,000 gallons for residential customers, is reasonable. The Utility proposed allocating 63 percent of wastewater revenues to the BFC. However, it is Commission practice to allocate approximately 50 percent of revenues to the wastewater BFC for the same reasons mentioned above.

The average monthly residential bill for a customer of SSU, based on 3,000 gallons per month would be \$27.66 for water and \$38.57 for wastewater using staff's recommended rates. Comparatively, the average monthly residential bill for a customer of Central Sumter Utility (CSU), a sister Utility, based on the same usage is \$14.99 for water and \$30.59 for wastewater.

Conclusion

Based on the above, staff's recommended water and wastewater rates, shown on Schedule Nos. 4-A and 4-B, are reasonable and should be approved. The approved rates 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 charge the approved rates until authorized to change them by the Commission in a subsequent proceeding. A return on equity of 8.74 percent plus or minus 100 basis points should also be approved.

Issue 2: Should the miscellaneous service charges requested by South Sumter Utility Company, LLC be approved?

Recommendation: Yes. The Utility's requested miscellaneous service charges of \$35.13 should be approved. The charges should be effective for service rendered on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. SSU should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding. (Friedrich)

Staff Analysis: Section 367.091, F.S., authorizes the Commission to establish miscellaneous service charges. SSU's request was accompanied by its reason for requesting the charges as well as the cost justification required by Section 367.091(6), F.S. The Utility requested initial connection, normal reconnection, violation reconnection and premise visit charges of \$35.13 during normal business hours. Additionally, SSU requested that its violation reconnection charge for its wastewater system be actual cost pursuant to Rule 25-30.460(1)(c), F.A.C.

The purpose of these charges is to place the burden for requesting or causing these services on the cost causer rather than the general body of ratepayers. The Utility's requested charges are based on the cost of its contractors to administer and perform miscellaneous services. The VCCDD will perform the administrative labor and CH2M, the Utility's operation and maintenance contractor, will perform the field labor associated with miscellaneous service charges. The Utility requested recovery of \$7.53 of administrative labor associated with processing miscellaneous services based on the contractor's hourly salary of \$22.60 and its ability to process a miscellaneous service request in approximately 20 minutes ($\$22.60 \times 20/60$). Additionally, SSU requested recovery of \$27.60 for the direct expense of the outside contractor performing the field labor. The Utility's cost justification for its requested miscellaneous service charges is shown below in Table 2-1.

Table 2-1
Miscellaneous Service Charges Cost Justification

Field Labor	\$27.60
Administrative Labor	\$7.53
Total	\$35.13

Source: Utility's Cost Justification

Staff compared SSU's requested miscellaneous service charges to those currently in place for its sister Utility, CSU. CSU's charges were based on estimated expenses at the time the original certificate was approved in 2011.⁹ Although, CSU's charges were based on estimations and implemented seven years ago, the charges requested by SSU are consistent with CSU's current charges of \$21 for normal hours and \$42 for after hours. It is also important to note that CSU has not had a proceeding for the Commission to reevaluate these charges since their original implementation. Staff believes the Utility's requested charges are reasonable and should be

⁹Order No. PSC-11-0113-PAA-WS, issued February 11, 2011, in Docket No. 20050192-WS, *In re: Application for certificate to provide water and wastewater service in Sumter County by Central Sumter Utility Company, L.L.C.*

approved. A summary of the Utility's requested miscellaneous service charges are shown below in Table 2-2.

Table 2-2
Miscellaneous Service Charges

Initial Connection Charge	\$35.13
Normal Reconnection Charge	\$35.13
Violation Reconnection Charge (Water)	\$35.13
Violation Reconnection Charge (Wastewater)	Actual Cost
Premises Visit Charge	\$35.13

Source: Utility's Cost Justification

Based on the above, the Utility's requested miscellaneous service charges of \$35.13 should be approved. The charges should be effective for service rendered on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding.

Issue 3: Should the late payment charge requested by South Sumter Utility Company, LLC be approved?

Recommendation: Yes. The Utility's request to implement a \$5.50 late payment charge is recommended and should be approved. The approved charge should be effective for service rendered on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charge until authorized to change it by the Commission in a subsequent proceeding. (Friedrich)

Staff Analysis: The Utility requested a \$5.50 late payment charge to recover the cost of supplies and labor associated with processing late payment notices. SSU's request for a late payment charge was accompanied by its reason for requesting the charge as well as the cost justification required by Section 367.091, F.S.

Since SSU has not begun to provide its service to customers, staff asked the Utility to provide historical data from its sister Utility, CSU, for staff to consider in its analysis of the Utility's requested late payment charge. The CSU late payment data indicated that approximately 3.4 percent of the CSU customer base is assessed late payment charge each month. This approximation was based on billing data obtained from October 2017 through January 2018.

The Utility requested recovery of \$4.59 for the labor associated with processing late payment charges. SSU anticipates its billing specialist will spend approximately 10 minutes per account to research, compile, and produce late notices and the administrative supervisor will spend approximately 3 minutes per account to review the work of the billing specialist as well as prepare reports and identify possible trends. This is consistent with prior Commission decisions where the Commission has allowed 10-15 minutes per account per month for the administrative labor associated with processing delinquent customer accounts.¹⁰ The labor costs include \$3.06 (\$18.36/6) for the billing specialist and \$1.53 (\$27.54/18) for the administrative supervisor.

Additionally, SSU requested recovery of the cost of supplies, postage, and RAFs associated with processing delinquent accounts. The Utility's calculation for its requested late payment charge is shown below in Table 3-1.

**Table 3-1
Late Payment Charge Cost Justification**

Labor	\$4.59
Supplies	\$0.15
Postage	\$0.49
Markup for RAFs	\$0.25
Total	\$5.48

Source: Utility's Cost Justification

¹⁰Order Nos. PSC-16-0041-TRF-WU, issued January 25, 2016, in Docket No. 20150215-WU, *In re: Request for approval of tariff amendment to include miscellaneous service charges for the Earlene and Ray Keen Subdivisions, the Ellison Park Subdivision and the Lake Region Paradise Island Subdivision in Polk County, by Keen Sales, Rentals and Utilities, Inc.* and PSC-15-0569-PAA-WS, issued December 16, 2015, in Docket No. 20140239-WS, *In re: Application for staff-assisted rate case in Polk County by Orchid Springs Development Corporation.*

Based on staff's research, over the past seven years the Commission has approved late payment charges ranging from \$4.90 to \$7.15.¹¹ The purpose of this charge is not only to provide an incentive for customers to make timely payment, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing delinquent accounts solely upon those who are cost causers. Staff believes the Utility's requested late payment charge is reasonable and should be approved.

Based on the above, SSU's request to implement a \$5.50 late payment charge is reasonable and should be approved. The approved charge should be effective for service rendered on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charge until authorized to change it by the Commission in a subsequent proceeding.

¹¹Order Nos. PSC-14-0105-TRF-WS, issued February 20, 2014, in Docket No. 130288-WS, *In re: Request for approval of late payment charge in Brevard County by Aquarina Utilities, Inc.*; PSC-15-0535-PAA-WU issued November 19, 2015, in Docket No. 20140217-WU, *In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.*; and PSC-15-0569-PAA-WS issued December 16, 2015, in Docket No. 20140239-WS, *In re: Application for staff-assisted rate case in Polk County by Orchid Springs Development Corporation.*

Issue 4: Should the Utility's request to implement a backflow prevention assembly testing charge be approved?

Recommendation: Yes. The Utility's requested backflow prevention assembly testing charge for general service customers at actual cost should be approved. The approved charge should be effective for service rendered on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. SSU should be required to charge the approved charge until authorized to change it by the Commission in a subsequent proceeding. (Friedrich)

Staff Analysis: The Utility requested a backflow prevention assembly testing charge to recover the costs the Utility would incur for performing annual testing on behalf of non-compliant commercial customers. The Florida Department of Environmental Protection (FDEP) requires customers with cross-connections into the water system to install a backflow prevention assembly on the potable water line. In addition, the FDEP requires that certain backflow prevention assemblies be field-tested at least once a year by a certified contractor. The residential customers of SSU are not required to annually test their backflow prevention assembly devices because the type of assembly they will have, a double check valve, cannot be tested, but FDEP recommends it be replaced every five to ten years pursuant to Rule 62-555.360, F.A.C.

It is the responsibility of the customer to annually test their backflow prevention assembly. The Utility would only administer this charge if a general service customer fails to test their backflow prevention device in accordance with the FDEP requirements. This charge would be imposed after 30 days' notice to the customer and would include an estimate of the amount which will be charged. This noticing period will provide the customer a final opportunity to come into compliance before SSU performs the necessary testing on the customer's behalf. The Utility is requesting this charge at actual cost in order to pass on the amount it will incur from a contractor performing the necessary testing. SSU provided a subcontract agreement to demonstrate the anticipated costs of backflow prevention device testing. Based on the subcontract agreement, the Utility would incur testing costs between \$50 and \$100 depending on meter size to test the customer's backflow prevention device if the customer is non-compliant with the FDEP requirements.

The Commission previously approved a backflow prevention device testing charge for Black Bear Reserve Corporation (Black Bear).¹² Black Bear's charge is a voluntary testing charge for its residential and general service customers giving customer's an alternative to independently seeking out a certified tester. As mentioned previously, SSU's requested backflow prevention assembly testing charge will only be administered to non-compliant general service customers. The Utility provided related data for its neighboring Utility, North Sumter Utility (NSU). In 2017, NSU had approximately 500 commercial customers with backflow prevention devices and only 36 (7.2 percent) needed to be tested by the Utility. Based on SSU's application, it anticipates it will serve approximately 122 general service customers.

Staff recommends that SSU's request to administer to non-compliant general service customers a backflow prevention assembly testing charge should be approved. This charge may be levied if

¹²Order No. PSC-11-0478-PAA-WU, issued October 24, 2011, in Docket No. 20100085-WU, *In re: Application for certificate to operate water utility in Lake County by Black Bear Reserve Water Corporation.*

circumstances are consistent with those discussed in this issue and will be set forth in the Utility's tariff. The Utility's requested backflow prevention assembly testing charge for general service customers at actual cost should be approved. The approved charge should be effective for service rendered on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charge until authorized to change it by the Commission in a subsequent proceeding.

Issue 5: Should the temporary meter deposit requested by South Sumter Utility Company, LLC be approved?

Recommendation: Yes. The Utility's requested temporary meter deposit for general service customers at actual cost pursuant to Rules 25-30.315 and 25-30.345, F.A.C., is reasonable and should be approved. The approved charge should be effective for service rendered on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. SSU should be required to charge the approved charge until authorized to change it by the Commission in a subsequent proceeding. (Friedrich)

Staff Analysis: SSU requested a temporary meter deposit for general service customers consistent with Rules 25-30.315 and 25-30.345, F.A.C., which allows the Utility to charge an applicant a reasonable charge to defray the costs of installing and removing facilities and materials for temporary service. This deposit would be collected from commercial entities requesting a temporary meter for construction activities. Once temporary meter service is terminated, SSU will credit the customer with the reasonable salvage value of the service facilities and materials consistent with Rules 25-30.315 and 25-30.345, F.A.C.

Based on the above, the Utility's requested temporary meter deposit for general service customers at actual cost pursuant to Rules 25-30.315 and 25-30.345, F.A.C., is reasonable and should be approved. The approved charge should be effective for service rendered on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charge until authorized to change it by the Commission in a subsequent proceeding.

Issue 6: Should the investigation of meter tampering charge requested by South Sumter Utility Company, LLC be approved?

Recommendation: Yes. The Utility’s requested investigation of meter tampering charge of \$35.13 is reasonable and should be approved. The approved charge should be effective for service rendered on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. SSU should be required to charge the approved charge until authorized to change it by the Commission in a subsequent proceeding. (Friedrich)

Staff Analysis: Rule 25-30.320(2)(i), F.A.C., provides that a customer’s service may be discontinued without notice in the event of tampering with the meter or other facilities furnished or owned by the Utility. In addition, Rule 25-30.320(2)(j), F.A.C., provides that a customer’s service may be discontinued in the event of an unauthorized or fraudulent use of service. The rule allows SSU to require the customer to reimburse the Utility for all changes in piping or equipment necessary to eliminate the illegal use and to pay an amount reasonably estimated as the deficiency in revenue resulting from the customer’s fraudulent use before restoring service.

SSU requested an investigation of meter tampering charge of \$35.13, consistent with its requested miscellaneous service charges (Issue 2). An investigation of meter tampering requires a field representative to go to the customer’s premises to inspect the customer’s meter and service laterals. Additionally, the administrative employee would set up an appointment time and serve as the liaison between the field representative and the customer.

The Utility’s requested charge is consistent with other investigation of meter tampering charges approved by the Commission.¹³ Staff recommends SSU’s requested charge is reasonable and should be approved. The Utility’s requested investigation of meter tampering charge cost justification is shown below in Table 6-1.

Table 6-1
Investigation of Meter Tampering Charge Cost Justification

Field Labor	\$27.60
Administrative Labor	\$7.53
Total	\$35.13

Source: Utility’s Cost Justification

Based on the above, SSU’s requested investigation of meter tampering charge of \$35.13 is reasonable and should be approved. The approved charge should be effective for service rendered on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C.

¹³Order Nos. PSC-2017-0367-PAA-WU, issued September 29, 2017, in Docket No. 20160193-WU, *In re: Application for approval of transfer of certain water facilities and Certificate No. 619-W from McLeod Gardens Water Company to McLeod Gardens Utilities, LLC, in Polk County*; PSC-2017-0144-PAA-WU, issued April 27, 2017, in Docket No. 20160143-WU, *In re: Application for staff-assisted rate case in Hardee County by Charlie Creek Utilities, LLC*; and PSC-17-0092-PAA-WU, issued March 13, 2017, in Docket No. 20160144-WU, *In re: Application for transfer of Certificate No. 288-W in Pasco County from Orangeland Water Supply to Orange Land Utilities, LLC*.

The Utility should be required to charge the approved charge until authorized to change it by the Commission in a subsequent proceeding.

Issue 7: Should the collection device cleaning charge requested by South Sumter Utility Company, LLC be approved?

Recommendation: Yes. The Utility's requested collection device cleaning charge for general service customers should be approved. The approved charge should be effective for service rendered on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. SSU should be required to charge the approved charge until authorized to change it by the Commission in a subsequent proceeding. (Friedrich)

Staff Analysis: SSU requested a fats, oil, and grease (FOG) collection device cleaning charge for general service customers to facilitate the Utility's FOG management program. The program is designed to help prevent damage and operational problems in the wastewater collection and treatment system by removing FOG from the wastewater stream prior to it entering the collection system. Once FOG is introduced into the wastewater system, it then cools, solidifies, accumulates and restricts wastewater flow within the pipes. Restaurants are the most common type of general service customer to have higher concentrations of FOG in their discharged wastewater. The Utility indicated that its collection device cleaning charge would only apply to general service customers who fail to perform the required actions after receiving written notice from the Utility with an estimate of potential charges.

All customers with a grease interceptor are required by the Utility to have a quarterly cleaning schedule, provide a cleaning manifest to the Utility, and perform any needed maintenance that has been identified by the customer's grease interceptor cleaning contractor. If a cleaning manifest is not received by the Utility on time or if necessary maintenance has not been performed, a reminder letter will be sent to the customer with an estimate of charges for cleaning the grease interceptor and giving the customer 15 days to come into compliance. If the customer fails to come into compliance by the notified deadline, the Utility will hire a contractor to perform the cleaning and the contractor's cost will be passed through to the general service customer at the actual cost to the Utility.

The Commission has evaluated contamination issues for wastewater Utilities in the past. For KW Resort Utilities, Corp., a monthly lift station cleaning charge was approved for the Monroe County Detention Center.¹⁴ The Commission also approved an increase in contractual services for Harder Hall-Howard, Inc. to address the overflowing grease traps of a restaurant that did not properly maintain its collection devices.¹⁵

Staff believes the Utility's proposed FOG management program is a reasonable, proactive approach to avoid operational problems in the Utility's collection and treatment facilities. The Utility's request is consistent with Rule 20-30.225(6), F.A.C., which provides that SSU may require that each customer be responsible for cleaning and maintaining sewer laterals to the point of delivery. Therefore, staff recommends the Utility's request to charge a collection device cleaning charge is reasonable and should be approved. This charge may be levied if

¹⁴Order No. PSC-2017-0091-FOF-SU, issued March 13, 2017, in Docket No. 20150071-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

¹⁵Order No. PSC-02-0382-PAA-SU, issued March 21, 2002, in Docket No. 20010828-SU, *In re: Application for staff-assisted rate case in Highlands County by Harder Hall-Howard, Inc.*

circumstances are consistent with those discussed in this issue and will be set forth in the Utility's tariff. The approved charge should be effective for service rendered on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charge until authorized to change it by the Commission in a subsequent proceeding.

Issue 8: Should South Sumter Utility Company, LLC be authorized to collect Non-Sufficient Funds (NSF) Charges?

Recommendation: Yes. SSU should be authorized to collect NSF charges pursuant to Section 68.065 F.S. The approved charges should be effective for service rendered on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding. (Friedrich)

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

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

Approval of NSF charges is consistent with prior Commission decisions.¹⁶ Furthermore, NSF charges places the cost on the cost-causer, rather than requiring that the costs associated with the return of the NSF checks be spread across the general body of ratepayers. As such, SSU should be authorized to collect NSF charges pursuant to Section 68.065 F.S. The approved charges should be effective for service rendered on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding.

¹⁶Order Nos. PSC-14-0198-TRF-SU, issued May 2, 2014, in Docket No. 140030-SU, *In re: Request for approval to amend Miscellaneous Service charges to include all NSF charges by Environmental Protection Systems of Pine Island, Inc.* and PSC-13-0646-PAA-WU, issued December 5, 2013, in Docket No. 130025-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*

Issue 9: Should the Utility's requested initial customer deposits be approved?

Recommendation: No. The appropriate initial customer deposits are \$41.28 for water and \$50.34 for wastewater service for the residential 5/8" x 3/4" meter size. The initial customer deposit for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill. The approved customer deposits should be effective for service rendered on or after the stamped approval date on the tariff 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. (Friedrich)

Staff Analysis: Rule 25-30.311, F.A.C., contains criteria for collecting, administering, and refunding customer deposits. Rule 25-30.311(1), F.A.C., requires that each company's tariff shall contain its specific criteria for determining the amount of initial deposits. The Utility requested initial customer deposits of \$67.40 for water and \$103.00 for wastewater for the residential 5/8" x 3/4" meter sizes and two times the average estimated monthly bill for all others. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of rate payers. In addition, collection of customer deposits is consistent with one of the fundamental principles of rate making—ensuring that the cost of providing service is recovered from the cost causer.

Rule 25-30.311(7), F.A.C., authorizes utilities to collect new or additional deposits from existing customers not to exceed an amount equal to the average actual charge for water and/or wastewater service for two billing periods for the 12-month period immediately prior to the date of notice. The two billing periods reflect the lag time between the customer's usage and the Utility's collection of the revenues associated with that usage. Commission practice has been to set initial customer deposits equal to two months bills based on the average consumption for a 12-month period for each class of customers. Staff reviewed the projected billing data provided in SSU's application and determined that the anticipated average residential usage will be approximately 2,616 gallons per month for both water and wastewater. Consequently, the average residential monthly bill will be approximately \$20.64 for water and \$25.17 for wastewater service, based on staff's recommended rates.

Based on the above, the appropriate initial customer deposits are \$41.28 for water and \$50.34 for wastewater service for the residential 5/8" x 3/4" meter size. The initial customer deposit for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill. The approved customer deposits should be effective for service rendered on or after the stamped approval date on the tariff 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.

Issue 10: What are the appropriate service availability charges for South Sumter Utility Company, LLC?

Recommendation: The appropriate service availability charges are a meter installation charge of \$402 for a 5/8" x 3/4" meter and a main extension charge of \$1,916 per ERC for the Utility's water system. Additionally, a main extension charge of \$2,610 per ERC and a plant capacity charge of \$450 per ERC for the Utility's wastewater system should be approved. The recommended main extension and plant capacity charges should be based on an estimated 86 gallons per day (gpd) of water demand. The approved charges should be effective for connections made on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding. (Friedrich)

Staff Analysis: SSU requested a meter installation charge of \$402 for 5/8" x 3/4" meters and actual cost for all other meter sizes, and a main extension charge of \$1,315 per ERC and a plant capacity charge of \$639 per ERC for its water system. Additionally, the Utility requested a main extension charge of \$1,241 per ERC and a plant capacity charge of \$1,010 per ERC for its wastewater system. According to the Utility, the requested service availability charges are based on the projected cost of the water and wastewater systems and the anticipated capacity of 8,542 ERCs. In addition, the requested charges reflect an allocation based on the costs of the distribution and collection systems. SSU's projected distribution and collection systems costs reflect two-thirds of the total costs of the projected plant; therefore, the requested main extension charges reflect two-thirds of the requested service availability charges. Similarly, the requested plant capacity charges reflect one-third of the requested service availability charges. Further, according to the Utility, the requested charges are in compliance with Rule 25-30.580, F.A.C., in that at design capacity the CIAC will not be in excess of 75 percent, and will not be less than the percentage of facilities and plant represented by the distribution and collection systems.

Rule 25-30.580(1)(a), F.A.C., provides that the maximum amount of CIAC, net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of the Utility's facilities and plant when the facilities and plant are at their design capacity. The maximum guideline is designed to ensure that the Utility retains an investment in the system. Rule 25-30.580(1)(b), F.A.C., provides that the minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the distribution and collection systems.

Meter Installation Charges

SSU is requesting approval of a meter installation charge of \$402 for 5/8" x 3/4" meters. All other meter sizes will be installed at the Utility's actual cost. The Utility's proposed meter installation charge of \$402 is based on the estimated cost to install water meters and the required backflow prevention device for the 5/8" x 3/4" meter size. Staff recommends the meter installation charges are reasonable and should be approved.

Main Extension Charges

Based on staff’s recommended adjustments to SSU’s projected UPIS costs, the projected cost of the water and wastewater systems are \$22,267,563 and \$36,783,852. Typically the Commission approves main extension charges based on the average cost per ERC of the distribution and collection systems and the anticipated capacity. Therefore, staff recommends main extension charges of \$1,916 for water and \$2,610 for wastewater.

Plant Capacity Charges

As mentioned above, Rule 25-30.580, F.A.C., provides minimum and maximum guidelines for designing service availability charges. Since the value of the distribution system represents such a significant percentage of the water system (73 percent), even a minimal additional plant capacity charge would result in an overall contribution level in excess of 75 percent at design capacity. This differs from the Utility’s calculations for its proposed service availability charges because staff’s recommended rate base reflects a significant reduction in the projected costs of the water system. Additionally, staff’s recommended main extension charge reflects the average projected cost per ERC rather than an allocation of costs between the main extension and plant capacity charges. Therefore, staff recommends a plant capacity charge for water should not be approved.

Based on staff’s recommended main extension charge for wastewater, staff recommends a plant capacity charge of \$450 per ERC for wastewater, which would result in a projected contribution level of approximately 61 percent at design capacity. Staff believes this is consistent with Rule 25-30.580, F.A.C., and will allow SSU to maintain an appropriate investment in its system. Table 10-1 below displays the Utility’s proposed and staff’s recommended service availability charges for its water and wastewater systems.

**Table 10-1
 Service Availability Charges**

Charge	Utility Proposed		Staff Recommended	
	Water	Wastewater	Water	Wastewater
Meter Installation Charge	\$402	N/A	\$402	N/A
Main Extension Charge ERC = 86 gpd	\$1,315	\$1,241	\$1,916	\$2,610
Plant Capacity Charge ERC = 86 gpd	\$639	\$1,010	N/A	\$450

Source: Utility’s Cost Justification

Based on the above, the appropriate service availability charges are a meter installation charge of \$402 for a 5/8” x 3/4” meter and a main extension charge of \$1,916 per ERC for the Utility’s water system. Additionally, a main extension charge of \$2,610 per ERC and a plant capacity charge of \$450 per ERC for the Utility’s wastewater system. The recommended main extension and plant capacity charges should be based on an estimated 86 gpd of water demand. The approved charges should be effective for connections made on or after the stamped approval date

on the tariff pursuant to Rule 25-30.475, F.A.C. SSU should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding.

Issue 11: Should this docket be closed?

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

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

South Sumter Schedule of Water Rate Base Projected at 80% Design Capacity		Schedule No. 1-A 20160220-WS		
Description	Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	
1 Plant in Service	\$30,098,803	(\$7,831,240)	\$22,267,563	
2 Land and Land Rights	0	0	0	
3 Accumulated Depreciation	(2,237,520)	947,770	(1,289,750)	
4 CIAC	(15,264,648)	2,171,470	(13,093,178)	
5 Amortization of CIAC	617,237	(12,667)	604,570	
6 Working Capital Allowance	<u>191,984</u>	<u>(37,575)</u>	<u>154,409</u>	
7 Rate Base	<u>\$13,405,856</u>	<u>(\$4,762,241)</u>	<u>\$8,643,615</u>	

South Sumter Schedule of Wastewater Rate Base Projected at 80% Design Capacity		Schedule No. 1-B 20160220-WS		
Description		Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1	Plant in Service	\$41,797,661	(\$5,013,811)	\$36,783,851
2	Land and Land Rights	0	0	0
3	Accumulated Depreciation	(3,052,616)	56,898	(2,995,718)
4	CIAC	(17,584,812)	(3,326,003)	(20,910,815)
5	Amortization of CIAC	711,054	343,628	1,054,682
6	Working Capital Allowance	<u>188,054</u>	<u>(37,575)</u>	<u>150,479</u>
7	Rate Base	<u>\$22,059,341</u>	<u>(\$7,976,863)</u>	<u>\$14,082,478</u>

South Sumter Adjustments to Rate Base Projected at 80% Design Capacity		Schedule No. 1-C 20160220-WS	
Explanation	Water	Wastewater	
Plant In Service To reflect 80% design capacity.	<u>(\$7,831,240)</u>	<u>(\$5,013,811)</u>	
Accumulated Depreciation To reflect appropriate level of accumulated depreciation.	<u>\$947,770</u>	<u>\$56,898</u>	
CIAC To reflect 80% design capacity.	<u>\$2,171,470</u>	<u>(\$3,326,003)</u>	
Accumulated Amortization of CIAC To reflect appropriate level of accumulated amortization of CIAC.	<u>(\$12,667)</u>	<u>\$343,628</u>	
Working Capital To reflect 1/8 of O&M expense.	<u>(\$37,575)</u>	<u>(\$37,575)</u>	

South Sumter Capital Structure Projected at 80% Design Capacity							Schedule No. 2 20160220-WS		
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Prorata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
Per Utility									
1 Long-term Debt	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4 Common Equity	34,938,810	0	34,938,810	0	34,938,810	98.52%	8.76%	8.63%	
5 Customer Deposits	526,386	0	526,386	0	526,386	1.48%	2.00%	0.03%	
6 Tax Credits-Zero Cost	0	0	0	0	0	0.00%	0.00%	0.00%	
7 Deferred Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>	
8 Total Capital	<u>\$35,465,196</u>	<u>\$0</u>	<u>\$35,465,196</u>	<u>\$0</u>	<u>\$35,465,196</u>	<u>100.00%</u>		<u>8.66%</u>	
Per Staff									
9 Long-term Debt	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
10 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
11 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
12 Common Equity	34,938,810	0	34,938,810	(13,009,089)	21,929,721	96.50%	8.74%	8.43%	
13 Customer Deposits	526,386	269,987	796,373	0	796,373	3.50%	2.00%	0.07%	
14 Tax Credits-Zero Cost	0	0	0	0	0	0.00%	0.00%	0.00%	
15 Deferred Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>	
16 Total Capital	<u>\$35,465,196</u>	<u>\$269,987</u>	<u>\$35,735,183</u>	<u>(\$13,009,089)</u>	<u>\$22,726,094</u>	<u>100.00%</u>		<u>8.50%</u>	
						LOW	HIGH		
RETURN ON EQUITY						<u>7.74%</u>	<u>9.74%</u>		
OVERALL RATE OF RETURN						<u>7.54%</u>	<u>9.47%</u>		

South Sumter Statement of Water Operations Projected at 80% Design Capacity				Schedule No. 3-A 20160220-WS	
Description	Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues	<u>\$2,879,376</u>	<u>\$0</u>	<u>\$2,879,376</u>	<u>(\$592,704)</u> -20.58%	<u>\$2,286,672</u>
Operating Expenses					
2 Operation & Maintenance	<u>\$1,535,871</u>	<u>(\$300,596)</u>	<u>\$1,235,275</u>		<u>\$1,235,275</u>
3 Depreciation	<u>481,464</u>	<u>(270,972)</u>	<u>210,492</u>		<u>210,492</u>
4 Amortization	<u>1,066</u>	<u>0</u>	<u>1,066</u>		<u>1,066</u>
5 Taxes Other Than Income	<u>152,291</u>	<u>(20,817)</u>	<u>131,474</u>	<u>(26,672)</u>	<u>104,802</u>
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7 Total Operating Expense	<u>2,170,692</u>	<u>(592,386)</u>	<u>1,578,306</u>	<u>(26,672)</u>	<u>1,551,635</u>
8 Operating Income	<u>\$708,684</u>	<u>\$592,386</u>	<u>\$1,31,070</u>	<u>(\$566,032)</u>	<u>\$735,037</u>
9 Rate Base	<u>\$13,405,856</u>		<u>\$8,643,615</u>		<u>\$8,643,615</u>
10 Rate of Return	<u>5.29%</u>		<u>15.05%</u>		<u>8.50%</u>

South Sumter Statement of Wastewater Operations Projected at 80% Design Capacity					Schedule No. 3-B 20160220-WS	
Description	Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement	
1 Operating Revenues	<u>\$3,419,165</u>	<u>\$0</u>	<u>\$3,419,165</u>	<u>(\$267,438)</u> -7.82%	<u>\$3,151,727</u>	
Operating Expenses						
2 Operation & Maintenance	\$1,504,430	(\$300,596)	\$1,203,834		\$1,203,834	
3 Depreciation	803,038	(198,583)	604,455		604,455	
4 Amortization	1,066	0	1,066		1,066	
5 Taxes Other Than Income	202,410	(45,551)	156,859	(12,035)	144,824	
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7 Total Operating Expense	<u>2,510,944</u>	<u>(544,730)</u>	<u>1,966,214</u>	<u>(12,035)</u>	<u>1,954,179</u>	
8 Operating Income	<u>\$908,221</u>	<u>\$544,730</u>	<u>\$1,452,952</u>	<u>(\$255,404)</u>	<u>\$1,197,548</u>	
9 Rate Base	<u>\$22,059,341</u>		<u>\$14,082,478</u>		<u>\$14,082,478</u>	
10 Rate of Return	<u>4.12%</u>		<u>10.32%</u>		<u>8.50%</u>	

South Sumter		Schedule No. 3-C	
Adjustments to Operating Income		20160220-WS	
Projected at 80% Design Capacity			
Explanation	Water	Wastewater	
Operation and Maintenance Expense			
To adjust contractual services.	<u>(\$300,596)</u>	<u>(\$300,596)</u>	
Depreciation Expense - Net			
To reflect appropriate level of net depreciation expense.	<u>(\$270,972)</u>	<u>(\$198,583)</u>	
Taxes Other Than Income			
1 To reflect appropriate level of property tax.	(\$465)	(\$456)	
2 To reflect appropriate level of RAFs.	<u>(20,352)</u>	<u>(45,096)</u>	
Total	<u>(\$20,817)</u>	<u>(\$45,551)</u>	

SOUTH SUMTER UTILITY COMPANY, LLC		SCHEDULE NO. 4-A	
MONTHLY WATER RATES		DOCKET NO. 20160220-WS	
	UTILITY REQUESTED RATES	STAFF RECOMMENDED RATES	
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" X 3/4"	\$20.30	\$10.96	
3/4"	\$30.45	\$16.44	
1"	\$50.75	\$27.41	
1-1/2" Turbine	\$101.50	\$54.81	
2" Turbine	\$162.40	\$87.70	
3" Turbine	\$355.25	\$191.85	
Charge per 1,000 gallons- Residential Service			
0-3,000 gallons	\$4.75	\$5.57	
Over 3,000 gallons	\$7.08	\$6.96	
Charge per 1,000 gallons- General Service			
	\$4.46	\$5.75	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$34.55	\$27.66	
6,000 Gallons	\$55.79	\$48.53	
10,000 Gallons	\$84.11	\$76.36	

SOUTH SUMTER UTILITY COMPANY, LLC		SCHEDULE NO. 4-B	
MONTHLY WASTEWATER RATES		DOCKET NO. 20160220-WS	
	UTILITY REQUESTED RATES	STAFF RECOMMENDED RATES	
<u>Residential Service</u>			
Base Facility Charge- All Meter Sizes	\$26.00	\$18.98	
Charge per 1,000 gallons- Residential 10,000 gallon cap	\$5.33	\$6.53	
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" X 3/4"	\$26.00	\$18.98	
3/4"	\$39.00	\$28.47	
1"	\$65.00	\$47.45	
1-1/2" Turbine	\$130.00	\$94.89	
2" Turbine	\$208.00	\$151.82	
3" Turbine	\$455.00	\$332.12	
Charge per 1,000 gallons - General Service	\$5.56	\$7.83	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$41.99	\$38.57	
6,000 Gallons	\$57.98	\$58.16	
10,000 Gallons	\$79.30	\$84.28	