

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-**

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**DATE:** July 9, 2018

**TO:** Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk

**FROM:** Martha A. Golden, Regulatory Supervisor/Consultant, Division of Accounting & Finance *mg*

**RE:** Docket No. 20180022-WU – Application for staff-assisted rate case in Lake County by Pine Harbour Waterworks, Inc. – Staff Report

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Please file the attached document in the above-referenced docket. Thank you for your assistance with this matter. Please do not hesitate to contact me if you have any questions.

Attachment

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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-**

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**DATE:** July 6, 2018

**TO:** Mark A. Cicchetti, Chief of Finance, Tax & Cost Recovery, Division of Accounting & Finance

**FROM:** Division of Accounting and Finance (Golden, Wilson) *ms*  
Division of Economics (Friedrich) *MF*  
Division of Engineering (Salvador) *LS*  
*eg* *RAW*

**RE:** Docket No. 20180022-WU – Application for staff-assisted rate case in Lake County by Pine Harbour Waterworks, Inc.

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**--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

Pine Harbour Waterworks, Inc. (Pine Harbour or Utility) is a Class C utility serving approximately 62 residential and 2 general service water customers in Lake County. Wastewater service is provided by septic tanks. The service area is located in the St. Johns River Water Management District (SJRWMD) which has enacted district wide irrigation restrictions. According to the Utility's 2017 Annual Report, total gross revenues were \$23,286, and total operating expenses were \$26,383, resulting in a net operating loss of \$3,097.

The Utility has been under Florida Public Service Commission (Commission) jurisdiction since 1985, when it was granted Certificate No. 450-W.<sup>1</sup> The Utility's ownership subsequently changed in 1991, 2008, and 2017.<sup>2</sup> The Utility has never had a rate case, but received approval to charge miscellaneous service charges in a 2009 tariff filing and in the 2016 transfer docket.<sup>3</sup> On January 23, 2018, Pine Harbour filed an application for a staff-assisted rate case (SARC). Staff selected the 12-month period ended December 31, 2017, as the test year for the instant case.

This staff report is a **preliminary** analysis of the Utility prepared by Commission staff to give the Utility's customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed September 27, 2018, for the October 9, 2018 Commission Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting which will held on July 26, 2018. The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, and 367.121, Florida Statutes (F.S.).

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<sup>1</sup>Water certificate issued pursuant to Order No. 15285, issued October 22, 1985, in Docket No. 19850417-WU, *In re: Application of Earl W. Stockwell for a certificate to provide water service to the Pine Harbour Subdivision in Lake County, Florida pursuant to the provisions of Section 367.041, Florida Statutes.*

<sup>2</sup>Order No. 24273, issued March 21, 1991, in Docket No. 19900525-WU, *In Re: Application for transfer of Certificate No. 450-W from Mr. Earl W. Stockwell (Pine Harbour) to Pine Harbour Water Utilities in Lake County.*; Order No. PSC-08-0645-FOF-WU, issued October 6, 2008, in Docket No. 20080269-WU, *In re: Application for authority to transfer water Certificate No. 450-W, held by Pine Harbour Water Utilities, from Jim C. Branham to Pine Harbour Water Utilities, LLC, in Lake County.*; Order No. PSC-17-0043-PAA-WU, issued February 2, 2017, in Docket No. 20160169-WU, *In re: Application for authority to transfer water system and Certificate No. 450-W from Pine Harbour Water Utilities, LLC to Pine Harbour Waterworks, Inc. in Lake County.*

<sup>3</sup>Order No. PSC-10-0328-CO-WU, issued May 21, 2010, in Docket No. 20090429-WU, *In re: Request for approval of imposition of miscellaneous service charges, delinquent payment charge and meter tampering charge in Lake County, by Pine Harbour Water Utilities, LLC.*; and Order No. PSC-17-0043-PAA-WU, issued February 2, 2017, in Docket No. 20160169-WU, *In re: Application for authority to transfer water system and Certificate No. 450-W from Pine Harbour Water Utilities, LLC to Pine Harbour Waterworks, Inc. in Lake County.*

## Discussion of Issues

**Issue 1:** Is the quality of service provided by Pine Harbour satisfactory?

**Preliminary Recommendation:** Staff's recommendation regarding quality of service will not be finalized until after the July 26, 2018 Customer Meeting. (Salvador)

**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 utility's attempt to address customer satisfaction; and (3) the operating conditions of the utility's plant and facilities.<sup>4</sup> 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), 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 the evaluation of Pine Harbour's product quality, staff reviewed the Utility's compliance with DEP's 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. In January 2018, the Utility tested its water for compliance with primary and secondary water standards. The results of the test indicate that all contaminants (primary and secondary) and disinfectants were below the DEP established maximum contaminant level (MCL).

### The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the Commission's customer complaint and information request records. No complaints were found within the last five years. The only information request found was made by the previous owner and was related to the 2016 Utility Annual Report and regulatory assessment fees. Staff also requested a copy of any complaints filed with DEP for the test year and five years prior. As of the date of this analysis, no complaints have been provided to staff.

In response to a staff data request, the Utility provided its record of customer communications. Staff notes that many of the communications were requests for information such as billing questions and concerns. Table 1-1 below, summarizes customers complaints by source and subject.

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<sup>4</sup>Rule 25-30.433(1), F.A.C. has been amended by the Commission. The amended rule should be effective on July 11, 2018.



**Table 1-1  
Number of Complaints by Source and Subject**

<b>Subject of Complaint</b>	<b>PSC Records</b>	<b>DEP Records</b>	<b>Utility Records</b>
Color / smell / taste	-	-	13
Low water pressure	-	-	6
Excessive gallonage / Leak / Billing Errors	-	-	8
Others	-	-	5
Total*	-	-	32

\*A single customer complaint may be counted multiple times if it meets multiple categories.

#### **Operating Condition of the Utility's Plant and Facilities**

The Utility's water treatment plant is served by a single well, where raw water is pumped from a well rated at 600 gallons per minute. The Utility's water system has one 10,000 gallon concrete ground storage tank and one 6,000 gallon steel hydropneumatic tank.

Staff reviewed the most recent sanitary survey conducted on September 16, 2015. The sanitary survey stated that there were no significant deficiencies at the Utility's facilities; however, one minor deficiency was identified. The deficiency, which was related to the calibration of the water plant distribution flow meter, was corrected on October 6, 2015. The next sanitary survey is due to be performed in late 2018.

#### **Conclusion**

Staff's recommendation regarding quality of service will not be finalized until after the July 26, 2018 Customer Meeting.

**Issue 2:** What is the used and useful (U&U) percentage of Pine Harbour's water treatment plant, storage, and distribution system?

**Preliminary Recommendation:** Pine Harbour's water treatment plant, storage, and water distribution system should be considered 100 percent U&U. Staff recommends that no adjustment to operating expenses for chemicals and purchased power should be made for excessive unaccounted for water. (Salvador)

**Staff Analysis:** The Utility's water treatment plant is served by a single well, where raw water is pumped from a well rated at 600 gallons per minute. The Utility's water system has one 10,000 gallon concrete ground storage tank and one 6,000 gallon steel hydropneumatic tank. Pine Harbour's distribution system is composed of 2,170 linear feet of 6-inch polyvinyl chloride (PVC) pipe, 200 linear feet of 4-inch PVC pipe, and 930 linear feet of 2-inch PVC pipe.

#### **Water Treatment Plant Used and Useful**

Pursuant to Rule 25-30.4325(4), F.A.C., a water treatment system is considered 100 percent used and useful if the service territory the system is designed to serve is built out and there is no apparent potential for expansion of the service territory or the system is served by a single well. As stated earlier, a single well serves the Utility, therefore, the water treatment system should be considered 100 percent U&U.

#### **Excessive Unaccounted For Water**

Rule 25-30.4325, F.A.C., defines excessive unaccounted for water (EUW) as "unaccounted for water in excess of 10 percent of the amount produced." Unaccounted for water is all water that is produced that is not sold, metered, or accounted for in the records of the Utility. The Rule provides that to determine whether adjustments to plant and operating expenses, such as purchased electrical power and chemicals cost, are necessary, the Commission will consider all relevant factors as to the reason for EUW. 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.

Based on the Utility's monthly operation reports, Pine Harbour treated 5,238,641 gallons of water from January 1, 2017, to December 31, 2017, the test year. In response to a staff data request, the Utility stated that 42,000 gallons were used for flushing during the test year, 100,000 gallons were lost in December 2017 due to a water line leak, and 4,641,000 gallons of finished water were sold throughout the test year. Considering the values discussed above, the unaccounted for water for Pine Harbour is calculated to be 8.7 percent ( $[(5,238,641 - 100,000 - 4,641,000 - 42,000) / 5,238,641] \times 100$ ). Therefore, staff recommends that no adjustment to operating expenses for chemicals and purchased power should be made.

#### **Water Storage Used and Useful**

Pursuant to Rule 25-30.4325(8), F.A.C., the used and useful calculation of storage is made by dividing the peak demand by the usable storage of the storage tank. Usable storage capacity less than or equal to the peak day demand shall be considered 100 percent U&U. Peak demand for storage includes the utility's maximum day demand, excluding excessive unaccounted for water, plus a growth allowance based on the requirements of Rule 25-30.431, F.A.C., and, where



provided, a minimum of either the fire flow required by the local governmental authority or 2 hours at 500 gallons per minute.

The maximum day demand is the single maximum day in the test year where there is no unusual occurrence. Based on information provided to staff, the maximum day demand (24,000 gallons) occurred on April 28, 2017. The ground storage tank capacity is 10,000 gallons. The Utility indicated in its SARC application that Lake County requires 500 gallons per minute for fire flow. Consequently the fire flow requirement is 60,000 gallons (500 x 60 x 2). The maximum usable storage capacity of 10,000 gallons is less than the peak demand of 84,000 gallons (24,000 + 60,000). Therefore, the storage should be considered 100 percent U&U.

### **Water Distribution System Used and Useful**

Commission policy on water distribution U&U determination employs a lot count methodology that determines a distribution system's near-future connectivity, allowing for growth of the customer base, and compares it to its built-out capacity in equivalent residential connections. Based on a review of Pine Harbour's service territory map and the number of customers, the Utility's service territory appears to be built-out. Therefore, the water distribution system should be considered 100 percent U&U.

### **Conclusion**

Staff recommends that Pine Harbour's water treatment plant, storage, and water distribution system should be considered 100 percent U&U. Staff recommends that no adjustment to purchased power and chemicals should be made for EUW.



**Issue 3:** What is the appropriate average test year rate base for Pine Harbour?

**Preliminary Recommendation:** The appropriate average test year rate base for Pine Harbour is \$32,595. (Golden, Wilson, Salvador)

**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. The Utility has never had a rate case and rate base has never been established. Pine Harbour's net book value for transfer purposes was last determined by Order No. PSC-17-0043-PAA-WU in the 2016 certificate transfer docket.<sup>5</sup> Staff selected the test year ending December 31, 2017 for the instant case. Commission audit staff determined that the Utility's books and records are in compliance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). A summary of each component of rate base and the recommended adjustments are discussed below.

### **Utility Plant in Service (UPIS)**

The Utility recorded \$93,021 in UPIS. During 2016, the Utility installed a new water line and meter for a new customer connection. The Utility correctly recorded the CIAC received from the new customer, but did not record the associated plant additions. Therefore, staff increased UPIS by \$5,475 and \$82 to reflect the new water line installation and new meter installation, respectively. During the test year, the Utility experienced hurricane damage to a shed roof. Staff increased Account No. 304 by \$1,077 and decreased Account No. 320 by \$1,077 to reclassify the shed roof repair to the appropriate account. The reclassification has no effect on the UPIS balance, but is necessary to depreciate the repair at the correct depreciation rate. Subsequent to the test year, the Utility replaced 44 residential water meters due age. Staff increased UPIS by \$1,930 to reflect the pro forma meter replacements and decreased UPIS by \$1,448 to reflect the associated retirement of the replaced meters.

In addition, Pine Harbour requested consideration of one pro forma project in this rate case to replace the water plant distribution flow meter (flow meter). Based on communications with the Florida Rural Water Association (FRWA), an error within five percent is considered acceptable for flow meters. Pine Harbour's flow meter was tested on May 23, 2018, by the FRWA, and it was found to be running erratically with an accuracy of 85.7 percent. Giving consideration to the test results discussed above, staff considers the meter replacement appropriate at this time.

Based on an estimate received from the Utility, the cost to replace the flow meter is \$2,370, which includes \$2,023 for the meter and \$347 for labor. The Utility also provided a second proposal that quoted a cost of \$2,779 for the new meter.<sup>6</sup> Estimating the same labor cost of \$347 results in a cost of \$3,126. Accordingly, staff increased UPIS by \$2,370 to reflect the pro forma flow meter replacement and decreased UPIS by \$1,778 to reflect the associated retirement of the replaced meter. Staff included this project in the preliminary rate base calculation, but notes that

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<sup>5</sup>Order No. PSC-17-0043-PAA-WU, issued February 2, 2017, in Docket No. 20160169-WU, *In re: Application for authority to transfer water system and Certificate No. 450-W from Pine Harbour Water Utilities, LLC to Pine Harbour Waterworks, Inc. in Lake County.*

<sup>6</sup>Document No. 04347-2018, filed on June 22, 2018.



additional estimates were requested. A final determination on the cost of this pro forma item will be evaluated in the Proposed Agency Action (PAA) recommendation.

Finally, staff decreased UPIS by \$3,230 to reflect an averaging adjustment for additions made during the test year. Consistent with Commission practice, no averaging adjustments are applied to pro forma additions. Staff's adjustments to UPIS are a net increase of \$3,402. Therefore, staff recommends a UPIS balance of \$96,423.

### **Land and Land Rights**

The Commission approved a land balance of \$5,000 in the Utility's 2016 transfer docket. Audit staff determined that there have been no additions to land since the transfer, therefore, no adjustments are necessary. Staff recommends a land and land rights balance of \$5,000.

### **Non-Used and Useful Plant**

As discussed in Issue 2, Pine Harbour's water treatment plant, storage and water distribution system should be considered 100 percent U&U. Therefore, a U&U adjustment is not necessary.

### **Contribution in Aid of Construction**

The Utility recorded test year CIAC of \$62,440. Audit staff determined that no adjustments are necessary. Staff recommends a CIAC balance of \$62,440.

### **Accumulated Depreciation**

The Utility recorded \$70,927 in accumulated depreciation. In order to reflect the appropriate test year balance as of December 31, 2017, staff calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff increased accumulated depreciation by \$135 to reflect the appropriate test year balance. In addition, staff recommends four pro forma adjustments associated with the residential water meter and flow meter replacements discussed above. Staff increased this account by \$28 to reflect the incremental increase in accumulated depreciation associated with the new residential water meters, and decreased this account by \$1,448 to remove the accumulated depreciation associated with the retired meters. Staff also increased this account by \$19 to reflect the increase in accumulated depreciation associated with the new flow meter, and decreased this account by \$1,778 to remove the accumulated depreciation associated with the replaced meter. Finally, staff decreased the test year total accumulated depreciation by \$1,102 to reflect an averaging adjustment. Staff's net adjustment to this account is a decrease of \$4,145. Therefore, staff recommends an accumulated depreciation balance of \$66,782.

### **Accumulated Amortization of CIAC**

Pine Harbour recorded an amortization of CIAC balance of \$57,037. Staff increased this account by \$7 to reflect the appropriate amortization of CIAC. Staff also decreased this account by \$74 to reflect an averaging adjustment for the test year. Staff's adjustment is a net decrease of \$67. Therefore, staff recommends an accumulated amortization of CIAC balance of \$56,970.



### **Working Capital Allowance**

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses of the Utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Staff also removed the unamortized balance of rate case expense of \$260 pursuant to Section 367.081(9), F.S.<sup>7</sup> Applying this formula, staff recommends a working capital allowance of \$3,424 ( $\$27,391/8$ ), based on the adjusted O&M expense of \$27,391 ( $\$27,651 - \$260$ ).

### **Rate Base Summary**

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$32,595. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

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<sup>7</sup>Section 367.081(9), F.S., which became effective July 1, 2016, states, "A utility may not earn a return on the unamortized balance of the rate case expense. Any unamortized balance of rate case expense shall be excluded in calculating the utility's rate base." Therefore, staff excluded rate case expense from the working capital calculations.

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

**Preliminary Recommendation:** The appropriate return on equity (ROE) is 8.74 percent with a range of 7.74 percent to 9.74 percent. The appropriate overall rate of return is 8.73 percent. (Golden, Wilson)

**Staff Analysis:** Pine Harbour's capital structure consists of \$33,018 in common equity and \$56 in customer deposits. Audit staff verified that the Utility has no debt, and that no adjustments are necessary.

The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE is 8.74 percent based upon the Commission-approved leverage formula currently in effect.<sup>8</sup> Staff recommends an ROE of 8.74 percent, with a range of 7.74 percent to 9.74 percent, and an overall rate of return of 8.73 percent. The ROE and overall rate of return are shown on Schedule No. 2.

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<sup>8</sup>Order 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 Pine Harbour?

**Preliminary Recommendation:** The appropriate test year revenues for Pine Harbour are \$24,642. (Friedrich)

**Staff Analysis:** Pine Harbour recorded total test year revenues of \$23,286. The Utility's test year revenues included \$22,418 of service revenues and \$868 of miscellaneous revenues. Based on staff's review of the Utility's billing determinants and the service rates that were in effect during the test year, staff determined test year service revenues should be \$23,774. This results in an increase of \$1,356 (\$23,774 - \$22,418) to service revenues. This adjustment to service revenues is due to a timing difference between the billing register and the general ledger. Based on staff's review of the number of miscellaneous service occurrences during the test year and the Utility's approved miscellaneous service charges, staff agrees with the Utility's recorded miscellaneous revenues of \$868. Based on the above, the appropriate test year revenues for Pine Harbour are \$24,642.

**Issue 6:** What is the appropriate amount of operating expense?

**Preliminary Recommendation:** The appropriate amount of operating expense for the Utility is \$31,830. (Golden, Wilson)

**Staff Analysis:** Pine Harbour recorded operating expense of \$26,383 for the test year ended December 31, 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.

## Operation and Maintenance Expenses

### Contractual Services - Other (636)

The Utility recorded \$15,367 in this account. Pine Harbour receives all of its operational and administrative services under a contract with an affiliated company, U.S. Water Services Corporation (USWSC). The Commission previously reviewed and approved expenses related to the USWSC management services contracts for seven of Pine Harbour's sister utilities in nine rate proceedings.<sup>9</sup> Two sister utilities, LP Waterworks, Inc. and Lakeside Waterworks, Inc., have each had two SARC's in which the Commission reviewed and approved expenses related to the USWSC management services contract. The Commission previously found USWSC's costing and allocation model to be reasonable with the exception of some allocated expenses related to salary overtime, fuel, and vehicle maintenance that were subsequently adjusted in some of the related dockets.<sup>10</sup> The vehicle maintenance and fuel costs were adjusted to reflect actual test year expenses in those cases, and the salary overtime was removed because it was inadvertently included for salaried positions that are not eligible for overtime pay.

The Commission also previously noted that the utilities that are operated and maintained by USWSC experience additional cost savings related to expenses such as chemicals, testing, and miscellaneous expenses that were attributable to economies of scale achieved through operations provided by USWSC. Further, USWSC and its managers bring considerable management and operator experience and expertise at a comparably reasonable cost. By spreading costs over

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<sup>9</sup>Order No. PSC-14-0413-PAA-WS, issued August 14, 2014, in Docket No. 20130153-WS, *In re: Application for staff-assisted rate case in Highlands County, by L.P. Utilities Corporation c/o LP Waterworks, Inc.*; Order No. PSC-15-0013-PAA-WS, issued January 2, 2015, in Docket No. 20130194-WS, *In re: Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.*; Order No. PSC-15-0282-PAA-WS, issued July 8, 2015, in Docket No. 20140158-WS, *In re: Application for increase in water/wastewater rates in Highlands County by HC Waterworks, Inc.*; Order No. PSC-15-0329-PAA-WU, issued August 14, 2015, in Docket No. 20140186-WU, *In re: Application for staff-assisted rate case in Brevard County by Brevard Waterworks, Inc.*; Order No. PSC-15-0335-PAA-WS, issued August 20, 2015, in Docket No. 20140147-WS, *In re: Application for staff-assisted rate case in Sumter County by Jumper Creek Utility Company.*; Order No. PSC-16-0256-PAA-WU, issued June 30, 2016, in Docket No. 20150199-WU, *In re: Application for staff-assisted rate case in Lake County by Raintree Waterworks, Inc.*; Order No. PSC-16-0305-PAA-WU, issued July 28, 2016, in Docket No. 20150236-WU, *In re: Application for staff-assisted rate case in Lake County, by Lake Idlewild Utility Company.*; Order No. PSC-2017-0334-PAA-WS, issued August 23, 2017, in Docket No. 20160222-WS, *In re: Application for staff-assisted rate case in Highlands County by LP Waterworks, Inc.*; Order No. PSC-2017-0428-PAA-WS, issued November 7, 2017, in Docket No. 20160195-WS, *In re: Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.*

<sup>10</sup>Order No. PSC-15-0282-PAA-WS; Order No. PSC-15-0329-PAA-WU; Order No. PSC-15-0335-PAA-WS; Order No. PSC-16-0256-PAA-WU; Order No. PSC-16-0305-PAA-WU; and Order No. PSC-2017-0334-PAA-WS.



multiple systems, the utilities' customers are realizing operational and cost benefits that would not be available if the utilities operated on a stand-alone basis.

USWSC initially included cost subsidies in the 2013 costing and allocation model to help minimize the rate impact and allow for future growth. In 2017, USWSC analyzed all of its contracts, and revised a majority of the contracts to reflect updated costs and minimize the previously included subsidies. In addition, the administrative, vehicle maintenance, and fuel costs were revised based on actual costs for 2016. In October 2017, USWSC revised the Pine Harbour contract, which increased the monthly service fee by approximately \$484. Under the prior contract, Pine Harbour received an annual subsidy of \$5,807. The revised contract eliminates most of the subsidy, but still includes an annual subsidy of \$299 because the administrative cost allocation includes equivalent residential connections (ERCs) from the recently sold Lake Osborne Waterworks.

The prior annual contract fees of \$13,916 represent an average of \$214 per ERC. This is comparable to the amounts approved by the Commission for Pine Harbour's sister utilities which ranged from \$170 to \$247 per water ERC. The revised annual contract fees of \$19,723 that eliminate most of the prior subsidies increase that average to \$303 per ERC. The Utility indicated in an audit response that the revised per ERC amount for Pine Harbour is still below the American Water Works Association (AWWA) average median benchmark previously analyzed by the Commission, which was \$342 in 2014. The Utility's test year expenses include nine months at the prior fee and three months at the revised fee. Staff believes it is appropriate to reflect the current contract fees in the preliminary revenue requirement pending additional review of the 2017 contract revisions. Therefore, staff increased this account by \$4,356 to annualize this expense to reflect the current monthly service fee. Staff recommends contractual services – other expense for the test year of \$19,723.

#### **Regulatory Commission Expense (665)**

The Utility did not record any regulatory commission expense in this account. Rule 25-30.433(8), F.A.C., requires that non-recurring expenses be amortized over a five-year period unless a shorter or longer period of time can be justified. Accordingly, staff increased this account by \$150 ( $\$750/5$ ) to reflect the five-year amortization of the 2016 certificate transfer application filing fee. The remaining unamortized portion of the filing fee should be recorded in Account No. 186 – Miscellaneous Deferred Debits.

Regarding the instant case, 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. For noticing, staff estimated \$96 for postage expense, \$57 for printing expense, and \$10 for envelopes. This results in \$163 for the noticing requirement. The Utility paid a \$500 rate case filing fee. The Utility requested travel and lodging expense of \$250 to attend the customer meeting and \$250 to attend the Commission Conference. Staff believes it would be appropriate to split the requested \$250 Commission Conference travel expense between Pine Harbour and its sister utility Country Walk Utilities, Inc. that has an item scheduled for the same Commission Conference, reducing total travel expense to \$375 ( $\$500 - \$125$ ). The Commission previously approved rate case related travel expenses ranging from \$450 to \$1,570 in the seven most recent dockets for Pine Harbour's sister utilities. Based on staff's review, the requested travel expense appears reasonable. Based



on the above, staff recommends total rate case expense of \$1,038 ( $\$163 + \$375 + \$500$ ), which amortized over four years is \$260. Based on the above, staff's total adjustment to this account is an increase of \$410 ( $\$150 + \$260$ ). Therefore, staff recommends regulatory commission expense of \$410.

### **Operation and Maintenance Expense (O&M Summary)**

Based on the above adjustments, O&M expense should be increased by \$4,765, resulting in total O&M expense of \$27,651. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A, 3-B, and 3-C.

### **Depreciation Expense (Net of Amortization of CIAC)**

The Utility's records reflect test year depreciation of \$2,113 and CIAC amortization of \$133, for a net depreciation expense of \$1,980 ( $\$2,113 - \$133$ ). Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined test year depreciation expense to be \$2,237, resulting in an increase to this account of \$124. Also, staff increased this account by \$114 to reflect the incremental increase in depreciation expense for the pro forma meter replacements, and decreased this account by \$85 to reflect the associated retirement of the replaced meters. In addition, staff increased this account by \$74 to reflect the pro forma flow meter replacement, and decreased this account by \$56 to reflect the retirement of the replaced flow meter. Staff's total adjustment to depreciation expense is a net increase of \$171 ( $\$124 + \$114 - \$85 + \$74 - \$56$ ). In addition, staff calculated test year CIAC amortization expense of \$149. Accordingly, staff decreased this account by \$16 ( $\$133 - \$149$ ). This results in a net depreciation expense of \$2,135 ( $\$1,980 + \$171 - \$16$ ). Therefore, staff recommends net depreciation expense of \$2,135.

### **Taxes Other Than Income (TOTI)**

Pine Harbour recorded TOTI of \$1,517 for the test year. The Utility recorded \$1,048 for regulatory assessment fees (RAFs). Based on staff's recommended test year revenues of \$24,642, the Utility's RAFs should be \$1,109. Therefore, staff increased this account by \$61 to reflect the appropriate RAFs. Also, the Utility recorded property tax accruals of \$469 during the test year. Staff increased this account by \$15 to reflect the incremental increase in property taxes associated with the pro forma water meter and flow meter replacements discussed in Issue 3. Therefore, staff's total adjustment to test year TOTI is an increase of \$76 ( $\$61 + \$15$ ).

In addition, as discussed in Issue 7, revenues have been increased by \$10,033 to reflect the change in revenue required to cover expenses and allow the recommended rate of return. As a result, TOTI should be increased by \$452 to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$2,044.

### **Operating Expenses Summary**

The application of staff's recommended adjustments to Pine Harbour's test year operating expenses result in operating expenses of \$31,830. Operating expenses are shown on Schedule No. 3-A. The adjustments are shown on Schedule No. 3-B.



**Issue 7:** What is the appropriate revenue requirement?

**Preliminary Recommendation:** The appropriate revenue requirement is \$34,676, resulting in an annual increase of \$10,033 (40.72 percent). (Golden, Wilson)

**Staff Analysis:** Pine Harbour should be allowed an annual increase of \$10,033 (40.72 percent). This will allow the Utility the opportunity to recover its expenses and earn an 8.73 percent return on its investment. The calculations are as follows in Table 7-1 below:

**Table 7-1  
Water Revenue Requirement**

Adjusted Rate Base	\$32,595
Rate of Return	x 8.73%
Return on Rate Base	\$2,846
Adjusted O&M Expense	27,651
Depreciation Expense (Net)	2,135
Taxes Other Than Income	2,044
Income Taxes	0
Revenue Requirement	\$34,676
Less Adjusted Test Year Revenues	24,642
Annual Increase	\$10,033
Percent Increase	40.72%

**Issue 8:** What are the appropriate rate structure and rates for Pine Harbour?

**Preliminary Recommendation:** The recommended rate structure and monthly water rates are shown on Schedule No. 4. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Friedrich)

**Staff Analysis:** Pine Harbour is located in Lake County within the SJRWMD and provides water service to approximately 62 residential and 2 general service customers. Approximately 8.50 percent of the residential customer bills during the test year had zero gallons indicating a non-seasonal customer base. The average residential water demand is 5,879 gallons per month. The Utility's current water system rate structure for residential customers consists of a base facility charge (BFC) based on meter size and a gallonage charge of \$2.17 per 1,000 gallons. The Utility currently does not have any general service rates and has been charging its two general service customers its current Commission-approved rates for residential service.

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.

In order to design gallonage charges that will send the appropriate pricing signals to target non-discretionary usage, staff believes 43 percent of the revenue requirement should be recovered through the BFC to reflect the non-seasonal customer base and avoid a reduction to the current BFC. 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 should be 4,000 gallons per month. Staff recommends a BFC and a two-tier gallonage charge rate structure for residential customers. The rate tiers should be: (1) 0-4,000 gallons and (2) all usage in excess of 4,000 gallons per month. Staff believes that transitioning the Utility from a uniform gallonage charge to a two-tier gallonage rate structure for residential customers will lead to more conservation-oriented water consumption and mitigate the impact of the recommended revenue requirement increase for customers using 4,000 gallons of water or less per month. Further, staff recommends a BFC and uniform gallonage charge rate structure for general service customers.

Based on the recommended revenue increase of approximately 40.7 percent, the residential consumption can be expected to decline by 737,000 gallons resulting in anticipated average residential demand of 4,944 gallons per month. Staff recommends a 15.9 percent reduction in total test year residential gallons for rate setting purposes and corresponding reductions of \$136 for purchased power, \$78 for chemicals and \$10 for RAFs to reflect anticipated repression.

These adjustments result in a post repression revenue requirement of \$33,582. The recommended rate structure and monthly water rates are shown on Schedule No. 4.

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



**Issue 9:** What are the appropriate initial customer deposits for Pine Harbour?

**Recommendation:** The appropriate initial customer deposit is \$88 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 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 initial customer 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. Pine Harbour currently has an initial customer deposit of \$56. However, this amount does not cover two months' average bills based on staff's recommended rates. 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.<sup>11</sup> The Utility indicated that the average monthly residential usage is 4,954 gallons per customer. Therefore, the average residential monthly bill is approximately \$44.22.

Based on the above, the appropriate initial customer deposit is \$88 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 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 initial customer deposits until authorized to change them by the Commission in a subsequent proceeding.

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<sup>11</sup>Order Nos. PSC-2017-0428-PAA-WS, issued November 7, 2017, in Docket No. 20160195-WS, *In re: Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.* 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*

**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:** The water rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If Pine Harbour 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. (Friedrich, Golden, Wilson) (Final Agency Action)

**Staff Analysis:** Pine Harbour's water 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 \$272 for water. Using the Utility's current revenues, expenses, and customer base, the reduction in revenues will result in the rate decrease shown on Schedule No. 4.

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



**Issue 11:** Should the recommended rates be approved for Pine Harbour 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 Office of Commission Clerk no later than the 20th of every month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Golden, Wilson) (Final Agency Action)

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

The Utility should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$6,772. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

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

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



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

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

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

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

**Issue 12:** Should Pine Harbour be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision?

**Preliminary Recommendation:** Yes. The Utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Pine Harbour should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts as shown on Schedule No. 5 have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Golden, Wilson) (Final Agency Action)

**Staff Analysis:** The Utility should be required to notify the Commission, in writing that it has adjusted its books in accordance with the Commission's decision. Schedule No. 5 reflects the accumulated plant, depreciation, CIAC, and amortization of CIAC balances as of December 31, 2017. Pine Harbour should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts, as shown on Schedule No. 5, have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.



PINE HARBOUR WATERWORKS, INC. TEST YEAR ENDED 12/31/17 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 20180022-WU		
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTILITY BALANCE	BALANCE PER STAFF	
1. UTILITY PLANT IN SERVICE	\$93,021	\$3,402	\$96,423	
2. LAND & LAND RIGHTS	5,000	0	5,000	
3. NON-USED AND USEFUL COMPONENTS	0	0	0	
4. CIAC	(62,440)	0	(62,440)	
5. ACCUMULATED DEPRECIATION	(70,927)	4,145	(66,782)	
6. AMORTIZATION OF CIAC	57,037	(67)	56,970	
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>3,424</u>	<u>3,424</u>	
8. WATER RATE BASE	<u>\$21,691</u>	<u>\$10,904</u>	<u>\$32,595</u>	

<b>PINE HARBOUR WATERWORKS, INC.</b>		<b>SCHEDULE NO. 1-B</b>
<b>TEST YEAR ENDED 12/31/17</b>		<b>DOCKET NO. 120180022-WU</b>
<b>ADJUSTMENTS TO RATE BASE</b>		
		<b><u>WATER</u></b>
<b><u>UTILITY PLANT IN SERVICE</u></b>		
1.	To reflect 2016 water line installation for new customer to Acct. No. 331.	\$5,475
2.	To reflect 2016 meter installation for new customer to Acct. No. 334.	82
3.	To reclassify shed roof repair from Acct. No. 320 to Acct. No. 304.	1,077
4.	To reclassify shed roof repair to Acct. No. 304 from Acct. No. 320.	(1,077)
5.	To reflect pro forma meter replacements to Acct. No. 334.	1,930
6.	To reflect retirement of replaced meters.	(1,448)
7.	To reflect pro forma well flow meter replacement to Acct. No. 309.	2,370
8.	To reflect retirement of replaced well flow meter.	(1,778)
9.	To reflect an averaging adjustment.	<u>(3,230)</u>
	Total	<u>\$3,402</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>		
1.	To reflect accumulated depreciation per Rule 25-30.140, F.A.C.	(\$135)
2.	To reflect pro forma meter replacements.	(28)
3.	To reflect retirement of replaced meters.	1,448
4.	To reflect pro forma well flow meter replacement.	(19)
5.	To reflect retirement of replaced well flow meter.	1,778
6.	To reflect an averaging adjustment.	<u>1,102</u>
	Total	<u>\$4,145</u>
<b><u>AMORTIZATION OF CIAC</u></b>		
1.	To reflect appropriate amortization of CIAC	\$7
2.	To reflect an averaging adjustment	(74)
	Total	<u>(\$67)</u>
<b><u>WORKING CAPITAL ALLOWANCE</u></b>		
	To reflect 1/8 of test year O&M expenses.	<u>\$3,424</u>



PINE HARBOUR WATERWORKS, INC. TEST YEAR ENDED 12/31/17 SCHEDULE OF CAPITAL STRUCTURE				SCHEDULE NO. 2 DOCKET NO. 20180022-WU				
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE RECONCILE TO RATE BASE	ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$0	\$0	\$0					
2. RETAINED EARNINGS	0	0	0					
3. PAID IN CAPITAL	0	0	0					
4. OTHER COMMON EQUITY	<u>33,018</u>	<u>0</u>	<u>33,018</u>					
TOTAL COMMON EQUITY	\$33,018	\$0	\$33,018	(\$479)	\$32,539	99.83%	8.74%	8.725%
5. LONG TERM DEBT	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
6. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
7. PREFERRED STOCK	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
TOTAL DEBT	\$0	\$0	\$0	\$0	\$0	0.00%		
8. CUSTOMER DEPOSITS	<u>\$56</u>	<u>\$0</u>	<u>\$56</u>	<u>\$0</u>	<u>\$56</u>	<u>0.17%</u>	2.00%	<u>0.003%</u>
9. TOTAL	<u>\$33,074</u>	<u>\$0</u>	<u>\$33,074</u>	<u>(\$479)</u>	<u>\$32,595</u>	<u>100.00%</u>		<u>8.73%</u>
<b>RANGE OF REASONABLENESS</b>						<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY						<u>7.74%</u>	<u>9.74%</u>	
OVERALL RATE OF RETURN						<u>7.73%</u>	<u>9.73%</u>	

PINE HARBOUR WATERWORKS, INC. TEST YEAR ENDED 12/31/17 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 20180022-WU			
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$23,286</u>	<u>\$1,356</u>	<u>\$24,642</u>	<u>\$10,033</u> 40.72%	<u>\$34,676</u>	
<b>OPERATING EXPENSES:</b>						
2. OPERATION & MAINTENANCE	<u>\$22,886</u>	<u>\$4,765</u>	<u>\$27,651</u>	<u>\$0</u>	<u>\$27,651</u>	
3. DEPRECIATION (NET)	<u>1,980</u>	<u>155</u>	<u>2,135</u>	<u>0</u>	<u>2,135</u>	
4. TAXES OTHER THAN INCOME	<u>1,517</u>	<u>76</u>	<u>1,593</u>	<u>452</u>	<u>2,044</u>	
5. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
6. TOTAL OPERATING EXPENSES	<u>\$26,383</u>	<u>\$4,996</u>	<u>\$31,379</u>	<u>\$452</u>	<u>\$31,830</u>	
7. OPERATING INCOME/(LOSS)	<u>(\$3,097)</u>		<u>(\$6,736)</u>		<u>\$2,846</u>	
8. WATER RATE BASE	<u>\$21,691</u>		<u>\$32,595</u>		<u>\$32,595</u>	
9. RATE OF RETURN	<u>(14.28%)</u>		<u>(20.67%)</u>		<u>8.73%</u>	



<b>PINE HARBOUR WATERWORKS, INC.                  TEST YEAR ENDED 12/31/17                  ADJUSTMENTS TO OPERATING INCOME</b>	<b>SCHEDULE NO. 3-B                  DOCKET NO. 20180022-WU</b>
	<b><u>WATER</u></b>
<b>OPERATING REVENUES</b>	
To reflect test year revenues.	<u>\$1,356</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>	
1. Contractual Services - Other (636) To annualize operations and maintenance service fees.	<u>\$4,356</u>
2. Regulatory Commission Expense (665)	
a. To reflect 5-year amortization of transfer filing fee (Docket No. 20160169-WU).	\$150
b. To reflect 4-year amortization of rate case expense (\$1,041/4).	<u>260</u>
Subtotal	<u>\$410</u>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>	<u>\$4,766</u>
<b>DEPRECIATION EXPENSE</b>	
1. To reflect appropriate depreciation calculated per Rule 25-30.140, F.A.C.	\$124
2. To reflect pro forma meter replacements.	114
3. To reflect retirement of replaced meters.	(85)
4. To reflect pro forma well flow meter replacement.	74
5. To reflect retirement of replaced well flow meter.	(56)
6. To reflect appropriate amortization of CIAC.	<u>(16)</u>
Total	<u>\$155</u>
<b>TAXES OTHER THAN INCOME</b>	
1. To reflect appropriate test year RAFs.	\$61
2. To reflect pro forma increase in Utility property taxes.	<u>15</u>
Total	<u>\$76</u>

PINE HARBOUR WATERWORKS, INC.	SCHEDULE NO. 3-C		
TEST YEAR ENDED 12/31/17	DOCKET NO. 20180022-WU		
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENTS	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(603) SALARIES AND WAGES - OFFICERS	3,200	0	3,200
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	939	0	939
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	540	0	540
(620) MATERIALS AND SUPPLIES	0	0	0
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	1,395	0	1,395
(635) CONTRACTUAL SERVICES - TESTING	0	0	0
(636) CONTRACTUAL SERVICES - OTHER	15,367	4,356	19,723
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	1,112	0	1,112
(665) REGULATORY COMMISSION EXPENSE	0	410	410
(670) BAD DEBT EXPENSE	217	0	217
(675) MISCELLANEOUS EXPENSE	<u>116</u>	<u>0</u>	<u>116</u>
	<u>\$22,886</u>	<u>\$4,766</u>	<u>\$27,651</u>



PINE HARBOUR WATERWORKS, INC.		SCHEDULE NO. 4	
TEST YEAR ENDED 12/31/2017		DOCKET NO. 20180022-WU	
MONTHLY WATER RATES			
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<b><u>Residential and General Service</u></b>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$17.28	\$18.19	\$0.15
3/4"	\$25.92	\$27.29	\$0.22
1"	\$43.22	\$45.48	\$0.37
1-1/2"	\$86.41	\$90.95	\$0.74
2"	\$138.27	\$145.52	\$1.18
3"	\$276.51	\$291.04	\$2.36
4"	\$432.04	\$454.75	\$3.68
Charge per 1,000 gallons - Residential			
0 - 4,000 gallons	\$2.17	N/A	
All Over 4,000 gallons	N/A	\$4.15	\$0.03
	N/A	\$5.84	\$0.05
Charge per 1,000 gallons - General Service			
	N/A	\$4.90	\$0.04
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
4,000 Gallons	\$25.96	\$34.79	
6,000 Gallons	\$30.30	\$46.47	
8,000 Gallons	\$34.64	\$58.15	

PINE HARBOUR WATERWORKS, INC.			SCHEDULE NO. 5	
TEST YEAR ENDED 12/31/2017			DOCKET NO. 20180022-WU	
SCHEDULE OF WATER PLANT, DEPRECIATION, CIAC, & CIAC AMORTIZATION BALANCES				
ACCT NO.	DEPR. RATE PER RULE 25-30.140, F.A.C.	DESCRIPTION	UPIS 12/31/2017 (DEBIT)*	ACCUM. DEPR. 12/31/2017 (CREDIT)*
301	2.50%	Organization	\$500	\$400
303	N/A	Land and Land Rights	5,000	N/A
304	3.70%	Structures and Improvements	9,318	863
307	3.70%	Wells and Springs	7,763	7,044
309	3.13%	Supply Mains	6,885	3,013
311	5.88%	Pumping Equipment	16,314	16,314
320	5.88%	Water Treatment Equipment	350	350
330	3.03%	Distribution Reservoirs and Standpipes	15,811	12,047
331	2.63%	Transmission and Distribution Mains	27,943	18,946
333	2.86%	Services	5,692	5,115
334	5.88%	Meters and Meters Installations	3,455	3,335
335	2.50%	Hydrants	4,547	3,637
		Total Including Land	<u>\$103,578</u>	<u>\$71,063</u>
			CIAC AMORT. 12/31/2017 (DEBIT)*	CIAC 12/31/2017 (CREDIT)
			<u>\$57,044</u>	<u>\$62,440</u>

\* The plant and accumulated depreciation balances exclude the pro forma meter and well meter replacements. Also, the plant, accumulated depreciation, and accumulated amortization of CIAC balances exclude the staff-recommended averaging adjustments that are used only for rate setting purposes and should not be reflected on the Utility's books.