

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: July 26, 2018

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Knoblauch, Graves) *nk*
Division of Accounting and Finance (Frank, Johnson, Norris) *EKPH DF*
Division of Economics (Bruce, Hudson) *ALM*
Office of the General Counsel (DuVal) *MS TH GS BR*

RE: Docket No. 20170230-WU – Application for staff-assisted rate case in Pasco County by Orange Land Utilities, LLC.

AGENDA: 08/07/18 – Regular Agenda – Proposed Agency Action – Except for Issue Nos. 10, 11, and 12 - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Clark

CRITICAL DATES: 03/15/19 (15 Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

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Case Background

Orange Land Utilities, LLC (Orange Land or Utility) is a Class C water utility serving approximately 74 residential and 2 general service customers in Pasco County. Orange Land's service territory is located in the Southwest Florida Water Management District (SWFWMD). The Florida Public Service Commission (Commission) granted the transfer of Certificate No. 288-W from Orangeland Water Supply to Orange Land effective the date of the Commission vote on February 7, 2017.¹ The Utility's rates were last established in its 2008 staff-assisted rate case (SARC) settlement with the Office of Public Counsel (OPC) by Order No. PSC-08-0640-AS-WU.² Orange Land is currently owned by Michael Smallridge and operated under Florida Utility Services 1, LLC (FUS1).

On October 26, 2017, Orange Land filed an application for a SARC. Pursuant to Section 367.0814(2), Florida Statutes, (F.S.), the official filing date of the SARC has been determined to be December 15, 2017. Staff selected the test year ended September 30, 2017, for the instant case. Orange Land is requesting recovery of plant additions, including the replacement of a hydropneumatic tank, well-house roof, electric panel, flow meter, and customer water meters. According to Orange Land's 2017 Annual Report, it reported total operating revenue of \$22,561 and a net operating loss of (\$3,886). The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, and 367.091, F.S.

¹Order No. PSC-17-0092-PAA-WU, issued March 13, 2017, in Docket No. 20160144-WU, *In re: Application for transfer of Certificate No. 288-W in Pasco County from Orangeland Water Supply to Orange Land Utilities, LLC.*

²Order No. PSC-08-0640-AS-WU, issued October 3, 2008, in Docket No. 20070601-WU, *In re: Application for staff-assisted rate case in Pasco County by Orangeland Water Supply.*

Discussion of Issues

Issue 1: Is the quality of service provided by Orange Land Utilities, LLC satisfactory?

Recommendation: Staff recommends that the overall quality of service provided by Orange Land is satisfactory. (Knoblauch)

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 consideration of three separate components of the utility's operations.³ The components 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. 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 the Utility's Product

In evaluation of Orange Land's product quality, staff reviewed the Utility's compliance with the DEP primary and secondary drinking water standards. Primary standards protect public health, while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water. A review of DEP compliance records from October 1, 2014, through September 30, 2017, indicates Orange Land's finished product met all primary and secondary water quality standards. The most recent chemical analyses were performed on December 1, 2015, and the results were in-compliance with the DEP's standards. These chemical analyses are performed every three years; therefore, the next scheduled analysis should be completed in 2018.

At the customer meeting held on April 30, 2018, two customers voiced concerns related to the quality of Orange Land's water. The first customer stated that the quality of the water had deteriorated since the prior owner. The customer further asserted that multiple repairs to their filtration system had been required, and brought to the customer meeting a sink faucet which the customer described as "corroded" and showing signs of excess chlorine.

The second customer expressed concerns regarding a notice on their water bills instructing customers to boil their water. The customer stated that the boil water notice referenced the last hurricane in 2017, and the notice had remained on customer's bills up to the customer meeting. Both customers that spoke affirmed that they utilized a filtration system and used bottled water for consumption.

Eight customer comments were filed in the docket from four customers, including the two customers who spoke at the customer meeting. One customer filed a total of five comments, which included pictures of the customer's water filter, as well as concerns about low pressure,

³Rule 25-30.433(1), F.A.C., was amended on July 11, 2018. Staff's analysis is based on the Rule at the time of the Utility's filing.

DEP testing, boil water notices, and additional water testing that was completed by the prior Utility owner. The second customer filed comments in the docket that reiterated their concerns from the customer meeting, including apprehensions about the rate increase considering the quality of the water service. The customer also referenced low pressure, brown water, and a boil water notice due to a broken pipe. Comments were also received from two other customers, both of which referenced poor water quality.

While the Commission has received some comments regarding the quality of Orange Land's water, the water issues do not appear to be systemic considering the number of complaints that were received. The majority of complaints appear to be related to the aesthetics of the water. However, the Utility's product is in compliance with DEP primary and secondary standards as indicated by Orange Land's most recent tests performed on December 1, 2015. Therefore, staff recommends that the quality of Orange Land's product is satisfactory.

The Utility's Attempt to Address Customer Satisfaction

Staff held a customer meeting on April 30, 2018, to receive customer comments regarding the quality of service. Two customers spoke at the customer meeting and, as previously discussed, both customers described water quality issues. In addition to water quality, the second customer also expressed concerns regarding the size of the rate increase and its impact on customers.

The Utility filed a letter in the docket outlining its follow-up action addressing the concerns raised at the customer meeting. Orange Land stated that it spoke with the first customer and informed them that the water was in compliance with the DEP and was safe to drink. Additionally, the customer was advised to maintain any customer installed filters and to flush their hot water heater biannually. The Utility also stated that the second customer was contacted and their questions and concerns were discussed.

In response to the comments filed in the docket, Orange Land responded that it had been in contact with the first customer that spoke at the customer meeting, who is the same customer that filed comments in the docket. The Utility indicated that the low water pressure had been due to an emergency repair at the water treatment plant (WTP), and the boil water notices had been removed from customer bills.

Staff reviewed the Commission's complaint records from October 1, 2012, through the end of the test year, and found one complaint received on February 10, 2017. The complaint involved the Utility's limited access to a customer's water meter, which was located inside of a fenced yard with a canine. A resolution letter was sent to the customer on August 22, 2017, following several failed attempts by staff to contact the customer and the complaint was subsequently closed. Staff also reviewed the complaint records through July 24, 2018, and no additional complaints were received by the Commission.

Staff requested all complaints received by the Utility during the test year and four years prior. The Utility provided one complaint which was received on May 8, 2017. The complaint stated that the bathroom sink faucet was dripping and dirty water was backing up into the customer's bathtub. To address the water dripping from the sink, the Utility cleaned the faucet, which contained sand. The issue of backup in the bathtub would not be an issue addressed by the water Utility.

Additionally, staff did not identify any DEP complaints made during the test year or four years prior. However, staff contacted the DEP regarding complaints that were received after the test year and the DEP indicated that two complaints had made. One of the complaints was from the first customer that spoke at the customer meeting. The customer raised similar concerns to those at the customer meeting on boil water notices, mold growing in filter system, colored rings forming in toilet, and high chlorine. The DEP specified that the complainant's filter system was outside and it notified the customer that sun exposure could cause the growth of mold. Additionally, the DEP conducted a site visit in response to the customer's concerns, and the chlorine residual was found to be below acceptable levels. The DEP contacted the system operator, who stated that chlorine was subsequently added and the chlorine residual was testing within acceptable levels. The DEP conducted a second site visit and the chlorine residual at the plant and at the complainant's home were again within acceptable levels.

The second DEP complaint was regarding color and odor, as well as residue in the water. Orange Land responded that the water had to be shut off because of a lightning strike at the well, and customers were notified of the service interruption. As a result of the power failure at the well, dirt had collected in the water. Additionally, the Utility indicated that the residue was calcium scale build-up, and advised the customer that a water softener and regular flushing of their hot water heater could be beneficial.

Orange Land appears to be responsive to customers based on the Utility's follow-up action after the customer meeting and in response to customer complaints. Therefore, based on staff's review of customer complaints, staff believes that Orange Land has satisfactorily attempted to address customer satisfaction.

Operating Condition of the Utility's Plant and Facilities

Orange Land's WTP has two wells and a hydropneumatic tank. The raw water obtained from the two wells is treated with chlorine bleach. Staff reviewed the Utility's last DEP Sanitary Survey, dated April 24, 2017, which identified six deficiencies at Orange Land's WTP. The deficiencies found were bio-growth on the hydropneumatic tank and piping, lack of sampling and monitoring plans, low chlorine residual levels in the distribution system, and absence of meter accuracy checks. In a letter dated October 26, 2017, the DEP stated that all deficiencies that were identified had been corrected and the system was determined to be in-compliance with the DEP's rules and regulations. Based on the Utility's compliance with the DEP, staff recommends the operating condition of Orange Land's plant and facilities is satisfactory.

Conclusion

Staff recommends the overall quality of service provided by Orange Land is satisfactory.

Issue 2: What are the used and useful (U&U) percentages of Orange Land Utilities, LLC's WTP and distribution system?

Recommendation: Orange Land's WTP and distribution system should continue to be considered 100 percent U&U. There appears to be no excessive unaccounted for water (EUW); therefore, staff recommends that no adjustment be made to operating expenses for chemicals and purchased power. (Knoblauch)

Staff Analysis: Orange Land's WTP has two wells rated at 110 gallons per minute (gpm) and 100 gpm. The Utility's water system does not have a storage tank, but has one hydropneumatic tank totaling 1,000 gallons in capacity. The distribution system is composed of 960 linear feet of 4 inch polyvinyl chloride (PVC), 570 linear feet of 4 inch asbestos cement (AC), and 2,250 linear feet of 2 inch PVC pipes.

Rule 25-30.4325, F.A.C., addresses the method by which the U&U of a water system is determined. The U&U for Orange Land's WTP and distribution system were last determined by Order No. PSC-08-0309-PAA-WU.⁴ In that order, the Commission determined the Utility's service territory was built-out and found the WTP and distribution system to be 100 percent U&U.

Used and Useful Percentages

As noted above, the Commission found both the WTP and distribution system to be 100 percent U&U in the prior rate case. The Utility has not increased the capacity of its water treatment facilities or distribution system since its last rate case. Therefore, consistent with the Commission's previous decision, staff recommends the Utility's WTP and water distribution system be considered 100 percent U&U.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., additionally provides factors to be considered in determining whether adjustments to operating expenses are necessary for EUW. EUW is defined as "unaccounted for water in excess of 10 percent of the amount produced." Unaccounted for water is all water produced that is not sold, metered, or accounted for in the records of the Utility.

EUW is calculated by subtracting both the gallons sold to customers and the gallons used for other services, such as flushing, from the total gallons pumped for the test year. Based on monthly operating reports, Orange Land produced 4,107,000 gallons of water from October 1, 2016, to September 30, 2017. From the audit completed by staff, the Utility sold 3,680,739 gallons of water to customers. The Utility documented 18,000 gallons of water usage for line flushing. The resulting calculation $([4,107,000 - 3,680,739 - 18,000] / 4,107,000)$ for unaccounted for water is 9.9 percent; therefore, there is no EUW. Staff recommends no adjustments should be made to purchased power and chemicals at this time.

⁴PSC-08-0309-PAA-WU, issued May 13, 2008, in Docket No. 20070601-WU, *In re: Application for staff-assisted rate case in Pasco County by Orangeland Water Supply*.

Conclusion

Orange Land's WTP and distribution system should be considered 100 percent U&U. Additionally, staff recommends no adjustment to purchased power and chemicals should be made for EUW.

Issue 3: What is the appropriate average test year rate base for Orange Land Utilities, LLC?

Recommendation: The appropriate average test year rate base for Orange Land is \$29,381. (Frank, Knoblauch)

Staff Analysis: The appropriate components of the Utility’s rate base include utility plant in service, land, Contributions-In-Aid-of-Construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. Rate base was last established as of May 1, 2016, in Docket No. 20160144-WU.⁵ Staff selected the test year ended September 30, 2017, for the instant case. A summary of each rate base component and recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

The Utility recorded a test year UPIS balance of \$52,241. Staff increased UPIS by \$866 to include an averaging adjustment.

Orange Land has requested several pro forma plant projects. The pro forma projects include replacement of a hydropneumatic tank, flow meter, well-house roof, and electrical panel, as well as a meter replacement program. The Utility obtained two bids for the hydropneumatic tank, well-house roof, and electrical panel projects and the lowest bids were selected for each respective project. The replacement of the flow meter was completed by Orange Land, and the Utility will also be completing the work for the meter replacement program. As such, staff increased UPIS by \$8,032.

**Table 3-1
 Pro Forma Projects**

| Description | Pro Forma Cost | Retirement | Net Amount | Net Depreciation Expense | Net Acc. Depreciation |
|--------------------|-----------------------|-------------------|-------------------|---------------------------------|------------------------------|
| Hyrdo Tank | \$10,274 | (\$9,205) | \$1,069 | \$36 | \$8,863 |
| Meter Replacement | 3,450 | (2,587) | 863 | \$51 | \$2,384 |
| Well-House Roof | 700 | 0 | 700 | \$26 | (\$26) |
| Electrical Panel | 5,122 | 0 | 5,122 | \$301 | (\$301) |
| Flow Meter | 278 | 0 | 278 | \$9 | (\$9) |
| Total | <u>\$19,824</u> | <u>(\$11,792)</u> | <u>\$8,032</u> | <u>\$422</u> | <u>\$10,911</u> |

Source: Document Nos. 02337-2018, 02338-2018, and 04327-2018.

⁵Order No. PSC-17-0092-PAA-WU, issued March 13, 2017, in Docket No. 20160144-WU, *In re: Application for transfer of Certificate No. 288-W in Pasco County from Orangeland Water Supply to Orange Land Utilities, LLC.*

Staff's net adjustment to UPIS is an increase of \$8,898 (\$866 + \$8,032). Therefore, staff recommends that the appropriate UPIS balance is \$61,139.

Land & Land Rights

The Utility recorded a test year land balance of \$1,000. Based on staff's review, no adjustment is necessary. Therefore, staff recommends that the appropriate balance for land is \$1,000.

Used & Useful

As discussed in Issue 2, Orange Land's WTP and distribution system are considered 100 percent U&U. Therefore, no U&U adjustments are necessary.

Accumulated Depreciation

Orange Land recorded a test year accumulated depreciation balance of \$44,378. Staff increased accumulated depreciation by \$825 to include an averaging adjustment. Staff also decreased accumulated depreciation by \$10,911 to reflect pro forma additions and corresponding retirements. Staff's adjustments result in a net decrease to accumulated depreciation of \$10,086 (\$10,911 - \$825). Staff recommends an accumulated depreciation balance of \$34,292.

Contributions In Aid of Construction

The Utility recorded a CIAC balance of \$7,350. Based on staff's review, no adjustment is necessary. Therefore, staff recommends that the appropriate balance is \$7,350.

Accumulated Amortization of CIAC

The Utility recorded a test year accumulated amortization of CIAC balance of \$6,222. Staff reduced accumulated amortization of CIAC by \$54 to include an averaging adjustment. As such, staff recommends an accumulated amortization of CIAC balance of \$6,168.

Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. This formula does not include rate case expense. Applying this formula, staff recommends a working capital allowance of \$2,716 (based on O&M expense of \$21,728/8).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base for Orange Land is \$29,381. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

Issue 4: What is the appropriate return on equity and overall rate of return for Orange Land Utilities, LLC?

Recommendation: The appropriate return on equity (ROE) is 10.32 percent with a range of 9.32 percent to 11.32 percent. The appropriate overall rate of return is 8.46 percent. (Frank)

Staff Analysis: According to staff's audit, Orange Land's test year capital structure reflected common equity of \$8,391 and long term debt of \$9,801. The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE for the Utility is 10.32 percent based upon the Commission-approved leverage formula currently in effect.⁶ Staff recommends an ROE of 10.32 percent, with a range of 9.32 percent to 11.32 percent, and an overall rate of return of 8.46 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁶Order No. PSC-2018-0327-PAA-WS, issued June 26, 2018, in Docket No. 20180006-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 Orange Land Utilities, LLC?

Recommendation: The appropriate test year revenues for Orange Land's water system are \$22,617. (Bruce)

Staff Analysis: Orange Land recorded total revenues of \$22,351. The water revenues included \$21,975 of service revenues and \$376 of miscellaneous revenues. During the test year, the Utility had a rate increase as a result of a price index. Therefore, staff annualized test year revenues by applying the rates in effect as of July 1, 2017, to the appropriate billing determinants. As a result, staff determined that service revenues should be \$22,241, which is an increase of \$266. There is no adjustment to miscellaneous revenues. The appropriate test year revenues for Orange Land water system, including miscellaneous revenues are \$22,617 (\$22,241 + \$376).

Issue 6: What is the appropriate amount of operating expense for Orange Land Utilities, LLC?

Recommendation: The appropriate amount of operating expense for Orange Land is \$25, 240. (Frank, Johnson)

Staff Analysis: Orange Land recorded operating expense of \$28,276 for the test year ended September 30, 2017. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. An allocated portion of FUS1's operating expenses were also included for the test year ended September 30, 2017. Allocations were based on the customer count of all utilities owned and managed by FUS1 in the test year. Staff's adjustments to the Utility's operating expenses are summarized below.

Operation & Maintenance Expense

Salaries and Wages – Employees (601)

The Utility requested an increase in salaries and wages expense based on the need for an additional 2.5 employees on FUS1's workforce and the allocation of one FUS1 employee who was not previously allocated to Orange Land. In total, the Utility requested additional costs for Orange Land's allocated portion of three new Maintenance Technicians and for the increase in allocated costs related to expanding an existing part-time customer billing position to full-time.

The current staffing level and salaries for FUS1 employees were last evaluated by the Commission in Order No. PSC-17-0107-PAA-WS.⁷ At the time, FUS1 managed nine utilities with a total of 1,961 customers. As of September 30, 2017, FUS1 now owns and operates 12 utilities with a total of 2,791 customers.⁸ With the additional customers added to FUS1, staff believes it is appropriate to increase the part-time billing position to a full-time position.

The Utility requested that the salary of an existing Maintenance Technician be allocated to the Orange Land system. The Utility made a similar request in Docket No. 20150257-WS; however, the Commission determined that the Maintenance Technician should not be allocated to the East Marion system as the employee did not work on that particular system. In the present case, Orange Land indicated that the Maintenance Technician would be working on all of FUS1's systems moving forward. The Utility also requested two additional Maintenance Technicians, who would similarly be employed for the maintenance of all systems.

Staff believes that the existing Maintenance Technician should be allocated to Orange Land considering that the employee will now be maintaining the system. Staff also believes that the addition of the Maintenance Technician to the Orange Land system will provide backup support in the event that the President and/or Operations Supervisor are unavailable. Given the number and size of the systems currently owned by FUS1, staff considers three field employees to be adequate for providing service. Staff does not believe that the two additional Maintenance Technicians should be allocated to Orange Land as the Utility currently utilizes a contractor for the system's operations.

⁷Order No. PSC-17-0107-PAA-WS, issued March 24, 2017, in Docket No. 20150257-WS, *In re: Application for staff-assisted rate case in Marion County, by East Marion Utilities, LLC.*

⁸Three utilities are still being processed as transfers.

FUS1 is requesting a salary of \$37,900 for the Maintenance Technician. Staff used the American Water Works Associations’ (AWWA) 2016 Compensation Survey in an effort to examine the reasonableness of the requested salary. The Maintenance Technician is currently being paid \$33,488 by FUS1. As stated earlier, the duties of the Maintenance Technician have increased as he now works on all of FUS1’s systems. Furthermore, the requested \$37,900 represents the minimum for rural system Maintenance Technicians found in the AWWA 2016 Compensation Survey. Therefore, staff believes the requested salary for the Maintenance Technician is appropriate.

Table 6-1 below details the requested and recommended amounts for each of FUS1’s positions, as well as the allocations for each position to Orange Land.

**Table 6-1
 Adjustments made to Salaries and Wages – Employees**

| Title | Requested | Recommended | Allocation % | Recommended Allocated |
|----------------------|------------------|--------------------|---------------------|------------------------------|
| Chief Financial Off. | \$54,366 | \$54,366 | 2.65 | \$1,441 |
| Office Manager | \$39,500 | \$39,500 | 2.65 | 1,047 |
| Cust. Serv. Rep. | \$34,000 | \$34,000 | 2.65 | 901 |
| Billing Position | \$20,800 | \$20,800 | 2.65 | 551 |
| Oper. Supervisor | \$39,000 | \$39,000 | 2.65 | 1,034 |
| Maintenance Tech. | \$37,900 | \$37,900 | 2.65 | 1,004 |
| Maintenance Tech. | \$37,900 | \$0 | 2.65 | 0 |
| Maintenance Tech. | \$37,900 | \$0 | 2.65 | 0 |
| Total | | | | <u>\$5,978</u> |

Staff believes the salary levels and allocation percentage are appropriate and necessary for Orange Land. Orange Land recorded salaries and wages – employees expense of \$8,116. Based on the most recent allocation of 2.65 percent, as reflected at the end of the test year, staff has increased salaries and wages by \$1,280 to account for the full-time billing position and Maintenance Technician. A corresponding adjustment should also be made to decrease the account by \$3,418 to reflect the prospective allocation of test year salaries. Staff’s total adjustments result in a decrease to salaries and wages – employees expense of \$2,138 (-\$3,418 + \$1,280). Therefore, staff recommends a salaries and wages – employees expense of \$5,978 for Orange Land.

Salaries and Wages – Officers (603)

Orange Land recorded salaries and wages – officer’s expense of \$3,553. Staff reduced this account by \$900 to remove salary and wages expense misallocated from outside the test year. Additionally, Orange Land requested a pro forma increase to salaries and wages – officers expense to reflect the increase in salary for FUS1’s President. Orange Land requested an allocated portion of \$80,000 for the President of FUS1.

The current salary for the President is \$72,704, as approved in Order No. PSC-17-0107-PAA-WS;⁹ which ultimately fell between the minimum and mid-average salary range found on the 2016 AWWA Compensation Survey. In the instant case, staff considered the last approved salary, along with the President's increased responsibilities in managing and overseeing FUS1's utilities. Since the President's last-approved salary, FUS1 has added three utilities and 830 customers, which represents a growth of 42 percent. In addition, the requested \$80,000 represents the mid average salary range found in the 2016 AWWA Compensation Survey. Therefore, staff believes a President's salary for FUS1 of \$80,000 is appropriate.

Based on the most recent allocation of 2.65 percent, as reflected at the end of the test year, staff has increased salaries and wages – officers expense by \$193. This increase accounts for Orange Land's allocated portion of the President's pro forma salary increase. A corresponding adjustment should also be made to decrease the account by \$726 to reflect the prospective allocation of test year salaries.

Staff's total adjustments result in a net decrease to salaries and wages – officers expense of \$1,433 (-\$900 - \$726 + \$193). Therefore, staff recommends a salaries and wages– officers expense of \$2,120.

Pensions and Benefits (604)

Orange Land recorded pensions and benefits expense of \$958. Staff decreased this expense by \$304 to make a corresponding test year adjustment for an over-allocation of salaries from FUS1. Staff has increased this expense by \$128 to reflect Orange Land's allocation of the increase in pensions and benefits based on two new full-time employees for FUS1. Staff's adjustments result in a net decrease to pensions and benefits expense of \$176 (-\$304 + \$128). Therefore, staff recommends pensions and benefits expense of \$782.

Purchased Power (615)

The Utility recorded purchased power expense of \$826. Staff decreased this account by \$5 for the removal of late payment fees. As such, staff recommends purchased power expense of \$821.

Insurance Expense (655)

Orange Land recorded insurance expense of \$1,624 for the test year. Staff decreased this expense by \$265 to reflect the amount associated with its insurance policy. Therefore, staff recommends insurance expense of \$1,359.

Regulatory Commission Expense (665)

Orange Land did not record regulatory commission expense for the test year. Staff calculated a total of \$1,137 in regulatory commission expense. This amount includes a \$1,000 filing fee and \$137 in noticing costs for the instant case. The recommended total rate case expense of \$1,137 should be amortized over four years, pursuant to Section 367.081(6), F.S. This represents an annual expense of \$284 ($\$1,137/4$). As such, staff recommends regulatory commission expense of \$284.

⁹Order No. PSC-17-0107-PAA-WS, issued March 24, 2017, in Docket No. 20150257-WS, *In re: Application for staff-assisted rate case in Marion County, by East Marion Utilities, LLC*.

Bad Debt Expense (670)

Orange Land did not record bad debt expense for the test year. Staff collected two years of bad debt expense data using the Utility's 2016 and 2017 Annual Reports, totaling \$327. Staff calculated a two-year average of bad debt expense of \$164. Staff believes 24 months of data is a valid representation of bad debt expense for this Utility.¹⁰ Therefore, staff recommends bad debt expense of \$164.

Operation and Maintenance Expense Summary

Based on the above adjustments, staff recommends that O&M expense should be decreased by \$3,569, resulting in total O&M expense of \$22,013. Staff's recommended adjustments to O&M expense are shown on Schedule No 3-C.

Depreciation Expense (Net of Amortization of CIAC)

Orange Land recorded depreciation expense of \$751 during the test year. Staff calculated depreciation expense associated with the pro forma plant additions and retirements the Utility requested. These additions result in an increase of \$422. As such, staff recommends depreciation expense of \$1,173.

Taxes Other Than Income (TOTI)

Orange Land recorded a TOTI balance of \$1,943 during the test year. Staff increased property tax expense by \$121 as a corresponding adjustment to the pro forma plant additions. Staff also decreased TOTI by \$53 to reflect the appropriate amount of a property tax bill received by the Utility in November of 2017. Additionally, staff decreased payroll taxes by \$198 as a corresponding adjustment to staff's recommended adjustment to salaries and wages expense. Staff increased the Regulatory Assessment Fees (RAFs) by \$12 to reflect the adjusted test year revenues. This results in a net decrease of \$118 ($-\$53 - \$198 + \$12 + \121).

In addition, as discussed in Issue 7, revenues have been increased by \$5,110 to reflect the change in revenue required to cover expenses and allow the recommended return on investment. As a result, TOTI should be increased by \$230 to reflect RAFs of 4.5 percent on the change in revenues. Staff's adjustments result in a net increase of \$112 ($-\$118 + \230). Therefore, staff recommends TOTI of \$2,055.

Operating Expenses Summary

The application of staff's recommended adjustments to Orange Land's test year operating expenses results in operating expenses of \$25,240. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule Nos. 3-B and 3-C.

¹⁰Order No. PSC-17-0144-PAA-WU, p.15, 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*. (For this sister company the Commission relied on 18 months of bad debt expense data.)

Issue 7: What is the appropriate revenue requirement for Orange Land Utilities, LLC?

Recommendation: The appropriate revenue requirement is \$27,727 resulting in an annual increase of \$5,110 (22.60 percent). (Frank)

Staff Analysis: Orange Land should be allowed an annual increase of \$5,110 (22.60 percent). The calculations are shown below in Table 7-1.

**Table 7-1
Revenue Requirement**

| | |
|----------------------------------|----------------|
| Adjusted Rate Base | \$29,381 |
| Rate of Return | <u>x 8.46%</u> |
| Return on Rate Base | 2,528 |
| Adjusted O&M Expense | 22,013 |
| Depreciation Expense (Net) | 1,173 |
| Taxes Other Than Income | 1,825 |
| Test Year RAFs | <u>230</u> |
| Revenue Requirement | 27,727 |
| Less Adjusted Test Year Revenues | <u>22,617</u> |
| Annual Increase | <u>5,110</u> |
| Percent Increase | <u>22.60%</u> |

Issue 8: What is the appropriate rate structure and rates for Orange Land Utilities, LLC's water system?

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. (Bruce)

Staff Analysis: Orange Land's water system is located in Pasco County within the SWFWMD. The Utility provides water service to 74 residential water customers and 2 general service customers. Approximately 4 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 4,303 gallons per month. The Utility's current residential and general service rate structure consists of a base facility charge (BFC) and a two-tier inclining block rate structure. The rate blocks are 0-5,000 gallons and all usage in excess of 5,000 gallons per month.

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.

Currently, approximately 60 percent of the Utility's revenues are recovered through the BFC. Typically, the Commission sets the BFC cost recovery no greater than 40 percent unless the utility's customer base is seasonal; however, seasonality is not an issue for this Utility. Staff recommends that 45 percent of the revenue requirement should be recovered through the BFC to mitigate the impact of the shift in the BFC cost recovery. Lowering the BFC cost recovery sends the appropriate pricing signals to target discretionary demand. The average persons per household served by the water system is 2.5; therefore, based on the number of person per household, 50 gallons per day per persons, and the number of days per month, the non-discretionary usage threshold should be 4,000 gallons per month. Staff recommends a continuation of the two-tier rate structure with separate gallonage charges for discretionary and non-discretionary usage for residential water customers. The rate blocks should be: (1) 0-4,000 gallons; and (2) all usage in excess of 4,000 gallons per month. This rate structure will continue to send the appropriate pricing signals, which will target customers with high consumption levels and minimize price increases for customers at non-discretionary levels. The recommended general service rates do not include an inclining block because general service customers are less likely to conserve since they typically pass the cost to their customers. Therefore, staff recommends that the general service rate structure be revised to include a BFC and uniform gallonage charge.

Based on a recommended revenue increase of 22.60 percent, which excludes miscellaneous revenues, the residential consumption can be expected to decline by 199,000 gallons resulting in anticipated average residential demand of 4,064 gallons per month. Staff recommends a 5.6 percent reduction in test year residential gallons for ratesetting purposes and corresponding reductions of \$44 for purchased power and \$2 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$27,305. As shown in Table 8-1, in comparison to staff's recommended rate structure and rates, Alternatives I and II send less of a pricing signal for targeting discretionary usage. In addition, Alternative II provides higher percentage price increases and prices to customers below the non-discretionary threshold.

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

| | RATES AT TIME OF FILING | STAFF RECOMMENDED RATES (45% BFC) | ALTERNATIVE I (50% BFC) | ALTERNATIVE II (60% BFC) |
|--|--|--|--|---|
| Residential | | | | |
| 5/8" x 3/4" Meter Size | \$14.91 | \$13.99 | \$15.55 | \$18.67 |
| Charge per 1,000 gallons | | | | |
| 0-5,000 gallons | \$2.15 | | | |
| Over 5,000 gallons | \$3.17 | | | |
| 0-4,000 gallons | | \$4.09 | \$3.72 | \$2.97 |
| Over 4,000 gallons | | \$4.77 | \$4.24 | \$3.26 |
| Typical Residential 5/8" x 3/4" Meter Bill Comparison | | | | |
| 4,000 Gallons | \$23.51 | \$30.35 | \$30.43 | \$30.55 |
| 8,000 Gallons | \$35.17 | \$49.43 | \$47.39 | \$43.59 |
| 10,000 Gallons | \$41.51 | \$58.97 | \$55.87 | \$50.11 |

Based on the above, 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.

Issue 9: What are the appropriate initial customer deposits for Orange Land Utilities, LLC water system?

Recommendation: The appropriate initial customer deposit should be \$64 for the residential 5/8 inch x 3/4 inch meter size. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water. The approved initial customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding. (Bruce)

Staff Analysis: Rule 25-30.311, F.A.C., provides the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the utility and, ultimately, the general body of ratepayers. An initial customer deposit ensures that the cost of providing service is recovered from the cost causer. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.¹¹ Currently, the Utility's initial deposit for residential water is \$42 for the 5/8 inch x 3/4 inch meter size and two times the average estimated bill for the general service meter sizes. Based on the staff recommended water rates and post repression average residential demand, the appropriate initial customer deposit for water should be \$64 to reflect an average residential customer bill for two months.

Staff recommends the appropriate initial customer deposits should be \$64 for the residential 5/8 inch x 3/4 inch meter size for water. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water. The approved initial customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding.

¹¹Order No. PSC-15-0142-PAA-SU, issued March 26, 2015, in Docket No. 20130178-SU, *In re: Application for staff-assisted rate case in Polk County by Crooked Lake Park Sewerage Company.*

Issue 10: What is the appropriate amount by which rates should be reduced in four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.081(8) F.S.?

Recommendation: The 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, pursuant to Section 367.081(8), F.S. Orange Land should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Frank, Bruce)

Staff Analysis: Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense and the gross-up for RAFs. The total reduction is \$298.

The 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, pursuant to Section 367.081(8), F.S. Orange Land should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 11: Should the recommended rates be approved for Orange Land Utilities, LLC on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

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

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. Orange Land 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.

Orange Land 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 \$3,442. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

- 1) The Commission Clerk, or his or her designee, must be a signatory to the escrow agreement;
- 2) No monies in the escrow account may be withdrawn by the Utility without the express approval of the Commission;
- 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.

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

Issue 12: Should Orange Land Utilities, LLC be required to notify the Commission in writing that it has adjusted its books in accordance with the Commission's decision?

Recommendation: Yes. Orange Land should be required to notify the Commission in writing, that it has adjusted its books in accordance with the Commission's decision. Orange Land should submit a letter within 90 days of the final order in this docket, confirming that it has made the adjustments to all applicable National Association of Regulatory Commissioners (NARUC) Uniform System of Accounts (USOA). 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. (Frank)

Staff Analysis: Orange Land should be required to notify the Commission in writing, that it has adjusted its books in accordance with the Commission's decision. Orange Land should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided 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.

Issue 13: Should this docket be closed?

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

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

| ORANGE LAND UTILITIES, LLC. | | SCHEDULE NO. 1-A | |
|------------------------------------|------------------------------------|--|----------------------------------|
| TEST YEAR ENDED 09/30/2017 | | DOCKET NO. 20170230-WU | |
| SCHEDULE OF WATER RATE BASE | | | |
| DESCRIPTION | BALANCE PER UTILITY | STAFF ADJUSTMENTS TO UTIL. BAL. | BALANCE PER STAFF |
| UTILITY PLANT IN SERVICE | \$52,241 | \$8,898 | \$61,139 |
| LAND & LAND RIGHTS | 1,000 | 0 | 1,000 |
| ACCUMULATED DEPRECIATION | (44,378) | 10,086 | (34,292) |
| CIAC | (7,350) | 0 | (7,350) |
| AMORTIZATION OF CIAC | 6,222 | (54) | 6,168 |
| WORKING CAPITAL ALLOWANCE | <u>0</u> | <u>2,716</u> | <u>2,716</u> |
| RATE BASE | <u>\$7,735</u> | <u>\$21,646</u> | <u>\$29,381</u> |

| ORANGE LAND UTILITIES, LLC. | | SCHEDULE NO. 1-B |
|---|---|-------------------------------|
| TEST YEAR ENDED 09/30/2017 | | DOCKET NO. 20170230-WU |
| ADJUSTMENTS TO RATE BASE | | |
| UTILITY PLANT IN SERVICE | | |
| 1. | To reflect an averaging adjustment. | \$866 |
| 2. | To reflect pro forma plant additions and retirements. | <u>8,032</u> |
| | Total | <u>\$8,898</u> |
| ACCUMULATED DEPRECIATION | | |
| 1. | To reflect an averaging adjustment. | (\$825) |
| 2. | To reflect pro forma plant additions and retirements. | <u>10,911</u> |
| | Total | <u>\$10,086</u> |
| ACCUMULATED AMORTIZATION OF CIAC | | |
| | To reflect an averaging adjustment. | <u>(\$54)</u> |
| WORKING CAPITAL ALLOWANCE | | |
| | To reflect 1/8 of test year O & M expenses. | <u>\$2,716</u> |

| ORANGE LAND UTILITIES, LLC. | | | | | | | SCHEDULE NO. 2 | | |
|--------------------------------|-----------------|----------------------|-----------------------------|----------------------|-------------------|-------------------|------------------------|---------------|--|
| TEST YEAR ENDED 09/30/2017 | | | | | | | DOCKET NO. 20170230-WU | | |
| SCHEDULE OF CAPITAL STRUCTURE | | | | | | | | | |
| CAPITAL COMPONENT | PER UTILITY | SPECIFIC ADJUSTMENTS | BALANCE | | BALANCE PER STAFF | PERCENT OF TOTAL | COST | WEIGHTED COST | |
| | | | BEFORE PRO RATA ADJUSTMENTS | PRO RATA ADJUSTMENTS | | | | | |
| 1. LONG-TERM DEBT | \$9,801 | \$0 | \$9,801 | 6,028 | \$15,829 | 53.88% | 6.88% | 3.71% | |
| 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 | 8,391 | 0 | 8,391 | 5,161 | 13,552 | 46.12% | 10.32% | 4.76% | |
| 5. CUSTOMER DEPOSITS | 0 | 0 | 0 | 0 | 0 | 0.00% | 2.00% | 0.00% | |
| 6. DEFERRED INCOME TAXES | <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> | |
| 7. TOTAL CAPITAL | <u>\$18,192</u> | <u>\$0</u> | <u>\$18,192</u> | <u>\$11,189</u> | <u>\$29,381</u> | <u>100.00%</u> | | <u>8.46%</u> | |
| RANGE OF REASONABLENESS | | | | | | <u>LOW</u> | <u>HIGH</u> | | |
| RETURN ON EQUITY | | | | | | <u>9.32%</u> | <u>11.32%</u> | | |
| OVERALL RATE OF RETURN | | | | | | <u>8.00%</u> | <u>8.93%</u> | | |

| ORANGE LAND UTILITIES, LLC. | | | | | | SCHEDULE NO. 3-A |
|---|----------------------------------|------------------------------|---|-------------------------------------|--------------------------------|-------------------------------|
| TEST YEAR ENDED 09/30/2017 | | | | | | DOCKET NO. 20170230-WU |
| SCHEDULE OF WATER OPERATING INCOME | | | | | | |
| | TEST YEAR PER UTILITY | STAFF ADJUSTMENTS | STAFF ADJUSTED TEST YEAR | ADJUST. FOR INCREASE | REVENUE REQUIREMENT | |
| 1. OPERATING REVENUES | <u>\$22,351</u> | <u>\$266</u> | <u>\$22,617</u> | <u>\$5,110</u> 22.60 % | <u>\$27,727</u> | |
| OPERATING EXPENSES: | | | | | | |
| 2. OPERATION & MAINTENANCE | \$25,582 | (\$3,569) | \$22,013 | \$0 | \$22,013 | |
| 3. DEPRECIATION (NET) | 751 | 422 | 1,173 | 0 | 1,173 | |
| 4. TAXES OTHER THAN INCOME | <u>1,943</u> | <u>(118)</u> | <u>1,825</u> | <u>230</u> | <u>2,055</u> | |
| 5. TOTAL OPERATING EXPENSES | <u>\$28,276</u> | <u>\$3,266</u> | <u>\$25,010</u> | <u>\$230</u> | <u>\$25,240</u> | |
| 6. OPERATING INCOME/(LOSS) | <u>(\$5,925)</u> | | <u>(\$2,393)</u> | | <u>\$2,487</u> | |
| 7. RATE BASE | <u>\$7,735</u> | | <u>\$29,381</u> | | <u>\$29,381</u> | |
| 8. RATE OF RETURN | (76.60%) | | (8.15 %) | | <u>8.46 %</u> | |

| ORANGE LAND UTILITIES, LLC. | | Schedule No. 3-B |
|--|--|-------------------------------|
| TEST YEAR ENDED 09/30/2017 | | Docket No. 20170230-WU |
| ADJUSTMENTS TO OPERATING INCOME | | Page 1 of 1 |
| OPERATING REVENUES | | |
| To reflect the appropriate test year revenues. | | <u>\$266</u> |
| OPERATION AND MAINTENANCE EXPENSES | | |
| 1. | Salaries & Wages – Employees (601) | |
| | a. To reflect test year adjustment to salaries and wages – employee expense. | (\$3,418) |
| | b. To reflect pro forma increase to salaries and wages – employee expense. | <u>\$1,280</u> |
| | Total | <u>(\$2,138)</u> |
| 2. | Salaries & Wages – Officers (603) | |
| | a. To remove out of period salaries and wages expense. | (\$900) |
| | b. To reflect test year adjustment associated with allocations. | (\$726) |
| | c. To reflect pro forma increase to salaries and wages – officer expense. | <u>\$193</u> |
| | Total | <u>(\$1,433)</u> |
| 3. | Employee Pensions & Benefits (604) | |
| | a. To reflect appropriate amount of employee pensions & benefits expense | <u>(\$176)</u> |
| 4. | Purchased Power (615) | |
| | a. To reflect appropriate amount of purchased power expense. | <u>(\$5)</u> |
| 5. | Insurance Expense (655) | |
| | a. To reflect appropriate amount of insurance expense. | <u>(\$265)</u> |
| 6. | Regulatory Commission Expense (665) | |
| | a. To reflect amortization of rate case expense. | <u>\$284</u> |
| TOTAL OPERATION AND MAINTENANCE ADJUSTMENTS | | <u>(\$3,569)</u> |
| DEPRECIATION EXPENSE | | |
| To reflect appropriate pro forma depreciation expense. | | <u>\$728</u> |
| TAXES OTHER THAN INCOME | | |
| 1. | To reflect the appropriate test year RAFs. | \$12 |
| 2. | To reflect pro forma property tax. | 121 |
| 3. | To reflect real property tax. | (53) |
| 4. | To reflect payroll tax. | <u>(\$198)</u> |
| | Total | <u>(\$118)</u> |

| ORANGE LAND UTILITIES, LLC. | SCHEDULE NO. 3-C | | |
|--|----------------------------------|-----------------------------------|--------------------------------|
| TEST YEAR ENDED 09/30/2017 | DOCKET NO. 20170230-WU | | |
| ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE | | | |
| | TOTAL PER UTILITY | STAFF ADJUST- MENT | TOTAL PER STAFF |
| (601) SALARIES AND WAGES - EMPLOYEES | \$8,116 | (\$2,139) | \$5,977 |
| (603) SALARIES AND WAGES - OFFICERS | 3,553 | (1,433) | 2,120 |
| (604) EMPLOYEE PENSIONS AND BENEFITS | 958 | (176) | 782 |
| (610) PURCHASED WATER | 0 | 0 | 0 |
| (615) PURCHASED POWER | 826 | (5) | 821 |
| (616) FUEL FOR POWER PRODUCTION | 0 | 0 | 0 |
| (618) CHEMICALS | 0 | 0 | 0 |
| (620) MATERIALS AND SUPPLIES | 474 | 0 | 474 |
| (630) CONTRACTUAL SERVICES - BILLING | 0 | 0 | 0 |
| (631) CONTRACTUAL SERVICES - PROFESSIONAL | 473 | 0 | 473 |
| (633) CONTRACTUAL SERVICES - LEGAL | 0 | 0 | 0 |
| (635) CONTRACTUAL SERVICES - TESTING | 465 | 0 | 465 |
| (636) CONTRACTUAL SERVICES - OTHER | 3,460 | 0 | 3,460 |
| (640) RENTS | 756 | 0 | 756 |
| (650) TRANSPORTATION EXPENSE | 1,228 | 0 | 1,228 |
| (655) INSURANCE EXPENSE | 1,624 | (265) | 1,359 |
| (657) INSURANCE - GENERAL LIABILITY | 0 | 0 | 0 |
| (665) REGULATORY COMMISSION EXPENSE | 0 | 284 | 284 |
| (670) BAD DEBT EXPENSE | 0 | 164 | 164 |
| (675) MISCELLANEOUS EXPENSE | <u>3,649</u> | <u>0</u> | <u>3,649</u> |
| | <u>\$25,582</u> | <u>(\$3,569)</u> | <u>\$22,013</u> |

| ORANGE LAND UTILITIES, LLC. | | SCHEDULE NO. 4 | |
|---|--|--|--------------------------------------|
| TEST YEAR ENDED SEPTEMBER 30, 2017 | | DOCKET NO. 20170230-WU | |
| MONTHLY WATER RATES | | | |
| | RATES AT TIME OF FILING | STAFF RECOMMENDED RATES | 4 YEAR RATE REDUCTION |
| <u>Residential and General Service</u> | | | |
| Base Facility Charge by Meter Size | | | |
| 5/8" x 3/4" | \$14.91 | \$13.99 | \$0.15 |
| 3/4" | \$22.37 | \$20.99 | \$0.23 |
| 1" | \$37.28 | \$34.98 | \$0.38 |
| 1-1/2" | \$74.55 | \$69.95 | \$0.75 |
| 2" | \$119.28 | \$111.92 | \$1.20 |
| 3" | \$238.56 | \$223.84 | \$2.40 |
| 4" | \$372.75 | \$349.75 | \$3.75 |
| 6" | \$745.50 | \$699.50 | \$7.50 |
| Charge per 1,000 gallons - Residential and General Service | | | |
| 0-5,000 gallons | \$2.15 | | |
| Over 5,000 gallons | \$3.17 | | |
| Charge per 1,000 gallons - Residential Service | | | |
| 0-4,000 gallons | | \$4.09 | \$0.04 |
| Over 4,000 gallons | | \$4.77 | \$0.05 |
| Charge per 1,000 gallons - General Service | | | |
| | | \$4.31 | \$0.05 |
| <u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u> | | | |
| 4,000 Gallons | \$23.51 | \$30.35 | |
| 8,000 Gallons | \$35.17 | \$49.43 | |
| 10,000 Gallons | \$41.51 | \$58.97 | |