

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
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-M-E-M-O-R-A-N-D-U-M-

DATE: August 31, 2022

TO: Elisabeth Draper, Bureau Chief, Bureau of Economic Impact and Rate Design

FROM: Division of Economics (Bruce) *SB*
Division of Accounting and Finance (Higgins) *DH*
Division of Engineering (Wooten) *PE*

RE: Docket No. 20220034-WS – Application for staff-assisted rate case in Polk County by Hidden Cove, Ltd.

– STAFF REPORT –

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting scheduled for September 28, 2022.

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Case Background

Hidden Cove, Ltd. (Hidden Cove or utility) is a Class C water and wastewater utility which is currently providing service to approximately 122 mobile home sites in the Hidden Cove Mobile Home Park and 3 general service customers. The park is built out. The utility is located in the Highlands Ridge Water Use Caution Area in the Southwest Florida Water Management District (SWFWMD). According to the utility's 2021 Annual Report, the utility's operating revenues were \$18,710 for water and \$27,001 for wastewater. The utility reported operating expenses of \$33,011 for water and \$30,412 for wastewater.

Hidden Cove was granted Certificate Nos. 607-W and 523-S by Order No. PSC-99-1237-PAA-WS in 1999.¹ On February 11, 2022, the utility filed an application for a staff-assisted rate case (SARC). The official date of filing was established as June 9, 2022. The utility is requesting pro forma adjustments for recoating the interior of the water storage tank, a back-up generator, and meter reading equipment.

This Staff Report is a preliminary analysis of the utility prepared by the Commission staff to give utility customers and the utility an advanced look at what staff may be proposing. The final recommendation to the Commission is currently scheduled to be filed October 20, 2022, for the November 22, 2022 Commission Conference. The recommendation will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the September 28, 2022 customer meeting.

The Commission has jurisdiction pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, 366.091, and 367.121, Florida Statutes (F.S.).

¹Order No. PSC-99-1237-PAA-WS, issued June 22, 1999, in Docket No. 19981339-WS, *In re: Application for grandfather certificates to operate water and wastewater utility in Polk County by Hidden Cove, Ltd.*

Discussion of Issues

Issue 1: Is the quality of service provided by Hidden Cove satisfactory?

Preliminary Recommendation: Staff's recommendation regarding quality of service will not be finalized until after the September 28, 2022 customer meeting. (Wooten)

Staff Analysis: Pursuant to Section 367.081(2)(a)1, F.S., and Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water and wastewater rate cases, the Commission shall determine the overall quality of service provided by the utility. This determination is made from an evaluation of the quality of the utility's product (water), and the utility's attempt to address customer satisfaction (water and wastewater). The Rule further states that the most recent chemical analyses for the water system, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department, and any DEP and county health department officials' testimony concerning quality of service shall be considered. In addition, any customer testimony, comments, or complaints received by the Commission are also reviewed. The operating condition of the water and wastewater system is addressed in Issue 2.

Quality of the Utility's Product

In evaluation of Hidden Cove's product quality, staff reviewed the utility's compliance with the 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 the DEP's last Sanitary Survey Report dated September 16, 2021, no chemical or bacteriological exceedances were noted for the previous 12 months, and the utility was determined to be in compliance with DEP standards.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the Commission's Consumer Activity Tracking System records, and there were no complaints reported during the test year and four years prior for Hidden Cove. Staff requested all complaints received by the utility during the test year and four years prior, and the utility responded that it did not receive any complaints during this timeframe. Staff also requested all complaints received by the DEP during the test year and four years prior and was informed of only one complaint related to water quality that related to the utility.

Conclusion

Staff's recommendation regarding quality of service will not be finalized until after the September 28, 2022 customer meeting.

Issue 2: Are the infrastructure and operating conditions of Hidden Cove, Ltd.'s water and wastewater systems in compliance with DEP regulations?

Preliminary Recommendation: Staff's recommendation regarding DEP compliance will not be finalized until after the September 28, 2022 customer meeting. (Wooten)

Staff Analysis: Rule 25-30.225(2), F.A.C., requires each water and wastewater utility to maintain and operate its plant and facilities by employing qualified operators in accordance with the rules of the DEP. Rule 25-30.433(2), F.A.C., requires consideration of whether the infrastructure and operating conditions of the plant and facilities are in compliance with Rule 25-30.225, F.A.C. In making this determination, the Commission must consider testimony of the DEP and county health department officials, sanitary surveys for water systems and compliance evaluation inspections for wastewater systems, citations, violations, and consent orders issued to the utility, customer testimony, comments, and complaints, and utility testimony and responses to the aforementioned items.

Water and Wastewater System Operating Conditions

Hidden Cove's water system has a permitted capacity of 144,000 gallons per day (gpd). The utility's water system has one well with a pumping capacity of 100 gallons per minute (gpm) and one hydropneumatic tank with a capacity of 2,500 gallons. Groundwater from the well is treated through liquid chlorination. Staff reviewed Hidden Cove's sanitary survey reports conducted by the DEP to determine the utility's overall water facility compliance. A review of the inspection conducted on September 16, 2021, indicated that Hidden Cove's water treatment facility is in compliance with the DEP's rules and regulations.

Hidden Cove's wastewater system consists of a permitted 0.02 million gallons per day (MGD) Three Month Average Daily Flow (3MADF) design capacity extended aeration domestic wastewater treatment plant (WWTP) that provides secondary treatment with basic disinfection. Staff reviewed the utility's compliance evaluation inspections conducted by the DEP to determine the utility's overall wastewater facility compliance. A review of the inspection conducted on November 20, 2019, indicated that Hidden Cove's wastewater treatment facility was in compliance with the DEP's rules and regulations.

Conclusion

Staff's recommendation regarding DEP compliance will not be finalized until after the September 28, 2022 customer meeting.

Issue 3: What are the used and useful (U&U) percentages for Hidden Cove water treatment plant (WTP) and water distribution, WWTP, and wastewater collection systems?

Preliminary Recommendation: Hidden Cove's WTP, water distribution, WWTP, and wastewater collection system should be considered 100 percent used and useful. Staff recommends a 13.3 percent adjustment to purchased power and chemicals for excessive infiltration and inflow (I&I). No adjustment is recommended for excessive unaccounted for water (EUW) at this time. These are preliminary determinations and are subject to change (Wooten)

Staff Analysis: As stated in Issue 2, the water system has one well with a pumping capacity of 100 gpm and is treated with liquid chlorine which is injected prior to entry into one 2,500 gallon hydropneumatic tank. The treated water from the tank is then pumped into the water distribution system. The distribution system is a composite network consisting of approximately 1,600 linear feet of 4-inch polyvinyl chloride (PVC) pipe, 2,300 linear feet of 2-inch PVC pipe, and 400 linear feet of 1-inch PVC pipe. The distribution system has no fire hydrants.

As stated in Issue 2, the WWTP has a DEP permitted capacity of 0.02 MGD 3MADF. This plant is operated to provide secondary treatment with basic disinfection. The collection system is made up of approximately 3,308 linear feet of 8-inch PVC pipe, 250 linear feet of 6-inch PVC pipe and 850 linear feet of 3-inch PVC pipe. There are 12 concrete manholes and one lift station throughout the wastewater collection system.

Used and Useful

Rule 25-30.432, F.A.C., addresses the method by which the U&U of a wastewater system is determined, and Rule 25-30.4325, F.A.C., addresses the method by which the U&U of a water system is determined. In the previous rate case,² the water treatment plant, wastewater treatment plant, water distribution and wastewater collections systems were determined to be 100 percent U&U.

Water Treatment Plant

Pursuant to Rule 25-30.4325(4), F.A.C., a WTP is considered 100 percent (U&U) if the system is served by a single well. Since the utility's assets include only one well and there have been no changes to the system, staff recommends the WTP should be considered 100 percent U&U, which is consistent with the Commission's decision in the prior rate case.

Wastewater Treatment Plant

There has been no change in the service area in the past five years and there are no plans for expansion; therefore, consistent with the Commission's previous order and pursuant to Rule 25-30.4325, F.A.C, staff recommends a U&U of 100 percent for the WWTP.

²Order No. PSC-08-0262-PAA-WS, issued April 28, 2008, in Docket No. 20130210-WS, *In re: Application for staff-assisted rate case in Polk County by Hidden Cove, Ltd.*

Water Distribution

Because the service territory the system is designed to serve is deemed built out and there is no potential for expansion of the service territory, staff recommends the water distribution system continues to be considered 100 percent U&U.

Wastewater Collection

The service area has had no growth in the past five years, no change in capacity and consistent with prior Commission Order, the wastewater collection system should 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. When establishing the Rule, the Commission recognized that some uses of water are readily measurable and others are not. The Commission allows 10 percent of unaccounted water for the uses of water that is not metered, which includes but is not limited to, line flushing, hydrant testing, street cleaning, and theft. The rule provides that to determine whether adjustments to operating expenses, such as purchased electrical power and chemicals cost are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible. This EUW value does not impact Hidden Cove’s U&U values as the Commission has already determined them to be 100 percent in the prior Order.

The unaccounted for water is calculated by subtracting both the gallons used for flushing during the test year and the gallons sold to customers during that period from the total gallons pumped for the test year. The Monthly Operating Reports that the utility files with DEP indicate that the utility treated 3,566,999 gallons during the test year. In response to a staff data request the utility indicated that it purchased no water and used 474,000 gallons for other uses during the test year. According to the staff audit report, the utility sold 2,780,641 gallons of water for the test year. When both the gallons sold and water used for other uses is subtracted from the total gallons pumped there are 312,358 gallons or 9 percent that are unaccounted for. Thus, Hidden Cove has no excessive unaccounted for water for the test year.

Infiltration and Inflow (I&I)

Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider I&I. Infiltration typically results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas inflow results from water entering a wastewater collection system through manholes or lift stations. The allowance for infiltration is 500 gpd per inch diameter pipe per mile, and an additional 10 percent of water sold is allowed for inflow. In addition, adjustments to operating expenses, such as chemical and electrical costs, are considered necessary if I&I is excessive. Excessive I&I is a calculation that is based on a comparison of the allowable wastewater treated to the actual amount of wastewater treated. This

I&I value does not impact Hidden Cove's U&U values as the Commission has already determined them to be 100 percent in the prior Order.

The maximum allowable amount for infiltration is 500 gpd per inch of pipe diameter per mile of pipe length. This amount is calculated from the pipes in the utility's wastewater collection system. Using the pipe lengths of the utility's collection system, the infiltration allowance is calculated to be 1,054,698 gallons per year. Ten percent of the total gallons sold to customers is allowed for inflow, which totals 278,064 gallons. The total I&I allowance is then calculated as 1,332,762 gallons per year.

The amount of wastewater expected to be returned from the system is calculated. This figure is determined by summing 80 percent of water sold to residential users with 90 percent of water sold to non-residential users. The amount calculated for expected return is 2,098,686 gallons per year. In order to find the total amount of wastewater allowed, the I&I allowance and the expected return are summed, yielding 3,431,448 gallons per year. Finally, this total is compared to the total wastewater actually treated during the test year, which in this case is 3,958,000 gallons. As the actual amount exceeds the allowable amount there is excessive I&I of 526,552 gallons or 13.3 percent. This results in a recommended 13.3 percent adjustment to purchased power and chemicals expenses for excessive infiltration and inflow; however, this adjustment is not reflected in the revenue requirement at this time.

Conclusion

Hidden Cove's WTP, water distribution, WWTP, and wastewater collection system should be considered 100 percent U&U. Staff recommends a 13.3 percent adjustment to purchased power and chemicals for excessive I&I. No adjustment is recommended for EUW at this time. These are preliminary determinations and are subject to change

Issue 4: What is the appropriate average test year rate base for Hidden Cove?

Preliminary Recommendation: The appropriate average test year water rate base and wastewater rate base for Hidden Cove is \$66,243 and \$12,442, respectively. (Higgins, Wooten)

Staff Analysis: The appropriate components of the utility’s rate base include utility plant in service (UPIS), land, accumulated depreciation, contributions-in-aid-of-construction (CIAC), accumulated amortization of CIAC, and working capital. The utility’s base rates were last set in 2008 in Docket No. 20070414-WS.³

For this proceeding, staff selected the test year ended December 31, 2021. Commission audit staff worked to ensure 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 and staff’s recommended adjustments are discussed below.

Utility Plant in Service

The utility recorded \$72,554 and \$120,896 for water and wastewater, respectively, for UPIS. Staff made several adjustments described below, which as a result, increased UPIS to \$82,336 for water and \$121,555 for wastewater.

Pro Forma Projects

Table 4-1 below shows the pro-forma projects requested by Hidden Cove. The back-up generator project is intended to provide back-up power to the water plant. In the case of a power outage, this would allow the utility to provide service to its customers. The Meter Reading Equipment Upgrades project consists of the utility switching to new meter reading software. According to the utility, there are issues being encountered in capturing all of the readings from the meters due to the reading system being outdated and not functioning properly with the newer meters. This issue would be resolved with the new meter reading software. Staff will provide a recommendation as to whether or not the project costs are appropriate in its final recommendation. The utility also requested one operation and maintenance (O&M) pro forma project which is discussed in Issue 7.

**Table 4-1
Pro Forma Plant Items**

Project	Acct. No.	Amount
Meter Reading Equipment	334	\$481
<i>Associated Retirement</i>		<i>(\$361)</i>
Back Up Generator	310	\$52,814
<i>Associated Retirement</i>		<i>(\$39,611)</i>
Net Adjustment		\$13,324

Source: Responses to Staff Data Request

³Order No. PSC-08-0262-PAA-WS, issued April 28, 2008, in Docket No. 070414-WS, *In re: Application for staff-assisted rate case in Polk County by Hidden Cove, Ltd.*

As a result of the capital-related pro forma requests, staff made an adjustment to increase UPIS by \$53,295 for water to reflect both pro forma plant additions offset by a total decrease of \$39,971 to reflect pro forma plant retirements.

The utility had not recorded the costs associated with its vehicle purchases to Accounts 341 and 391 – Transportation Equipment. Thus, staff increased these accounts by \$5,412 (both) to correctly reflect the allocated amount of capital investment associated with its transportation equipment. Staff evenly split the amount between water and wastewater, thereby increasing UPIS by \$2,706 for water and \$2,706 for wastewater.

Related adjustments were performed to Account 370 – Receiving Wells and Account 371 – Pumping Equipment to reflect reclassifications of costs as well as a recalculation of the account balance in 371. A further reclassification of costs were performed between Accounts 381 – Plant Sewers and Account 390 – Office Furniture and Equipment. An adjustment was made to Account 395 – Power Operated Equipment to reflect a recalculation of costs recorded to this account. Lastly, the amounts related to averaging adjustments were (\$6,248) for water and (\$2,278) for wastewater.

As noted above, the utility recorded \$72,554 and \$120,896 for water and wastewater, respectively for UPIS. As summarized in Table 4-2, staff's adjustments to UPIS result in a total increase of \$9,782 for water and \$659 for wastewater. Therefore, staff recommends an average UPIS balance of \$82,336 for water and \$121,555 for wastewater.

Table 4-2
Adjustments to UPIS

Adjustment	Water	Wastewater
Acct. 310 – Power Generation Equipment - to reflect net pro forma addition	\$13,204	-
Acct. 334 – Meters and Meter Installations - to reflect net pro forma addition	\$120	-
Accts. 341 and 391 – Transportation Equipment - to reflect allocated additions to vehicle accounts.	\$2,706	\$2,706
Acct. 370 – Receiving Wells - to reflect a plant reclassification	-	\$9,158
Acct. 371 – Pumping Equipment - to reflect a plant reclassification	-	(\$9,158)
Acct. 371 – Pumping Equipment - to reflect a plant balance recalculation	-	(\$300)
Acct. 381 – Plant Sewers - to reflect a plant reclassification	-	(\$218)
Acct. 390 – Office Furniture and Equipment - to reflect a plant reclassification	-	\$218
Acct. 395 – Power Operated Equipment - to reflect a recalculation of the plant balance	-	\$530
To reflect total averaging adjustments	<u>(\$6,248)</u>	<u>(\$2,278)</u>
Total adjustment to UPIS balances	<u>\$9,782</u>	<u>\$659</u>

Sources: Staff audit, Responses to staff's data requests, and utility filings.

Land & Land Rights

The utility recorded test year land values of \$320 for water and \$1,680 for wastewater. There have been no additions to land since Hidden Cove's last SARC; therefore, no adjustments are necessary.⁴ Staff recommends a land and land rights balance of \$320 for water and \$1,680 for wastewater.

Used & Useful

As discussed in Issue 3, Hidden Cove's WTP and distribution system are considered 100 percent U&U. Therefore, no U&U adjustments are necessary.

Accumulated Depreciation

Hidden Cove recorded a test year accumulated depreciation balance of \$37,696 for water and \$114,185 for wastewater. Staff made adjustments decreasing total accumulated depreciation by \$17,926 for water and increasing total accumulated depreciation by \$200 for wastewater.

As a result of the capital-related pro forma requests, staff made a total adjustment to accumulated depreciation of Account 310 – Power Generation Equipment and Account 334 – Meters and Meter Installations by \$39,188 for water to reflect retirements and first year depreciation expense related to both pro forma capital projects. Adjustments were performed to Accounts: 311 – Pumping Equipment; 320 – Water Treatment Equipment; and 334 – Meters and Meter Installations (second adjustment) to reflect staff's calculated amount of accumulated depreciation.

The utility had not recorded the costs associated with its vehicle purchases to Accounts 341 and 391 – Transportation Equipment. Thus, as a result of staff's period-specific classifications of these capital costs, staff increased accumulated depreciation of these accounts by \$1,014 (both systems) to correctly reflect the allocated amount of test year accumulated depreciation associated with its transportation equipment.

Adjustments were performed to Accounts: 340 – Office Furniture and Equipment; 345 – Power Operated Equipment to reflect the audited balances. An adjustment was performed to Account 355 – Power Generation Equipment to reflect staff's calculated amount. Adjustments were performed to Accounts: 370 – Receiving Wells; 371 – Pumping Equipment; 390 – Office Furniture and Equipment; 395 – Power Operated Equipment to reflect the audited balances.

Lastly, averaging adjustments were performed for both the water and wastewater systems.

As described above and summarized in Table 4-3 below, staff's adjustments result in a total decrease to accumulated depreciation of \$17,296 for water and increase of \$200 for wastewater. Therefore, staff recommends average accumulated depreciation balances of \$19,771 for water and \$114,385 for wastewater.

⁴Order No. PSC-08-0262-PAA-WS.

**Table 4-3
 Adjustments to Accumulated Depreciation**

Adjustments	Water	Wastewater
Acct. 310 – Power Generation Equipment - to reflect pro forma retirement	\$38,834	-
Acct. 311 – Pumping Equipment - to reflect staff's calculated amount	\$83	-
Acct. 320 – Water Treatment Equipment - to reflect staff's calculated amount	(\$991)	-
Acct. 334 – Meters and Meter Installations - to reflect staff's calculated amount	(\$21,062)	-
Acct. 334 – Meters and Meter Installations – to reflect a pro forma retirement	\$354	-
Acct. 340 – Office Furniture and Equipment - to reflect an audit adjustment	\$109	-
Accts. 341 and 391 – Transportation Equipment - to reflect the allocated investment and associated A/D to vehicle accounts	(\$1,014)	(\$1,014)
Acct. 345 – Power Operated Equipment - to reflect an audit adjustment	(\$383)	-
Acct. 355 – Power Generation Equipment - to reflect staff's calculated amount	-	\$39
Acct. 370 – Receiving Wells - to reflect an audit adjustment	-	(\$9,158)
Acct. 371 – Pumping Equipment - to reflect an audit adjustment	-	\$9,130
Acct. 390 – Office Furniture and Equipment - to reflect an audit adjustment	-	\$109
Acct. 395 – Power Operated Equipment - to reflect an audit adjustment	-	(\$383)
To reflect total averaging adjustments	\$1,996	\$1,077
Total adjustments to accumulated depreciation	\$17,926	(\$200)

Sources: Staff audit, responses to staff data requests, and utility filings.

Contributions in Aid of Construction (CIAC)

The utility did not record any test year CIAC for either its water or wastewater systems. Therefore these balances are zero.

Accumulated Amortization of Contributions in Aid of Construction

The utility did not record any test year amortization of accumulated CIAC for either its water or wastewater systems; therefore these balances are zero.

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(3), F.A.C., staff used one-eighth of the operation and maintenance (O&M) expense (less rate case expense) formula for calculating the working capital allowance. Section 367.081(9), F.S., prohibits a utility from earning a return on

the unamortized balance of rate case expense. As such, staff removed the unamortized balance of rate case expense of \$590 for water and \$561 for wastewater. Removing rate case expense results in adjusted O&M expenses of \$26,860 ($\$27,450 - \590) for water, and \$28,739 ($\$29,300 - \561) for wastewater. Therefore, staff recommends a working capital allowance of \$3,358 ($\$26,860 \div 8$) for water and \$3,592 ($\$28,739 \div 8$) for wastewater.

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$66,243 for water and \$12,442 for wastewater. Rate base is shown on Schedule Nos. 1-A and 1-B. The related adjustments are shown on Schedule 1-C.

Issue 5: What is the appropriate return on equity and overall rate of return for Hidden Cove?

Preliminary Recommendation: The appropriate return on equity (ROE) is 10.45 percent with a range of 9.45 percent to 11.45 percent. The appropriate overall rate of return is 4.82 percent. (Higgins)

Staff Analysis: Hidden Cove's reported capital structure consists of \$5,039,000 in long-term debt, and \$1,199,500 in common equity. The utility has no customer deposits.

The utility's capital structure has been reconciled with staff's recommended rate base. The appropriate rate of return is 4.82 percent based upon the Commission-approved leverage formula currently in effect.⁵ Staff recommends an ROE of 10.45 percent, with a range of 9.45 percent to 11.45 percent, and an overall rate of return of 4.82 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁵Order No. PSC-2022-0208-PAA-WS, issued June 15, 2022, in Docket No. 20220006-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 6: What are the appropriate test year revenues for Hidden Cove's water system?

Preliminary Recommendation: The appropriate test year revenues for Hidden Cove's water system is \$18,751 and \$27,869 for the wastewater system. (Bruce)

Staff Analysis: Hidden Cove recorded test year revenues of \$18,730 for water and \$27,084 for wastewater. The utility did not record any miscellaneous revenues during the test year. To determine the appropriate service revenues for water and wastewater, staff applied the number of billing determinants to the utility's existing rates. As a result, staff determined that service revenues for water should be \$18,751, which is an increase of \$21 ($\$18,751 - \$18,730$). For wastewater service, staff determined service revenues should be \$27,869, which is an increase of \$785 ($\$27,869 - \$27,084$). Based on the above, staff recommends the appropriate test year revenues for Hidden Cove's water and wastewater systems are \$18,751 and \$27,869, respectively.

Issue 7: What are the appropriate operating expenses for Hidden Cove?

Preliminary Recommendation: The appropriate amounts of operating expenses are \$32,594 for water and \$33,296 for wastewater. (Higgins)

Staff Analysis: The utility recorded operating expense of \$29,800 for water and \$33,985 for wastewater. The test year O&M expenses have been reviewed by staff, including invoices and other supporting documentation. Staff has made several adjustments to the utility's operating expenses as discussed below.

Operation and Maintenance Expense

Salaries and Wages – Employees (601 / 701)

The utility recorded salaries and wages expense for employees of \$8,106 for water and \$8,314 for wastewater. No adjustments were performed by staff to these accounts. Therefore, staff's recommendation for salaries and wages expense for the test year is \$8,106 for water and \$8,314 for wastewater.

Sludge Removal Expense (711)

The utility recorded sludge removal expense of \$4,910 for wastewater. Staff made no adjustments, and therefore recommends sludge removal expense of \$4,910 for wastewater.

Purchased Power (715)

The utility recorded purchased power expense of \$5,264 for wastewater. Staff made no adjustments, and therefore recommends purchased power expense of \$5,264 for wastewater.

Chemicals (618 / 718)

The utility recorded chemicals expense of \$554 for water and \$4,394 for wastewater. Staff made no adjustments, and therefore recommends a chemicals expense of \$554 for water and \$4,394 for wastewater.

Materials and Supplies (620 / 720)

The utility recorded materials and supplies expense of \$2,245 for water and \$1,969 for wastewater. Staff made no adjustments, and therefore recommends a materials and supplies expense of \$2,245 for water and \$1,969 for wastewater.

Contractual Services – Billing (630)

The utility recorded contractual services – billing expense of \$64 for water. Staff made no adjustments, and therefore recommends contractual services – billing expense of \$64 for water.

Contractual Services – Professional – Engineering (631)

The utility recorded contractual services – engineering expense of \$189 for water. Staff made no adjustments, and therefore recommends contractual services – engineering expense of \$189 for water.

Contractual Services – Testing (635 / 735)

The utility recorded contractual services – testing expense of \$2,685 for water and \$463 for wastewater. Staff made no adjustments, and therefore recommends contractual services – testing expense of \$2,685 for water and \$463 for wastewater.

Contractual Services – Other (636 / 736)

The utility recorded contractual services – other expense of \$10,296 for water and \$1,495 for wastewater. Staff made two adjustments to Account 636 – Contractual Services - Other. The first adjustment reduces account 636 by \$23 due to a recalculation of the expenses that are recorded to this account. The second adjustment is related to an O&M pro forma project, specifically water storage tank re-coating. The total estimated cost for the tank re-coating is \$4,000. This amount should be amortized over a period of five years. The annual amortization expense associated with this re-coating is \$800. Thus, the total adjustment related to Account 636 – Contractual Services is \$777. Therefore, staff recommends contractual services – other expense of \$11,073 for water and \$1,495 for wastewater.

Transportation Expense (650 / 750)

The utility recorded transportation expense of \$1,033 for water and \$1,201 for wastewater. Audit staff made an adjustment reducing transportation expense for water by \$549 and \$415 for wastewater due to these costs being capital in nature. Therefore, staff recommends transportation expense of \$484 for water and \$786 for wastewater.

Insurance Expense (655 / 755)

The utility recorded insurance expense of \$479 for water and \$479 for wastewater. These insurance policies cover auto and property liability. No adjustments were performed to insurance expenses. Therefore, staff recommends an insurance expense of \$479 for water and \$479 for wastewater.

Rate Case Expense (665 / 765)

The utility did not record any rate case expense. The utility is required by Rule 25-22.0407, F.A.C., to mail notices of the rate case overview, final rates, and four-year rate reduction. Staff calculated noticing costs to be \$369. Staff calculated the distance from the utility to Tallahassee as 268 miles. Based on the 2022 IRS business mileage rate of \$0.625, staff calculated a round-trip travel expense to the Commission Conference, as well as one night of lodging to be \$535.⁶ The utility retained the legal services of Dean Mead. Staff has estimated a consulting fee of \$2,500 for this rate case. Additionally, the utility paid a filing fee of \$600 for water and \$600 for wastewater.

Staff calculated the total amount of noticing costs, travel expense and consulting fee of \$3,404 (\$369 + \$535 + \$2,500). Staff allocated these costs based on ERCs, resulting in 52 percent costs for water and 48 percent costs for wastewater, or \$1,761 and \$1,643 respectively. Staff recommends total rate case expense of \$2,361 (\$1,761 + \$600) for water, which amortized over four years is \$590 ($\$2,361 \div 4$ years); and total rate case expense of \$2,243 (\$1,643 + \$600) for wastewater, which amortized over four years is \$561 ($\$2,243 \div 4$ years). Therefore, staff recommends rate case expense of \$590 for water and \$561 for wastewater.

⁶<https://www.irs.gov/newsroom/irs-increases-mileage-rate-for-remainder-of-2022>.

Bad Debt Expense (670 / 770)

The utility had no recorded bad debt expense for the test year. For purposes of the staff report, staff added a bad debt expense of \$375 and \$557 for water and wastewater, respectively. These increases reflect bad debt as 2 percent of the revenues for the utility, but staff notes that the preliminary recommended increase requires additional review. Therefore, staff recommends bad debt expense of \$375 for water and \$557 for wastewater.

Miscellaneous Expense (675 / 775)

The utility recorded miscellaneous expense of \$606 for water and \$108 for wastewater. Staff made no adjustments, and therefore recommends miscellaneous expense of \$606 for water and \$108 for wastewater.

Operation and Maintenance Expense Summary

The utility recorded O&M expenses of \$26,257 for water and \$28,597 for wastewater for the test year. Based on the above adjustments, staff recommends that the O&M expense balance be increased by \$1,579 and \$703 for water and wastewater, respectively. This increase results in a total O&M expense of \$27,836 for water and \$29,300 for wastewater.

Depreciation Expense

The utility recorded depreciation expense of \$2,292 for water and \$2,027 for wastewater. Using the prescribed rates set forth in Rule 25-30.140, F.A.C., staff increased depreciation expense for water by \$914 and decreased depreciation expense by \$528 for wastewater. As a result of the pro forma request, depreciation expense for the water system was increased by an additional \$784.

In total, staff increased depreciation expense for the water system by \$914 (\$130 + \$784) and decreased depreciation expense for the wastewater system by \$528 (-\$451 - \$77). Therefore, staff recommends depreciation expense of \$3,206 (\$2,292 + \$914) for water and \$1,499 (\$2,027 - 528) for wastewater.

Taxes Other Than Income (TOTI)

The utility recorded TOTI of \$1,251 for water and \$3,361 for wastewater. As a result of the staff audit, adjustments were performed to decrease the water TOTI amount by \$79 and decrease the wastewater TOTI amount by \$1,264. These audit adjustments relate to recalculations of property taxes for both the water and wastewater systems. Further adjustments were performed related to the recommended increases. These adjustments are increases of \$785 for the water system and \$399 for the wastewater system. Therefore, staff recommends the appropriate TOTI amounts are \$1,938 for water and \$2,428 for wastewater.

Income Taxes

Hidden Cove is classified as a Partnership and as such does not record income tax expense at the organizational level.

Total Operating Expense

The utility recorded operating expenses of \$29,800 for water and \$33,985 for wastewater. The application of staff's recommended adjustments to the utility's test year operating expenses result in a total operating expense of \$32,594 for water and \$33,296 for wastewater. Operating

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expenses are shown on Schedule Nos. 3-A and 3-B for water and wastewater. The related adjustments are shown on Schedule No. 3-C.

Issue 8: Does Hidden Cove meet the criteria for the application of the Operating Ratio Methodology?

Preliminary Recommendation: Hidden Cove's water system does not meet the criteria for the application of the Operating Ratio Methodology. However, Hidden Cove's wastewater system does meet the criteria for the application of the Operating Ratio Methodology for calculating revenue requirement. (Higgins)

Staff Analysis: Rule 25-30.4575(2), F.A.C., provides that, in rate cases processed under Rule 25-30.455, F.A.C., the Commission will use the operating ratio methodology to establish the utility's revenue requirement when a utility's rate base is no greater than 125 percent of O&M expenses and the use of the Operating Ratio Methodology does not change the utility's qualification for a SARC.

Under the Operating Ratio Methodology, instead of calculating the utility's revenue requirement based on a rate of return on the utility's rate base, the revenue requirement is calculated using a margin of 12 percent of O&M expenses, not to exceed \$15,000. Purchased water and wastewater expenses, if any, must be removed from O&M expense prior to calculating the margin of 12 percent.

With respect to Hidden Cove, staff has recommended a rate base of \$66,243 for water and \$12,442 for wastewater. Staff has also recommended an adjusted O&M expense of \$26,860 and \$28,739 for water and wastewater, respectively. Based on the recommended amounts, the utility's rate base is 241.3 percent of its O&M expense for water, and the utility's rate base is 43.3 percent of its O&M expense for wastewater. Based on this, Hidden Cove's water system does not meet the criteria for the application of the Operating Ratio Methodology. However, Hidden Cove's wastewater system does meet the criteria for the application of the Operating Ratio Methodology for calculating revenue requirement.

Issue 9: What are the appropriate revenue requirements for Hidden Cove?

Preliminary Recommendation: The appropriate revenue requirements are \$35,787 and \$36,744 for water and wastewater, respectively. These revenue requirements result in annual increases of \$17,036 (90.85 percent) for water and \$8,875 (31.85 percent) for wastewater. (Higgins)

Staff Analysis: Hidden Cove should be allowed annual increases of \$17,036 (90.85 percent) for water and 8,875 (31.85 percent) for wastewater. This should allow the utility the opportunity to recover its expenses and earn a 4.82 percent return on its water system investment and a 12.00 percent margin on wastewater O&M. The revenue requirement calculations for water and wastewater are shown in Tables 9-1 and 9-2, respectively:

**Table 9-1
Water Revenue Requirement**

Rate Base	\$66,243
Rate of Return (%)	x 4.82%
Return on Rate Base	\$3,193
O&M Expense	27,450
Depreciation Expense	3,206
Taxes Other Than Income	<u>1,939</u>
Revenue Requirement	<u>\$35,787</u>
Less Adjusted Test Year Revenues	<u>\$18,751</u>
Annual Increase	<u>\$17,036</u>
Percent Increase	<u>90.85%</u>

Source: Staff Calculations.

Table 9-2
Wastewater Revenue Requirement

Adjusted O&M Expense	\$28,739
Operating Margin (%)	<u>x 12.00%</u>
Operating Margin	\$3,449
O&M Expense	29,300
Depreciation Expense	1,499
Taxes Other Than Income	<u>2,478</u>
Revenue Requirement	<u>\$36,744</u>
Less Adjusted Test Year Revenues	<u>\$27,869</u>
Annual Increase	<u>\$8,875</u>
Percent Increase	<u>31.85%</u>

Source: Staff Calculations.

Issue 10: What are the appropriate rate structure and rates for Hidden Cove's water system?

Preliminary Recommendation: The recommended rate structure and monthly water rates are shown on Schedule Nos. 4-A and 4-B, respectively. 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 sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice. (Bruce)

Staff Analysis:

Water Rates

The utility provides water service to 122 residential customers and 3 general service customers. A review of the billing data indicates approximately 14 percent of the residential customer bills during the test year had zero gallons. However, the billing data at the 1,000 gallon level indicates 41 percent of the residential customer bills, which is an indication of a highly seasonal customer base. The average residential water demand was 1,761 gallons per month during the test period. The average water demand, excluding zero gallons bills, was 2,038 gallons per month. The utility's current rate structure consists of a monthly base facility charge (BFC) and a uniform gallonage charge rate structure for the residential and general service customers.

Staff performed an analysis of the utility's billing 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.

As mentioned above, the customer base is seasonal coupled with low average consumption. Therefore, staff recommends that 60 percent of the revenue requirement be recovered through the BFC in an effort to maintain revenue stability. Furthermore, staff evaluated whether or not a repression adjustment was appropriate in this case. Despite the relatively high staff recommended revenue percentage increase, a repression adjustment was de minimis due to the very little discretionary usage for this customer base. The billing data indicate that approximately 90 percent of the water consumed is for non-discretionary usage, while 10 percent for discretionary usage. Typically a repression adjustment is made to account for the reduction in consumption above the non-discretionary threshold resulting from a price increase. Non-discretionary usage is essential and therefore relatively unresponsive to changes in prices. For this reason, staff recommends a continuation of the utility's existing monthly BFC and gallonage charge rate structure for its residential and general service customers and no repression adjustment.

Wastewater Rates

The utility provides wastewater service to 122 residential customers and 1 general service customer. Currently, the residential wastewater rate structure consists of a uniform BFC for all meter sizes and a gallonage charge with a 6,000 gallonage cap. The general service rate structure consists of a uniform BFC for all meter sizes and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

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

For this case, staff allocated 60 percent of the wastewater revenue to the BFC due to the capital intensive nature of wastewater plants and seasonal customer base. Staff's recommended BFC allocation will allow the utility to maintain revenue stability while customers are out of residence. As mentioned above, Hidden Cove's current residential wastewater cap is 6,000 gallons per month. The wastewater gallonage cap recognizes that not all water used by the residential customers is returned to the wastewater system. It is Commission practice to set the wastewater cap at approximately 80 percent of residential water sold. Based on staff's review of the billing analysis, approximately 80 percent of the residential gallons are captured at the 3,000 gallon level. However, it is Commission practice to set the wastewater cap in gallonage caps of 6,000, 8,000, or 10,000. For this reason, staff recommends a continuation of the utility's current gallonage cap of 6,000 gallons per month. Since there is no repression adjustment for water, there is no corresponding repression adjustment for wastewater. General service customers should continue to be billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

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

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

Recommendation: The rates should be reduced as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed-up for regulatory assessment fees (RAFs) and amortized over a four-year period. Pursuant to Section 367.081(8), F.S., the decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. Hidden Cove 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, the utility shall file separate data for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense (Bruce, Higgins)

Staff Analysis: Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the recovery 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 for water is \$590. For wastewater, the total reduction is \$561.

Staff recommends that the rates should be reduced as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period, pursuant to Section 367.081(8), F.S. Hidden Cove 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, the utility shall file separate data for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense

Issue 12: Should the recommended rates be approved for Hidden Cove 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. Hidden Cove should file revised tariff sheets and a proposed customer notice reflecting the Commission-approved rates. The approved rates should be effective for services 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. Further, prior to implementing any temporary rates, the utility should provide appropriate financial 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 both the current monthly and total amount 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. (Higgins) (Procedural Agency Action)

Staff Analysis: This recommendation proposes an increase in rates. A timely protest might delay a 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 proposed rates be approved on a temporary basis. Hidden Cove should file revised tariff sheets and a proposed customer notice reflecting 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 it has been received by the customers. The additional revenue produced by staff's recommended rates and collected by the utility should be subject to the refund provisions discussed below.

Hidden Cove should be authorized to initiate the temporary rates upon staff's approval of an appropriate security for the potential refund and cost of the proposed customer notice. Security should be in the form of either a bond or letter of credit in the amount of \$17,558. Alternatively, the utility may establish an escrow agreement with an independent financial institution.

If the utility chooses a bond for securing the potential refund, 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 for securing the potential refund, the letter of credit should contain the following conditions:

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

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

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

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

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

Issue 13: Should Hidden Cove be required to notify the Commission within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts?

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

Staff Analysis: Hidden Cove should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Hidden Cove should submit a letter within 90 days of the Commission's 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, a notice providing good cause should be filed not less than seven days prior to the deadline. Upon providing a notice of good cause, staff should be given administrative authority to grant an extension of up to 60 days.

HIDDEN COVE, LTD. TEST YEAR ENDED 12/31/2021 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 20220034-WS		
DESCRIPTION	BALANCE	STAFF	BALANCE	
	PER UTILITY	ADJUST.	PER STAFF	
1. UTILITY PLANT IN SERVICE	\$72,554	\$9,782	\$82,336	
2. LAND & LAND RIGHTS	320	0	320	
3. ACCUMULATED DEPRECIATION	(37,696)	17,926	(19,771)	
4. CIAC	0	0	0	
5. ACCUMULATED AMORTIZATION OF CIAC	0	0	0	
6. ACQUISITION ADJUSTMENT	0	0	0	
7. WORKING CAPITAL ALLOWANCE	<u>\$0</u>	<u>\$3,358</u>	<u>\$3,358</u>	
8. WATER RATE BASE	<u>\$35,178</u>	<u>\$31,065</u>	<u>\$66,243</u>	

HIDDEN COVE, LTD.		SCHEDULE NO. 1-B	
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220034-WS	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$120,896	\$659	\$121,555
2. LAND & LAND RIGHTS	1,680	0	1,680
3. ACCUMULATED DEPRECIATION	(114,185)	(200)	(114,385)
4. CIAC	0	0	0
5. ACCUMULATED AMORTIZATION OF CIAC	0	0	0
6. ACQUISITION ADJUSTMENT	0	0	0
7. WORKING CAPITAL ALLOWANCE	<u>\$0</u>	<u>\$3,592</u>	<u>\$3,592</u>
8. WASTEWATER RATE BASE	<u>\$8,391</u>	<u>\$4,051</u>	<u>\$12,442</u>

HIDDEN COVE, LTD.		SCHEDULE NO. 1-C	
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220034-WS	
ADJUSTMENTS TO RATE BASE			
		<u>WATER</u>	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>			
1.	To reflect auditing adjustments.	\$0	\$230
2.	To reflect staff adjustment to acct. 370 to match Auditor's accumulated depreciation adjustment.	\$0	\$9,158
3.	To reflect staff adjustment to acct. 371 to match Auditor's accumulated depreciation adjustment.	\$0	(\$9,158)
4.	To reflect staff adjustments to acct. 341 and acct. 391	\$2,706	\$2,706
5.	To reflect averaging adjustments.	(\$6,248)	(\$2,278)
6.	To reflect pro forma additions.	\$53,295	\$0
7.	To reflect pro forma retirements.	<u>(\$39,971)</u>	<u>\$0</u>
	Total	<u>\$9,782</u>	<u>\$659</u>
<u>ACCUMULATED DEPRECIATION</u>			
1.	To reflect an auditing adjustment.	(\$22,320)	(\$291)
2.	To reflect a staff adjustment to acct. 311	\$83	\$0
3.	To reflect a staff adjustment to acct. 320	(\$7)	\$0
4.	To reflect a staff adjustment to acct. 341 and acct. 391	(\$1,014)	(\$1,014)
5.	To reflect a staff adjustment to acct. 355	\$0	\$28
6.	To reflect averaging adjustments.	\$1,996	\$1,077
7.	To reflect pro forma adjustments.	<u>\$39,188</u>	<u>\$0</u>
	Total	<u>\$17,926</u>	<u>(\$200)</u>
<u>WORKING CAPITAL ALLOWANCE</u>			
	To reflect 1/8 of test year O&M expenses.	<u>\$3,358</u>	<u>\$3,592</u>

HIDDEN COVE, LTD.				SCHEDULE NO. 2		
TEST YEAR ENDED 12/31/2021				DOCKET NO. 20220034-WS		
SCHEDULE OF CAPITAL STRUCTURE						
<u>CAPITAL COMPONENT</u>	<u>PER UTILITY</u>	<u>PRO RATA ADJUST-MENTS</u>	<u>BALANCE PER STAFF</u>	<u>PERCENT OF TOTAL</u>	<u>COST</u>	<u>WEIGHTED COST</u>
1. LONG-TERM DEBT	\$5,039,000	(\$4,975,444)	\$63,556	80.77%	3.48%	2.81%
2. SHORT-TERM DEBT	\$0	\$0	\$0	0.00%	0.00%	0.00%
3. COMMON EQUITY	\$1,199,500	(\$1,184,371)	\$15,129	19.23%	10.45%	2.01%
4. CUSTOMER DEPOSITS	\$0	\$0	\$0	0.00%	2.00%	0.00%
5. DEFERRED INCOME TAXES	\$0	\$0	\$0	0.00%	0.00%	0.00%
6. TOTAL CAPITAL	\$6,238,500	(\$6,159,815)	\$78,685	100.00%		4.82%
RANGE OF REASONABLENESS					<u>LOW</u>	<u>HIGH</u>
RETURN ON EQUITY					9.45%	11.45%
OVERALL RATE OF RETURN					4.63%	5.01%

HIDDEN COVE, LTD.		SCHEDULE NO. 3-A			
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220034-WS			
SCHEDULE OF WATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR	ADJUST FOR INCREASE	REVENUE REQUIREMENT
1. TOTAL OPERATING REVENUES	<u>\$18,730</u>	<u>\$21</u>	<u>\$18,751</u>	<u>\$17,036</u> 90.85%	<u>\$35,787</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$26,257	\$1,579	\$27,836		\$27,450
3. DEPRECIATION	\$2,292	\$914	\$3,206		\$3,206
4. AMORTIZATION	\$0	\$0	\$0		\$0
5. TAXES OTHER THAN INCOME	\$1,251	(\$79)	\$1,172	\$785	\$1,938
6. INCOME TAXES	\$0		\$0		\$0
TOTAL OPERATING EXPENSES	<u>\$29,800</u>	<u>\$2,028</u>	<u>\$31,828</u>		<u>\$32,594</u>
7. OPERATING INCOME / (LOSS)	<u>(\$11,070)</u>		<u>(\$13,077)</u>		<u>\$3,193</u>
8. WATER RATE BASE	<u>\$35,178</u>		<u>\$31,065</u>		<u>\$66,243</u>
9. RATE OF RETURN					4.82%

HIDDEN COVE, LTD.		SCHEDULE NO. 3-B				
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220034-WS				
SCHEDULE OF WASTEWATER OPERATING INCOME						
	TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR	ADJUST FOR INCREASE	REVENUE REQUIREMENT	
1.	TOTAL OPERATING REVENUES	<u>\$27,084</u>	<u>\$785</u>	<u>\$27,869</u>	<u>\$8,875</u> 31.85%	<u>\$36,744</u>
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	\$28,597	\$703	\$29,300		\$29,300
3.	DEPRECIATION	\$2,027	(\$528)	\$1,499		\$1,499
4.	AMORTIZATION	\$0	\$0	\$0		\$0
5.	TAXES OTHER THAN INCOME	\$3,361	(\$1,264)	\$2,097	\$399	\$2,478
6.	INCOME TAXES	\$0		\$0		\$0
	TOTAL OPERATING EXPENSES	<u>\$33,985</u>	<u>(\$1,089)</u>	<u>\$32,896</u>		<u>\$33,296</u>
7.	OPERATING INCOME / (LOSS)	<u>(\$6,901)</u>		<u>(\$5,027)</u>		<u>\$3,449</u>
8.	WASTEWATER RATE BASE	<u>\$8,391</u>		<u>\$4,051</u>		<u>\$12,442</u>
9.	OPERATING MARGIN					12.00%

HIDDEN COVE, LTD.	SCHEDULE NO. 3-C	
TEST YEAR ENDED 12/31/2021	DOCKET NO. 20220034-WS	
ADJUSTMENTS TO OPERATING INCOME	PAGE 1 OF 2	
	<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES		
1. To reflect an auditing adjustment to Service Revenues.	(\$18)	\$909
2. To reflect the appropriate test year Service Revenues	<u>\$39</u>	<u>(\$124)</u>
Total	<u>\$21</u>	<u>\$785</u>
OPERATION AND MAINTENANCE EXPENSE		
1. Contractual Services - Other (636 / 736)		
a. To reflect an auditing adjustment.	(\$23)	\$0
b. To reflect annual expense associated with coating the interior of water tanks (pro forma) - 5-year amortization	<u>\$800</u>	<u>\$0</u>
Subtotal	<u>\$777</u>	<u>\$0</u>
2. Transportation Expense (650 / 750)		
To reflect auditing adjustments.	(\$549)	(\$415)
Subtotal	(\$549)	(\$415)
3. Rate Case Expense (665 / 765)		
To reflect 1/4 rate case expense.	<u>\$590</u>	<u>\$561</u>
Subtotal	<u>\$590</u>	<u>\$561</u>
4. Bad Debt Expense (670 / 770)		
To reflect 2.0 percent of test year revenues.	<u>\$375</u>	<u>\$557</u>
Subtotal	<u>\$375</u>	<u>\$557</u>
TOTAL OPERATION AND MAINTENANCE ADJUSTMENTS	<u>\$1,193</u>	<u>\$703</u>
DEPRECIATION EXPENSE		
1. a. To reflect auditing adjustments.	\$36	(\$451)
b. To reflect a staff adjustment to Account 311 - Pumping Equipment	\$27	\$0
c. To reflect a staff adjustment to Account 320 - Water Treatment Equipment	\$7	\$0
d. To reflect a staff adjustment to Account 341 - Transportation Equipment	\$60	(\$77)
e. To reflect pro forma additions.	<u>\$784</u>	<u>\$0</u>
Total	<u>\$914</u>	<u>(\$528)</u>

HIDDEN COVE, LTD.		SCHEDULE 3-C	
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220034-WS	
ADJUSTMENTS TO OPERATING INCOME		PAGE 2 OF 2	
TAXES OTHER THAN INCOME			
1.	To reflect auditing adjustments.	(\$248)	(\$1,258)
2.	To reflect appropriate test year RAF's.	\$2	(\$6)
3.	To reflect property taxes associated with pro forma plant additions.	<u>\$167</u>	<u>\$0</u>
	Total	<u>(\$79)</u>	<u>(\$1,264)</u>
TOTAL OPERATING EXPENSE ADJUSTMENTS		<u>\$2,028</u>	<u>(\$1,089)</u>

HIDDEN COVE, LTD.		SCHEDULE NO. 3-D		
TEST YEAR ENDED 12/31/2021				
ANALYSIS OF WATER O&M EXPENSE				
ACCT. #	DESCRIPTION	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
601	Salaries and Wages - Employees	\$8,106	\$0	\$8,106
618	Chemicals	\$554	\$0	\$554
620	Materials and Supplies	\$2,245	\$0	\$2,245
630	Contractual Services - Billing	\$64	\$0	\$64
631	Contractual Services - Professional	\$189	\$0	\$189
635	Contractual Services - Testing	\$2,685	\$0	\$2,685
636	Contractual Services - Other	\$10,296	\$777	\$11,073
650	Transportation Expense	\$1,033	(\$549)	\$484
655	Insurance Expense	\$479	\$0	\$479
665	Rate Case Expense	\$0	\$590	\$590
670	Bad Debt Expense	\$0	\$375	\$375
675	Miscellaneous Expenses	\$606	<u>\$0</u>	\$606
	Total O&M Expense	<u>\$26,257</u>	<u>\$1,193</u>	<u>\$27,450</u>
	Working Capital is 1/8 of O&M Less RCE			\$3,358

HIDDEN COVE, LTD.		SCHEDULE NO. 3-E		
TEST YEAR ENDED 12/31/2021				
ANALYSIS OF WASTEWATER O&M EXPENSE				
ACCT. #	DESCRIPTION	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
701	Salaries and Wages - Employees	\$8,314	\$0	\$8,314
711	Sludge Removal Expense	\$4,910	\$0	\$4,910
715	Purchased Power	\$5,264	\$0	\$5,264
718	Chemicals	\$4,394	\$0	\$4,394
720	Materials and Supplies	\$1,969	\$0	\$1,969
735	Contractual Services - Testing	\$463	\$0	\$463
736	Contractual Services - Other	\$1,495	\$0	\$1,495
750	Transportation Expense	\$1,201	(\$415)	\$786
755	Insurance Expense	\$479	\$0	\$479
765	Rate Case Expense	\$0	\$561	\$561
770	Bad Debt Expense	\$0	\$557	\$557
775	Miscellaneous Expenses	\$108	<u>\$0</u>	\$108
	Total O&M Expense	<u>\$28,597</u>	<u>\$703</u>	<u>\$29,300</u>
	Working Capital is 1/8 of O&M Less RCE			\$3,592

HIDDEN COVE, LTD.		SCHEDULE NO. 4-A	
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220034-WS	
MONTHLY WATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential, General Service, and Irrigation</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$8.13	\$13.32	\$0.23
3/4"	\$12.21	\$19.98	\$0.35
1"	\$20.34	\$33.30	\$0.58
1-1/2"	\$40.67	\$66.60	\$1.15
2"	\$65.08	\$106.56	\$1.84
3"	\$130.16	\$213.12	\$3.68
4"	\$203.37	\$333.00	\$5.75
6"	\$406.75	\$666.00	\$11.50
Charge per 1,000 gallons	\$2.03	\$5.15	\$0.09
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$12.19	\$23.62	
6,000 Gallons	\$20.31	\$44.22	
10,000 Gallons	\$28.43	\$64.82	

HIDDEN COVE, LTD.		SCHEDULE NO. 4-B	
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220034-WS	
MONTHLY WASTEWATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential</u>			
Base Facility Charge - All Meter Sizes	\$11.74	\$14.66	\$0.23
Charge Per 1,000 gallons 6,000 gallon cap	\$3.89	\$6.08	\$0.10
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$11.74	\$14.66	\$0.23
3/4"	\$17.62	\$21.99	\$0.35
1"	\$29.36	\$36.65	\$0.59
1-1/2"	\$58.72	\$73.30	\$1.17
2"	\$93.95	\$117.28	\$1.87
3"	\$187.90	\$234.56	\$3.75
4"	\$293.60	\$366.50	\$5.86
6"	\$610.00	\$733.00	\$11.71
Charge per 1,000 gallons	\$3.89	\$7.30	\$0.12
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
4,000 Gallons	\$27.30	\$38.98	
6,000 Gallons	\$35.08	\$51.14	
10,000 Gallons	\$35.08	\$51.14	