

State of Florida



Public Service Commission

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-M-E-M-O-R-A-N-D-U-M-

DATE: August 31, 2022

TO: Curtis M. Mouring, Chief of Finance, Tax & Cost Recovery, Division of Accounting & Finance

FROM: Division of Accounting and Finance (Richards) *CRR*
Division of Economics (Bruce, Hudson) *JCH*
Division of Engineering (Ellis, Wooten) *TB*
Office of the General Counsel (Jones)

RE: Docket No. 20220033-WS – Application for staff-assisted rate case in Polk County by CHC VII, 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

CHC VII, Ltd. (Utility or CHC) is a Class C water and wastewater utility currently providing service to approximately 885 water customers and 872 wastewater customers in Polk County. CHC has been in existence and charging rates since 1985. The Utility was granted Certificate Nos. 609-W and 525-S in 1999.¹

On May 29, 2019, CHC filed a request for a limited proceeding increase for its water system. In its application, CHC requested recovery of costs associated with installing automatic meter reading (AMR) water meters. The Commission approved a final revenue increase of \$23,368 (20.82 percent) for its water system.² The Utility's wastewater rates have been unchanged since May 2014.³

According to CHC's 2021 Annual Report, total gross water and wastewater revenues were \$144,438 and \$168,182, respectively. The total water and wastewater operating expenses were \$171,598 and \$229,449, respectively.

On February 11, 2022, CHC filed its application for a staff-assisted rate case. The Utility requested a test year ended December 31, 2021, for purposes of final rates.

This Staff Report is a preliminary analysis of the Utility's books and records prepared by Commission staff to give customers and the Utility an initial look at potential staff recommendations. The final recommendation to the Commission is currently scheduled to be filed October 20, 2022, for consideration at the November 1, 2022 Commission Conference. The recommendation will be revised as necessary using any relevant new or updated information, responses from pending data requests, and the results of customer quality of service concerns (if any) or other pertinent information received at the September 28, 2022, customer meeting.

The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, 367.091, and 367.121, Florida Statutes (F.S.).

¹Order No. PSC-1999-1235-PAA-WS, issued June 22, 1999, in Docket No. 19981341-WS, *In re: Application for grandfather certificates to operate water and wastewater utility in Polk County by CHC VII, Ltd.*

²Order No. PSC-2019-0493-PAA-WS, issued November 19, 2019, in Docket No. 20190121-WS, *In re: Application for limited proceeding rate increase in Polk County by CHC VII, Ltd.*

³Order No. PSC-2014-0196-PAA-WS, issued May 1, 2014, in Docket No. 20130210-WS, *In re: Application for staff-assisted rate case in Polk County by CHC VII, Ltd.*

Discussion of Issues

Issue 1: Is the quality of service provided by CHC VII, Ltd. 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 CHC'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 five complaints recorded during the test year and four years prior for CHC. Three complaints were related to improper billing and two complaints were related to Water Quality/Water Pressure. All complaints were resolved by the Utility. 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 was resolved by 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 CHC VII, 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

CHC's water system has a permitted capacity of 1,296,000 gallons per day (gpd). The Utility's water system has two wells, Well Nos. 1 and 2, with pumping capacities of 600 gallons per minute (gpm) and 900 gpm, respectively. Groundwater from Well No. 1 is treated through liquid chlorination. CHC's Well No. 2 is used solely to provide untreated water for golf course irrigation and is not included in the potable water system. The water system also has one hydropneumatic tank with a capacity of 20,000 gallons. Staff reviewed CHC'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 CHC's water treatment facility is in compliance with the DEP's rules and regulations.

CHC's wastewater system consists of a permitted 0.176 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 October 15, 2020, indicated that CHC'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 of the CHC VII, Ltd. water treatment plant (WTP), water distribution, WWTP, and wastewater collection systems?

Preliminary Recommendation: CHC's WTP, water distribution, WWTP, and wastewater collection system should be considered 100 percent used and useful. Staff will conduct further investigation regarding excessive unaccounted for water (EUW) and excessive infiltration and inflow (I&I). These are preliminary determinations and are subject to change. (Wooten)

Staff Analysis: As stated in Issue 2, CHC's water system has one well for potable water, Well No. 1, which is rated at a total capacity of 600 gpm. The raw water pumped from the well is treated with liquid chlorine, which is injected prior to entry into the 20,000-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 9,060 linear feet of 6-inch polyvinyl chloride (PVC) pipe, 1,740 linear feet of 4-inch PVC pipe, and 8,760 linear feet of 2-inch PVC pipe. The distribution system supports 40 fire hydrants.

As stated in Issue 2, the WWTP has a DEP-permitted capacity of 0.176 million MGD 3MADF. The collection system is made up of approximately 28,105 linear feet of 8-inch PVC pipe. There are 84 brick manholes and seven lift stations 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, the water treatment plant, wastewater treatment plant, water distribution and wastewater collections systems were determined to be 100 percent U&U.⁴

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 potable 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.

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.

⁴Order No. PSC-14-0196-PAA-WS, issued May 1, 2014, in Docket No. 20130210-WS, *In re: Application for staff-assisted rate case in Polk County by CHC VII, Ltd.*

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. Staff will conduct further investigation regarding this issue.

Infiltration and Inflow

Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider Infiltration & Inflow (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 there is excessive I&I. Excessive I&I is a calculation that is based on a comparison of the allowable wastewater treated to the actual amount of wastewater treated. Staff will conduct further investigation regarding this issue.

Conclusion

CHC’s WTP, water distribution, WWTP, and wastewater collection systems should be considered 100 percent U&U. Staff will conduct further investigation regarding EUW and excessive I&I. These are preliminary determinations and are subject to change.

Issue 4: What is the appropriate average test year rate base for CHC VII, Ltd.?

Preliminary Recommendation: The appropriate average test year rate base for CHC VII, Ltd. is \$328,581 for water and \$283,927 for wastewater. (Richards, Wooten)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service (UPIS), land and land rights, accumulated depreciation, and working capital. Staff selected the test year ended December 31, 2021, for the instant rate case. Commission audit staff determined that the Utility's books and records are in compliance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). A summary of each component and the recommended adjustments are discussed below.

Utility Plant in Service

The Utility recorded UPIS of \$692,466 for water and \$760,130 for wastewater. There was an auditing adjustment increasing UPIS by \$10,110, and \$20,669, for water and wastewater respectively. Staff made an adjustment decreasing UPIS by \$39,042 for water and \$153,105 for wastewater to reflect appropriate plant retirements. Staff made an adjustment decreasing UPIS by \$375 for water and wastewater to reflect the appropriate amounts in plant Accounts 341 and 391 - Transportation Equipment. Staff increased wastewater UPIS by \$875 to reflect staff's capitalization from expense account 620 for a generator. Staff also increased UPIS by \$15,416 for water and \$25,721 for wastewater to reflect an averaging adjustment.

Pro Forma Plant Additions

Table 4-1 on the next page shows the pro-forma projects requested by CHC. The handrails replacement project consists of entry stair handrails at the lift station that were rusted and needed to be replaced. Additionally, the Utility identified that a new lift station was necessary and moved forward on its construction. The New Pumps & Control Panel, Concrete Pole & Panel Installation and Install Lift Station, projects are all related to this new lift station. The projects consist of the purchase of the pumps, back-up pumps, control panels, and installation of all components of the lift station.

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 by 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	Water		Wastewater	
	Additions	Retirements	Additions	Retirements
Acct. 334 – Meter Reading Equip. Upgrade	\$3,601	(\$2,708)	0	0
Acct. 370 – Handrails Replacement	0	0	\$18,924	(\$14,193)
Acct. 370 – Install Lift Station	0	0	38,035	(28,526)
Acct. 370 – Concrete Pole & Panel Install	0	0	4,475	(3,356)
Acct. 370 – New Pumps & Ctrl. Panel	0	0	41,762	(31,322)
Total Pro Forma	<u>\$3,601</u>	<u>(\$2,708)</u>	<u>\$103,196</u>	<u>(\$77,397)</u>

Source: Response to staff data requests.

As detailed above in Table 4-1, staff increased UPIS by \$3,601 for water and \$103,196 for wastewater. These amounts were offset by retirements of \$2,708 and \$77,397 for water and wastewater respectively. Table 4-2 below summarizes staff's adjustments to UPIS.

**Table 4-2
 Staff Adjustments to UPIS**

Description	Water Adj.	Wastewater Adj.
To reflect an auditing adjustment.	\$10,110	\$20,669
To reflect staff's adj. to record appropriate plant retirements.	(39,042)	(153,105)
To reflect appropriate transportation plant balance.	(375)	(375)
To reflect capitalization of generator.	0	875
To reflect an averaging adjustment.	15,416	25,721
To reflect pro forma additions.	3,601	103,196
To reflect pro forma retirements.	<u>(2,708)</u>	<u>(77,397)</u>
Total adjustments to UPIS.	<u>(\$12,989)</u>	<u>(\$80,417)</u>

Source: Response to staff data requests.

As described above and summarized in Table 4-2, staff's adjustments to UPIS result in a decrease of \$12,989 for water and a decrease of \$80,417 for wastewater. Therefore, staff recommends an average UPIS balance of \$679,478 (\$692,466 - \$12,989) for water and \$679,714 (\$760,130 - \$80,417) for wastewater.

Used and Useful

As discussed in Issue 3, the Utility's systems are considered 100 percent U&U. Therefore, no U&U adjustments are necessary.

Land and Land Rights

The Utility recorded land and land rights balances of \$3,165 for water and \$5,082 for wastewater. Staff made no adjustments to this account, and therefore recommends land and land rights balances of \$3,165 and \$5,082 for water and wastewater, respectively.

Accumulated Depreciation

The Utility recorded an accumulated depreciation balance of \$409,243 for water and \$517,954 for wastewater. Staff made an auditing adjustment decreasing accumulated depreciation for water by \$11,604 and increasing wastewater by \$45,037. Staff made an adjustment decreasing accumulated depreciation by \$19,830 for water and \$96,120 for wastewater to reflect appropriate plant retirements. Staff made further adjustments decreasing accumulated depreciation by \$231 for water and increasing accumulated depreciation by \$1,658 for wastewater to reflect the appropriate balances in plant Accounts 341 and 391 - Transportation Equipment. Additionally, staff increased accumulated depreciation by \$88 for water to reflect the capitalization of a generator. Staff made adjustments decreasing accumulated depreciation for water by \$3,741 and increasing wastewater by \$33,732 to reflect the appropriate averaging adjustments. Finally, staff decreased accumulated depreciation by \$2,654 for water and \$76,365 for wastewater for pro forma additions. Staff's adjustments are summarized below in Table 4-3.

Table 4-3
Staff Adjustments to Accumulated Depreciation

Description	Water Adj.	Wastewater Adj.
To reflect an auditing adjustment.	\$11,604	(\$45,037)
To reflect staff's adj. to record appropriate plant retirements.	19,830	96,120
To reflect appropriate transportation plant balance.	231	(1,658)
To reflect capitalization of generator.	0	(88)
To reflect an averaging adjustment.	3,741	(33,732)
To reflect pro forma additions.	<u>2,654</u>	<u>76,365</u>
Total adjustments to accumulated depreciation.	<u>\$38,060</u>	<u>\$91,971</u>

Source: Response to staff data requests.

As described above and summarized in Table 4-3, staff's adjustments to accumulated depreciation result in a decrease of \$38,060 for water and \$91,971 for wastewater. Therefore, staff recommends an average accumulated depreciation balance of \$371,183 (\$409,243 - \$38,060) for water and \$425,983 (\$517,954 - \$91,971) for wastewater.

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 the one-eighth 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, for this calculation staff removed the rate case expense balance of \$958 for water and \$948 for wastewater. This resulted in an adjusted O&M expense balance of \$136,971 (\$137,929 - \$958) and \$200,916 (\$201,864 - \$948) for water and wastewater, respectively. Applying this formula, staff recommends a working capital allowance of \$17,121 (\$136,971 ÷ 8) for water and \$25,115 (\$200,916 ÷ 8) for wastewater.

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$328,581 for water and \$283,927 for wastewater. Rate base is shown on Schedule Nos. 1-A and 1-B. The related adjustments are shown on Schedule No. 1-C.

Issue 5: What is the appropriate return on equity and overall rate of return for CHC VII, Ltd.?

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 3.48 percent. (Richards)

Staff Analysis: The Utility's capital structure consists entirely of long-term debt. Audit staff determined that no test year adjustments were necessary. The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE is 10.45 percent based on 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 on 3.48 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 CHC VII, Ltd.'s water and wastewater systems?

Preliminary Recommendation: The appropriate test year revenues for CHC's water system are \$144,466 and \$168,062 for the wastewater system. (Bruce)

Staff Analysis: CHC recorded test year revenues of \$144,438 for water and \$168,182 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 \$144,466, which is an increase of \$28. For wastewater service, staff determined service revenues should be \$168,062, which is a decrease of \$120. Based on the above, staff recommends the appropriate test year revenues for CHC's water and wastewater systems are \$144,466 and \$168,062, respectively.

Issue 7: What is the appropriate operating expense for CHC VII, Ltd.?

Preliminary Recommendation: The appropriate amount of operating expense for CHC VII, Ltd. is \$173,410 for water and \$240,767 for wastewater. (Richards, Wooten)

Staff Analysis: The Utility recorded operating expense of \$171,178 for water and \$226,529 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 described below.

Operation and Maintenance Expenses

Salaries and Wages – Employees (601 / 701)

The Utility recorded salaries and wages – employees expense of \$78,181 for water and \$74,800 for wastewater. Staff made an adjustment reducing this expense for water by \$184 to reclassify from O&M Account 601 to O&M Account 636. Staff made no adjustments to the wastewater balance. Therefore, staff recommends salaries and wages – employee expense of \$77,998 (\$78,181 - \$184) for water and \$74,800 for wastewater.

Materials and Supplies (620 / 720)

The Utility recorded materials and supplies expense of \$7,566 for water and \$9,708 for wastewater. Staff reduced this amount for wastewater by \$875 due to a generator that was capitalized. Staff made no adjustments to the water balance. Therefore, staff recommends materials and supplies expense of \$7,566 for water and \$8,833 (\$9,708 - \$875) for wastewater.

Contractual Service – Professional (631 / 731)

The Utility recorded contractual services – professional expense of \$1,777 for water and \$5,275 for wastewater. Staff increased this amount for wastewater by \$2,875 to reflect an auditing adjustment. Staff made no adjustments to the water balance. Therefore, staff recommends contractual services – professional expense of \$1,777 for water and \$8,150 (\$5,275 + \$2,875) for wastewater.

Contractual Services – Testing (635 / 735)

The Utility recorded contractual services – testing expense of \$3,840 for water and \$1,742 for wastewater. Staff decreased this account by \$1,400 for water to reflect the appropriate balance of a triennial sampling testing, amortized over three years. Staff made no adjustments to the wastewater balance. Therefore, staff recommends contractual services – testing expense of \$2,440 (\$3,840 - \$1,400) for water and \$1,742 for wastewater.

Contractual Services – Other (636 / 736)

The Utility recorded contractual services – other expense of \$16,532 for water and \$53,352 for wastewater. Staff increased this amount for water by \$184 to reflect the reclassified expense from O&M Account 601. Staff made an additional adjustment decreasing this account by \$560 to reclassify membership cost to the Rural Water Association (RWA) to O&M Account 675. Staff further decreased contractual services – other by \$171 to reflect removal of a duplicate invoice.

The Utility requested one O&M pro forma project: to have the interiors of its water tank coated. The water tanks are inspected every five years, and coated as needed based on the results of the inspections. The Utility only obtained one bid because only one vendor would bid the project. This project is anticipated to cost \$8,000, and is scheduled to be completed by the end of 2022. Based on the above, staff recommends the O&M cost of coating the interior of the water tanks be amortized over five years. Staff increased contractual services – other by \$1,600 to reflect the requested pro forma project amortized over five years ($\$8,000 \div 5$ years).

Staff made no adjustments for wastewater in contractual services – other. Therefore, staff recommends contractual services – other expense of \$17,585 ($\$16,532 + \$184 - \$560 - \$171 + \$1,600$) for water and \$53,352 for wastewater.

Transportation Expense (650 / 750)

The Utility recorded transportation expense of \$10,540 for water and \$8,728 for wastewater. Staff reduced this amount by \$3,983 for water and \$3,354 for wastewater to reflect an audit adjustment. Therefore, staff recommends transportation expense of \$6,557 ($\$10,540 - \$3,983$) for water and \$5,374 ($\$8,728 - \$3,354$) for wastewater.

Insurance Expense (655 / 755)

The Utility recorded insurance expense of \$3,473 for both water and wastewater. Staff increased these amounts each by \$172 to reflect the insurance premium for the upcoming year. Therefore, staff recommends insurance expense of \$3,645 ($\$3,473 + \172) for water and \$3,645 ($\$3,473 + \172) 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 \$2,623. Staff calculated the distance from the Utility to Tallahassee as 243 miles. Based on the 2022 IRS business mileage rate of \$0.625, staff calculated travel expense to the Commission Conference of \$504.⁶ The Utility retained the legal services of Dean Mead, and staff has estimated legal fees of \$2,500 for this rate case. Additionally, the Utility paid a filing fee of \$1,000 for water and \$1,000 for wastewater.

Staff calculated the total amount of noticing costs, travel expense and legal fees as \$5,626 ($\$2,623 + \$504 + \$2,500$). Staff allocated these costs based on ERCs resulting in 51 percent of costs for water and 49 percent of costs for wastewater, or \$2,834 for water and \$2,792 for wastewater. Staff recommends total rate case expense of \$3,834 ($\$2,834 + \$1,000$) for water, which amortized over four years is \$958 ($\$3,834 \div 4$ years); and total rate case expense of \$3,792 ($\$2,792 + \$1,000$) for wastewater, which amortized over four years is \$948 ($\$3,792 \div 4$ years). Therefore, staff recommends rate case expense of \$958 for water and \$948 for wastewater.

Bad Debt Expense (670 / 770)

The Utility recorded bad debt expense of \$760 for water and \$828 for wastewater. For purposes of the staff report, staff increased these amounts by \$2,130 and \$2,534 for water and wastewater,

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

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 \$2,889 ($\$760 + \$2,130$) for water and \$3,361 ($\$828 + \$2,534$) for wastewater.

Miscellaneous Expense (675 / 775)

The Utility recorded miscellaneous expense of \$2,243 for water. There was no miscellaneous expense recorded for wastewater. Staff increased miscellaneous expense by \$560 to reflect the reclassified expense from O&M Account 636 for RWA membership. Therefore, staff recommends miscellaneous expense for water of \$2,803 ($\$2,243 + \560).

Operation and Maintenance Expense Summary

The Utility recorded test year O&M expense of \$138,622 for water and \$199,565 for wastewater. Based on the above adjustments, staff recommends the O&M expense be decreased for water by \$693 and increased for wastewater by \$2,299. This results in total O&M expense of \$137,929 ($\$138,622 - \693) for water and \$201,864 ($\$199,565 + \$2,299$) for wastewater. Staff's recommended adjustments to O&M are shown on Schedule Nos. 3-D and 3-E.

Depreciation Expense

The Utility recorded depreciation expense of \$24,810 for water and \$17,393 for wastewater. Using the depreciation rates prescribed in Rule 25-30.140, F.A.C., staff increased these amounts by \$2,563 for water and \$14,075 for wastewater to reflect an auditing adjustment. Staff decreased depreciation by \$1,458 for water and \$7,248 for wastewater to reflect appropriate plant retirements. Staff further decreased depreciation expense by \$63 for water and \$62 for wastewater to reflect the appropriate depreciation to plant Accounts 341 and 391 - Transportation Equipment. Staff increased depreciation expense for wastewater by \$88 due to the capitalization adjustment to UPIS. Additionally, staff increased depreciation expense by \$53 for water and \$1,032 for wastewater due to pro forma adjustments. These adjustments result in an increase to depreciation of \$1,095 ($\$2,563 - \$1,458 - \$63 + \53) for water and an increase of \$7,885 ($\$14,075 - \$7,248 - \$62 + \$88 + \$1,032$) for wastewater. Therefore, staff recommends depreciation expense of \$25,905 ($\$24,810 + \$1,095$) for water and \$25,278 ($\$17,393 + \$7,885$) for wastewater.

Taxes Other Than Income (TOTI)

The Utility recorded TOTI of \$7,747 for water and \$9,571 for wastewater. Staff increased TOTI by \$417 and \$12 for water and wastewater, respectively, due to an audit adjustment. Staff decreased TOTI by \$415 for water and \$18 for wastewater to reflect the appropriate regulatory assessment fees (RAFs) based on corrected Utility test year revenues. Additionally, staff increased TOTI by \$12 for water and \$342 for wastewater to reflect property taxes associated with pro forma additions. These adjustments result in a test year TOTI increase of \$13 ($\$417 - \$415 + \12) for water and \$337 ($\$12 - \$18 + \342) for wastewater.

As discussed in Issue 9, staff recommends revenues be increased by \$40,739 for water and \$82,585 for wastewater in order to reflect the change in revenue required to cover expenses and allow an opportunity to earn the recommended rate of return. As a result, TOTI should be increased by \$1,817 for water and \$3,716 for wastewater to reflect RAFs of 4.5 percent of the

Date: August 31, 2022

change in revenues. Therefore, staff recommends TOTI of \$9,577 ($\$7,747 + \$13 + \$1,817$) for water and \$13,624 ($\$9,571 + \$337 + \$3,716$) for wastewater.

Operating Expense Summary

The Utility recorded operating expenses of \$171,178 for water and \$226,529 for wastewater. The application of staff's recommended adjustments to the Utility's operating expense result in a total operating expense of \$173,410 for water and \$240,767 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B, and the related adjustments are shown on Schedule No. 3-C.

Issue 8: Does CHC VII, Ltd. meet the criteria for application of the Operating Ratio Methodology?

Preliminary Recommendation: No. CHC VII, Ltd. does not meet the requirement for application of the Operating Ratio Methodology for calculating the revenue requirement. (Richards)

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 its rate base is not greater than 125 percent of O&M expenses, less rate case expense, and the use of the Operating Ratio Methodology does not change the Utility's qualification for a SARC.

With respect to CHC VII, Ltd., staff has recommended a rate base of \$328,581 for water and \$283,927 for wastewater. After removal of rate case expense, staff has calculated an O&M expense of \$136,971 (\$137,929 - \$958) for water and \$200,916 (\$201,864 - \$948) for wastewater. Based on staff's recommended amounts, the Utility's rate base is 240 percent of its adjusted O&M expense for water, and 141 percent of its adjusted O&M expense for wastewater. Based on this, the Utility does not qualify for application of the Operating Ratio Methodology.

Issue 9: What is the appropriate revenue requirement for CHC VII, Ltd.?

Preliminary Recommendation: The appropriate revenue requirement is \$184,845 for water, resulting in an annual increase of \$40,379 (27.95 percent). The appropriate revenue requirement for wastewater is \$250,647, resulting in an annual increase of \$82,585 (49.14 percent). (Richards)

Staff Analysis: CHC should be allowed an annual increase of \$40,379 (27.95 percent) for water and \$82,585 (49.14 percent) for wastewater. This should allow the Utility the opportunity to recover expenses and earn a 3.48 percent return on rate base for water and wastewater. The calculations for water are shown in Table 9-1, and for wastewater in Table 9-2.

Table 9-1
Water Revenue Requirement

Water Rate Base	\$328,581
Rate of Return	3.48%
Return on Rate Base	<u>\$11,435</u>
Water O&M Expense	137,929
Depreciation Expense	25,905
Taxes Other Than Income	<u>9,577</u>
Revenue Requirement	<u>\$184,845</u>
Less Test Year Revenues	<u>\$144,466</u>
Annual Increase / (Decrease)	<u>\$40,379</u>
Percent Increase / (Decrease)	27.95%

Source: Staff Calculations

Table 9-2
Wastewater Revenue Requirement

Wastewater Rate Base	\$283,927
Rate of Return	3.48%
Return on Rate Base	<u>\$9,881</u>
Wastewater O&M Expense	201,864
Depreciation Expense	25,278
Taxes Other Than Income	<u>13,624</u>
Revenue Requirement	<u>\$250,647</u>
Less Test Year Revenues	<u>\$168,062</u>
Annual Increase / (Decrease)	<u>\$82,585</u>
Percent Increase / (Decrease)	49.14%

Source: Staff Calculations

Issue 10: What are the appropriate rate structures and rates for CHC VII, Ltd.'s water and wastewater systems?

Preliminary Recommendation: The recommended rate structure and monthly water and wastewater 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

CHC is located in Polk County within the Southwest Florida Water Management District. The Utility provides water service to 873 residential customers and 10 general service customers and 6 irrigation customers. A review of the billing data indicates approximately 11 percent of the residential customer bills during the test year had zero gallons, which indicates a non-seasonal customer base. According to the Utility, however, the customer base is seasonal and while customers are out of residence, these customers are required to have irrigation systems on timers. The average residential water demand was 4,750 gallons per month during the test period. The average water demand, excluding zero gallons bills, was 5,352 gallons per month.

CHC's current rate structure consists of a monthly base facility charge (BFC) and a two-tier inclining block rate structure, which includes separate gallonage charges for discretionary and non-discretionary usage for residential water customers. The rate blocks are: (1) 0-5,000 gallons; and (2) all usage in excess of 5,000 gallons per month. General service rate structure consists of a monthly BFC and a gallonage charge.

Staff performed an analysis of the Utility's billing data in order to evaluate the appropriate rate structure for the residential water customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the Utility's customers; (3) establish the appropriate non-discretionary usage threshold for restricting repression; and (4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

In this case, staff recommends that 40 percent of the water revenue be generated from the BFC, which will provide sufficient revenues to design gallonage charges that send pricing signals to customers using above the non-discretionary level. The average people per household served by the water system is 3; therefore, based on the number of people per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 5,000 gallons per month.⁷ Staff's review of the billing analysis indicates that the discretionary usage above 5,000 gallons represents 36 percent of the bills, which accounts for approximately

⁷Average person per household was obtained from www.census.gov/quickfacts/polkcounty, Florida.

35 percent of the water demand. This is considered moderately high discretionary usage for this customer base.

For this case, staff recommends a BFC and a three-tier inclining block rate structure, which includes separate gallonage charges for discretionary and non-discretionary usage for residential water customers. The rate blocks are: (1) 0-5,000 gallons; (2) 5,001-10,000 gallons; and (3) all usage in excess of 10,000 gallons per month. This rate structure sends the appropriate pricing signals because it targets customers with high consumption levels and minimizes price increases for customers at non-discretionary levels. In addition, the third tier provides an additional pricing signal to customers using in excess of 10,000 gallons of water per month, which represents approximately 13 percent of the usage. General service customers should be billed a BFC and a gallonage charge.

Based on staff's recommended revenue increase of 28 percent, the residential consumption can be expected to decline by 2,190,000 gallons resulting in anticipated average residential demand of 4,541 gallons per month. Staff recommends a 4.4 percent reduction in test year residential gallons for rate setting purposes. As a result, the corresponding reductions are \$259 for purchased power expense, \$271 for chemical expense, and \$25 for RAFs to reflect the anticipated repression, which results in a post-repression revenue requirement of \$184,290.

Wastewater Rates

The Utility provides wastewater service to 873 residential customers and 3 general service customers. Currently, the residential wastewater rate structure consists of a uniform BFC for all meter sizes and a gallonage charge with a 8,000 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 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.

Consistent with Commission practice, staff allocated 50 percent of the wastewater revenue to the BFC due to the capital intensive nature of wastewater plants. CHC's current residential wastewater cap is 8,000 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 8,000 gallon consumption level. For this reason, staff recommends a continuation of the Utility's current gallonage cap of 8,000 gallons per month.

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. Staff evaluates wastewater repression between the non-discretionary threshold (5,000 gallons) and the wastewater gallonage

cap (8,000 gallons). Between those two levels, the expected wastewater repression is de minimis. Therefore, staff does not recommend a repression adjustment for wastewater.

Conclusion

Based on the above, the recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, 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 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 removal of the amortized rate case expense?

Preliminary 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. 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. CHC should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and rationale no later than one month prior to the effective date of the new rates. If the Utility files revised tariffs reflecting 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 and the reduction in the rates due to the amortized rate case expense. (Procedural Agency Action) (Bruce, Richards)

Staff Analysis: Section 367.081(8), F.S., requires that the rates be reduced by the amount of the rate case expense previously included in rates immediately following the expiration of the recovery period. With respect to CHC, 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 \$1,004 for water and \$993 for wastewater.

Staff recommends that 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. 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. CHC should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and rationale no later than one month prior to the effective date of the new rates. If the Utility files revised tariffs reflecting 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 and the reduction in the rates due to the amortized rate case expense.

Issue 12: Should the recommended rates be approved for CHC VII, Ltd. on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

Preliminary Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the utility. CHC 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. (Procedural Agency Action) (Richards)

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. CHC 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.

CHC 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 \$83,255. 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.

CHC VII, Ltd.		SCHEDULE NO. 1-A		
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220033-WS		
SCHEDULE OF WATER RATE BASE				
DESCRIPTION		BALANCE PER UTILITY	STAFF ADJ.	BALANCE PER STAFF
1.	UTILITY PLANT IN SERVICE	\$692,466	(\$12,989)	\$679,478
2.	LAND & LAND RIGHTS	3,165	0	3,165
3.	ACCUMULATED DEPRECIATION	(409,243)	38,060	(371,183)
4.	CIAC	0	0	0
5.	ACCUMULATED AMORTIZATION CIAC	0	0	0
6.	WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>17,121</u>	<u>17,121</u>
	WATER RATE BASE	<u>\$286,388</u>	<u>\$42,193</u>	<u>\$328,581</u>

CHC VII, Ltd.		SCHEDULE NO. 1-B		
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220033-WS		
SCHEDULE OF WASTEWATER RATE BASE				
DESCRIPTION		BALANCE PER UTILITY	STAFF ADJ.	BALANCE PER STAFF
1.	UTILITY PLANT IN SERVICE	\$760,130	(\$80,417)	\$679,714
2.	LAND & LAND RIGHTS	5,082	0	5,082
3.	ACCUMULATED DEPRECIATION	(517,954)	91,971	(425,983)
4.	CIAC	0	0	0
5.	ACCUMULATED AMORTIZATION CIAC	0	0	0
6.	WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>25,115</u>	<u>25,115</u>
	WASTEWATER RATE BASE	<u>\$247,258</u>	<u>\$36,669</u>	<u>\$283,927</u>

CHC VII, LTD.		SCHEDULE NO. 1-C	
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220033-WS	
ADJUSTMENTS TO RATE BASE			
		WATER	WASTEWATER
<u>UTILITY PLANT IN SERVICE</u>			
1.	To reflect an auditing adjustment.	\$10,110	\$20,669
2.	To reflect staff's adj. to record appropriate plant retirements	(39,042)	(153,105)
3.	To reflect appropriate transportation plant balance.	(375)	(375)
4.	To reflect capitalization of generator.	0	875
5.	To reflect an averaging adjustment.	15,416	25,721
6.	To reflect pro forma additions.	3,601	103,196
7.	To reflect pro forma retirements.	<u>(2,708)</u>	<u>(77,397)</u>
	Total	<u>(\$12,989)</u>	<u>(\$80,417)</u>
<u>ACCUMULATED DEPRECIATION</u>			
1.	To reflect an auditing adjustment.	\$11,604	(\$45,037)
2.	To reflect staff's adj. to record appropriate plant retirements.	19,830	96,120
3.	To reflect appropriate transportation plant balance.	231	(1,658)
4.	To reflect capitalization of generator.	0	(88)
5.	To reflect an averaging adjustment.	3,741	(33,732)
6.	To reflect pro forma additions.	<u>2,654</u>	<u>76,365</u>
	Total	<u>\$38,060</u>	<u>\$91,971</u>
<u>WORKING CAPITAL ALLOWANCE</u>			
	To reflect 1/8 of test year O&M expense.	<u>\$17,121</u>	<u>\$25,115</u>

CHC VII, LTD.					SCHEDULE NO. 2	
TEST YEAR ENDED 12/31/2021					DOCKET NO. 20220033-WS	
SCHEDULE OF CAPITAL STRUCTURE						
CAPITAL COMPONENT	BALANCE PER UTILITY	PRO RATA ADJUSTMENT	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. LONG-TERM DEBT	\$56,615,000	(\$56,002,493)	\$612,507	100%	3.48%	3.48%
2. SHORT-TERM DEBT	0	0	0	0.00%	0.00%	0.00%
3. COMMON EQUITY	0	0	0	0.00%	10.45%	0.00%
4. CUSTOMER DEPOSITS	0	0	0	0.00%	2.00%	0.00%
5. DEFERRED INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
TOTAL CAPITAL	<u>\$56,615,000</u>	<u>(\$56,002,493)</u>	<u>\$612,507</u>	<u>100%</u>		<u>3.48%</u>
<u>RANGE OF REASONABLENESS</u>					<u>LOW</u>	<u>HIGH</u>
RETURN ON EQUITY					9.45%	11.45%
RATE OF RETURN					3.48%	3.48%

CHC VII, LTD.		SCHEDULE NO. 3-A				
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220033-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	\$144,438	\$28	\$144,466	\$40,379 27.95%	\$184,845
OPERATING EXPENSES						
2.	OPERATION AND MAINTENANCE	\$138,622	(\$693)	\$137,929	\$0	\$137,929
3.	DEPRECIATION EXPENSE	24,810	1,095	25,905	0	25,905
4.	TAXES OTHER THAN INCOME	7,747	13	7,760	1,817	9,577
5.	INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	TOTAL OPERATING EXPENSES	<u>\$171,178</u>	<u>\$415</u>	<u>\$171,593</u>	<u>\$1,817</u>	<u>\$173,410</u>
6.	OPERATING INCOME / (LOSS)	(\$26,740)		(\$27,127)		\$11,435
7.	WATER RATE BASE	\$286,388				\$328,581
8.	RATE OF RETURN					3.48%

CHC VII, LTD.		SCHEDULE NO. 3-B				
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220033-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	\$168,182	(\$120)	\$168,062	\$82,585 49.14%	\$250,647
OPERATING EXPENSES						
2.	OPERATION AND MAINTENANCE	\$199,565	\$2,299	\$201,864	\$0	\$201,864
3.	DEPRECIATION EXPENSE	17,393	7,885	25,278	0	25,278
4.	TAXES OTHER THAN INCOME	9,571	337	9,908	3,716	13,624
5.	INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	TOTAL OPERATING EXPENSES	<u>\$226,529</u>	<u>\$10,521</u>	<u>237,050</u>	<u>\$3,716</u>	<u>\$240,767</u>
6.	OPERATING INCOME / (LOSS)	(\$58,347)		(\$68,988)		\$9,881
7.	WASTEWATER RATE BASE	\$247,258				\$283,927
8.	RATE OF RETURN					3.48%

CHC VII, LTD.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220033-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.	\$9,258	\$277
2.	To reflect the appropriate test year Service Revenues.	<u>(9,230)</u>	<u>(397)</u>
	Total	<u>\$28</u>	<u>(\$120)</u>
OPERATION AND MAINTENANCE EXPENSE			
1.	Salaries and Wages – Employees (601 / 701) Reclassify to Account 636.	<u>(\$184)</u>	<u>\$0</u>
2.	Materials and Supplies (620 / 720) Capitalization of generator.	<u>\$0</u>	<u>(\$875)</u>
3.	Contractual Services – Professional (631 / 731) To reflect an auditing adjustment.	<u>\$0</u>	<u>\$2,875</u>
4.	Contractual Services – Testing (635 / 735) To reflect triennial sampling testing – amortized over three years.	<u>(\$1,400)</u>	<u>\$0</u>
5.	Contractual Services – Other (636 / 736)		
	a. To reflect reclassification from Account 601.	\$184	\$0
	b. To Reclassify membership of RWA to Account 675.	(560)	0
	c. To reflect removal of duplicate invoice.	(171)	0
	d. To reflect pro forma tank coating – amortized over five years.	<u>1,600</u>	<u>0</u>
	Subtotal	<u>\$1,053</u>	<u>\$0</u>
6.	Transportation Expense (650 / 750) To reflect an auditing adjustment.	<u>(\$3,983)</u>	<u>(\$3,354)</u>
7.	Insurance Expense (655 / 755) To reflect an increase in insurance premium.	<u>\$172</u>	<u>\$172</u>
8.	Rate Case Expense (665 / 765) To reflect 1/4 rate case expense.	<u>\$958</u>	<u>\$948</u>
9.	Bad Debt Expense (670 / 770) To reflect 2 percent of test year revenues.	<u>\$2,130</u>	<u>\$2,534</u>
10.	Miscellaneous Expense (675 / 775) To reflect reclassification from Account 636 for RWA membership.	<u>\$560</u>	<u>\$0</u>
	TOTAL OPERATION AND MAINTENANCE ADJUSTMENT	<u>(\$693)</u>	<u>\$2,299</u>

CHC VII, LTD.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220033-WS	
ADJUSTMENTS TO OPERATING INCOME		PAGE 2 OF 2	
		<u>WATER</u>	<u>WASTEWATER</u>
DEPRECIATION EXPENSE			
1.	To reflect an auditing adjustment.	\$2,563	\$14,075
2.	To reflect appropriate plant retirements.	(1,458)	(7,248)
3.	To reflect appropriate depreciation in Plant Accounts 341 and 391.	(63)	(62)
4.	To reflect depreciation expense on capitalized generator.	0	88
5.	To reflect pro forma additions.	<u>53</u>	<u>1,032</u>
	Total	<u>\$1,095</u>	<u>\$7,885</u>
TAXES OTHER THAN INCOME			
1.	To reflect an auditing adjustment.	\$417	\$12
2.	To reflect appropriate test year RAFs.	(415)	(18)
3.	To reflect property taxes associated with pro forma additions.	<u>12</u>	<u>342</u>
	Total	<u>\$13</u>	<u>\$337</u>
TOTAL OPERATING EXPENSE		<u>\$415</u>	<u>\$10,521</u>

CHC VII, LTD.		SCHEDULE NO. 3-D		
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220033-WS		
ANALYSIS OF WATER O&M EXPENSE				
ACCT.	DESCRIPTION	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
601	Salaries and Wages – Employees	\$78,181	(\$184)	\$77,998
615	Purchased Power	6,483	0	6,483
618	Chemicals	6,771	0	6,771
620	Materials and Supplies	7,566	0	7,566
630	Contractual Services – Billing	457	0	457
631	Contractual Services – Professional	1,777	0	1,777
635	Contractual Services – Testing	3,840	(1,400)	2,440
636	Contractual Services – Other	16,532	1,053	17,585
650	Transportation Expense	10,540	(3,983)	6,557
655	Insurance Expense	3,473	172	3,645
665	Rate Case Expense	0	958	958
670	Bad Debt Expense	760	2,130	2,889
675	Miscellaneous Expenses	<u>2,243</u>	<u>560</u>	<u>2,803</u>
	Total O&M Expense	<u>\$138,622</u>	<u>(\$693)</u>	<u>\$137,929</u>
	Working Capital is 1/8 of O&M less RCE			\$17,121

CHC VII, LTD.		SCHEDULE NO. 3-E		
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220033-WS		
ANALYSIS OF WASTEWATER O&M EXPENSE				
ACCT.	DESCRIPTION	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
701	Salaries and Wages – Employees	\$74,800	\$0	\$74,800
711	Sludge Removal Expense	14,030	0	14,030
715	Purchased Power	18,557	0	18,557
718	Chemicals	9,072	0	9,072
720	Materials and Supplies	9,708	(875)	8,833
731	Contractual Services – Professional	5,275	2,875	8,150
735	Contractual Services – Testing	1,742	0	1,742
736	Contractual Services – Other	53,352	0	53,352
750	Transportation Expense	8,728	(3,354)	5,374
755	Insurance Expense	3,473	172	3,645
765	Rate Case Expense	0	948	948
770	Bad Debt Expense	<u>828</u>	<u>2,534</u>	<u>3,362</u>
	Total O&M Expense	<u>\$199,565</u>	<u>\$2,299</u>	<u>\$201,864</u>
	Working Capital is 1/8 of O&M less RCE			\$25,115

CHC VII, LTD.		SCHEDULE NO. 4-A	
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220033-WS	
MONTHLY WATER RATES			
	UTILITY'S EXISTING RATES	STAFF REC. RATES	4-YEAR RATE REDUC.
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$5.50	\$6.68	\$0.04
3/4"	\$8.25	\$10.02	\$0.05
1"	\$13.75	\$16.70	\$0.09
1-1/4"	\$22.00	\$26.72	\$0.15
1-1/2"	\$27.50	\$33.40	\$0.18
2"	\$44.00	\$53.44	\$0.29
3"	\$88.00	\$106.88	\$0.58
4"	\$137.50	\$167.00	\$0.91
6"	\$275.00	\$334.00	\$1.81
8"	\$440.00	\$534.40	\$2.90
Charge per 1,000 gallons – Residential			
0-5,000 gallons	\$1.38	N/A	N/A
Over 5,000 gallons	\$1.82	N/A	N/A
Charge per 1,000 gallons – Residential			
0-5,000 gallons	N/A	\$1.90	\$0.01
5,001 – 10,000 gallons	N/A	\$2.14	\$0.01
Over 10,000 gallons	N/A	\$3.22	\$0.02
Charge per 1,000 gallons – General Service			
	\$1.50	\$2.10	\$0.01
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
5,000 Gallons	\$12.40	\$16.18	
8,000 Gallons	\$17.86	\$22.60	
10,000 Gallons	\$21.50	\$26.88	

CHC VII, LTD.		SCHEDULE NO. 4-B	
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220033-WS	
MONTHLY WASTEWATER RATES			
	UTILITY'S EXISTING RATES	STAFF REC RATES	4-YEAR RATE REDUC.
<u>Residential</u>			
Base Facility Charge – All Meter Sizes	\$8.26	\$11.96	\$0.05
Charge Per 1,000 gallons			
8,000 gallon cap	\$1.92	\$2.99	\$0.01
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$8.26	\$11.96	\$0.05
3/4"	\$12.39	\$17.94	\$0.07
1"	\$20.65	\$29.90	\$0.12
1-1/4"	\$33.04	\$47.84	\$0.19
1-1/2"	\$41.30	\$59.80	\$0.24
2"	\$66.08	\$95.68	\$0.38
3"	\$132.16	\$191.36	\$0.76
4"	\$206.50	\$299.00	\$1.18
6"	\$413.00	\$598.00	\$2.37
8"	\$660.80	\$956.80	
Charge per 1,000 gallons	\$2.31	\$3.59	\$0.01
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
4,000 gallons	\$15.94	\$23.92	
8,000 gallons	\$23.62	\$35.88	
10,000 gallons	\$23.62	\$35.88	