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 November 1, 2016

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November 1, 2016

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# Item 1

State of Florida



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

**DATE:** October 20, 2016

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Office of the General Counsel (S. Cuello, S. Hopkins)  
Office of Telecommunications (Williams, Flores)

**RE:** Application for Certificate of Authority to Provide Telecommunications Service

**AGENDA:** 11/1/2016 - Consent Agenda - Proposed Agency Action - Interested Persons May Participate

**SPECIAL INSTRUCTIONS:** None

*Smith SAC*  
*[Handwritten initials]*

Please place the following Application for Certificate of Authority to Provide Telecommunications Service on the consent agenda for approval.

<u>DOCKET NO.</u>	<u>COMPANY NAME</u>	<u>CERT. NO.</u>
160212-TX	TNE Telephone, Inc.	8902
160205-TX	Synergem Technologies, Inc.	8901

The Commission is vested with jurisdiction in this matter pursuant to Section 364.335, Florida Statutes. Pursuant to Section 364.336, Florida Statutes, certificate holders must pay a minimum annual Regulatory Assessment Fee if the certificate is active during any portion of the calendar year. A Regulatory Assessment Fee Return Notice will be mailed each December to the entity listed above for payment by January 30.

State of Florida



## Public Service Commission

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

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**DATE:** October 20, 2016

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Accounting and Finance (D. Buys, Wolmers) *DB MC GAW*  
Office of the General Counsel (Taylor) *WT JCC*

**RE:** Docket No. 160196-EI – Application for authority to issue and sell securities during 12 months ending December 31, 2017, by Duke Energy Florida, LLC.

**AGENDA:** 11/01/2016 – Consent Agenda – Final Action - Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

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Please place the following securities application on the consent agenda for approval.

Docket No. 160196-EI - Application for authority to issue and sell securities during 12 months ending December 31, 2017, by Duke Energy Florida, LLC.

Application of Duke Energy Florida, LLC (DEF or Company) seeks authority to issue, sell or otherwise incur during 2017 up to \$1.5 billion of any combination of equity securities, long-term debt securities, and other long-term obligations. Additionally, the Company requests authority to issue, sell, or otherwise incur during 2017 and 2018, up to \$1.5 billion outstanding at any time of short-term debt securities and other obligations.

In connection with this application, DEF confirms that the capital raised pursuant to this application will be used in connection with the regulated activities of the Company and not the unregulated activities of its unregulated affiliates.

Docket No. 160196-EI  
Date: October 20, 2016

Staff has reviewed the Company's projected capital expenditures. The amount requested by the Company exceeds its expected capital expenditures. The additional amount requested exceeding the projected capital expenditures allows for financial flexibility with regard to unexpected events such as hurricanes, financial market disruptions, and other unforeseen circumstances. Staff believes the requested amounts are appropriate. Staff recommends DEF's petition to issue securities be approved.

For monitoring purposes, this docket should remain open until April 26, 2018, to allow the Company time to file the required Consummation Report.

State of Florida



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

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**DATE:** October 20, 2016

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Accounting and Finance (D. Buys, Wolmers)  
Office of the General Counsel (Taylor) *DRB MC GAW*

**RE:** Docket No. 160200-EI – Application for authority to issue and sell securities for 12 months ending December 31, 2017, by Tampa Electric Company.

**AGENDA:** 11/01/16 – Consent Agenda – Final Action - Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

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Please place the following securities application on the consent agenda for approval.

Docket No. 160200-EI - Application for authority to issue and sell securities for 12 months ending December 31, 2017, by Tampa Electric Company.

Tampa Electric Company (Tampa Electric or Company) seeks the authority to issue, sell and/or exchange equity securities and issue, sell, exchange and/or assume long-term or short-term debt securities and/or to assume liabilities or obligations as guarantor, endorser, or surety during calendar year 2017. The Company also seeks authority to enter into interest swaps or other derivatives instruments related to debt securities during calendar year 2017.

The amount of all equity and long-term debt securities issued, sold, exchanged or assumed and liabilities and obligations assumed or guaranteed as guarantor, endorser, or surety will not exceed in the aggregate \$1.2 billion during the year 2017, including any amounts issued to retire existing long-term debt securities. The maximum amount of short-term debt outstanding at any

Docket No. 160200-EI  
Date: October 20, 2016

one time will be \$0.9 billion during calendar year 2017. This application is for both Tampa Electric and its local gas distribution division, People Gas System.

In connection with this application, the Company confirms that the capital raised pursuant to this application will be used in connection with the activities of the Company's regulated electric and gas operations and not the unregulated activities of the utilities or their affiliates.

Staff has reviewed the Company's projected capital expenditures. The amount requested by the Company exceeds its expected capital expenditures. The additional amount requested exceeding the projected capital expenditures allows for financial flexibility with regards to unexpected events such as hurricanes, financial market disruptions, and other unforeseen circumstances. Staff believes the requested amounts are appropriate. Staff recommends Tampa Electric's petition to issue securities be approved.

For monitoring purposes, this docket should remain open until April 26, 2018, to allow the Company time to file the required Consummation Report.



State of Florida



## Public Service Commission

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

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**DATE:** October 20, 2016

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Accounting and Finance (D. Buys, Wolmers) *DOB MC GAW*  
Office of the General Counsel (Taylor, Leathers) *WT JSC mf*

**RE:** Docket No. 160213-EI – Application for authority to issue and sell securities during calendar year 2017 and 2018 pursuant to Section 366.04, F.S., and Chapter 25-8, F.A.C., by Florida Power & Light Company.

**AGENDA:** 11/01/2016 – Consent Agenda – Final Action - Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

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Please place the following securities application on the consent agenda for approval.

Docket No. 160213-EI – Application for authority to issue and sell securities during calendar year 2017 and 2018 pursuant to Section 366.04, F.S., and Chapter 25-8, F.A.C., by Florida Power & Light Company.

Florida Power & Light Company (FPL or Company) seeks authority to issue and sell and/or exchange any combination of long-term debt and equity securities and/or to assume liabilities or obligations as guarantor, endorser, or surety in an aggregate amount not to exceed \$6.1 billion during calendar year 2017. In addition, FPL seeks permission to issue and sell short-term securities during the calendar years 2017 and 2018 in an amount or amounts such that the aggregate principal amount of short-term securities outstanding at the time of and including any such sale shall not exceed \$4.0 billion. .

Docket No. 160213-EI  
Date: October 20, 2016

In connection with this application, FPL confirms that the capital raised pursuant to this application will be used in connection with the activities of FPL and FPL's regulated subsidiaries and not the unregulated activities of FPL or its unregulated subsidiaries or affiliates.

Staff has reviewed the Company's projected capital expenditures. The amount requested by the Company exceeds its expected capital expenditures. The additional amount requested exceeding the projected capital expenditures allows for financial flexibility with regards to unexpected events such as hurricanes, financial market disruptions and other unforeseen circumstances. Staff believes the requested amounts are appropriate. Staff recommends FPL's petition to issue securities be approved.

For monitoring purposes, this docket should remain open until April 26, 2018, to allow the Company time to file the required Consummation Report.

State of Florida



## Public Service Commission

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

---

**DATE:** October 20, 2016

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Accounting and Finance (D. Buys, W. Williams) *DBB MC GAW*  
Office of the General Counsel (Taylor) *WJSC*

**RE:** Docket No. 160214-EI – Application for authority to issue and sell securities and to receive common equity contributions during 12 months ending December 31, 2017, pursuant to Chapter 25-8, F.A.C., and Section 366.04, F.S., by Gulf Power Company.

**AGENDA:** 11/01/16 – Consent Agenda – Final Action - Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

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Please place the following securities application on the consent agenda for approval.

Docket No. 160214-EI – Application for authority to issue and sell securities and to receive common equity contributions during 12 months ending December 31, 2017, pursuant to Chapter 25-8, F.A.C., and Section 366.04, F.S., by Gulf Power Company.

Gulf Power Company (Gulf Power or Company) seeks authority to receive equity funds from and/or issue common equity securities to its parent company, Southern Company (Southern); issue and sell long-term debt and equity securities; and issue and sell short-term debt securities during 2017. The amount of common equity contributions received from and issued to Southern, the amount of other equity securities issued, and the maximum principal amount of long-term debt securities issued will total not more than \$750 million. The maximum principal amount of short-term debt at any one time will total not more than \$500 million.

Docket No. 160214-EI  
Date: October 20, 2016

In connection with this application, Gulf Power confirms that the capital raised pursuant to this application will be used in connection with the regulated electric operations of Gulf Power and not the unregulated activities of the utility or its affiliates.

Staff has reviewed the Company's projected capital expenditures. The amount requested by the Company exceeds its expected capital expenditures. The additional amount requested exceeding the projected capital expenditures allows for financial flexibility with regards to unexpected events such as hurricanes, financial market disruptions and other unforeseen circumstances. Staff believes the requested amounts are appropriate. Staff recommends Gulf Power's petition to issue securities be approved.

For monitoring purposes, this docket should remain open until April 26, 2018, to allow the Company time to file the required Consummation Report.

# Item 2

State of Florida



# Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

**DATE:** October 20, 2016

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Accounting and Finance (Norris, Frank, Wolmers)  
Division of Economics (Bruce, Friedrich, Hudson, Johnson)  
Division of Engineering (P. Buys, Ellis, Graves, Knoblauch, Lee, Matthews)  
Office of the General Counsel (Trierweiler, Janjic, Taylor)

*Handwritten initials and signatures in blue ink:*  
GAW, CKB, AB, ALM, CAT, DF, AM, TW, TS, etc.

**RE:** Docket No. 160101-WS – Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties by Utilities, Inc. of Florida.

**AGENDA:** 11/01/16 – Regular Agenda – For Issues 1-4, Decision on Suspension of Rates and Interim Rates – Participation is at the discretion of the Commission. For Issue 5 – Proposed Agency Action – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Brisé

**CRITICAL DATES:** 10/30/16 (60-Day Suspension Date Waived by Company to 11/1/16)  
1/8/2017 (Petition for Waiver deemed approved if not granted within 90 days of receipt)

**SPECIAL INSTRUCTIONS:** None

## Case Background

Utilities, Inc. of Florida (UIF or Utility) is a Class A utility providing water and wastewater service to 27 systems in the following counties: Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole. As the result of a recent corporate reorganization and name change, UIF is the sole surviving corporation that owns and operates the water and

wastewater systems that are the subject of this rate case application. UIF is a wholly-owned subsidiary of Utilities, Inc. (UI).

In 2015, the Utility recorded total company operating revenues of \$13,336,372 and \$15,094,296 for water and wastewater, respectively. UIF reported net operating income for 2015 of \$1,682,158 for water and \$3,222,388 for wastewater. In 2015, UIF had 34,022 and 32,524 respective water and wastewater customers for its combined systems. The following table reflects the rate proceeding in which rates were last established for UIF's systems.

#### **Last Proceedings Establishing Rates for UIF Systems**

Former Utility Name	Order	Issuance Date
Lake Placid Utilities, Inc.	PSC-14-0335-PAA-WS	June 30, 2014
Cypress Lakes Utilities, Inc.	PSC-14-0283-PAA-WS	May 30, 2014
Lake Utility Services, Inc.	PSC-11-0514-PAA-WS	November 3, 2011
Utilities, Inc. of Pennbrooke	PSC-12-0667-PAA-WS	December 26, 2012
Utilities, Inc. of Eagle Ridge	PSC-11-0587-PAA-SU	December 21, 2011
Labrador Utilities, Inc.	PSC-15-0208-PAA-WS	May 26, 2015
Mid-County Services, Inc.	PSC-12-0389-PAA-SU	July 27, 2012
Tierra Verde Utilities, Inc.	PSC-09-0372-PAA-SU	May 27, 2009
Utilities, Inc. of Longwood	PSC-10-0407-PAA-SU	June 21, 2010
Sanlando Utilities Corporation	PSC-15-0233-PAA-WS	June 3, 2015
Utilities Inc., of Florida (Marion and Seminole Counties)	PSC-16-0296-PAA-WS	June 27, 2016
Utilities Inc., of Florida (Orange, Pasco and Pinellas County)	PSC-14-0025-PAA-WS	January 10, 2014

On November 2, 2015, Cypress Lake Utilities, Inc. (Cypress Lakes), Utilities, Inc. of Eagle Ridge (Eagle Ridge), Utilities, Inc. of Florida (UIF-Marion, UIF-Pinellas, UIF-Orange, UIF-Pasco, and UIF-Seminole), Labrador Utilities, Inc. (Labrador), Lake Placid Utilities, Inc. (Lake Placid), Lake Utility Services, Inc. (LUSI), Utilities, Inc. of Longwood (Longwood), Mid-County Services, Inc. (Mid-County), Utilities, Inc. of Pennbrooke (Pennbrooke), Utilities Inc. of Sandalhaven (Sandalhaven), Sanlando Utilities Corporation (Sanlando), and Tierra Verde Utilities, Inc. (Tierra Verde) filed a joint application for acknowledgement of corporate reorganization and approval of name change. By Order No. PSC-16-0143-FOF-WS, issued April 12, 2016, the Commission acknowledged the corporate reorganization and name change of UI's 12 subsidiaries in Florida.<sup>1</sup>

<sup>1</sup> Order No. PSC-16-0143-FOF-WS, issued April 12, 2016, in Docket No. 150235-WS, *In re: Joint application for acknowledgement of corporate reorganization and request for approval of name changes on water and/or wastewater certificates of Cypress Lakes Utilities, Inc. in Polk County; Utilities, Inc. of Eagle Ridge in Lee County; Utilities, Inc. of Florida in Marion, Orange, Pasco, Pinellas, and Seminole Counties; Labrador Utilities, Inc. in Pasco County; Lake Placid Utilities, Inc. in Highlands County; Lake Utility Services, Inc. in Lake County; Utilities, Inc. of Longwood in Seminole County; Mid-County Services, Inc. in Pinellas County; Utilities, Inc. of Pennbrooke in Lake County; Utilities, Inc. of Sandalhaven in Charlotte County; Sanlando Utilities Corporation in Seminole County; and Tierra Verde Utilities, Inc. in Pinellas County, to Utilities, Inc. of Florida.*

On December 30, 2015, the Utility requested a limited proceeding water rate increase for UIF-Marion, UIF-Pasco, and UIF-Seminole. As the request was filed prior to the Commission's recognition of UIF's corporate reorganization, the limited proceeding applied only to the former Utilities Inc., of Florida systems and did not include Longwood and Sanlando in Seminole County. Driving the limited proceeding were (1) galvanized service line replacement costs in Marion County, (2) the loss of irrigation customers, plant additions, and purchased water costs in Pasco County, and (3) interconnection plant addition costs in Seminole County. UIF requested to bifurcate its request for UIF-Pasco and ultimately, deferred its requested Phase I increase to be addressed in the instant docket. As a result of the bifurcation, rate increases for UIF-Marion and UIF-Seminole were addressed at the July 7, 2016 Commission Conference and UIF-Pasco was addressed at the October 11, 2016 Commission Conference. At the time of filing this recommendation, the Proposed Agency Action order for UIF-Pasco has not been issued.

On August 31, 2016, UIF filed an application for approval of interim and final water and wastewater rate increases. By letter dated September 29, 2016, staff advised the Utility that its Minimum Filing Requirements (MFRs) had several deficiencies. The deadline to correct those deficiencies is October 31, 2016. To date, the official date of filing has not been established for noticing purposes.

The Utility's application for increased final water and wastewater rates is based on the historical 12-month period ended December 31, 2015, with requested adjustments for pro forma projects. Additionally, the Utility requested a single, consolidated rate structure. In approving interim rates pursuant to Section 367.082, Florida Statutes (F.S.), it has been Commission practice to use the Utility's current rate structure at the time of the interim rate request. For purposes of this recommendation, the analysis for each rate structure will be referred to by the former utility name it belonged to prior to the corporate reorganization.

UIF requested interim rates designed to generate additional revenues of \$414,691 for water operations and \$803,024 for wastewater operations. The Utility requested annual interim revenue increases for Lake Placid, Tierra Verde, Sandalhaven, UIF-Marion, UIF-Pinellas, UIF-Seminole (Water). However, by letter dated October 18, 2016, the Utility formally withdrew its interim rate request for Sandalhaven due to reasons discussed further in staff's recommendation.<sup>2</sup>

UIF did not request interim rate relief for Cypress Lakes, LUSI, Labrador, Pennbrooke, Sanlando, Tierra Verde, Longwood, Eagle Ridge, Mid-County, UIF-Orange, and UIF-Seminole (Wastewater). However, as discussed later, staff conducted a review of all systems to identify any systems potentially earning above its maximum return on equity.

In setting final rates, the current rate structure of each system is also used for the collection of the final revenues. UIF requested final rates designed to generate additional revenues of \$2,721,001 for water operations and \$4,194,453 for wastewater operations.

The intervention of the Office of Public Counsel was acknowledged by Order No. PSC-16-0189-PCO-WS, issued May 10, 2016, in this docket.

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<sup>2</sup> Document No. 08338-16



On October 10, 2016, the Utility filed a petition for variance of a specific provision from Rule 25-30.437(3), Florida Administrative Code (F.A.C.). The portion of the rule from which the Utility is requesting waiver addresses the requirement to provide additional detailed billing analyses for each rate change period in the test year. Pursuant to Section 120.542, F.S., notice of the petition for waiver was published in the Florida Administrative Register on October 11, 2016. No written comments to the notice were received at the time of filing. The time for filing written comments will expire on October 25, 2016. If any written response is filed by October 25, staff will notify the Commissioners immediately and request to modify its recommendation if appropriate. The 90-day statutory deadline for the Commission to address the Utility's request is January 8, 2017.

The original 60-day statutory deadline for the Commission to suspend the Utility's requested final rates and address its interim rate request was October 30, 2016. However, by letter dated September 26, 2016, the Utility agreed to extend the statutory time frame by which the Commission is required to address the suspension of UIF's final rates and its interim rate request. This recommendation addresses the suspension of the Utility's requested final rates, and requested interim rates, and the petition for variance of a specific provision from Rule 25-30.437(3), F.A.C. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, F.S.

## Discussion of Issues

**Issue 1:** Should the Utility's proposed final water and wastewater rates be suspended?

**Recommendation:** Yes. The Utility's proposed final water and wastewater rates should be suspended. (Norris)

**Staff Analysis:** Section 367.081(6), F.S., provides that the rates proposed by the Utility shall become effective within sixty days after filing unless the Commission votes to withhold consent of implementation of the requested rates. Further, the above referenced statute permits the proposed final rates to go into effect, under bond, escrow, or corporate undertaking eight months after filing unless final action has been taken by the Commission.

Staff has reviewed the filing and has considered the proposed rates, the revenues thereby generated, and the information filed in support of the rate application. Staff believes that it is reasonable and necessary to require further amplification and explanation regarding this data, and to require production of additional and/or corroborative data. This further examination will include on-site inspections by staff accountants and engineers. To date, staff has initiated an audit of UIF's books and records, as well as an audit of UI, the Utility's parent, to examine allocated investment and operating expenses. This combined audit is tentatively due on November 30, 2016. In addition, staff sent its first set of discovery on October 20, 2016. Further, staff believes additional discovery requests will be necessary. Therefore, staff recommends suspension of the Utility's proposed rate increase to allow staff and any intervenors sufficient time to adequately and thoroughly examine the appropriateness of the Utility's request for final rate relief.

**Issue 2:** Should any interim revenue increase be approved?

**Recommendation:** Yes, the Utility should be authorized to collect annual water and wastewater revenues as indicated below.

Water Systems	Adjusted Test Year Revenues	Revenue Increase	% Increase	Revenue Requirement
Lake Placid	\$69,017	\$10,189	14.76%	\$79,206
UIF-Marion	\$161,079	80,785	50.15%	241,864
UIF-Pinellas	\$157,855	14,309	9.06%	172,164
UIF-Pasco	\$901,930	56,674	6.28%	958,604
UIF-Seminole	\$1,014,857	<u>186,352</u>	18.36%	<u>1,201,209</u>
Total		<u>\$348,309</u>		<u>\$2,653,047</u>

Wastewater Systems	Adjusted Test Year Revenues	Revenue Increase	% Increase	Revenue Requirement
Lake Placid	\$72,314	\$638	0.88%	\$72,952
Tierra Verde	\$992,530	69,084	6.96%	1,061,614
UIF-Marion	\$47,826	31,438	65.73%	79,264
UIF-Pasco	\$505,980	<u>108,280</u>	21.40%	<u>614,260</u>
Total		<u>\$209,440</u>		<u>\$1,828,090</u>

In addition, seven systems appear to be earning above their maximum return on equity (ROE). As such, revenues should be collected subject to refund with interest, as shown below.

System	Revenue Held Subject to Refund	Percentage
UIF-Seminole-Wastewater	(\$138,594)	(16.61%)
LUSI-Water	(143,546)	(2.63%)
Labrador-Wastewater	(134,838)	(20.87%)
Pennbrooke-Wastewater	(47,924)	(9.35%)
Longwood-Wastewater	(17,559)	(2.18%)
Eagle Ridge-Wastewater	(24,112)	(2.07%)
Cypress Lakes-Water	<u>(24,335)</u>	<u>(6.87%)</u>
Total	<u>(\$530,908)</u>	

(Norris, Hudson, Lee, Matthews)

**Staff Analysis:** Pursuant to Section 367.082(1), F.S., the Commission may authorize the collection of interim rates during any proceeding for a change of rates upon petition from any party or its own motion, and in order to establish a prima facie entitlement for interim relief, the Utility shall demonstrate that it is earning outside the range of reasonableness on its rate of

return. Pursuant to Section 367.081(2)(a), F.S., in a proceeding for an interim increase in rates, the Commission shall authorize, within 60 days of the filing for such relief, the collection of rates sufficient to earn the minimum of the range of rate of return.

UIF filed rate base, cost of capital, and operating statements to support its requested interim water and wastewater increases. As mentioned in the Case Background, staff conducted a review of the systems that did not request interim rates in order to identify any systems potentially earning above its maximum ROE. In order to review those systems that did not request an interim increase, staff used the Utility's supporting schedules in its MFRs.

Pursuant to Section 367.082(5)(b)1., F.S., the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with those used in the Utility's most recent rate proceeding and annualizing any rate changes. Staff reviewed UIF's interim request, as well as all orders that addressed the Utility's most recent rate proceedings. Staff has attached accounting schedules for each applicable system to illustrate staff's recommended rate base, capital structure, and test year operating income amounts. The rate base schedules are labeled as Schedule Nos. 1-A, 1-B, and 1-C. The capital structure schedule is labeled Schedule No. 2. The operating income schedules are labeled as Schedule Nos. 3-A, 3-B, and 3-C. Staff's recommended adjustments are discussed below.

### **Interim Rate Base**

In the last rate case for many of the systems, the Commission made certain adjustments related to the Phoenix Project, which is the parent company's accounting and billing software. In its filing, the Utility made adjustments to accumulated depreciation and depreciation expense consistent with the Commission's vote which increased the average service life to 10 years. Staff believes these adjustments are appropriate for interim purposes in the instant case. However, staff believes additional adjustments to rate base are necessary for interim purposes.

### ***Used & Useful***

Pursuant to Section 367.082, F.S., the method for the used and useful (U&U) calculation in a system's last rate case must be used for interim purposes. Staff reviewed the Utility's interim U&U calculations on a per system basis. The review is based on previous Commission decisions and available data of usage and capacity contained in UIF's MFR Schedules. Consistent with Commission practices, staff recommends no adjustments for all water treatment and distribution systems as they have been determined to be 100 percent U&U by prior rate case orders, and the MFR Schedules show no customer growth and change in capacity. For the same reason, staff recommends no adjustments for all wastewater collection systems.

Staff recommends the following U&U adjustments for wastewater treatment systems contained in the interim rate base. The Lake Placid wastewater treatment plant should be considered 28.5 percent U&U based on the prior rate case order, which is higher than the 20.8 percent based on usage and capacity contained in MFR Schedule F-6. Similarly, the UIF-Marion wastewater treatment plant should be considered 59 percent U&U based on the prior rate case order.

Based on the above calculations, staff recommends the adjustments indicated on the table below.

**Table 2-1  
 Interim – Used & Useful Adjustments**

System	Rate Base	Depreciation Expense	Property Tax
Lake Placid-Wastewater	(\$24,425)	\$0	(\$757)
UIF-Marion-Wastewater	(\$5,634)	(\$2,082)	(\$141)

**Working Capital Allowance**

Although UIF, post-consolidation, is classified a Class A utility, working capital should be calculated for each system using the same basis from the respective prior rate cases. The Utility correctly followed this methodology in its MFRs. Pursuant to Rule 25-30.433(2), Florida Administrative Code (F.A.C.), interim working capital for the former Class B and C utilities was calculated using the formula method which is one-eighth of operation and maintenance (O&M) expenses and Class A utilities used the balance sheet approach.

Based on staff’s adjustments to water and wastewater O&M expenses discussed below, staff made corresponding adjustments to working capital for the systems using the formula method. Additionally, staff made an adjustment for the systems using the balance sheet approach. Consistent with Commission practice, one-half of the total rate case expense should be included in working capital.<sup>3</sup> Although recent legislation has reversed this practice, these amounts were approved by the Commission in dockets prior to this legislation. Thus, these amounts are properly included in working capital. Staff adjusted the interim working capital of the systems using the balance sheet approach to reflect prior rate case expense. The following table shows all working capital adjustments made by staff.

**Table 2-2  
 Interim – Working Capital Adjustments**

System	Increase/(Decrease) Adjustments
Lake Placid-Water	(\$5,073)
Lake Placid-Wastewater	(\$5,153)
Tierra Verde-Wastewater	\$135
UIF-Marion -Water	\$560
UIF-Marion -Wastewater	\$78
UIF-Pinellas -Water	\$12,046
UIF-Pasco -Water	\$73,468
UIF-Pasco -Wastewater	\$29,090
UIF-Seminole -Water	\$66,199

<sup>3</sup> Order Nos. PSC-15-0233-PAA-WS, issued June 3, 2015, in Docket No. 140060-WS, *In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation*; and PSC-09-0057-FOF-SU, issued January 27, 2009, in Docket No. 070293-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

### **Interim Cost of Capital**

In its initial filing, the Utility requested separate interim overall cost of capital rates for each water and wastewater system based on each respective rate base. Pursuant to the provisions of the interim statute, an interim decrease should be calculated using the maximum ROE limit, and an interim increase should be calculated using the minimum ROE limit.

Staff's only recommended adjustments are to the consolidated capital structure shared by UIF-Marion, UIF-Orange, UIF-Pinellas, UIF-Pasco, and UIF-Seminole. As originally filed, the Utility's interim capital structure was not consolidated across all five counties, and UIF did not reflect any allocation of customer deposits, accumulated deferred income taxes, or investment tax credits (ITCs) associated with UIF-Seminole's wastewater system. As such, staff consolidated the aforementioned balances for the five county systems and increased customer deposits by \$8,038, ITCs by \$12,609, and ADITs by \$184,622 to account for UIF-Seminole's wastewater system. Additionally, the capital structure was reconciled to a rate base that did not include the rate base of UIF-Seminole's wastewater system.

Staff's final adjustment was to lower the Utility's cost rate of long-term debt from 6.70 percent to 6.66 percent in order to remain consistent with the Utility's most recent case that shared the same test year.<sup>4</sup> The Utility's proposed and staff's recommended capital structure for each system is reflected on Schedule No. 2 for UIF-Marion, UIF-Orange, UIF-Pinellas, UIF-Pasco, and UIF-Seminole.

### **Interim Net Operating Income**

Pursuant to Section 367.082(5)(b)1., F.S., the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with adjustments made in the Utility's most recent rate proceeding and annualized for any rate changes. Based on staff's review, several adjustments are necessary for interim purposes as reflected on the respective adjustments to operating income schedules.

#### ***Test Year Adjustments***

The interim filing for UIF-Pasco made a test year adjustment to decrease incorrectly booked chemical expense of \$1,242 in its final rate increase. However, the Utility did not include this test year adjustment in its calculation of its interim rate increase. As such, staff decreased chemicals expense by \$1,242.

#### ***Adjustments Consistent with the Last Rate Case***

Several adjustments to O&M expenses and taxes other than income (TOTI) are necessary for interim purposes in order to be consistent with the treatment in the Utility's last rate case.

First, staff reduced salaries and wages expense for UIF-Marion by \$9,037 for water and \$1,024 for wastewater to reflect benchmarking consistent with its last rate case. Staff used UIF-Marion's test year ratio of pensions and benefits to salaries and applied it to the previously mentioned salary adjustment in order to determine the corresponding adjustments for pensions and benefits expense. The resulting adjustment was a decrease of \$3,279 for water and \$371 for wastewater.

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<sup>4</sup> Order No. PSC-16-0296-PAA-WS, issued July 27, 2016, in Docket No. 150269-WS, *In re: Application for limited proceeding water rate increase in Marion, Pasco, and Seminole Counties, by Utilities, Inc. of Florida.*

A corresponding adjustment was also made to decrease TOTI by \$691 for water and \$78 for wastewater to reflect payroll taxes consistent with the salary adjustments.

Second, staff increased transportation expense for UIF-Seminole (water) by \$2,736 to reflect the 3-year average for transportation expense consistent with its last rate case.

Third, staff adjusted bad debt expense for several systems to reflect the 3-year average for bad debt expense consistent with the treatment in each system's last rate case. The resulting adjustments are reflected in the following table.

**Table 2-3**  
**Interim – 3-Year Averaging Adjustment to Bad Debt**

System	Increase/(Decrease) Adjustments
UIF-Marion -Water	(\$361)
UIF-Marion -Wastewater	\$15
UIF-Pinellas -Water	(\$141)
UIF-Pasco -Water	\$2,043
UIF-Pasco -Wastewater	(\$2,362)
UIF-Seminole -Water	(\$9,523)

***Amortization of Rate Case Expense***

Staff recommends that for interim purposes, O&M expenses should be adjusted by the difference between Commission-approved annual amortization amount of rate case expense and the test year annual amortization. The Commission found in the Utilities, Inc., generic docket “that rate case expense associated with Docket No. 120161-WS shall be allocated to each UI Florida subsidiary based on the ratio of each subsidiary’s ERCs to UI’s total Florida ERCs as of December 31, 2013.”<sup>5</sup> The Order specified that each subsidiary would be allowed to recover its allocated portion of rate case expense over four years, pursuant to Section 367.0816, F.S. Staff’s total amount of authorized rate case expense includes expense associated with Docket No. 120161-WS, and the resulting adjustments are reflected in the following table.

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<sup>5</sup> Order No. PSC-14-0521-FOF-WS, p.19, issued September. 30, 2014, in Docket 120161-WS, *In re: Analysis of Utilities, Inc. ’s financial accounting and customer service computer system.*

**Table 2-4  
 Interim – Adjustments to Rate Case Expense**

System	Increase/(Decrease) Adjustments
Lake Placid-Water	(\$249)
Lake Placid-Wastewater	\$115
Tierra Verde-Wastewater	\$1,084
UIF-Marion -Water	\$235
UIF-Marion -Wastewater	\$33
UIF-Pinellas -Water	\$5,992
UIF-Pasco -Water	\$36,734
UIF-Pasco -Wastewater	\$14,545
UIF-Seminole -Water	(\$35,977)

***Excessive Unaccounted Water***

In Lake Placid’s last rate case, the Commission determined that the system had excessive unaccounted for water (EUW) of 1.9 percent. In its MFRs for the instant case, the figure was calculated at 3.1 percent. Following the same methodology used in the last rate case, staff recommends applying the updated EUW percentage from the MFRs to the actual water treatment expense for 2016. The resulting adjustment is a reduction of \$109 to water O&M expense for Lake Placid.

***Inflow & Infiltration***

In UIF-Pasco’s last rate case, the Commission determined that its Orangewood and Buena Vista systems had no excessive infiltration and inflow (I&I). In its MFRs submitted for the instant case, I&I was calculated at 15.89 percent. Following the same methodology used in the last rate case, staff recommends applying the updated I&I percentage from the MFRs to the actual wastewater treatment expense for 2016. Staff applied the I&I reduction to the proportionate expenses associated with the individual system. The resulting adjustment is a reduction of \$4,974 for UIF-Pasco (wastewater).

**Earnings Analysis**

In addition to the systems reflected in UIF’s interim request, staff also reviewed UIF’s other PSC-regulated systems to determine whether any of the systems were potentially earning above their maximum allowed ROE. Staff reviewed all orders that addressed the Utility’s most recent rate proceeding and made adjustments as discussed below. Based on this methodology, there appears to be seven systems reflecting potential overearnings that warrant additional review. Pursuant to Section 367.082(2)(b), F.S., in a proceeding for an interim decrease in rates, the Commission shall authorize the continued collection of the previously authorized rates; however, revenues collected under those rates that are sufficient to reduce the achieved rate of return to the maximum of the rate of return should be held subject to refund with interest.

As part of its U&U analysis, staff reviewed wastewater treatment systems not contained in the interim rate request for potential overearnings evaluation and recommends the following adjustments. Based on staff’s review, Labrador wastewater treatment plant should be considered 79.94 percent U&U based on the prior rate case order because MFR Schedule F-6 contains no



usage and capacity data for U&U calculations. As such, staff recommends a net non-U&U adjustment of \$302,751 to reduce rate base. Corresponding adjustments should also be made to reduce depreciation expense by \$14,899 and property taxes by \$2,173.

Staff also reviewed EUW and I&I for the systems not included in the interim rate request. In UIF-Seminole’s last rate case, the Commission determined that its Ravenna Park system was determined to have 33.0 percent excessive I&I. In its MFRs submitted for the instant case, I&I was calculated at 31.7 percent for this system. Following the same methodology used in the last rate case, staff recommends applying the updated I&I percentage from the MFRs to the actual wastewater treatment expense for 2016. Staff applied the I&I reduction to the proportionate expenses associated with the individual system. The resulting adjustment is a reduction of \$29,122 for UIF-Seminole.

Additionally staff made further adjustments to reflect the appropriate working capital, adjustments consistent with the last case, and the appropriate amortization of rate case expense. These adjustments are consistent with staff’s adjustments to the Utility’s interim request, as previously discussed, and are reflected in the following tables.

**Table 2-5  
 Earnings Analysis – Working Capital Adjustments**

System	Increase/(Decrease) Adjustment
UIF-Seminole -Wastewater	\$35,160
Labrador-Wastewater	(\$84,050)
LUSI-Water	\$134,551
Pennbrooke-Wastewater	\$1,216
Longwood-Wastewater	\$48,223
Eagle Ridge-Wastewater	(\$112,824)
Cypress Lakes-Water	(\$820)

**Table 2-6  
 Earnings Analysis – Additional Adjustments Consistent with Last Rate Case**

System	Methodology Description	Expense Account	Increase/(Decrease) Adjustments
UIF-Seminole -Wastewater	3-yr average	Transportation Expense	\$1,373
Labrador-Wastewater	Lease adjusted based on rate of return	Rental Expense	(\$15,618)

**Table 2-7**  
**Earnings Analysis – Benchmarking Adjustments to Salaries & Wages Additional**

System	Salaries & Wages Expense- Employees/Officers	Pensions & Benefits Expense	Payroll Tax
Pennbrooke-Wastewater	\$1,166	\$403	\$89
Longwood-Wastewater	(\$18,950)	(\$5,392)	(\$1,450)

**Table 2-8**  
**Earnings Analysis – 3-Year Averaging Adjustment to Bad Debt**

System	Increase/(Decrease) Adjustment
UIF-Seminole -Wastewater	\$86
LUSI-Water	\$5,245
Pennbrooke-Wastewater	\$2
Longwood-Wastewater	(\$1,534)
Eagle Ridge-Wastewater	(\$654)

**Table 2-9**  
**Earnings Analysis – Adjustments to Rate Case Expense**

System	Increase/(Decrease) Adjustments
UIF-Seminole -Wastewater	(\$19,983)
LUSI-Water	\$67,275
Labrador-Wastewater	(\$5,836)
Pennbrooke-Wastewater	\$625
Longwood-Wastewater	\$899
Eagle Ridge-Wastewater	\$6,898
Cypress Lakes-Water	(\$2,972)

**Revenue Requirement**

Staff has recommended revenue requirements consistent with the calculations required by the interim statute and Commission practice. For those systems that appear to be underearning, the revenue requirements were determined using the minimum ROE limit. Consistent with the interim statute, for those systems that appear to be overearning, staff used the maximum ROE limit. Based on the above adjustments, staff’s recommended interim rate of return resulted in a revenue requirement that exceeded what UIF requested. In such circumstances, it has been Commission practice to limit the revenue requirement to the level requested by a utility.<sup>6</sup>

<sup>6</sup> Order Nos. PSC-13-0673-FOF-WS, issued December 19, 2013, in Docket No. 130212-WS, *In re: Application for increase in water/wastewater rates in Polk County by Cypress Lakes Utilities, Inc.*; PSC-10-0018-PCO-WS, issued January 6, 2010, in Docket No. 090402-WS, *In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation*; PSC-06-0675-PCO-SU, issued August 7, 2006, in Docket No. 060255-SU, *In re: Application for increase in wastewater rates in Pinellas County by Tierra Verde Utilities, Inc.*; PSC-05-0287-PAA-SU, issued March 17, 2005, in Docket No. 040972-SU, *In re: Application for rate increase in*

Consistent with Commission practice, staff limited the revenue requirements of Tierra Verde, UIF-Pinellas, and UIF-Pasco (both water and wastewater) to the level requested by the Utility.

Based upon recovery of actual operating expenses for the year ended December 31, 2015, staff recommends that the appropriate combined interim revenue requirements are \$2,653,047 and \$1,828,090, respectively for the Utility's water and wastewater systems. This results in interim increase in annual revenues of \$348,309 for the water systems and \$209,440 for the wastewater systems. For systems that appear to be earning above their maximum ROE, staff recommends that revenues totaling \$530,908 should be collected subject to refund with interest and each system should continue collecting current rates. The following tables show the revenue requirement and interim increase in annual revenues for each respective system.

**Table 2-10**  
**Interim Revenue Requirement – Water Systems**

Water Systems	Adjusted Test Year Revenues	Revenue Increase	% Increase	Revenue Requirement
Lake Placid	\$69,017	\$10,189	14.76%	\$79,206
UIF-Marion	\$161,079	80,785	50.15%	241,864
UIF-Pinellas	\$157,855	14,309	9.06%	172,164
UIF-Pasco	\$901,930	56,674	6.28%	958,604
UIF-Seminole	\$1,014,857	<u>186,352</u>	18.36%	<u>1,201,209</u>
Total		<u>\$348,309</u>		<u>\$2,653,047</u>

**Table 2-11**  
**Interim Revenue Requirement – Wastewater Systems**

Wastewater Systems	Adjusted Test Year Revenues	Revenue Increase	% Increase	Revenue Requirement
Lake Placid	\$72,314	\$638	0.88%	\$72,952
Tierra Verde	\$992,530	69,084	6.96%	1,061,614
UIF-Marion	\$47,826	31,438	65.73%	79,264
UIF-Pasco	\$505,980	<u>108,280</u>	21.40%	<u>614,260</u>
Total		<u>\$209,440</u>		<u>\$1,828,090</u>

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*Pinellas County by Ranch Mobile WWTP, Inc.*; and PSC-95-0191-FOF-WS, issued February 9, 1995, in Docket No. 940917-WS, *In re: Application for rate increase for increased water and wastewater rates in Seminole, Orange, and Pasco Counties by Utilities, Inc. of Florida.*

**Table 2-12**  
**Earnings Analysis**

System	Revenue Held Subject to Refund	Percentage
UIF-Seminole-Wastewater	(\$138,594)	(16.61%)
LUSI-Water	(143,546)	(2.63%)
Labrador-Wastewater	(134,838)	(20.87%)
Pennbrooke-Wastewater	(47,924)	(9.35%)
Longwood-Wastewater	(17,559)	(2.18%)
Eagle Ridge-Wastewater	(24,112)	(2.07%)
Cypress Lakes-Water	(24,335)	(6.87%)
Total	<u>(\$530,908)</u>	

**Issue 3:** What are the appropriate interim water and wastewater rates?

**Recommendation:** The service rates for UIF in effect as of December 31, 2015, should be increased as shown below to generate the recommended revenue increase for the interim period.

System	% Rate Increase
Lake Placid-Water	14.81%
Tierra Verde-Wastewater	6.96%
UIF-Marion -Water	50.88%
UIF-Marion -Wastewater	66.14%
UIF-Pinellas -Water	9.14%
UIF-Pasco -Water	6.38%
UIF-Pasco -Wastewater	21.49%
UIF-Seminole -Water	18.67%

The rates, as shown on Schedule Nos. 4-A and 4-B, 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. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. In addition, the approved rates should not be implemented until the required security has been filed, 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, Friedrich, Hudson, Johnson)

**Staff Analysis:** Staff recommends that interim service rates for UIF be designed to allow the Utility the opportunity to generate additional annual operating revenues as shown below. The test year revenues were adjusted to annualize the rate in effect at the end of the test year. To determine the appropriate increase to apply to the service rates, miscellaneous revenues should be removed from the adjusted test year revenues. The calculations are as follows:

**Table 3  
 Percentage Increase Less Miscellaneous Revenues**

System	Adjusted Test Year Revenues	Miscellaneous Revenues	Revenues – Miscellaneous Revenue	Revenue Increase	% Rate Increase
Lake Placid-Water	\$69,017	\$231	\$68,786	\$10,189	14.81%
Lake Placid-Wastewater	\$72,314	\$210	\$72,104	\$638	.88%
Tierra Verde-Wastewater	\$992,530	\$0	\$992,530	\$69,084	6.96%
UIF-Marion -Water	\$161,079	\$2,295	\$158,784	\$80,785	50.88%
UIF-Marion -Wastewater	\$47,826	\$295	\$47,531	\$31,438	66.14%
UIF-Pinellas -Water	\$157,855	\$1,248	\$156,607	\$14,309	9.14%
UIF-Pasco -Water	\$901,930	\$14,317	\$887,613	\$56,674	6.38%
UIF-Pasco -Wastewater	\$505,980	\$2,166	\$503,814	\$108,280	21.49%
UIF-Seminole -Water	\$1,014,857	\$16,487	\$998,370	\$186,352	18.67%

Consistent with Commission practice for interim rates, the above percentage increases should be applied as an across-the-board increase to the service rates in effect as of December 31, 2015, in each respective county. Due to an increase of less than one percent, staff recommends that Lake Placid's wastewater rates remain the same for interim purposes. While staff has identified seven systems that may have exceeded their maximum allowed ROE, staff is not recommending a change in rates at this time. However, as mentioned in Issue 2, staff has recommended amounts to be held subject to refund for these systems. The rates, as shown on Schedule Nos. 4-A and 4-B, 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. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. In addition, the approved rates should not be implemented until the required security has been filed, 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 4:** What is the appropriate security to guarantee the interim increase?

**Recommendation:** A cumulative corporate undertaking is acceptable contingent upon receipt of the written guarantee of the parent company, Utilities, Inc. (UI or company), and written confirmation that the cumulative outstanding guarantees on behalf of UI-owned utilities in other states will not exceed \$2 million (inclusive of all Florida utilities). UI should be required to file a corporate undertaking on behalf of its subsidiaries to guarantee any potential refunds of revenues collected under interim conditions. UI's guaranteed amount subject to refund should be \$759,084. Pursuant to Rule 25-30.360(6), F.A.C., the Utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and in accordance with Rule 25-30.360, F.A.C. (Frank, Norris, Wolmers)

**Staff Analysis:** Pursuant to Section 367.082, F.S., revenues collected under interim rates shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by the Commission. As recommended in Issue 2, the total interim increase is \$557,749, with an additional \$530,908 being held subject to refund due to potential overearnings. In accordance with Rule 25-30.360, F.A.C., staff calculated the potential refund of revenues and interest collected under interim conditions to be \$726,848. This amount is based on an estimated eight months of revenue being collected from staff's recommended interim rates over the Utility's current authorized rates shown on Schedule No. 4.

Utilities, Inc. of Florida is a wholly-owned subsidiary of UI, which provides all investor capital to its subsidiaries. Based on the amount subject to refund, the incremental increase in UI's corporate undertaking is \$726,848. A corporate undertaking request for Pasco County, in Docket No. 150269-WS, for the amount of \$32,236 is still pending. Including this amount and the current corporate undertaking request of \$726,848 the total cumulative outstanding guarantee is \$759,084 subject to refund.

The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Staff reviewed UI's 2013, 2014, and 2015 financial statements to determine if the company can support a corporate undertaking on behalf of its subsidiary. In its 2013 financial statements, UI reported an insufficient working capital amount, an inadequate current ratio, and an inadequate interest coverage ratio. In 2014, UI reported insufficient working capital and an inadequate current ratio. However, the interest coverage ratio was adequate. In 2015, UI working capital, current ratio, and interest coverage ratio were adequate. In addition, UI reported adequate ownership equity and achieved adequate profitability over the 3-year review period.

Based on staff's review of the financial reports submitted by UI, staff believes UI has adequate resources to support a corporate undertaking in the amount requested. Based on this analysis, staff recommends that a cumulative corporate undertaking of \$759,084 is acceptable contingent upon receipt of the written guarantee of UI and written confirmation that the cumulative outstanding guarantees on behalf of UI-owned utilities in other states will not exceed \$2 million (inclusive of all Florida utilities).

The brief financial analysis above is only appropriate for deciding if UI can support a corporate undertaking in the amount proposed and should not be considered a finding regarding staff's position on other issues in this proceeding.

Pursuant to Rule 25-30.360(6), F.A.C., the Utility should provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, F.A.C.

In no instance should maintenance and administrative costs associated with any refund be borne by the customers. Such costs are the responsibility of, and should be borne by, the Utility.



**Issue 5:** Should the Commission grant the Utility's Petition for Waiver or Variance of Schedule E-14, of Commission Form PSC/AFD 19-W (11/93), as incorporated by reference in Rule 25.30-437, F.A.C.?

**Recommendation:** Yes. The Commission should grant UIF's Petition for Waiver of the Rule. (Treirweiler)

**Staff Analysis:** Compliance with Schedule E-14, of Commission Form PSC/AFD 19-W (11/93), as incorporated by reference in Rule 25-30.437, F.A.C., would require the Utility to create billing analyses throughout the test year that capture the data for each class of service by meter size and reflect all rate changes throughout the test year. Each billing analysis must show the bills, gallons and rates. The goal is to provide the Commission with the data to create an annualized test year. Instead, the Utility provided the rates in effect for each system at the end of the test year period.

UIF asserts that its prior submission of annualized billing analyses from the test year obviates the requirement for the additional documents. UIF estimates that compliance would require an unnecessary creation of an additional 700-900 billing analyses. UIF asserts that it would require extensive time and it would incur inordinate costs to comply. UIF further asserts that it has already produced sufficient data required by staff to fully examine and evaluate UIF's proposed general rate increase. UIF's failure to provide separate billing analyses under Schedule E-14 that coincided with each period of rate change during the test year resulted in deficiency number 5(e)1, in the Commission's September 29, 2016 Deficiency Letter.

UIF is asserting that production of these additional documents would result in a substantial hardship as defined in Section 120.542(2), F.S. In the instant case, these detailed rate change billing analyses would not provide any additional useful data that would facilitate the Commission's review of UIF's rate request. The application of this specific MFR requirement would lead to an unreasonable, unfair, and unintended result. The purpose of this specific MFR requirement has already been achieved through the billing analysis schedules already filed by UIF in this docket.

UIF has been authorized by Office of Public Counsel to represent that: "OPC does not oppose UIF's request for rule waiver as to deficiency 5(e)1 identified on the September 29, 2016 MFR deficiency letter."

Section 120.542(2), F.S., authorizes the Commission to grant variances or waivers to the requirements of its rules where the person subject to the rules has demonstrated that the underlying purpose of the statute has been or will be achieved by other means, and strict application of the rules would cause the person substantial hardship or would violate principles of fairness. "Substantial hardship" as defined in this section may include a demonstrated economic, technological, legal, or other type of hardship to the person requesting the variance or waiver.

Section 367.081, F. S., provides that the Commission shall fix rates which are just, reasonable, compensatory and not unfairly discriminatory. The underlying purpose for gathering the information required by Rule 25-30.437, F.A.C., is to provide sufficient information for the

Commission to set appropriate rates for a utility. The Utility has provided the information in its MFRs that will permit the staff and parties to examine revenues for the test year period. The information the Utility is seeking to waive is not necessary for that determination. Therefore, the underlying purpose of the statute can still be met if the waiver is granted. Further, staff believes the Utility has sufficiently alleged hardship should it be required to comply with the rule.

Staff therefore recommends that the Commission grant the waiver of the rule. By granting this waiver, UIF will avoid incurring a substantial hardship without adversely impacting the Commission's ability to determine the annualized adjustment for the test year.

**Issue 6:** Should this docket be closed?

**Recommendation:** The docket should remain open pending the Commission's final action on the Utility's requested rate increase. (Trierweiler)

**Staff Analysis:** The docket should remain open pending the Commission's final action on the Utility's requested rate increase. With respect to Issue 5, a Consummating Order should be issued unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of the issuance of the proposed agency action portion of the order.

<b>Lake Placid Schedule of Water Rate Base Test Year Ended 12/31/15</b>			<b>Schedule No. 1-A Docket No. 160101-WS</b>		
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>
1 Plant in Service	\$531,442	(\$21,785)	\$509,657	\$0	\$509,657
2 Land and Land Rights	2,799	0	2,799	0	2,799
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(252,869)	20,013	(232,856)	0	(232,856)
5 CIAC	(235,199)	0	(235,199)	0	(235,199)
6 Accumulated Amortization of CIAC	92,146	0	92,146	0	92,146
7 CWIP	2	(2)	0	0	0
8 Working Capital Allowance	<u>0</u>	<u>10,582</u>	<u>10,582</u>	<u>(5,073)</u>	<u>5,509</u>
9 <b>Rate Base</b>	<u>\$138,321</u>	<u>\$8,808</u>	<u>\$147,129</u>	<u>(\$5,073)</u>	<u>\$142,056</u>

<b>Lake Placid</b>			<b>Schedule No. 1-B</b>		
<b>Schedule of Wastewater Rate Base</b>			<b>Docket No. 160101-WS</b>		
<b>Test Year Ended 12/31/15</b>					
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>
1 Plant in Service	\$804,592	\$21,785	\$826,377	\$0	\$826,377
2 Land and Land Rights	21,665	0	21,665	0	21,665
3 Non-used and Useful Components	0	(51,168)	(51,168)	(24,425)	(75,593)
4 Accumulated Depreciation	(526,988)	(16,778)	(543,766)	0	(543,766)
5 CIAC	(335,881)	0	(335,881)	0	(335,881)
6 Accumulated Amortization of CIAC	180,809	0	180,809	0	180,809
7 Working Capital Allowance	<u>0</u>	<u>11,154</u>	<u>11,154</u>	<u>(5,153)</u>	<u>6,001</u>
8 <b>Rate Base</b>	<u>\$144,197</u>	<u>(\$35,007)</u>	<u>\$109,190</u>	<u>(\$29,578)</u>	<u>\$79,612</u>

<b>Lake Placid</b>		<b>Schedule No. 1-C</b>	
<b>Adjustments to Rate Base</b>		<b>Docket No. 160101-WS</b>	
<b>Test Year Ended 12/31/2015</b>			
<b>Explanation</b>	<b>Water</b>	<b>Wastewater</b>	
<b>Non-used and Useful</b>			
To reflect net non-used and useful adjustment.	<u>\$0</u>	<u>(\$24,425)</u>	
<b>Working Capital</b>			
To reflect appropriate working capital.	<u>(\$5,073)</u>	<u>(\$5,153)</u>	

<b>Lake Placid Capital Structure-13-Month Average Test Year Ended 12/31/15</b>						<b>Schedule No. 2 Docket No. 160101-WS</b>		
<b>Description</b>	<b>Total Capital</b>	<b>Specific Adjust- ments</b>	<b>Subtotal Adjusted Capital</b>	<b>Prorata Adjust- ments</b>	<b>Capital Reconciled to Rate Base</b>	<b>Ratio</b>	<b>Cost Rate</b>	<b>Weighted Cost</b>
<b>Per Utility</b>								
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,882,857)	\$117,143	49.92%	6.70%	3.34%
2 Short-term Debt	9,315,385	0	9,315,385	(9,309,325)	6,060	2.58%	2.32%	0.06%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	170,208,617	0	170,208,617	(170,097,861)	110,756	47.20%	9.45%	4.46%
5 Customer Deposits	696	0	696	0	696	0.30%	6.00%	0.02%
6 Deferred Income Taxes	<u>(10,355)</u>	<u>0</u>	<u>(10,355)</u>	<u>10,355</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
7 <b>Total Capital</b>	<b><u>\$359,514,343</u></b>	<b><u>\$0</u></b>	<b><u>\$359,514,343</u></b>	<b><u>(\$359,279,688)</u></b>	<b><u>\$234,655</u></b>	<b><u>100.00%</u></b>		<b><u>7.88%</u></b>
<b>Per Staff</b>								
8 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,889,368)	\$110,632	49.91%	6.66%	3.32%
9 Short-term Debt	9,315,385	0	9,315,385	(9,309,660)	5,725	2.58%	2.32%	0.06%
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11 Common Equity	170,208,617	0	170,208,617	(170,104,003)	104,614	47.19%	9.45%	4.46%
12 Customer Deposits	696	0	696	0	696	0.31%	6.00%	0.02%
13 Deferred Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
14 <b>Total Capital</b>	<b><u>\$359,524,698</u></b>	<b><u>\$0</u></b>	<b><u>\$359,524,698</u></b>	<b><u>(\$359,303,030)</u></b>	<b><u>\$221,668</u></b>	<b><u>100.00%</u></b>		<b><u>7.86%</u></b>
						<b><u>LOW</u></b>	<b><u>HIGH</u></b>	
RETURN ON EQUITY						<u>9.45%</u>	<u>11.45%</u>	
OVERALL RATE OF RETURN						<u>7.86%</u>	<u>8.81%</u>	

<b>Lake Placid</b>								<b>Schedule No. 3-A</b>	
<b>Statement of Water Operations</b>								<b>Docket No. 160101-WS</b>	
<b>Test Year Ended 12/31/15</b>									
	<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjustments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjustments</b>	<b>Staff Adjusted Test Year</b>	<b>Revenue Increase</b>	<b>Revenue Requirement</b>	
1	<b>Operating Revenues:</b>	<u>\$71,165</u>	<u>\$9,005</u>	<u>\$80,170</u>	<u>(\$11,153)</u>	<u>\$69,017</u>	<u>\$10,189</u> 14.76%	<u>\$79,206</u>	
	<b>Operating Expenses</b>								
2	Operation & Maintenance	\$45,039	(\$611)	\$44,428	(\$358)	\$44,070	\$0	\$44,070	
3	Depreciation	14,697	(3,107)	11,590	0	11,590	0	11,590	
4	Amortization	(217)	217	0	0	0	0	0	
5	Taxes Other Than Income	8,196	401	8,597	(502)	8,095	458	8,554	
6	Income Taxes	<u>(595)</u>	<u>4,556</u>	<u>3,961</u>	<u>(3,800)</u>	<u>161</u>	<u>3,661</u>	<u>3,822</u>	
7	<b>Total Operating Expense</b>	<u>67,120</u>	<u>1,456</u>	<u>68,576</u>	<u>(4,659)</u>	<u>63,917</u>	<u>4,120</u>	<u>68,036</u>	
8	<b>Operating Income</b>	<u>\$4,045</u>	<u>\$7,549</u>	<u>\$11,594</u>	<u>(\$6,494)</u>	<u>\$5,100</u>	<u>\$6,069</u>	<u>\$11,169</u>	
9	<b>Rate Base</b>	<u>\$138,321</u>		<u>\$147,129</u>		<u>\$142,056</u>		<u>\$142,056</u>	
10	<b>Rate of Return</b>	<u>2.92%</u>		<u>7.88%</u>		<u>3.59%</u>		<u>7.86%</u>	



<b>Lake Placid Statement of Wastewater Operations Test Year Ended 12/31/15</b>						<b>Schedule No. 3-B Docket No. 160101-WS</b>	
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>	<b>Revenue Increase</b>	<b>Revenue Requirement</b>
1 <b>Operating Revenues:</b>	<u>\$75,147</u>	<u>(\$636)</u>	<u>\$74,511</u>	<u>(\$2,197)</u>	<u>\$72,314</u>	<u>\$638</u> 0.88%	<u>\$72,952</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$47,400	\$491	\$47,891	\$115	\$48,006	\$0	\$48,006
3 Depreciation	14,786	(5,538)	9,248	0	9,248	0	9,248
4 Amortization	0	0	0	0	0	0	0
5 Taxes Other Than Income	7,984	140	8,124	(856)	7,268	29	7,296
6 Income Taxes	<u>2,037</u>	<u>316</u>	<u>2,353</u>	<u>(440)</u>	<u>1,913</u>	<u>229</u>	<u>2,142</u>
7 <b>Total Operating Expense</b>	<u>72,207</u>	<u>(4,591)</u>	<u>67,616</u>	<u>(1,182)</u>	<u>66,434</u>	<u>258</u>	<u>66,692</u>
8 <b>Operating Income</b>	<u>\$2,940</u>	<u>\$3,955</u>	<u>\$6,895</u>	<u>(\$1,015)</u>	<u>\$5,880</u>	<u>\$380</u>	<u>\$6,260</u>
9 <b>Rate Base</b>	<u>\$144,197</u>		<u>\$109,190</u>		<u>\$79,612</u>		<u>\$79,612</u>
10 <b>Rate of Return</b>	<u>2.04%</u>		<u>6.31%</u>		<u>7.39%</u>		<u>7.86%</u>

<b>Lake Placid</b>		<b>Schedule No. 3-C</b>	
<b>Adjustments to Operating Income</b>		<b>Docket No. 160101-WS</b>	
<b>Test Year Ended 12/31/15</b>			
	<b>Explanation</b>	<b>Water</b>	<b>Wastewater</b>
<b>Operating Revenues</b>			
1	Remove requested interim revenue increase.	(\$11,239)	(\$1,661)
2	To reflect the appropriate amount of annualized revenues.	<u>86</u>	<u>(536)</u>
	<b>Total</b>	<u>(\$11,153)</u>	<u>(\$2,197)</u>
<b>Operation and Maintenance Expense</b>			
1	To reflect appropriate rate case expense amortization.	(\$249)	\$115
2	To reflect 3.1 percent EUW adjustment.	<u>(109)</u>	<u>0</u>
	<b>Total</b>	<u>(\$358)</u>	<u>\$115</u>
<b>Taxes Other Than Income</b>			
1	To reflect RAFs on revenue adjustment.	(\$502)	(\$99)
2	To remove property taxes on non-used and useful adjustment.	<u>0</u>	<u>(757)</u>
	<b>Total</b>	<u>(\$502)</u>	<u>(\$856)</u>

<b>Lake Placid Test Year Ended 12/31/15 Monthly Water Rates</b>		<b>Schedule No. 4-A Docket No. 160101-WS</b>			
	<b>Test Year Rates 12/31/15</b>	<b>Utility Current Rates</b>	<b>Utility Requested Interim</b>	<b>Utility Requested Final</b>	<b>Staff Recommended Interim</b>
<b><u>Residential and General Service</u></b>					
Base Facility Charge by Meter Size					
5/8" X 3/4"	\$15.83	\$15.94	\$18.41	\$19.10	\$18.17
3/4"	\$22.75	\$23.92	\$27.62	\$28.66	\$27.26
1"	\$39.56	\$39.84	\$46.01	\$47.73	\$45.43
1-1/2"	\$79.12	\$79.68	\$92.02	\$95.46	\$90.85
2"	\$126.59	\$127.49	\$147.23	\$152.75	\$145.36
3"	\$253.19	\$254.98	\$294.47	\$305.49	\$290.72
4"	\$395.60	\$398.40	\$460.10	\$477.32	\$454.25
6"	\$791.20	\$796.80	\$920.20	\$954.65	\$908.50
Charge per 1,000 gallons - Residential and General Service	\$6.72	\$6.77	\$7.82	\$8.11	\$7.72
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>					
3,000 Gallons	\$35.99	\$36.25	\$41.87	\$43.43	\$41.33
5,000 Gallons	\$49.43	\$49.79	\$57.51	\$59.65	\$56.77
10,000 Gallons	\$83.03	\$83.64	\$96.61	\$100.20	\$95.37

<b>Lake Placid</b>		<b>Schedule No. 4-B</b>			
<b>Test Year Ended 12/31/15</b>		<b>Docket No. 160101-WS</b>			
<b>Monthly Wastewater Rates</b>					
	<b>Test Year Rates 12/31/15</b>	<b>Utility Current Rates</b>	<b>Utility Requested Interim</b>	<b>Utility Requested Final</b>	<b>Staff Recommended Interim</b>
<b><u>Residential Service</u></b>					
Base Facility Charge - All Meter Sizes	\$12.01	\$12.09	\$12.28	\$15.24	\$12.12
Charge per 1,000 Gallons- Residential 6,000 gallon cap	\$5.53	\$5.57	\$5.66	\$7.02	\$5.58
Flat Rate	\$21.88	\$22.03	\$22.38	\$27.77	\$22.07
<b><u>General Service</u></b>					
Base Facility Charge by Meter Size					
5/8" X 3/4"	\$12.01	\$12.09	\$12.28	\$15.24	\$12.12
3/4"	\$18.02	\$18.15	\$18.43	\$22.88	\$18.18
1"	\$30.03	\$30.24	\$30.71	\$38.11	\$30.30
1-1/2"	\$60.05	\$60.47	\$61.42	\$76.22	\$60.60
2"	\$96.09	\$96.76	\$98.28	\$121.96	\$96.96
3"	\$192.15	\$193.54	\$196.57	\$243.94	\$193.92
4"	\$300.29	\$302.40	\$307.14	\$381.14	\$303.00
6"	\$600.58	\$604.80	\$614.28	\$762.29	\$606.00
Charge per 1,000 gallons - General Service	\$6.63	\$6.68	\$6.78	\$8.42	\$6.69
<b><u>Bulk Service</u></b>					
Base Facility Charge - All Meter Sizes	\$403.01	\$405.84	\$412.20	\$511.52	\$406.56
Charge per 1,000 gallons - Bulk Service	\$5.31	\$5.35	\$5.43	\$6.74	\$5.40
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>					
3,000 Gallons	\$28.60	\$28.80	\$29.26	\$36.30	\$28.86
5,000 Gallons	\$39.66	\$39.94	\$40.58	\$50.34	\$40.02
10,000 Gallons	\$67.31	\$67.79	\$68.88	\$85.44	\$67.92

<b>Tierra Verde</b>		<b>Schedule No. 1-A</b>			
<b>Schedule of Wastewater Rate Base</b>		<b>Docket No. 160101-WS</b>			
<b>Test Year Ended 12/31/15</b>					
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>
1 Plant in Service	\$4,599,437	\$0	\$4,599,437	\$0	\$4,599,437
2 Land and Land Rights	727	0	727	0	727
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(3,329,766)	25,394	(3,304,372)	0	(3,304,372)
5 CIAC	(1,821,202)	0	(1,821,202)	0	(1,821,202)
6 Accumulated Amortization of CIAC	1,566,010	0	1,566,010	0	1,566,010
7 CWIP	18	(18)	0	0	0
8 Acquisition Adjustment	351,207	(351,207)	0	0	0
9 Accumulated Amort. of Acq. Adj.	(81,247)	81,247	0	0	0
10 Working Capital Allowance	<u>0</u>	<u>95,329</u>	<u>95,329</u>	<u>135</u>	<u>95,464</u>
11 <b>Rate Base</b>	<u>\$1,285,184</u>	<u>(\$149,255)</u>	<u>\$1,135,929</u>	<u>\$135</u>	<u>\$1,136,064</u>

<b>Tierra Verde</b>		<b>Schedule No. 1-B</b>
<b>Adjustments to Rate Base</b>		<b>Docket No. 160101-WS</b>
<b>Test Year Ended 12/31/2015</b>		
<b>Explanation</b>		<b>Wastewater</b>
<b>Working Capital</b> To reflect appropriate working capital.		<u>\$135</u>

Tierra Verde Capital Structure-13-Month Average Test Year Ended 12/31/15							Schedule No. 2 Docket No. 160101-WS			
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost		
<b>Per Utility</b>										
1	Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,531,136)	\$468,864	41.28%	6.70%	2.77%	
2	Short-term Debt	17,100,000	0	17,100,000	(17,055,472)	44,528	3.92%	2.32%	0.09%	
3	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4	Common Equity	191,433,000	0	191,433,000	(190,934,383)	498,617	43.90%	11.34%	4.98%	
5	Customer Deposits	0	0	0	0	0	0.00%	2.00%	0.00%	
6	Deferred Income Taxes	<u>123,919</u>	<u>0</u>	<u>123,919</u>	<u>0</u>	<u>123,919</u>	<u>10.91%</u>	0.00%	<u>0.00%</u>	
7	<b>Total Capital</b>	<u>\$388,656,919</u>	<u>\$0</u>	<u>\$388,656,919</u>	<u>(\$387,520,991)</u>	<u>\$1,135,928</u>	<u>100.00%</u>		<u>7.83%</u>	
<b>Per Staff</b>										
8	Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,531,092)	\$468,908	41.27%	6.66%	2.75%	
9	Short-term Debt	17,100,000	0	17,100,000	(17,055,454)	44,546	3.92%	2.32%	0.09%	
10	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
11	Common Equity	191,433,000	0	191,433,000	(190,934,309)	498,691	43.90%	11.34%	4.98%	
12	Customer Deposits	0	0	0	0	0	0.00%	2.00%	0.00%	
13	Deferred Income Taxes	<u>123,919</u>	<u>0</u>	<u>123,919</u>	<u>0</u>	<u>123,919</u>	<u>10.91%</u>	0.00%	<u>0.00%</u>	
14	<b>Total Capital</b>	<u>\$388,656,919</u>	<u>\$0</u>	<u>\$388,656,919</u>	<u>(\$387,520,855)</u>	<u>\$1,136,064</u>	<u>100.00%</u>		<u>7.82%</u>	
						<b>LOW</b>	<b>HIGH</b>			
						RETURN ON EQUITY	<u>11.34%</u>	<u>13.34%</u>		
						OVERALL RATE OF RETURN	<u>7.82%</u>	<u>8.70%</u>		

<b>Tierra Verde</b>						<b>Schedule No. 3-A</b>	
<b>Statement of Wastewater Operations</b>						<b>Docket No. 160101-WS</b>	
<b>Test Year Ended 12/31/15</b>							
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjustments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjustments</b>	<b>Staff Adjusted Test Year</b>	<b>Revenue Increase</b>	<b>Revenue Requirement</b>
1 <b>Operating Revenues:</b>	<u>\$983,657</u>	<u>\$77,957</u>	<u>\$1,061,614</u>	<u>(\$69,084)</u>	<u>\$992,530</u>	<u>\$69,084</u> 6.96%	<u>\$1,061,614</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$762,629	\$0	\$762,629	\$1,084	\$763,713	\$0	\$763,713
3 Depreciation	120,386	(4,292)	116,094	0	116,094	0	116,094
4 Amortization	0	0	0	0	0	0	0
5 Taxes Other Than Income	55,865	3,987	59,852	(3,109)	56,743	3,109	59,852
6 Income Taxes	<u>(1,870)</u>	<u>35,967</u>	<u>34,097</u>	<u>(25,172)</u>	<u>8,925</u>	<u>24,826</u>	<u>33,751</u>
7 <b>Total Operating Expense</b>	<u>937,010</u>	<u>35,662</u>	<u>972,672</u>	<u>(27,197)</u>	<u>945,475</u>	<u>27,935</u>	<u>973,410</u>
8 <b>Operating Income</b>	<u>\$46,647</u>	<u>\$42,295</u>	<u>\$88,942</u>	<u>(\$41,887)</u>	<u>\$47,055</u>	<u>\$41,149</u>	<u>\$88,204</u>
9 <b>Rate Base</b>	<u>\$1,285,184</u>		<u>\$1,135,929</u>		<u>\$1,136,064</u>		<u>\$1,136,064</u>
10 <b>Rate of Return</b>	<u>3.63%</u>		<u>7.83%</u>		<u>4.14%</u>		<u>7.76%</u>



<b>Tierra Verde</b>		<b>Schedule No. 3-B</b>
<b>Adjustments to Operating Income</b>		<b>Docket No. 160101-WS</b>
<b>Test Year Ended 12/31/15</b>		
<b>Explanation</b>	<b>Wastewater</b>	
<b>Operating Revenues</b>		
To reflect the appropriate amount of annualized revenues.		<u>(\$69,084)</u>
<b>Operation and Maintenance Expense</b>		
To reflect appropriate rate case expense amortization.		<u>\$1,084</u>
<b>Taxes Other Than Income</b>		
To reflect RAFs on revenue adjustment.		<u>(\$3,109)</u>

<b>Tierra Verde</b>		<b>Schedule No. 4-A</b>			
<b>Test Year Ended 12/31/15</b>		<b>Docket No. 160101-WS</b>			
<b>Bi-Monthly Wastewater Rates</b>					
	<b>Test Year Rates 12/31/15</b>	<b>Utility Current Rates</b>	<b>Utility Requested Interim</b>	<b>Utility Requested Final</b>	<b>Staff Recommended Interim</b>
<b><u>Residential Service</u></b>					
Flat Rate (Bi-monthly)	\$96.91	\$97.29	\$103.65	\$107.82	\$104.06
<b><u>General Service</u></b>					
Base Facility Charge by Meter Size (Bi-monthly)					
5/8 x 3/4"	\$61.10	\$62.06	\$65.35	\$68.77	\$66.38
1"	\$154.52	\$155.13	\$165.27	\$171.93	\$165.95
1-1/2"	\$309.05	\$310.28	\$330.56	\$343.85	\$331.90
2"	\$494.48	\$496.44	\$528.90	\$550.16	\$531.04
3"	\$988.96	\$992.89	\$1,057.79	\$1,031.55	\$1,062.08
4"	\$1,545.22	\$1,551.36	\$1,652.77	\$1,719.25	\$1,659.50
6"	\$3,090.46	\$3,102.73	\$3,305.56	\$3,438.50	\$3,319.00
Charge per 1,000 Gallons - General Service	\$3.57	\$3.58	\$3.82	\$3.97	\$3.83
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>					
3,000 Gallons	\$96.91	\$97.29	\$103.65	\$107.82	\$104.06
5,000 Gallons	\$96.91	\$97.29	\$103.65	\$107.82	\$104.06
10,000 Gallons	\$96.91	\$97.29	\$103.65	\$107.82	\$104.06

<b>UIF-Marion</b>		<b>Schedule No. 1-A</b>				
<b>Schedule of Water Rate Base</b>		<b>Docket No. 160101-WS</b>				
<b>Test Year Ended 12/31/15</b>						
<b>Description</b>		<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>
1	Plant in Service	\$1,208,257	\$0	\$1,208,257	\$0	\$1,208,257
2	Land and Land Rights	17,211	0	17,211	0	17,211
3	Non-used and Useful Components	0	0	0	0	0
4	Accumulated Depreciation	(537,137)	8,087	(529,050)	0	(529,050)
5	CIAC	(184,713)	0	(184,713)	0	(184,713)
6	Accumulated Amortization of CIAC	120,763	0	120,763	0	120,763
7	CWIP	24,955	(24,955)	0	0	0
8	Acquisition Adjustment	5,529	(5,529)	0	0	0
9	Accumulated Amort. of Acq. Adj.	(2,178)	2,178	0	0	0
10	Working Capital Allowance	<u>0</u>	<u>15,778</u>	<u>15,778</u>	<u>560</u>	<u>16,338</u>
11	<b>Rate Base</b>	<u>\$652,687</u>	<u>(\$4,441)</u>	<u>\$648,246</u>	<u>\$560</u>	<u>\$648,806</u>

<b>UIF-Marion</b>			<b>Schedule No. 1-B</b>		
<b>Schedule of Wastewater Rate Base</b>			<b>Docket No. 160101-WS</b>		
<b>Test Year Ended 12/31/15</b>					
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>
1 Plant in Service	\$210,434	\$0	\$210,434	\$0	\$210,434
2 Land and Land Rights	10,725	0	10,725	0	10,725
3 Non-used and Useful Components	0	0	0	(5,634)	(5,634)
4 Accumulated Depreciation	(100,023)	1,126	(98,897)	0	(98,897)
5 CIAC	(7,200)	0	(7,200)	0	(7,200)
6 Accumulated Amortization of CIAC	1,858	0	1,858	0	1,858
7 CWIP	7	(7)	0	0	0
8 Working Capital Allowance	<u>0</u>	<u>2,196</u>	<u>2,196</u>	<u>78</u>	<u>2,274</u>
9 <b>Rate Base</b>	<u>\$115,801</u>	<u>\$3,315</u>	<u>\$119,116</u>	<u>(\$5,556)</u>	<u>\$113,560</u>

<b>UIF-Marion</b>		<b>Schedule No. 1-C</b>	
<b>Adjustments to Rate Base</b>		<b>Docket No. 160101-WS</b>	
<b>Test Year Ended 12/31/2015</b>			
<b>Explanation</b>	<b>Water</b>	<b>Wastewater</b>	
<b>Non-used and Useful</b>			
To reflect net non-used and useful adjustment.	<u>\$0</u>	<u>(\$5,634)</u>	
<b>Working Capital</b>			
To reflect appropriate working capital.	<u>\$560</u>	<u>\$78</u>	

UIF-Marion Capital Structure-13-Month Average Test Year Ended 12/31/15							Schedule No. 2 Docket No. 160101-WS			
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost		
<b>Per Utility</b>										
1	Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,684,759)	\$315,241	41.08%	6.70%	2.75%	
2	Short-term Debt	17,100,000	0	17,100,000	(17,070,061)	29,939	3.90%	2.32%	0.09%	
3	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4	Common Equity	191,432,923	0	191,432,923	(191,097,677)	335,246	43.69%	9.38%	4.10%	
5	Customer Deposits	3,411	0	3,411	0	3,411	0.44%	2.00%	0.01%	
6	Tax Credits-Zero Cost	5,208	0	5,208	0	5,208	0.68%	0.00%	0.00%	
7	Deferred Income Taxes	<u>78,317</u>	<u>0</u>	<u>78,317</u>	<u>0</u>	<u>78,317</u>	<u>10.21%</u>	0.00%	<u>0.00%</u>	
8	<b>Total Capital</b>	<u>\$388,619,859</u>	<u>\$0</u>	<u>\$388,619,859</u>	<u>(\$387,852,497)</u>	<u>\$767,362</u>	<u>100.00%</u>		<u>6.95%</u>	
<b>Per Staff</b>										
9	Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$175,358,738)	\$4,641,262	40.85%	6.66%	2.72%	
10	Short-term Debt	17,100,000	0	17,100,000	(16,659,080)	440,920	3.88%	2.32%	0.09%	
11	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
12	Common Equity	191,432,923	0	191,432,923	(186,496,865)	4,936,058	43.44%	9.38%	4.08%	
13	Customer Deposits	44,664	8,038	52,702	0	52,702	0.46%	2.00%	0.01%	
14	Tax Credits-Zero Cost	67,839	12,609	80,448	0	80,448	0.71%	0.00%	0.00%	
15	Deferred Income Taxes	<u>1,025,837</u>	<u>184,622</u>	<u>1,210,459</u>	<u>0</u>	<u>1,210,459</u>	<u>10.65%</u>	0.00%	<u>0.00%</u>	
16	<b>Total Capital</b>	<u>\$389,671,263</u>	<u>\$205,269</u>	<u>\$389,876,532</u>	<u>(\$378,514,683)</u>	<u>\$11,361,849</u>	<u>100.00%</u>		<u>6.89%</u>	
							<b>LOW</b>	<b>HIGH</b>		
							RETURN ON EQUITY	<u>9.38%</u>	<u>11.38%</u>	
							OVERALL RATE OF RETURN	<u>6.89%</u>	<u>7.76%</u>	

<b>UIF-Marion Statement of Water Operations Test Year Ended 12/31/15</b>						<b>Schedule No. 3-A Docket No. 160101-WS</b>	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$159,194</u>	<u>\$96,813</u>	<u>\$256,007</u>	<u>(\$94,928)</u>	<u>\$161,079</u>	<u>\$80,785</u> 50.15%	<u>\$241,864</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$135,850	(\$16,713)	\$119,137	(\$12,442)	\$106,695	\$0	\$106,695
3 Depreciation	61,493	(2,862)	58,631	0	58,631	0	58,631
4 Amortization	0	0	0	0	0	0	0
5 Taxes Other Than Income	16,310	865	17,175	(4,963)	12,212	3,635	15,847
6 Income Taxes	<u>69</u>	<u>15,953</u>	<u>16,022</u>	<u>(29,097)</u>	<u>(13,075)</u>	<u>29,032</u>	<u>15,956</u>
7 <b>Total Operating Expense</b>	<u>213,722</u>	<u>(2,757)</u>	<u>210,965</u>	<u>(46,502)</u>	<u>164,463</u>	<u>32,667</u>	<u>197,130</u>
8 <b>Operating Income</b>	<u>(\$54,528)</u>	<u>\$99,570</u>	<u>\$45,042</u>	<u>(\$48,426)</u>	<u>(\$3,384)</u>	<u>\$48,119</u>	<u>\$44,735</u>
9 <b>Rate Base</b>	<u>\$652,687</u>		<u>\$648,246</u>		<u>\$648,806</u>		<u>\$648,806</u>
10 <b>Rate of Return</b>	<u>-8.35%</u>		<u>6.95%</u>		<u>-0.52%</u>		<u>6.89%</u>

<b>UIF-Marion                      Statement of Wastewater Operations                      Test Year Ended 12/31/15</b>						<b>Schedule No. 3-B                      Docket No. 160101-WS</b>	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$47,187</u>	<u>\$36,523</u>	<u>\$83,710</u>	<u>(\$35,884)</u>	<u>\$47,826</u>	<u>\$31,438</u> 65.73%	<u>\$79,264</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$18,258	\$16,871	\$35,129	(\$1,347)	\$33,782	\$0	\$33,782
3 Depreciation	30,707	1,603	32,310	(2,082)	30,228	0	30,228
4 Amortization	0	0	0	0	0	0	0
5 Taxes Other Than Income	0	5,051	5,051	(1,834)	3,217	1,415	4,632
6 Income Taxes	<u>10</u>	<u>2,934</u>	<u>2,944</u>	<u>(11,449)</u>	<u>(8,505)</u>	<u>11,298</u>	<u>2,793</u>
7 <b>Total Operating Expense</b>	<u>48,975</u>	<u>26,459</u>	<u>75,434</u>	<u>(16,712)</u>	<u>58,722</u>	<u>12,712</u>	<u>71,434</u>
8 <b>Operating Income</b>	<u>(\$1,788)</u>	<u>\$10,064</u>	<u>\$8,276</u>	<u>(\$19,172)</u>	<u>(\$10,896)</u>	<u>\$18,725</u>	<u>\$7,830</u>
9 <b>Rate Base</b>	<u>\$115,801</u>		<u>\$119,116</u>		<u>\$113,560</u>		<u>\$113,560</u>
10 <b>Rate of Return</b>	<u>-1.54%</u>		<u>6.95%</u>		<u>-9.59%</u>		<u>6.89%</u>



<b>UIF-Marion</b>		<b>Schedule No. 3-C</b>	
<b>Adjustments to Operating Income</b>		<b>Docket No. 160101-WS</b>	
<b>Test Year Ended 12/31/15</b>			
<b>Explanation</b>	<b>Water</b>	<b>Wastewater</b>	
<b>Operating Revenues</b>			
Remove requested interim revenue increase.	<u>(\$94,928)</u>	<u>(\$35,884)</u>	
<b>Operation and Maintenance Expense</b>			
1 To reflect appropriate interim salary expense.	(\$9,037)	(\$1,024)	
2 To reflect appropriate interim pension and benefits expense.	(3,279)	(371)	
3 To reflect appropriate interim bad debt expense.	(361)	15	
4 To reflect appropriate rate case expense amortization.	<u>235</u>	<u>33</u>	
<b>Total</b>	<u>(\$12,442)</u>	<u>(\$1,347)</u>	
<b>Depreciation Expense - Net</b>			
To reflect net non-used and useful adjustment	<u>\$0</u>	<u>(\$2,082)</u>	
<b>Taxes Other Than Income</b>			
1 To reflect RAFs on revenue adjustment.	(\$4,272)	(\$1,615)	
2 To reflect salary adjustment.	(691)	(78)	
3 To remove property taxes on non-used and useful adjustment.	<u>0</u>	<u>(141)</u>	
<b>Total</b>	<u>(\$4,963)</u>	<u>(\$1,834)</u>	

<b>UIF - Marion</b>		<b>Schedule No. 4-A</b>			
<b>Test Year Ended 12/31/15</b>		<b>Docket No. 160101-WS</b>			
<b>Monthly Water Rates</b>					
	<b>Test Year Rates 12/31/15</b>	<b>Utility Current Rates</b>	<b>Utility Requested Interim</b>	<b>Utility Requested Final</b>	<b>Staff Recommended Interim</b>
<b><u>Residential and General Service</u></b>					
Base Facility Charge by Meter Size					
5/8"X 3/4"	\$3.70	\$4.80	\$5.91	\$6.40	\$5.58
1"	\$9.26	\$12.00	\$14.80	\$16.01	\$13.95
1-1/2"	\$18.52	\$24.00	\$29.59	\$32.02	\$27.90
2"	\$29.62	\$38.40	\$47.33	\$51.23	\$44.64
3"	\$59.24	\$76.80	\$94.66	\$102.47	\$89.28
4"	\$92.57	\$120.00	\$147.91	\$160.10	\$139.50
6"	\$185.13	\$240.00	\$295.81	\$320.21	\$279.00
Charge per 1,000 gallons - Residential and General Service					
	\$2.24	\$2.91	\$3.58	\$3.88	\$3.38
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>					
3,000 Gallons	\$10.42	\$13.53	\$16.65	\$18.04	\$15.72
5,000 Gallons	\$14.90	\$19.35	\$23.81	\$25.80	\$22.48
10,000 Gallons	\$26.10	\$33.90	\$41.71	\$45.20	\$39.38

<b>UIF - Marion</b>		<b>Schedule No. 4-B</b>			
<b>Test Year Ended 12/31/15</b>		<b>Docket No. 160101-WS</b>			
<b>Monthly Wastewater Rates</b>					
	<b>Test Year Rates 12/31/15</b>	<b>Utility Current Rates</b>	<b>Utility Requested Interim</b>	<b>Utility Requested Final</b>	<b>Staff Recommended Interim</b>
<b><u>Residential Service</u></b>					
Base Facility Charge - All Meter Sizes	\$26.12	\$26.37	\$45.84	\$47.27	\$43.40
Charge per 1,000 Gallons - Residential 10,000 gallon cap	\$2.79	\$2.82	\$4.90	\$5.05	\$4.64
<b><u>General Service</u></b>					
Base Facility Charge by Meter Size					
5/8"	\$26.12	\$26.37	\$45.84	\$47.27	\$43.40
1"	\$65.32	\$65.95	\$114.63	\$118.21	\$108.50
1-1/2"	\$130.63	\$131.88	\$229.25	\$236.39	\$217.00
2"	\$209.01	\$211.02	\$366.80	\$378.24	\$347.20
3"	\$418.02	\$422.03	\$733.61	\$756.46	\$694.40
4"	\$653.17	\$659.44	\$1,146.29	\$1,182.00	\$1,085.00
6"	\$1,306.3 4	\$1,318.8 8	\$2,292.57	\$2,364.00	\$2,170.00
Charge per 1,000 gallons - General Service	\$3.34	\$3.37	\$5.86	\$6.04	\$5.55
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>					
3,000 Gallons	\$34.49	\$34.83	\$60.54	\$62.42	\$57.32
5,000 Gallons	\$40.07	\$40.47	\$70.34	\$72.52	\$66.60
10,000 Gallons	\$54.02	\$54.57	\$94.84	\$97.77	\$89.80

<b>UIF-Pinellas</b>		<b>Schedule No. 1-A</b>				
<b>Schedule of Water Rate Base</b>		<b>Docket No. 160101-WS</b>				
<b>Test Year Ended 12/31/15</b>						
<b>Description</b>		<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>
1	Plant in Service	\$901,630	\$0	\$901,630	\$0	\$901,630
2	Land and Land Rights	6,207	0	6,207	0	6,207
3	Non-used and Useful Components	0	0	0	0	0
4	Accumulated Depreciation	(175,392)	6,338	(169,054)	0	(169,054)
5	CIAC	(157,394)	0	(157,394)	0	(157,394)
6	Accumulated Amortization of CIAC	106,775	0	106,775	0	106,775
7	CWIP	19,561	(19,561)	0	0	0
8	Acquisition Adjustment	95,378	(95,378)	0	0	0
9	Accumulated Amort. of Acq. Adj.	(25,082)	25,082	0	0	0
10	Working Capital Allowance	<u>0</u>	<u>16,289</u>	<u>16,289</u>	<u>12,046</u>	<u>28,335</u>
11	<b>Rate Base</b>	<u>\$771,683</u>	<u>(\$67,230)</u>	<u>\$704,453</u>	<u>\$12,046</u>	<u>\$716,499</u>

<b>UIF-Pinellas</b>		<b>Schedule No. 1-B</b>
<b>Adjustments to Rate Base</b>		<b>Docket No. 160101-WS</b>
<b>Test Year Ended 12/31/15</b>		
<b>Explanation</b>	<b>Water</b>	
<b>Working Capital</b> To reflect appropriate working capital.	<u>\$12,046</u>	

UIF-Pinellas Capital Structure-13-Month Average Test Year Ended 12/31/15							Schedule No. 2 Docket No. 160101-WS			
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost		
<b>Per Utility</b>										
1	Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,701,329)	\$298,671	42.40%	6.70%	2.84%	
2	Short-term Debt	17,100,000	0	17,100,000	(17,071,635)	28,365	4.03%	2.32%	0.09%	
3	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4	Common Equity	191,432,923	0	191,432,923	(191,115,299)	317,624	45.09%	9.38%	4.23%	
5	Customer Deposits	2,346	0	2,346	0	2,346	0.33%	2.00%	0.01%	
6	Tax Credits-Zero Cost	3,582	0	3,582	0	3,582	0.51%	0.00%	0.00%	
7	Deferred Income Taxes	<u>53,865</u>	<u>0</u>	<u>53,865</u>	<u>0</u>	<u>53,865</u>	<u>7.65%</u>	0.00%	<u>0.00%</u>	
8	<b>Total Capital</b>	<u>\$388,592,716</u>	<u>\$0</u>	<u>\$388,592,716</u>	<u>(\$387,888,263)</u>	<u>\$704,453</u>	<u>100.00%</u>		<u>7.17%</u>	
<b>Per Staff</b>										
9	Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$175,358,738)	\$4,641,262	40.85%	6.66%	2.72%	
10	Short-term Debt	17,100,000	0	17,100,000	(16,659,080)	440,920	3.88%	2.32%	0.09%	
11	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
12	Common Equity	191,432,923	0	191,432,923	(186,496,865)	4,936,058	43.44%	9.38%	4.08%	
13	Customer Deposits	44,664	8,038	52,702	0	52,702	0.46%	2.00%	0.01%	
14	Tax Credits-Zero Cost	67,839	12,609	80,448	0	80,448	0.71%	0.00%	0.00%	
15	Deferred Income Taxes	<u>1,025,837</u>	<u>184,622</u>	<u>1,210,459</u>	<u>0</u>	<u>1,210,459</u>	<u>10.65%</u>	0.00%	<u>0.00%</u>	
16	<b>Total Capital</b>	<u>\$389,671,263</u>	<u>\$205,269</u>	<u>\$389,876,532</u>	<u>(\$378,514,683)</u>	<u>\$11,361,849</u>	<u>100.00%</u>		<u>6.89%</u>	
						<b>LOW</b>	<b>HIGH</b>			
						RETURN ON EQUITY	<u>9.38%</u>	<u>11.38%</u>		
						OVERALL RATE OF RETURN	<u>6.89%</u>	<u>7.76%</u>		

<b>UIF-Pinellas Statement of Water Operations Test Year Ended 12/31/15</b>						<b>Schedule No. 3-A Docket No. 160101-WS</b>	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$155,393</u>	<u>\$16,771</u>	<u>\$172,164</u>	<u>(\$14,309)</u>	<u>\$157,855</u>	<u>\$14,309</u> 9.06%	<u>\$172,164</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$64,154	\$0	\$64,154	\$5,851	\$70,005	\$0	\$70,005
3 Depreciation	29,500	(866)	28,634	0	28,634	0	28,634
4 Amortization	0	0	0	0	0	0	0
5 Taxes Other Than Income	2,778	8,113	10,891	(644)	10,247	644	10,891
6 Income Taxes	<u>54</u>	<u>17,921</u>	<u>17,975</u>	<u>(7,151)</u>	<u>10,824</u>	<u>5,142</u>	<u>15,966</u>
7 <b>Total Operating Expense</b>	<u>96,486</u>	<u>25,168</u>	<u>121,654</u>	<u>(1,944)</u>	<u>119,710</u>	<u>5,786</u>	<u>125,496</u>
8 <b>Operating Income</b>	<u>\$58,907</u>	<u>(\$8,397)</u>	<u>\$50,510</u>	<u>(\$12,365)</u>	<u>\$38,145</u>	<u>\$8,523</u>	<u>\$46,668</u>
9 <b>Rate Base</b>	<u>\$771,683</u>		<u>\$704,453</u>		<u>\$716,499</u>		<u>\$716,499</u>
10 <b>Rate of Return</b>	<u>7.63%</u>		<u>7.17%</u>		<u>5.32%</u>		<u>6.51%</u>

<b>UIF-Pinellas</b>		<b>Schedule No. 3-B</b>
<b>Adjustments to Operating Income</b>		<b>Docket No. 160101-WS</b>
<b>Test Year Ended 12/31/15</b>		
<b>Explanation</b>	<b>Water</b>	
<b>Operating Revenues</b>		
1 Remove requested interim revenue increase.	(\$15,017)	
2 To reflect the appropriate amount of annualized revenues.	<u>708</u>	
<b>Total</b>	<u>(\$14,309)</u>	
<b>Operation and Maintenance Expense</b>		
1 To reflect appropriate interim bad debt expense.	(\$141)	
2 To reflect appropriate rate case expense amortization.	<u>5,992</u>	
<b>Total</b>	<u>\$5,851</u>	
<b>Taxes Other Than Income</b>		
To reflect RAFs on revenue adjustment.	<u>(\$644)</u>	



<b>UIF - Pinellas</b>		<b>Schedule No. 4-A</b>			
<b>Test Year Ended 12/31/15</b>		<b>Docket No. 160101-WS</b>			
<b>Monthly Water Rates</b>					
	<b>Test Year Rates 12/31/15</b>	<b>Utility Current Rates</b>	<b>Utility Requested Interim</b>	<b>Utility Requested Final</b>	<b>Staff Recommended Interim</b>
<b><u>Residential and General Service</u></b>					
Base Facility Charge by Meter Size					
5/8 x 3/4"	\$11.30	\$11.37	\$12.39	\$23.70	\$12.33
1"	\$28.25	\$28.41	\$30.97	\$59.21	\$30.83
1-1/2"	\$56.48	\$56.81	\$61.92	\$118.41	\$61.65
2"	\$90.38	\$90.90	\$99.09	\$189.46	\$98.64
3"	\$180.75	\$181.90	\$198.16	\$379.12	\$197.28
4"	\$282.43	\$284.07	\$309.64	\$592.07	\$308.25
6"	\$564.85	\$568.13	\$619.26	\$1,184.11	\$616.50
Charge per 1,000 Gallons - Residential Service	\$6.39	\$6.43	\$7.01	\$13.40	\$6.97
Charge per 1,000 Gallons - General Service	\$6.38	\$6.42	\$6.99	\$13.38	\$6.96
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>					
3,000 Gallons	\$30.47	\$30.66	\$33.42	\$63.90	\$33.24
5,000 Gallons	\$43.25	\$43.52	\$47.44	\$90.70	\$47.18
10,000 Gallons	\$75.20	\$75.67	\$82.49	\$157.70	\$82.03

<b>UIF- Pasco</b>		<b>Schedule No. 1-A</b>			
<b>Schedule of Water Rate Base</b>		<b>Docket No. 160101-WS</b>			
<b>Test Year Ended 12/31/15</b>					
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>
1 Plant in Service	\$4,388,952	\$296,301	\$4,685,253	\$0	\$4,685,253
2 Land and Land Rights	2,344	0	2,344	0	2,344
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(1,598,286)	26,257	(1,572,029)	0	(1,572,029)
5 CIAC	(720,510)	(1,225)	(721,735)	0	(721,735)
6 Accumulated Amortization of CIAC	334,667	0	334,667	0	334,667
7 CWIP	130,454	(130,454)	0	0	0
8 Acquisition Adjustment	375,485	(375,485)	0	0	0
9 Accumulated Amort. of Acq. Adj.	(34,441)	34,441	0	0	0
10 Working Capital Allowance	<u>0</u>	<u>82,498</u>	<u>82,498</u>	<u>73,468</u>	<u>155,966</u>
11 <b>Rate Base</b>	<u>\$2,878,665</u>	<u>(\$67,667)</u>	<u>\$2,810,998</u>	<u>\$73,468</u>	<u>\$2,884,466</u>

<b>UIF- Pasco</b>		<b>Schedule No. 1-B</b>			
<b>Schedule of Wastewater Rate Base</b>		<b>Docket No. 160101-WS</b>			
<b>Test Year Ended 12/31/15</b>					
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>
1 Plant in Service	\$1,034,888	\$0	\$1,034,888	\$0	\$1,034,888
2 Land and Land Rights	7,734	0	7,734	0	7,734
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	423,771	18,350	442,121	0	442,121
5 CIAC	(633,772)	0	(633,772)	0	(633,772)
6 Accumulated Amortization of CIAC	396,078	0	396,078	0	396,078
7 CWIP	34	(34)	0	0	0
8 Acquisition Adjustment	78,938	(78,938)	0	0	0
9 Accumulated Amort. of Acq. Adj.	(7,255)	7,255	0	0	0
10 Working Capital Allowance	<u>0</u>	<u>35,799</u>	<u>35,799</u>	<u>29,090</u>	<u>64,889</u>
11 <b>Rate Base</b>	<u>\$1,300,416</u>	<u>(\$17,568)</u>	<u>\$1,282,848</u>	<u>\$29,090</u>	<u>\$1,311,938</u>

<b>UIF-Pasco</b>		<b>Schedule No. 1-C</b>	
<b>Adjustments to Rate Base</b>		<b>Docket No. 160101-WS</b>	
<b>Test Year Ended 12/31/2015</b>			
<b>Explanation</b>	<b>Water</b>	<b>Wastewater</b>	
<b>Working Capital</b> To reflect appropriate working capital.	<u>\$73,468</u>	<u>\$29,090</u>	

UIF-Pasco Capital Structure-13-Month Average Test Year Ended 12/31/15							Schedule No. 2 Docket No. 160101-WS		
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
<b>Per Utility</b>									
1	Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,368,327)	\$1,631,673	39.86%	6.70%	2.67%
2	Short-term Debt	17,100,000	0	17,100,000	(16,945,039)	154,961	3.79%	2.32%	0.09%
3	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4	Common Equity	191,432,923	0	191,432,923	(189,697,707)	1,735,216	42.39%	9.38%	3.98%
5	Customer Deposits	22,434	0	22,434	0	22,434	0.55%	2.00%	0.01%
6	Tax Credits-Zero Cost	34,269	0	34,269	0	34,269	0.84%	0.00%	0.00%
7	Deferred Income Taxes	<u>515,292</u>	<u>0</u>	<u>515,292</u>	<u>0</u>	<u>515,292</u>	<u>12.59%</u>	0.00%	<u>0.00%</u>
8	<b>Total Capital</b>	<u>\$389,104,918</u>	<u>\$0</u>	<u>\$389,104,918</u>	<u>(\$385,011,073)</u>	<u>\$4,093,845</u>	<u>100.00%</u>		<u>6.74%</u>
<b>Per Staff</b>									
9	Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$175,358,738)	\$4,641,262	40.85%	6.66%	2.72%
10	Short-term Debt	17,100,000	0	17,100,000	(16,659,080)	440,920	3.88%	2.32%	0.09%
11	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
12	Common Equity	191,432,923	0	191,432,923	(186,496,865)	4,936,058	43.44%	9.38%	4.08%
13	Customer Deposits	44,664	8,038	52,702	0	52,702	0.46%	2.00%	0.01%
14	Tax Credits-Zero Cost	67,839	12,609	80,448	0	80,448	0.71%	0.00%	0.00%
15	Deferred Income Taxes	<u>1,025,837</u>	<u>184,622</u>	<u>1,210,459</u>	<u>0</u>	<u>1,210,459</u>	<u>10.65%</u>	0.00%	<u>0.00%</u>
16	<b>Total Capital</b>	<u>\$389,671,263</u>	<u>\$205,269</u>	<u>\$389,876,532</u>	<u>(\$378,514,683)</u>	<u>\$11,361,849</u>	<u>100.00%</u>		<u>6.89%</u>
							<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY							<u>9.38%</u>	<u>11.38%</u>	
OVERALL RATE OF RETURN							<u>6.89%</u>	<u>7.76%</u>	

<b>UIF-Pasco</b>						<b>Schedule No. 3-A</b>	
<b>Statement of Water Operations</b>						<b>Docket No. 160101-WS</b>	
<b>Test Year Ended 12/31/15</b>							
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjustments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjustments</b>	<b>Staff Adjusted Test Year</b>	<b>Revenue Increase</b>	<b>Revenue Requirement</b>
1 <b>Operating Revenues:</b>	<u>\$910,704</u>	<u>\$47,900</u>	<u>\$958,604</u>	<u>(\$56,674)</u>	<u>\$901,930</u>	<u>\$56,674</u> 6.28%	<u>\$958,604</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$595,947	(\$157,114)	\$438,833	\$37,535	\$476,368	\$0	\$476,368
3 Depreciation	195,706	(25,753)	169,953	0	169,953	0	169,953
4 Amortization	0	0	0	0	0	0	0
5 Taxes Other Than Income	148,471	(55,541)	92,930	(2,550)	90,380	2,550	92,930
6 Income Taxes	<u>360</u>	<u>67,015</u>	<u>67,375</u>	<u>(35,794)</u>	<u>31,581</u>	<u>20,367</u>	<u>51,947</u>
7 <b>Total Operating Expense</b>	<u>940,484</u>	<u>(171,393)</u>	<u>769,091</u>	<u>(809)</u>	<u>768,282</u>	<u>22,917</u>	<u>791,199</u>
8 <b>Operating Income</b>	<u>(\$29,780)</u>	<u>\$219,293</u>	<u>\$189,513</u>	<u>(\$55,865)</u>	<u>\$133,648</u>	<u>\$33,757</u>	<u>\$167,405</u>
9 <b>Rate Base</b>	<u>\$2,878,665</u>		<u>\$2,810,998</u>		<u>\$2,884,466</u>		<u>\$2,884,466</u>
10 <b>Rate of Return</b>	<u>-1.03%</u>		<u>6.74%</u>		<u>4.63%</u>		<u>5.80%</u>

<b>UIF-Pasco Statement of Wastewater Operations Test Year Ended 12/31/15</b>						<b>Schedule No. 3-B Docket No. 160101-WS</b>	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$511,442</u>	<u>\$102,818</u>	<u>\$614,260</u>	<u>(\$108,280)</u>	<u>\$505,980</u>	<u>\$108,280</u> 21.40%	<u>\$614,260</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$236,929	\$157,114	\$394,043	\$7,209	\$401,252	\$0	\$401,252
3 Depreciation	25,819	24,366	50,185	0	50,185	0	50,185
4 Amortization	0	0	0	0	0	0	0
5 Taxes Other Than Income	0	48,041	48,041	(4,873)	43,168	4,873	48,041
6 Income Taxes	<u>156</u>	<u>(156)</u>	<u>0</u>	<u>(9,635)</u>	<u>(9,635)</u>	<u>38,912</u>	<u>29,277</u>
7 <b>Total Operating Expense</b>	<u>262,904</u>	<u>229,365</u>	<u>492,269</u>	<u>(7,299)</u>	<u>484,970</u>	<u>43,785</u>	<u>528,755</u>
8 <b>Operating Income</b>	<u>\$248,538</u>	<u>(\$126,547)</u>	<u>\$121,991</u>	<u>(\$100,981)</u>	<u>\$21,010</u>	<u>\$64,495</u>	<u>\$85,505</u>
9 <b>Rate Base</b>	<u>\$1,300,416</u>		<u>\$1,282,848</u>		<u>\$1,311,938</u>		<u>\$1,311,938</u>
10 <b>Rate of Return</b>	<u>19.11%</u>		<u>9.51%</u>		<u>1.60%</u>		<u>6.52%</u>

<b>UIF-Pasco</b>		<b>Schedule No. 3-C</b>	
<b>Adjustments to Operating Income</b>		<b>Docket No. 160101-WS</b>	
<b>Test Year Ended 12/31/15</b>			
<b>Explanation</b>	<b>Water</b>	<b>Wastewater</b>	
<b>Operating Revenues</b>			
1 Remove requested interim revenue increase.	(\$56,126)	(\$106,061)	
2 To reflect the appropriate amount of annualized revenues.	<u>(548)</u>	<u>(2,219)</u>	
<b>Total</b>	<u>(\$56,674)</u>	<u>(\$108,280)</u>	
<b>Operation and Maintenance Expense</b>			
1 To remove incorrectly booked charge to chemicals expense.	(\$1,242)	\$0	
2 To reflect appropriate interim bad debt expense.	2,043	(2,362)	
3 To reflect appropriate rate case expense amortization.	36,734	14,545	
4 To reflect 15.89 percent I&I adjustment.	<u>0</u>	<u>(4,974)</u>	
<b>Total</b>	<u>\$37,535</u>	<u>\$7,209</u>	
<b>Taxes Other Than Income</b>			
To reflect RAFs on revenue adjustment.	<u>(\$2,550)</u>	<u>(\$4,873)</u>	



<b>UIF - Pasco</b>		<b>Schedule No. 4-A</b>		
<b>Test Year Ended 12/31/15</b>		<b>Docket No. 160101-WS</b>		
<b>Monthly Water Rates</b>				
	<b>Current Rates</b>	<b>Utility Requested Interim</b>	<b>Utility Requested Final</b>	<b>Staff Recommended Interim</b>
<b><u>Residential and General Service - Orangewood</u></b>				
Base Facility Charge by Meter Size				
5/8"X 3/4"	\$11.81	\$12.56	\$16.21	\$12.56
3/4"	\$17.72	\$18.84	\$24.32	\$18.84
1"	\$29.53	\$31.40	\$40.52	\$31.40
1-1/2"	\$59.03	\$62.77	\$81.00	\$62.80
2"	\$94.45	\$100.43	\$129.60	\$100.48
3"	\$188.90	\$200.86	\$259.21	\$200.96
4"	\$295.17	\$313.85	\$405.03	\$314.00
6"	\$590.33	\$627.70	\$810.50	\$628.00
Charge per 1,000 gallons - Residential and General Service	\$5.45	\$5.79	\$7.48	\$5.80
<b><u>Residential and General Service - Summertree</u></b>				
Base Facility Charge by Meter Size				
5/8"X 3/4"	\$11.19	\$11.90	\$15.35	\$11.90
3/4"	\$16.78	\$17.84	\$23.03	\$17.85
1"	\$27.96	\$29.73	\$38.37	\$29.75
1-1/2"	\$55.91	\$59.45	\$76.72	\$59.50
2"	\$89.45	\$95.11	\$122.74	\$95.20
3"	\$178.91	\$190.24	\$245.50	\$190.40
4"	\$279.55	\$297.25	\$383.60	\$297.50
6"	\$549.02	\$583.77	\$753.37	\$595.00
Charge per 1,000 gallons - Residential and General Service	\$5.17	\$5.50	\$7.09	\$5.50
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison - Orangewood</u></b>				
3,000 Gallons	\$28.16	\$29.93	\$38.65	\$29.95
5,000 Gallons	\$39.06	\$41.51	\$53.61	\$41.55
10,000 Gallons	\$66.31	\$70.46	\$91.01	\$70.54
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison - Summertree</u></b>				
3,000 Gallons	\$26.70	\$28.40	\$36.62	\$28.40
5,000 Gallons	\$37.04	\$39.40	\$50.80	\$39.40
10,000 Gallons	\$62.89	\$66.90	\$86.25	\$66.90

<b>UIF - Pasco</b>			<b>Schedule No. 4-B</b>		
<b>Test Year Ended 12/31/15</b>			<b>Docket No. 160101-WS</b>		
<b>Monthly Wastewater Rates</b>					
	<b>Test Year Rates 12/31/15</b>	<b>Current Rates</b>	<b>Utility Requested Interim</b>	<b>Utility Requested Final</b>	<b>Staff Recommended Interim</b>
<b><u>Residential - Orangewood</u></b>					
Base Facility Charge - All Meter Sizes	\$9.68	\$9.72	\$11.71	\$12.65	\$11.76
Charge per 1,000 gallons - Residential 6,000 gallon cap	\$5.45	\$7.21	\$8.68	\$9.38	\$6.62
Flat Rate	\$24.21	\$24.32	\$29.28	\$31.64	\$29.41
<b><u>Residential - Summertree</u></b>					
Base Facility Charge - All Meter Sizes	\$12.57	\$12.63	\$15.20	\$16.43	\$15.27
Charge per 1,000 gallons - Residential 6,000 gallon cap	\$10.68	\$10.73	\$12.92	\$13.96	\$12.98
<b><u>General Service - Summertree</u></b>					
Base Facility Charge by Meter Size					
5/8"X 3/4"	\$12.57	\$12.63	\$15.20	\$16.43	\$15.27
3/4"	\$18.84	\$18.92	\$22.79	\$24.62	\$22.91
1"	\$31.40	\$31.54	\$37.98	\$41.04	\$38.18
1-1/2"	\$62.80	\$63.08	\$75.96	\$82.07	\$76.35
2"	\$100.47	\$100.92	\$121.52	\$131.31	\$122.16
3"	\$200.93	\$201.83	\$243.02	\$262.60	\$244.32
4"	\$313.97	\$315.38	\$379.75	\$410.34	\$381.75
6"	\$627.94	\$630.77	\$759.49	\$820.69	\$763.50
Charge per 1,000 gallons - General Service	\$14.16	\$14.22	\$17.13	\$18.50	\$17.20
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison - Orangewood</u></b>					
3,000 Gallons	\$26.03	\$31.35	\$37.75	\$40.79	\$31.62
5,000 Gallons	\$36.93	\$45.77	\$55.11	\$59.55	\$44.86
10,000 Gallons	\$64.18	\$81.82	\$98.51	\$106.45	\$77.96
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison - Summertree</u></b>					
3,000 Gallons	\$44.61	\$44.82	\$53.96	\$58.31	\$54.21
5,000 Gallons	\$65.97	\$66.28	\$79.80	\$86.23	\$80.17
10,000 Gallons	\$119.37	\$119.93	\$144.40	\$156.03	\$145.07

<b>UIF-Seminole</b>		<b>Schedule No. 1-A</b>			
<b>Schedule of Water Rate Base</b>		<b>Docket No. 160101-WS</b>			
<b>Test Year Ended 12/31/15</b>					
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>
1 Plant in Service	\$5,092,390	\$0	\$5,092,390	\$0	\$5,092,390
2 Land and Land Rights	(788)	0	(788)	0	(788)
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(1,006,120)	39,958	(966,162)	0	(966,162)
5 CIAC	(1,088,263)	(115)	(1,088,378)	0	(1,088,378)
6 Accumulated Amortization of CIAC	1,010,698	0	1,010,698	0	1,010,698
7 CWIP	123,235	(123,235)	0	0	0
8 Acquisition Adjustment	(56,601)	56,601	0	0	0
9 Accumulated Amort. of Acq. Adj.	4,927	(4,927)	0	0	0
10 Advances for Construction	644	0	644	0	644
11 Working Capital Allowance	<u>0</u>	<u>77,955</u>	<u>77,955</u>	<u>66,199</u>	<u>144,154</u>
12 <b>Rate Base</b>	<u>\$4,080,122</u>	<u>\$46,237</u>	<u>\$4,126,359</u>	<u>\$66,199</u>	<u>\$4,192,558</u>

<b>UIF-Seminole</b>			<b>Schedule No. 1-B</b>		
<b>Schedule of Wastewater Rate Base</b>			<b>Docket No. 160101-WS</b>		
<b>Test Year Ended 12/31/15</b>					
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>
1 Plant in Service	\$2,257,726	\$0	\$2,257,726	\$0	\$2,257,726
2 Land and Land Rights	1,295	0	1,295	0	1,295
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(384,628)	21,729	(362,899)	0	(362,899)
5 CIAC	(1,043,254)	0	(1,043,254)	0	(1,043,254)
6 Accumulated Amortization of CIAC	633,143	0	633,143	0	633,143
7 CWIP	32	(32)	0	0	0
8 Working Capital Allowance	<u>0</u>	<u>42,392</u>	<u>42,392</u>	<u>35,160</u>	<u>77,552</u>
9 <b>Rate Base</b>	<u>\$1,464,314</u>	<u>\$64,089</u>	<u>\$1,528,403</u>	<u>\$35,160</u>	<u>\$1,563,563</u>

<b>UIF-Seminole</b>		<b>Schedule No. 1-C</b>	
<b>Adjustments to Rate Base</b>		<b>Docket No. 160101-WS</b>	
<b>Test Year Ended 12/31/2015</b>			
<b>Explanation</b>	<b>Water</b>	<b>Wastewater</b>	
<b>Working Capital</b> To reflect appropriate working capital.	<u>\$66,199</u>	<u>\$35,160</u>	

UIF-Seminole Capital Structure-13-Month Average Test Year Ended 12/31/15							Schedule No. 2 Docket No. 160101-WS		
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
<b>Per Utility</b>									
1	Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,262,860)	\$1,737,140	42.10%	6.70%	2.82%
2	Short-term Debt	17,100,000	0	17,100,000	(16,935,022)	164,978	4.00%	2.32%	0.09%
3	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4	Common Equity	191,432,923	0	191,432,923	(189,585,548)	1,847,375	44.77%	9.38%	4.20%
5	Customer Deposits	14,781	0	14,781	0	14,781	0.36%	2.00%	0.01%
6	Tax Credits-Zero Cost	22,579	0	22,579	0	22,579	0.55%	0.00%	0.00%
7	Deferred Income Taxes	<u>339,507</u>	<u>0</u>	<u>339,507</u>	<u>0</u>	<u>339,507</u>	<u>8.23%</u>	0.00%	<u>0.00%</u>
8	<b>Total Capital</b>	<u>\$388,909,790</u>	<u>\$0</u>	<u>\$388,909,790</u>	<u>(\$384,783,430)</u>	<u>\$4,126,360</u>	<u>100.00%</u>		<u>7.12%</u>
<b>Per Staff</b>									
9	Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$175,358,738)	\$4,641,262	40.85%	6.66%	2.72%
10	Short-term Debt	17,100,000	0	17,100,000	(16,659,080)	440,920	3.88%	2.32%	0.09%
11	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
12	Common Equity	191,432,923	0	191,432,923	(186,496,865)	4,936,058	43.44%	9.38%	4.08%
13	Customer Deposits	44,664	8,038	52,702	0	52,702	0.46%	2.00%	0.01%
14	Tax Credits-Zero Cost	67,839	12,609	80,448	0	80,448	0.71%	0.00%	0.00%
15	Deferred Income Taxes	<u>1,025,837</u>	<u>184,622</u>	<u>1,210,459</u>	<u>0</u>	<u>1,210,459</u>	<u>10.65%</u>	0.00%	<u>0.00%</u>
16	<b>Total Capital</b>	<u>\$389,671,263</u>	<u>\$205,269</u>	<u>\$389,876,532</u>	<u>(\$378,514,683)</u>	<u>\$11,361,849</u>	<u>100.00%</u>		<u>6.89%</u>
							<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY							<u>9.38%</u>	<u>11.38%</u>	
OVERALL RATE OF RETURN							<u>6.89%</u>	<u>7.76%</u>	

<b>UIF-Seminole</b>								<b>Schedule No. 3-A</b>	
<b>Statement of Water Operations</b>								<b>Docket No. 160101-WS</b>	
<b>Test Year Ended 12/31/15</b>									
	<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjustments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjustments</b>	<b>Staff Adjusted Test Year</b>	<b>Revenue Increase</b>	<b>Revenue Requirement</b>	
1	<b>Operating Revenues:</b>	<u>\$1,009,309</u>	<u>\$243,135</u>	<u>\$1,252,444</u>	<u>(\$237,587)</u>	<u>\$1,014,857</u>	<u>\$186,352</u> 18.36%	<u>\$1,201,209</u>	
	<b>Operating Expenses</b>								
2	Operation & Maintenance	\$793,180	(\$209,611)	\$583,569	(\$42,765)	\$540,804	\$0	\$540,804	
3	Depreciation	175,550	(35,731)	139,819	0	139,819	0	139,819	
4	Amortization	0	0	0	0	0	0	0	
5	Taxes Other Than Income	190,282	(59,574)	130,708	(10,691)	120,017	8,386	128,402	
6	Income Taxes	<u>91,067</u>	<u>13,481</u>	<u>104,548</u>	<u>(68,408)</u>	<u>36,140</u>	<u>66,969</u>	<u>103,109</u>	
7	<b>Total Operating Expense</b>	<u>1,250,079</u>	<u>(291,435)</u>	<u>958,644</u>	<u>(121,864)</u>	<u>836,780</u>	<u>75,355</u>	<u>912,134</u>	
8	<b>Operating Income</b>	<u>(\$240,770)</u>	<u>\$534,570</u>	<u>\$293,800</u>	<u>(\$115,723)</u>	<u>\$178,077</u>	<u>\$110,998</u>	<u>\$289,075</u>	
9	<b>Rate Base</b>	<u>\$4,080,122</u>		<u>\$4,126,359</u>		<u>\$4,192,558</u>		<u>\$4,192,558</u>	
10	<b>Rate of Return</b>	<u>-5.90%</u>		<u>7.12%</u>		<u>4.25%</u>		<u>6.89%</u>	

<b>UIF-Seminole Statement of Wastewater Operations Test Year Ended 12/31/15</b>						<b>Schedule No. 3-B Docket No. 160101-WS</b>	
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>	<b>Revenue Increase</b>	<b>Revenue Requirement</b>
1 <b>Operating Revenues:</b>	<u>\$837,784</u>	<u>\$0</u>	<u>\$837,784</u>	<u>(\$3,462)</u>	<u>\$834,322</u>	<u>(\$138,594)</u> -16.61%	<u>\$695,729</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$284,892	\$209,611	\$494,503	(\$47,646)	\$446,857	\$0	\$446,857
3 Depreciation	(19,882)	27,300	7,418	0	7,418	0	7,418
4 Amortization	0	0	0	0	0	0	0
5 Taxes Other Than Income	0	79,804	79,804	(156)	79,648	(6,237)	73,411
6 Income Taxes	<u>49,522</u>	<u>0</u>	<u>49,522</u>	<u>46,934</u>	<u>96,456</u>	<u>(49,806)</u>	<u>46,650</u>
7 <b>Total Operating Expense</b>	<u>314,532</u>	<u>316,715</u>	<u>631,247</u>	<u>(868)</u>	<u>630,379</u>	<u>(56,043)</u>	<u>574,336</u>
8 <b>Operating Income</b>	<u>\$523,252</u>	<u>(\$316,715)</u>	<u>\$206,537</u>	<u>(\$2,594)</u>	<u>\$203,944</u>	<u>(\$82,551)</u>	<u>\$121,392</u>
9 <b>Rate Base</b>	<u>\$1,464,314</u>		<u>\$1,528,403</u>		<u>\$1,563,563</u>		<u>\$1,563,563</u>
10 <b>Rate of Return</b>	<u>35.73%</u>		<u>13.51%</u>		<u>13.04%</u>		<u>7.76%</u>



<b>UIF- Seminole Adjustments to Operating Income Test Year Ended 12/31/15</b>		<b>Schedule No. 3-C Docket No. 160101-WS</b>	
	<b>Explanation</b>	<b>Water</b>	<b>Wastewater</b>
<b>Operating Revenues</b>			
1	Remove requested interim revenue increase.	(\$237,381)	\$0
2	To reflect the appropriate amount of annualized revenues.	<u>(206)</u>	<u>(3,462)</u>
	<b>Total</b>	<u>(\$237,587)</u>	<u>(\$3,462)</u>
<b>Operation and Maintenance Expense</b>			
1	To reflect appropriate interim transportation expense.	\$2,736	\$1,373
2	To reflect appropriate interim bad debt expense.	(9,523)	86
3	To reflect appropriate rate case expense amortization.	(35,977)	(19,983)
4	To reflect 31.70 percent I&I adjustment.	<u>0</u>	<u>(29,122)</u>
	<b>Total</b>	<u>(\$42,765)</u>	<u>(\$47,646)</u>
<b>Taxes Other Than Income</b>			
	To reflect RAFs on revenue adjustment.	<u>(\$10,691)</u>	<u>(\$156)</u>

<b>UIF - Seminole</b>		<b>Schedule No. 4-A</b>			
<b>Test Year Ended 12/31/15</b>		<b>Docket No. 160101-WS</b>			
<b>Monthly Water Rates</b>					
	<b>Test Year Rates 12/31/15</b>	<b>Utility Current Rates</b>	<b>Utility Requested Interim</b>	<b>Utility Requested Final</b>	<b>Staff Recommended Interim</b>
<b><u>Residential and General Service</u></b>					
Base Facility Charge by Meter Size					
5/8"X 3/4"	\$8.32	\$8.46	\$10.30	\$22.06	\$9.87
1"	\$20.79	\$21.15	\$25.73	\$55.15	\$24.68
1-1/2"	\$41.58	\$42.30	\$51.46	\$110.30	\$49.35
2"	\$66.52	\$67.68	\$82.33	\$176.48	\$78.96
3"	\$133.06	\$135.36	\$164.69	\$352.96	\$157.92
4"	\$207.89	\$211.50	\$257.31	\$551.50	\$246.75
6"	\$415.79	\$423.00	\$514.63	\$1,103.00	\$493.50
Charge per 1,000 gallons - Residential					
0-8,000 gallons	\$3.70	\$3.76	\$4.58	\$9.80	\$4.39
8,001-16,000 gallons	\$6.46	\$6.57	\$8.00	\$17.13	\$7.66
Over 16,000 gallons	\$8.31	\$8.45	\$10.29	\$22.03	\$9.86
Charge per 1,000 gallons - General Service					
	\$4.34	\$4.41	\$5.37	\$11.50	\$5.15
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>					
3,000 Gallons	\$19.42	\$19.74	\$24.04	\$51.46	\$23.04
5,000 Gallons	\$26.82	\$27.26	\$33.20	\$71.06	\$31.82
10,000 Gallons	\$50.84	\$51.68	\$62.94	\$134.72	\$60.32

<b>LUSI</b>			<b>Schedule No. 1-A</b>		
<b>Schedule of Water Rate Base</b>			<b>Docket No. 160101-WS</b>		
<b>Test Year Ended 12/31/15</b>					
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>
1 Plant in Service	\$49,554,823	(\$8,360,669)	\$41,194,154	\$0	\$41,194,154
2 Land and Land Rights	112,871	0	112,871	0	112,871
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(14,746,722)	2,128,734	(12,617,988)	0	(12,617,988)
5 CIAC	(20,668,539)	(27,554)	(20,696,093)	0	(20,696,093)
6 Accumulated Amortization of CIAC	7,706,536	(963,611)	6,742,925	0	6,742,925
7 CWIP	453,700	(453,700)	0	0	0
8 Advances for Construction	(38,400)	0	(38,400)	0	(38,400)
9 Working Capital Allowance	<u>0</u>	<u>370,572</u>	<u>370,572</u>	<u>134,551</u>	<u>505,123</u>
10 <b>Rate Base</b>	<u>\$22,374,269</u>	<u>(\$7,306,228)</u>	<u>\$15,068,041</u>	<u>\$134,551</u>	<u>\$15,202,592</u>

<b>LUSI</b>		<b>Schedule No. 1-B</b>
<b>Adjustments to Rate Base</b>		<b>Docket No. 160101-WS</b>
<b>Test Year Ended 12/31/15</b>		
<b>Explanation</b>		<b>Water</b>
<b>Working Capital</b> To reflect appropriate working capital.		<u>\$134,551</u>

LUSI Capital Structure-13-Month Average Test Year Ended 12/31/15							Schedule No. 2 Docket No. 160101-WS		
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Prorata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
<b>Per Utility</b>									
1	Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$168,813,447)	\$9,438,839	41.82%	6.70%	2.80%
2	Short-term Debt	17,100,000	0	17,100,000	(16,037,603)	896,690	3.97%	2.32%	0.09%
3	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4	Common Equity	191,433,000	0	191,433,000	(179,536,573)	10,038,363	44.38%	10.40%	4.63%
5	Customer Deposits	100,776	0	100,776	0	100,776	0.38%	2.00%	0.01%
6	Deferred Income Taxes	<u>2,500,279</u>	<u>0</u>	<u>2,500,279</u>	<u>0</u>	<u>2,500,279</u>	<u>9.35%</u>	0.00%	<u>0.00%</u>
7	<b>Total Capital</b>	<u>\$391,134,055</u>	<u>\$0</u>	<u>\$391,134,055</u>	<u>(\$364,387,623)</u>	<u>\$22,974,947</u>	<u>100.00%</u>		<u>7.53%</u>
<b>Per Staff</b>									
8	Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$170,561,161)	\$9,438,839	41.08%	6.66%	2.74%
9	Short-term Debt	17,100,000	0	17,100,000	(16,203,310)	896,690	3.90%	2.32%	0.09%
10	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11	Common Equity	191,433,000	0	191,433,000	(181,394,637)	10,038,363	43.69%	11.80%	5.16%
12	Customer Deposits	100,776	0	100,776	0	100,776	0.44%	2.00%	0.01%
13	Deferred Income Taxes	<u>2,500,279</u>	<u>0</u>	<u>2,500,279</u>	<u>0</u>	<u>2,500,279</u>	<u>10.88%</u>	0.00%	<u>0.00%</u>
14	<b>Total Capital</b>	<u>\$391,134,055</u>	<u>\$0</u>	<u>\$391,134,055</u>	<u>(\$368,159,108)</u>	<u>\$22,974,947</u>	<u>100.00%</u>		<u>7.99%</u>
							<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY							<u>9.37%</u>	<u>11.37%</u>	
OVERALL RATE OF RETURN							<u>6.93%</u>	<u>7.80%</u>	

<b>LUSI</b>						<b>Schedule No. 3-A</b>	
<b>Statement of Water Operations</b>						<b>Docket No. 160101-WS</b>	
<b>Test Year Ended 12/31/15</b>							
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjustments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjustments</b>	<b>Staff Adjusted Test Year</b>	<b>Revenue Increase</b>	<b>Revenue Requirement</b>
1 <b>Operating Revenues:</b>	<u>\$5,463,208</u>	<u>\$21,404</u>	<u>\$5,484,612</u>	<u>(\$23,417)</u>	<u>\$5,461,195</u>	<u>(\$143,546)</u>	<u>\$5,317,649</u>
						-2.63%	
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$2,104,172	(\$33,110)	\$2,071,062	\$72,520	\$2,143,582	\$0	\$2,143,582
3 Depreciation	991,893	(124,550)	867,343	0	867,343	0	867,343
4 Amortization	(1,545)	1,545	0	0	0	0	0
5 Taxes Other Than Income	628,707	(2,235)	626,472	(1,054)	625,418	(6,460)	618,959
6 Income Taxes	<u>379,671</u>	<u>77,804</u>	<u>457,475</u>	<u>67,007</u>	<u>524,482</u>	<u>(51,585)</u>	<u>472,897</u>
7 <b>Total Operating Expense</b>	<u>4,102,898</u>	<u>(80,546)</u>	<u>4,022,352</u>	<u>138,474</u>	<u>4,160,826</u>	<u>(58,045)</u>	<u>4,102,781</u>
8 <b>Operating Income</b>	<u>\$1,360,310</u>	<u>\$101,950</u>	<u>\$1,462,260</u>	<u>(\$161,891)</u>	<u>\$1,300,369</u>	<u>(\$85,501)</u>	<u>\$1,214,868</u>
9 <b>Rate Base</b>	<u>\$22,374,269</u>		<u>\$15,068,041</u>		<u>\$15,202,592</u>		<u>\$15,202,592</u>
10 <b>Rate of Return</b>	<u>6.08%</u>		<u>9.70%</u>		<u>8.55%</u>		<u>7.99%</u>

<b>LUSI</b>		<b>Schedule No. 3-B</b>
<b>Adjustments to Operating Income</b>		<b>Docket No. 160101-WS</b>
<b>Test Year Ended 12/31/15</b>		
	<b>Explanation</b>	<b>Water</b>
	<b>Operating Revenues</b>	
	To reflect the appropriate amount of annualized revenues.	<u>(\$23,417)</u>
	<b>Operation and Maintenance Expense</b>	
1	To reflect appropriate interim bad debt expense.	\$5,245
2	To reflect appropriate rate case expense amortization.	<u>67,275</u>
	<b>Total</b>	<u>\$72,520</u>
	<b>Taxes Other Than Income</b>	
	To remove RAFs on revenue adjustment.	<u>(\$1,054)</u>

<b>Labrador Schedule of Wastewater Rate Base Test Year Ended 12/31/15</b>			<b>Schedule No. 1-A Docket No. 160101-WS</b>		
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>
1 Plant in Service	\$2,721,721	\$124,307	\$2,846,028	\$0	\$2,846,028
2 Land and Land Rights	0	0	0	0	0
3 Non-used and Useful Components	0	0	0	(302,751)	(302,751)
4 Accumulated Depreciation	(918,148)	(116,444)	(1,034,592)	0	(1,034,592)
5 CIAC	0	0	0	0	0
6 Accumulated Amortization of CIAC	0	0	0	0	0
7 CWIP	223	(223)	0	0	0
8 Working Capital Allowance	<u>0</u>	<u>109,937</u>	<u>109,937</u>	<u>(84,050)</u>	<u>25,887</u>
9 <b>Rate Base</b>	<u>\$1,803,796</u>	<u>\$117,577</u>	<u>\$1,921,373</u>	<u>(\$386,801)</u>	<u>\$1,534,572</u>



<b>Labrador</b>		<b>Schedule No. 1-B</b>
<b>Adjustments to Rate Base</b>		<b>Docket No. 160101-WS</b>
<b>Test Year Ended 12/31/2015</b>		
<b>Explanation</b>		<b>Wastewater</b>
<b>Non-used and Useful</b>		
To reflect net non-used and useful adjustment.		<u>(\$302,751)</u>
<b>Working Capital</b>		
To reflect appropriate working capital.		<u>(\$84,050)</u>

<b>Labrador Capital Structure-13-Month Average Test Year Ended 12/31/15</b>							<b>Schedule No. 2 Docket No. 160101-WS</b>		
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Prorata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
<b>Per Utility</b>									
1	Long-term Debt	\$180,000,00	\$0	\$180,000,000	(\$178,803,271)	\$1,196,729	45.68%	6.70%	3.06%
2	Short-term Debt	17,100,000	0	17,100,000	(16,986,346)	113,654	4.34%	2.32%	0.10%
3	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4	Common Equity	191,433,000	0	191,433,000	(190,160,329)	1,272,671	48.57%	10.40%	5.05%
5	Customer Deposits	2,711	0	2,711	0	2,711	0.10%	2.00%	0.00%
6	Deferred Income Taxes	<u>34,308</u>	<u>0</u>	<u>34,308</u>	<u>0</u>	<u>34,308</u>	<u>1.31%</u>	0.00%	<u>0.00%</u>
7	<b>Total Capital</b>	<u>\$388,570,019</u>	<u>\$0</u>	<u>\$388,570,019</u>	<u>(\$385,949,946)</u>	<u>\$2,620,073</u>	<u>100.00%</u>		<u>8.21%</u>
<b>Per Staff</b>									
8	Long-term Debt	\$180,000,00	\$0	\$180,000,000	(\$178,993,655)	\$1,006,345	45.55%	6.66%	3.03%
9	Short-term Debt	17,100,000	0	17,100,000	(17,004,397)	95,603	4.33%	2.32%	0.10%
10	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11	Common Equity	191,433,000	0	191,433,000	(190,362,735)	1,070,265	48.45%	11.43%	5.54%
12	Customer Deposits	2,711	0	2,711	0	2,711	0.12%	2.00%	0.00%
13	Deferred Income Taxes	<u>34,308</u>	<u>0</u>	<u>34,308</u>	<u>0</u>	<u>34,308</u>	<u>1.55%</u>	0.00%	<u>0.00%</u>
14	<b>Total Capital</b>	<u>\$388,570,019</u>	<u>\$0</u>	<u>\$388,570,019</u>	<u>(\$386,360,787)</u>	<u>\$2,209,232</u>	<u>100.00%</u>		<u>8.67%</u>
							<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY							<u>9.43%</u>	<u>11.43%</u>	
OVERALL RATE OF RETURN							<u>7.70%</u>	<u>8.67%</u>	

<b>Labrador</b>						<b>Schedule No. 3-A</b>	
<b>Statement of Wastewater Operations</b>						<b>Docket No. 160101-WS</b>	
<b>Test Year Ended 12/31/15</b>							
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjustments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjustments</b>	<b>Staff Adjusted Test Year</b>	<b>Revenue Increase</b>	<b>Revenue Requirement</b>
1 <b>Operating Revenues:</b>	<u>\$568,873</u>	<u>\$70,499</u>	<u>\$639,372</u>	<u>\$6,558</u>	<u>\$645,930</u>	<u>(\$134,838)</u> -20.87%	<u>\$511,092</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$226,666	\$1,883	\$228,549	(\$21,454)	\$207,095	\$0	\$207,095
3 Depreciation	144,529	(45,930)	98,599	(14,899)	83,700	0	83,700
4 Amortization	0	0	0	0	0	0	0
5 Taxes Other Than Income	43,432	437	43,869	(1,878)	41,991	(6,068)	35,923
6 Income Taxes	<u>8,638</u>	<u>57,793</u>	<u>66,431</u>	<u>33,293</u>	<u>99,724</u>	<u>(48,456)</u>	<u>51,267</u>
7 <b>Total Operating Expense</b>	<u>423,265</u>	<u>14,183</u>	<u>437,448</u>	<u>(4,939)</u>	<u>432,509</u>	<u>(54,524)</u>	<u>377,985</u>
8 <b>Operating Income</b>	<u>\$145,608</u>	<u>\$56,316</u>	<u>\$201,924</u>	<u>\$11,497</u>	<u>\$213,421</u>	<u>(\$80,314)</u>	<u>\$133,107</u>
9 <b>Rate Base</b>	<u>\$1,803,796</u>		<u>\$1,921,373</u>		<u>\$1,534,572</u>		<u>\$1,534,572</u>
10 <b>Rate of Return</b>	<u>8.07%</u>		<u>10.51%</u>		<u>13.91%</u>		<u>8.67%</u>

<b>Labrador</b>		<b>Schedule No. 3-B</b>
<b>Adjustments to Operating Income</b>		<b>Docket No. 160101-WS</b>
<b>Test Year Ended 12/31/15</b>		
<b>Explanation</b>	<b>Wastewater</b>	
<b>Operating Revenues</b>		
To reflect the appropriate amount of annualized revenues.	<u>\$6,558</u>	
<b>Operation and Maintenance Expense</b>		
1 To reflect appropriate interim land lease expense.	(\$15,618)	
2 To reflect appropriate rate case expense amortization.	<u>(5,836)</u>	
<b>Total</b>	<u>(\$21,454)</u>	
<b>Depreciation Expense - Net</b>		
To reflect non-used and useful adjustment.	<u>(\$14,899)</u>	
<b>Taxes Other Than Income</b>		
1 To reflect RAFs on revenue adjustment.	\$295	
2 To remove property tax on non-used and useful adjustment.	<u>(2,173)</u>	
<b>Total</b>	<u>(\$1,878)</u>	

<b>Pennbrooke</b>		<b>Schedule No. 1-A</b>			
<b>Schedule of Wastewater Rate Base</b>		<b>Docket No. 160101-WS</b>			
<b>Test Year Ended 12/31/15</b>					
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>
1 Plant in Service	\$2,899,088	\$201,715	\$3,100,803	\$0	\$3,100,803
2 Land and Land Rights	57,035	0	57,035	0	57,035
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(1,447,248)	(156,213)	(1,603,461)	0	(1,603,461)
5 CIAC	(1,216,759)	0	(1,216,759)	0	(1,216,759)
6 Accumulated Amortization of CIAC	934,536	0	934,536	0	934,536
7 Working Capital Allowance	<u>31,858</u>	<u>0</u>	<u>31,858</u>	<u>1,216</u>	<u>33,074</u>
8 <b>Rate Base</b>	<u>\$1,258,510</u>	<u>\$45,502</u>	<u>\$1,304,012</u>	<u>\$1,216</u>	<u>\$1,305,228</u>

<b>Pennbrooke</b>		<b>Schedule No. 1-B</b>
<b>Adjustments to Rate Base</b>		<b>Docket No. 160101-WS</b>
<b>Test Year Ended 12/31/2015</b>		
<b>Explanation</b>		<b>Wastewater</b>
<b>Working Capital</b> To reflect appropriate working capital.		<u>\$1,216</u>

<b>Pennbrooke</b>						<b>Schedule No. 2</b>				
<b>Capital Structure-13-Month Average</b>						<b>Docket No. 160101-WS</b>				
<b>Test Year Ended 12/31/2015</b>										
<b>Description</b>	<b>Total Capital</b>	<b>Specific Adjustments</b>	<b>Subtotal Adjusted Capital</b>	<b>Prorata Adjustments</b>	<b>Capital Reconciled to Rate Base</b>	<b>Ratio</b>	<b>Cost Rate</b>	<b>Weighted Cost</b>		
<b>Per Utility</b>										
1	Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,988,370)	\$1,011,630	40.74%	6.70%	2.73%	
2	Short-term Debt	17,100,000	0	17,100,000	(17,003,925)	96,075	3.87%	2.32%	0.09%	
3	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4	Common Equity	191,433,000	0	191,433,000	(190,357,173)	1,075,827	43.32%	10.40%	4.51%	
5	Customer Deposits	7,179	0	7,179	0	7,179	0.29%	2.00%	0.01%	
6	Deferred Income Taxes	<u>292,608</u>	<u>0</u>	<u>292,608</u>	<u>0</u>	<u>292,608</u>	<u>11.78%</u>	0.00%	<u>0.00%</u>	
7	<b>Total Capital</b>	<u>\$388,832,787</u>	<u>\$0</u>	<u>\$388,832,787</u>	<u>(\$386,349,468)</u>	<u>\$2,483,319</u>	<u>100.00%</u>		<u>7.33%</u>	
<b>Per Staff</b>										
8	Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,253,003)	\$746,997	39.06%	6.66%	2.60%	
9	Short-term Debt	17,100,000	0	17,100,000	(17,029,035)	70,965	3.71%	2.32%	0.09%	
10	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
11	Common Equity	191,433,000	0	191,433,000	(190,638,556)	794,444	41.55%	11.37%	4.72%	
12	Customer Deposits	7,179	0	7,179	0	7,179	0.38%	2.00%	0.01%	
13	Deferred Income Taxes	<u>292,608</u>	<u>0</u>	<u>292,608</u>	<u>0</u>	<u>292,608</u>	<u>15.30%</u>	0.00%	<u>0.00%</u>	
14	<b>Total Capital</b>	<u>\$388,832,787</u>	<u>\$0</u>	<u>\$388,832,787</u>	<u>(\$386,920,594)</u>	<u>\$1,912,193</u>	<u>100.00%</u>		<u>7.42%</u>	
						<b>LOW</b>	<b>HIGH</b>			
						RETURN ON EQUITY	<u>9.37%</u>	<u>11.37%</u>		
						OVERALL RATE OF RETURN	<u>6.59%</u>	<u>7.42%</u>		

<b>Pennbrooke Statement of Wastewater Operations Test Year Ended 12/31/2015</b>						<b>Schedule No. 3-A Docket No. 160101-WS</b>	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$514,411</u>	<u>\$3,710</u>	<u>\$518,121</u>	<u>(\$5,706)</u>	<u>\$512,415</u>	<u>(\$47,924)</u> -9.35%	<u>\$464,490</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$254,864	\$7,529	\$262,393	\$2,196	\$264,589	\$0	\$264,589
3 Depreciation	2,573	26,221	28,794	0	28,794	0	28,794
4 Amortization	0	0	0	0	0	0	0
5 Taxes Other Than Income	38,923	473	39,396	(168)	39,228	(2,157)	37,072
6 Income Taxes	<u>20,199</u>	<u>(20,199)</u>	<u>0</u>	<u>54,422</u>	<u>54,422</u>	<u>(17,222)</u>	<u>37,199</u>
7 <b>Total Operating Expense</b>	<u>316,559</u>	<u>14,024</u>	<u>330,583</u>	<u>56,450</u>	<u>387,033</u>	<u>(19,379)</u>	<u>367,654</u>
8 <b>Operating Income</b>	<u>\$197,852</u>	<u>(\$10,314)</u>	<u>\$187,538</u>	<u>(\$62,156)</u>	<u>\$125,382</u>	<u>(\$28,545)</u>	<u>\$96,837</u>
9 <b>Rate Base</b>	<u>\$1,258,510</u>		<u>\$1,304,012</u>		<u>\$1,305,228</u>		<u>\$1,305,228</u>
10 <b>Rate of Return</b>	<u>15.72%</u>		<u>14.38%</u>		<u>9.61%</u>		<u>7.42%</u>



<b>Pennbrooke Adjustments to Rate Base Test Year Ended 12/31/2015</b>		<b>Schedule No. 3-B Docket No. 160101-WS</b>
<b>Explanation</b>	<b>Wastewater</b>	
<b>Operating Revenues</b>		
To reflect the appropriate amount of annualized revenues.	<u>(\$5,706)</u>	
<b>Operation and Maintenance Expense</b>		
1 To reflect appropriate interim salary expense.	\$1,166	
2 To reflect appropriate interim pension and benefits expense.	403	
3 To reflect appropriate interim bad debt expense.	2	
4 To reflect appropriate rate case expense amortization.	<u>625</u>	
<b>Total</b>	<u>\$2,196</u>	
<b>Taxes Other Than Income</b>		
1 To reflect RAFs on revenue adjustment.	(\$257)	
2 To reflect salary adjustment.	<u>89</u>	
<b>Total</b>	<u>(\$168)</u>	

<b>Longwood</b>		<b>Schedule No. 1-A</b>			
<b>Schedule of Wastewater Rate Base</b>		<b>Docket No. 160101-WS</b>			
<b>Test Year Ended 12/31/15</b>					
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>
1 Plant in Service	\$4,241,539	\$0	\$4,241,539	\$0	\$4,241,539
2 Land and Land Rights	229,155	0	229,155	0	229,155
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(2,332,580)	20,826	(2,311,754)	0	(2,311,754)
5 CIAC	(1,675,009)	0	(1,675,009)	(185)	(1,675,194)
6 Accumulated Amortization of CIAC	1,635,514	0	1,635,514	0	1,635,514
7 CWIP	15,656	(15,656)	0	0	0
8 Acquisition Adjustment	(369)	369	0	0	0
9 Accumulated Amort. of Acq. Adj.	37	(37)	0	0	0
10 Working Capital Allowance	<u>0</u>	<u>13</u>	<u>13</u>	<u>48,223</u>	<u>48,236</u>
11 <b>Rate Base</b>	<u>\$2,113,943</u>	<u>\$5,515</u>	<u>\$2,119,458</u>	<u>\$48,038</u>	<u>\$2,167,496</u>

<b>Longwood Adjustments to Rate Base Test Year Ended 12/31/2015</b>		<b>Schedule No. 1-B Docket No. 160101-WS</b>
<b>Explanation</b>	<b>Wastewater</b>	
<b>CIAC</b> To reflect reclassification of meter fee.		<u>(\$185)</u>
<b>Working Capital</b> To reflect appropriate working capital.		<u>\$48,223</u>

<b>Longwood Capital Structure-13-Month Average Test Year Ended 12/31/2015</b>							<b>Schedule No. 2 Docket No. 160101-WS</b>		
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Prorata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
<b>Per Utility</b>									
1	Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,008,221)	\$991,779	36.76%	6.70%	2.46%
2	Short-term Debt	17,100,000	0	17,100,000	(17,005,810)	94,190	3.49%	2.32%	0.08%
3	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4	Common Equity	191,433,000	0	191,433,000	(190,378,284)	1,054,716	39.10%	11.16%	4.36%
5	Customer Deposits	10,986	0	10,986	0	10,986	0.41%	2.00%	0.01%
6	Deferred Income Taxes	<u>546,007</u>	<u>0</u>	<u>546,007</u>	<u>0</u>	<u>546,007</u>	<u>20.24%</u>	0.00%	<u>0.00%</u>
7	<b>Total Capital</b>	<u>\$389,089,993</u>	<u>\$0</u>	<u>\$389,089,993</u>	<u>(\$386,392,315)</u>	<u>\$2,697,678</u>	<u>100.00%</u>		<u>6.92%</u>
<b>Per Staff</b>									
8	Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,253,798)	\$746,202	34.42%	6.66%	2.29%
9	Short-term Debt	17,100,000	0	17,100,000	(17,029,111)	70,889	3.27%	2.32%	0.08%
10	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11	Common Equity	191,433,000	0	191,433,000	(190,639,402)	793,598	36.61%	12.13%	4.44%
12	Customer Deposits	10,986	0	10,986	0	10,986	0.51%	2.00%	0.01%
13	Deferred Income Taxes	<u>546,007</u>	<u>0</u>	<u>546,007</u>	<u>0</u>	<u>546,007</u>	<u>25.19%</u>	0.00%	<u>0.00%</u>
14	<b>Total Capital</b>	<u>\$389,089,993</u>	<u>\$0</u>	<u>\$389,089,993</u>	<u>(\$386,922,311)</u>	<u>\$2,167,682</u>	<u>100.00%</u>		<u>6.82%</u>
							<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY							<u>10.13%</u>	<u>12.13%</u>	
OVERALL RATE OF RETURN							<u>6.09%</u>	<u>6.82%</u>	

<b>Longwood Statement of Wastewater Operations Test Year Ended 12/31/2015</b>						<b>Schedule No. 3-A Docket No. 160101-WS</b>	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$796,462</u>	<u>\$12,351</u>	<u>\$808,813</u>	<u>(\$3,759)</u>	<u>\$805,054</u>	<u>(\$17,559)</u> -2.18%	<u>\$787,495</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$411,722	(\$854)	\$410,868	(\$24,977)	\$385,891	\$0	\$385,891
3 Depreciation	112,223	(3,520)	108,703	0	108,703	0	108,703
4 Amortization	(7)	7	0	0	0	0	0
5 Taxes Other Than Income	89,295	111	89,406	(1,619)	87,787	(790)	86,997
6 Income Taxes	<u>15,776</u>	<u>42,939</u>	<u>58,715</u>	<u>5,678</u>	<u>64,389</u>	<u>(6,310)</u>	<u>58,079</u>
7 <b>Total Operating Expense</b>	<u>629,009</u>	<u>38,683</u>	<u>667,692</u>	<u>(20,922)</u>	<u>646,770</u>	<u>(7,100)</u>	<u>639,670</u>
8 <b>Operating Income</b>	<u>\$167,453</u>	<u>(\$26,332)</u>	<u>\$141,121</u>	<u>\$17,162</u>	<u>\$158,283</u>	<u>(\$10,459)</u>	<u>\$147,825</u>
9 <b>Rate Base</b>	<u>\$2,113,943</u>		<u>\$2,119,458</u>		<u>\$2,167,681</u>		<u>\$2,167,681</u>
10 <b>Rate of Return</b>	<u>7.92%</u>		<u>6.66%</u>		<u>7.30%</u>		<u>6.82%</u>

<b>Longwood Adjustments to Operating Income Test Year Ended 12/31/2015</b>		<b>Schedule No. 3-B Docket No. 160101-WS</b>
<b>Explanation</b>	<b>Wastewater</b>	
<b>Operating Revenues</b>		
To reflect the appropriate amount of annualized revenues.	<u>(\$3,759)</u>	
<b>Operation and Maintenance Expense</b>		
1 To reflect appropriate interim salary expense.	(\$18,950)	
2 To reflect appropriate interim pension and benefits expense.	(5,392)	
3 To reflect appropriate interim bad debt expense.	(1,534)	
4 To reflect appropriate rate case expense amortization.	<u>899</u>	
<b>Total</b>	<u>(\$24,977)</u>	
<b>Taxes Other Than Income</b>		
1 To reflect RAFs on revenue adjustment.	(\$169)	
2 To reflect salary adjustment.	<u>(1,450)</u>	
<b>Total</b>	<u>(\$1,619)</u>	

<b>Eagle Ridge Schedule of Wastewater Rate Base Test Year Ended 12/31/15</b>			<b>Schedule No. 1-A Docket No. 160101-WS</b>		
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>
1 Plant in Service	\$7,386,629	\$0	\$7,386,629	\$0	\$7,386,629
2 Land and Land Rights	51,866	0	51,866	0	51,866
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(4,188,454)	\$30,522	(4,157,932)	0	(4,157,932)
5 CIAC	(3,810,352)	0	(3,810,352)	0	(3,810,352)
6 Accumulated Amortization of CIAC	3,071,805	0	3,071,805	0	3,071,805
7 CWIP	776	(\$776)	0	0	0
8 Working Capital Allowance	<u>192,625</u>	<u>0</u>	<u>192,625</u>	<u>(112,824)</u>	<u>79,801</u>
9 <b>Rate Base</b>	<u>\$2,704,895</u>	<u>\$29,746</u>	<u>\$2,734,641</u>	<u>(\$112,824)</u>	<u>\$2,621,817</u>

<b>Eagle Ridge</b>		<b>Schedule No. 1-B</b>
<b>Adjustments to Rate Base</b>		<b>Docket No. 160101-WS</b>
<b>Test Year Ended 12/31/15</b>		
<b>Explanation</b>		<b>Wastewater</b>
<b>Working Capital</b> To reflect appropriate working capital.		<u>(\$112,824)</u>



<b>Eagle Ridge Capital Structure-13-Month Average Test Year Ended 12/31/2015</b>							<b>Schedule No. 2 Docket No. 160101-WS</b>			
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Prorata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost		
<b>Per Utility</b>										
1	Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,757,525)	\$1,242,475	39.56%	6.70%	2.65%	
2	Short-term Debt	17,100,000	0	17,100,000	(16,982,001)	117,999	3.76%	2.32%	0.09%	
3	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4	Common Equity	191,433,000	0	191,433,000	(190,111,680)	1,321,320	42.07%	10.40%	4.38%	
5	Customer Deposits	3,413	0	3,413	0	3,413	0.11%	2.00%	0.00%	
6	Deferred Income Taxes	<u>455,636</u>	<u>0</u>	<u>455,636</u>	<u>0</u>	<u>455,636</u>	<u>14.51%</u>	0.00%	<u>0.00%</u>	
7	<b>Total Capital</b>	<u>\$388,992,049</u>	<u>\$0</u>	<u>\$388,992,049</u>	<u>(\$385,851,206)</u>	<u>\$3,140,843</u>	<u>100.00%</u>		<u>7.11%</u>	
<b>Per Staff</b>										
8	Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,998,030)	\$1,001,970	38.22%	6.66%	2.55%	
9	Short-term Debt	17,100,000	0	17,100,000	(17,004,813)	95,187	3.63%	2.32%	0.08%	
10	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
11	Common Equity	191,433,000	0	191,433,000	(190,367,388)	1,065,612	40.64%	11.60%	4.71%	
12	Customer Deposits	3,413	0	3,413	0	3,413	0.13%	2.00%	0.00%	
13	Deferred Income Taxes	<u>455,636</u>	<u>0</u>	<u>455,636</u>	<u>0</u>	<u>455,636</u>	<u>17.38%</u>	0.00%	<u>0.00%</u>	
14	<b>Total Capital</b>	<u>\$388,992,049</u>	<u>\$0</u>	<u>\$388,992,049</u>	<u>(\$386,370,231)</u>	<u>\$2,621,818</u>	<u>100.00%</u>		<u>7.35%</u>	
							<b>LOW</b>	<b>HIGH</b>		
RETURN ON EQUITY							<u>9.60%</u>	<u>11.60%</u>		
OVERALL RATE OF RETURN							<u>6.53%</u>	<u>7.35%</u>		

<b>Eagle Ridge Statement of Wastewater Operations Test Year Ended 12/31/2015</b>						<b>Schedule No. 3-A Docket No. 160101-WS</b>	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$1,163,170</u>	<u>\$6,061</u>	<u>\$1,169,231</u>	<u>(\$7,014)</u>	<u>\$1,162,217</u>	<u>(\$24,112)</u> -2.07%	<u>\$1,138,105</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$629,669	\$2,495	\$632,164	\$6,244	\$638,408	\$0	\$638,408
3 Depreciation	166,706	(5,159)	161,547	0	161,547	0	161,547
4 Amortization	0	0	0	0	0	0	0
5 Taxes Other Than Income	72,635	(282)	72,353	(316)	72,037	(1,085)	70,952
6 Income Taxes	<u>4,805</u>	<u>(4,805)</u>	<u>0</u>	<u>83,244</u>	<u>83,244</u>	<u>(8,665)</u>	<u>74,579</u>
7 <b>Total Operating Expense</b>	<u>873,815</u>	<u>(7,751)</u>	<u>866,064</u>	<u>89,173</u>	<u>955,237</u>	<u>(9,750)</u>	<u>945,486</u>
8 <b>Operating Income</b>	<u>\$289,355</u>	<u>(\$13,812)</u>	<u>\$303,167</u>	<u>(\$96,186)</u>	<u>\$206,981</u>	<u>(\$14,362)</u>	<u>\$192,619</u>
9 <b>Rate Base</b>	<u>\$2,704,895</u>		<u>\$2,734,641</u>		<u>\$2,621,817</u>		<u>\$2,621,817</u>
10 <b>Rate of Return</b>	<u>10.70%</u>		<u>11.09%</u>		<u>7.89%</u>		<u>7.35%</u>

<b>Eagle Ridge Adjustments to Operating Income Test Year Ended 12/31/2015</b>		<b>Schedule No. 3-B Docket No. 160101-WS</b>
<b>Explanation</b>	<b>Wastewater</b>	
<b>Operating Revenues</b>		
To reflect the appropriate amount of annualized revenues.	<u>(\$7,014)</u>	
<b>Operation and Maintenance Expense</b>		
1 To reflect appropriate interim bad debt expense.	(\$654)	
2 To reflect appropriate rate case expense amortization.	<u>6,898</u>	
<b>Total</b>	<u>\$6,244</u>	
<b>Taxes Other Than Income</b>		
To reflect RAFs on revenue adjustment.	<u>(\$316)</u>	

<b>Cypress Lakes Schedule of Water Rate Base Test Year Ended 12/31/15</b>			<b>Schedule No. 1-A Docket No. 160101-WS</b>		
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>
1 Plant in Service	\$2,250,651	(\$250,570)	\$2,000,081	\$0	\$2,000,081
2 Land and Land Rights	1,356	0	1,356	0	1,356
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(1,218,575)	(170,968)	(1,389,543)	0	(1,389,543)
5 CIAC	(578,164)	(1,351)	(579,515)	0	(579,515)
6 Accumulated Amortization of CIAC	217,870	0	217,870	0	217,870
7 CWIP	(7,911)	7,911	0	0	0
8 Working Capital Allowance	<u>0</u>	<u>27,509</u>	<u>27,509</u>	<u>(820)</u>	<u>26,689</u>
9 <b>Rate Base</b>	<u>\$665,227</u>	<u>(\$387,469)</u>	<u>\$277,758</u>	<u>(\$820)</u>	<u>\$276,938</u>

<b>Cypress Lakes</b>		<b>Schedule No. 1-B</b>
<b>Adjustments to Rate Base</b>		<b>Docket No. 160101-WS</b>
<b>Test Year Ended 12/31/15</b>		
<b>Explanation</b>		<b>Water</b>
<b>Working Capital</b> To reflect appropriate working capital.		<u>(\$820)</u>

<b>Cypress Lakes Capital Structure-13-Month Average Test Year Ended 12/31/2015</b>							<b>Schedule No. 2 Docket No. 160101-WS</b>		
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
<b>Per Utility</b>									
1	Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,911,002)	\$1,088,998	43.27%	6.70%	2.90%
2	Short-term Debt	17,100,000	0	17,100,000	(16,996,577)	103,423	4.11%	2.32%	0.10%
3	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4	Common Equity	191,433,000	0	191,433,000	(190,274,896)	1,158,104	46.01%	10.40%	4.79%
5	Customer Deposits	11,019	0	11,019	0	11,019	0.44%	0.00%	0.00%
6	Deferred Income Taxes	<u>155,302</u>	<u>0</u>	<u>155,302</u>	<u>0</u>	<u>155,302</u>	<u>6.17%</u>	0.00%	<u>0.00%</u>
7	<b>Total Capital</b>	<u>\$388,699,321</u>	<u>\$0</u>	<u>\$388,699,321</u>	<u>(\$386,182,475)</u>	<u>\$2,516,846</u>	<u>100.00%</u>		<u>7.78%</u>
<b>Per Staff</b>									
8	Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,944,671)	\$1,055,329	43.18%	6.66%	2.88%
9	Short-term Debt	17,100,000	0	17,100,000	(16,999,744)	100,256	4.10%	2.32%	0.10%
10	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11	Common Equity	191,433,000	0	191,433,000	(190,310,640)	1,122,360	45.92%	11.45%	5.26%
12	Customer Deposits	11,019	0	11,019	0	11,019	0.45%	0.00%	0.00%
13	Deferred Income Taxes	<u>155,302</u>	<u>0</u>	<u>155,302</u>	<u>0</u>	<u>155,302</u>	<u>6.35%</u>	0.00%	<u>0.00%</u>
14	<b>Total Capital</b>	<u>\$388,699,321</u>	<u>\$0</u>	<u>\$388,699,321</u>	<u>(\$386,255,055)</u>	<u>\$2,444,266</u>	<u>100.00%</u>		<u>8.23%</u>
							<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY							<u>9.45%</u>	<u>11.45%</u>	
OVERALL RATE OF RETURN							<u>7.31%</u>	<u>8.23%</u>	

<b>Cypress Lakes</b>						<b>Schedule No. 3-A</b>	
<b>Statement of Water Operations</b>						<b>Docket No. 160101-WS</b>	
<b>Test Year Ended 12/31/2015</b>							
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjustments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjustments</b>	<b>Staff Adjusted Test Year</b>	<b>Revenue Increase</b>	<b>Revenue Requirement</b>
1 <b>Operating Revenues:</b>	<u>\$355,789</u>	<u>\$2,241</u>	<u>\$358,030</u>	<u>(\$3,595)</u>	<u>\$354,435</u>	<u>(\$24,335)</u> -6.87%	<u>\$330,100</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$220,069	(\$3,588)	\$216,481	(\$2,972)	\$213,509	0	\$213,509
3 Depreciation	87,382	(28,214)	59,168	0	59,168	0	59,168
4 Amortization	(7,537)	7,537	0	0	0	0	0
5 Taxes Other Than Income	35,728	(8,620)	27,108	(162)	26,946	(1,095)	25,851
6 Income Taxes	<u>14,677</u>	<u>(14,677)</u>	<u>0</u>	<u>17,530</u>	<u>17,530</u>	<u>(8,745)</u>	<u>8,785</u>
7 <b>Total Operating Expense</b>	<u>350,319</u>	<u>(47,562)</u>	<u>302,757</u>	<u>14,396</u>	<u>317,153</u>	<u>(9,840)</u>	<u>307,313</u>
8 <b>Operating Income</b>	<u>\$5,470</u>	<u>\$49,803</u>	<u>\$55,273</u>	<u>(\$17,991)</u>	<u>\$37,282</u>	<u>(\$14,495)</u>	<u>\$22,787</u>
9 <b>Rate Base</b>	<u>\$665,227</u>		<u>\$277,758</u>		<u>\$276,938</u>		<u>\$276,938</u>
10 <b>Rate of Return</b>	<u>0.82%</u>		<u>19.90%</u>		<u>13.46%</u>		<u>8.23%</u>

<b>Cypress Lakes</b>		<b>Schedule No. 3-B</b>
<b>Adjustments to Operating Income</b>		<b>Docket No. 160101-WS</b>
<b>Test Year Ended 12/31/2015</b>		
<b>Explanation</b>	<b>Water</b>	
<b>Operating Revenues</b>		
To reflect the appropriate amount of annualized revenues.	<u>(\$3,595)</u>	
<b>Operation and Maintenance Expense</b>		
To reflect appropriate rate case expense amortization.	<u>(\$2,972)</u>	
<b>Taxes Other Than Income</b>		
To reflect RAFs on revenue adjustment.	<u>(\$162)</u>	



# Item 3

*Filed 10-20-2016  
8:30 AM*

State of Florida



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

**DATE:** October 20, 2016

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Engineering (Lee) *POE*  
Office of the General Counsel (Murphy) *cm/CM*

**RE:** Docket No. 160074-EQ – Petition for approval of new standard offer rate schedule for energy purchases from cogenerators and renewable facilities and for approval of standard offer contract for purchased of firm capacity and energy, by Florida Public Utilities Company.

**AGENDA:** 11/01/16 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Edgar

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

## Case Background

Section 366.91(3), Florida Statutes (F.S.) requires that each investor-owned utility (IOU) continuously offers to purchase capacity and energy from renewable energy generators. Florida Public Service Commission (Commission) Rules 25-17.200 through 25-17.310, Florida Administrative Code (F.A.C.), implement the statute and require each IOU to file with the Commission by April 1 of each year, a Standard Offer Contract based on the next avoidable fossil fueled generating unit of each technology type identified in the utility's current Ten-Year Site Plan. On April 1, 2016, Florida Public Utilities Company (FPUC) filed a petition for approval of its new Standard Offer Rate Schedule and Standard Offer Contract to replace its existing Renewable Energy (REN) Tariff and its Cogeneration (COG) Tariff, in accordance with the rules cited above and Rules 25-9.003, 25-17.0825, and 25-17.0832, F.A.C.

Docket No. 160074-EQ

Date: October 20, 2016

Because FPUC does not own or operate any electric generating units, it does not have any avoidable units on which to base its Standard Offer Contract. Rule 25-17.250(1), F.A.C., requires that, under these circumstances, the Standard Offer Contract be based on avoiding or deferring a planned purchase. FPUC purchases all of its electric power through purchased power agreements in its Northeast Division from JEA, and in its Northwest Division from Gulf Power Company (Gulf).

On August 11, 2016, FPUC amended its filing to reflect revisions needed based on its review after the original filing of April 1, 2016. On September 27, 2016, FPUC amended its filing with Tariff Sheet Nos. 18 and 24.0 to reflect revisions to the amended filing of August 11, 2016. FPUC also revised its responses to staff's data requests based on its amended filings.

The Commission has jurisdiction over this Standard Offer Contract pursuant to Sections 366.04 through 366.06 and 366.91, F.S.

## Discussion of Issues

**Issue 1:** Should the Commission approve the new Standard Offer Rate Schedule and Standard Offer Contract filed by Florida Public Utilities Company?

**Recommendation:** Yes. FPUC's new Standard Offer Rate Schedule and Standard Offer Contract conform to all the requirements of Rule 25-17.0825 and Rules 25-17.200 through 25-17.310, F.A.C., and reflect the avoidable costs associated with FPUC's power purchase agreements. Staff recommends that the Rate Schedule and Standard Offer Contract filed by FPUC be approved as filed. (Lee)

**Staff Analysis:** Pursuant to Rule 25-17.250, F.A.C., an IOU must continuously make available a standard offer contract for the purchase of firm capacity and energy from renewable generating facilities (RF) and small qualifying facilities (QF) with a design capacity of 100 kilowatt (kW) or less. FPUC does not own or operate any of its own electric generating facilities and thus does not file a Ten-Year Site Plan. Instead, FPUC purchases its electric energy under long-term, full requirements contracts with wholesale providers.

The proposed standard offer rate schedule consists of three components: (1) the Standard Offer-As Available schedule (SOA); (2) the Standard Offer- Firm Schedule (SOF); and (3) the Standard Offer Contract. The SOA and SOF consolidate FPUC's previous REN and COG tariffs. FPUC states that the new consolidated tariff and Standard Offer Contract have been crafted to comply with the provisions of Chapter 25-17, including Rule 25-17.0825 and Rule 25-17.0832, as they apply to purchases of energy and capacity from RF/QF operators. FPUC's new Standard Offer Contract and rate schedule, with the amended schedules filed on August 11, 2016, and September 27, 2016, is provided as Attachment A. Similar to FPUC's previous REN and COG tariffs, the capacity and energy payments under the proposed rate schedule depend on the terms of FPUC's wholesale contracts with its suppliers for FPUC's Northeast Division and Northwest Division.

### Northeast Division

At present, JEA is the full requirements supplier for FPUC's Northeast Division, which consists of Fernandina Beach and Amelia Island. FPUC's revised responses to staff's data request provided the estimates of the annual payments to an operator with a 20 MW facility operating at a capacity factor of 80 percent, for a RF/QF operator located inside the service territory. FPUC estimated that its annual capacity and energy payments would be approximately \$3.5 million and \$7.9 million respectively, based on the full reduction in JEA billing to FPUC that would include the capacity, energy, environmental, fuel and line loss components.

### Northwest Division

At present, Gulf is the full requirements supplier for FPUC's Northwest Division, which consists of portions of Jackson, Calhoun, and Liberty counties. FPUC's revised responses to staff's data request provided the estimates of the annual payments to an operator with a 20 MW facility operating at a capacity factor of 80 percent, for a RF/QF operator located inside the service territory. FPUC estimated that its annual capacity and energy payments would be zero and \$8.25 million respectively, based on the full reduction in Gulf's billing to FPUC that would include the capacity, energy, environmental, fuel and line loss components. Payments for capacity are

projected to remain at zero because there is no reduction in FPUC's capacity payment to Gulf due to the "ratchet provision" included in FPUC's contract with Gulf. This provision set a minimum capacity and precludes any decrease in demand payments to Gulf based on a decrease in the overall demand or the addition of generation resources.

### **Other Contract Terms**

Both the SOA (at Sheet No. 18) and the SOF (at Sheet No. 24.0) include updated language to better address line losses and potential issues associated with the location of the RF/QF operators, consistent with Rule 25-17.0825 for the SOA and Rule 25-17.0832 for the SOF. This ensures appropriate accounting of the transmission cost impact due to the location of the RF/QF operators and deliveries are made without creating transmission line constraints on FPUC's system. The Standard Offer Contract also includes additional language at Sheet No. 32, to clarify situations in which FPUC can disconnect the qualifying facilities for unsafe conditions and circumstances under which FPUC will reconnect to the qualifying facilities. These are similar to provisions in standard offer contracts of other IOUs but were not addressed in FPUC's previous Standard Offer Contract.

The proposed schedule relies upon the cost of FPUC's underlying full requirements suppliers as the basis for its calculation of energy payments to qualifying facilities. In previously approved tariffs, FPUC's avoided energy payments to qualifying facilities were identified as being current estimates provided for informational purposes only, which were based on data of estimated fuel costs of FPUC's wholesale supplier. FPUC asserts that its new approach clarifies and refines its past practice and eliminates example rates, thus preventing confusion. Upon request, a utility is required by Rule 25-17.0825(5) to provide the most updated data within 30 days. Staff notes that a similar revision removing avoided energy cost projections from the renewable energy tariff of Florida Power & Light Company was approved by the Commission.<sup>1</sup>

In addition, the proposed schedule includes language at Sheet No. 28 to address situations in which FPUC may decline to execute standard offer contract and seek relief from the Commission, in accordance with Rule 25-17.0832(4)(c). Language is also included at Paragraph 13, Sheet No. 16 to address changes in federal or state regulatory requirements, consistent with the provision considered in Rule 25-17.270, F.A.C.

### **Conclusion**

FPUC's new Standard Offer Contracts and related rate schedule conform to all the requirements of Rule 25-17.0825 and Rules 25-17.200 through 25-17.310, F.A.C., and reflect the avoidable costs associated with FPUC's purchased power agreements. Staff recommends that the Rate Schedule and Standard Offer Contract filed by FPUC be approved as filed.

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<sup>1</sup>Order No. PSC-16-0428-PAA-EQ, issued October 4, 2016, in Docket No. 160070-EQ, *In re: Petition for approval of renewable energy tariff and standard offer contract, by Florida Power & Light Company.*

**Issue 2:** Should this docket be closed?

**Recommendation:** Yes. This docket should be closed upon issuance of a consummating order, unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of the issuance of the Commission's Proposed Agency Action Order. Potential signatories should be aware that, if a timely protest is filed, FPUC's Standard Offer Contract may subsequently be revised. (Murphy)

**Staff Analysis:** This docket should be closed upon the issuance of a consummating order, unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of the issuance of the Commission's Proposed Agency Action Order. Potential signatories should be aware that, if a timely protest is filed, FPUC's Standard Offer Contract may subsequently be revised.

Florida Public Utilities Company  
F.P.S.C. Standard Offer Rate Schedule  
Original Volume No. I

Original Sheet No. 1

**STANDARD OFFER RATE SCHEDULES  
FOR PURCHASES FROM COGENERATORS & RENEWABLE GENERATING FACILITIES  
ORIGINAL VOLUME NO. I  
OF  
FLORIDA PUBLIC UTILITIES COMPANY  
FILED WITH  
FLORIDA PUBLIC SERVICE COMMISSION**

Communications concerning this Tariff should be addressed to:

Florida Public Utilities Company  
1750 S. 14th Street, Ste. 200  
Fernandina Beach, FL 32034

Attn: Director, Regulatory Affairs

Issued by: Jeffrey Householder, President

Effective:

Florida Public Utilities Company  
F.P.S.C. Standard Offer Rate Schedule  
Original Volume No. I

Original Sheet No. 2

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F.P.S.C. Standard Offer Rate Schedule  
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Original Sheet No. 3

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***TERRITORY SERVED***

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FPUC serves the following divisions:

The Northwest Florida (Marianna) Division serves various cities and towns and rural communities in Jackson, Calhoun and Liberty Counties. Gulf Power is Florida Public Utilities Company's Full Requirements Wholesale Power Supplier for the Northwest Florida Division.

The Northeast Florida (Fernandina Beach) Division serves Amelia Island, located in Nassau County. Jacksonville Electric Authority is Florida Public Utilities Company's Full Requirements Wholesale Power Supplier for the Northeast Florida Division.

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F.P.S.C. Standard Offer Rate Schedule  
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**MISCELLANEOUS GENERAL INFORMATION**

Florida Public Utilities Company was incorporated under the Laws of Florida in 1924 and adopted its present corporate name in 1927.

It is principally engaged in the distribution and sale of natural gas and electricity. Its operations are entirely within the State of Florida.

The general office of the Company is located at:

1641 Worthington Road, Suite 220  
West Palm Beach, Florida 33409

Division offices are located at:

2825 Pennsylvania Avenue  
Marianna, Florida 32448-4004

and

780 Amelia Island Parkway  
Fernandina Beach, Florida 32034

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F.P.S.C. Standard Offer Rate Schedule  
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Original Sheet No. 5

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***TECHNICAL TERMS AND ABBREVIATIONS***

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When used in the Rules and Regulations or the rate schedules in this volume, the following terms shall have the meanings defined below:

- A. Applicant – any person, firm, or corporation applying for electric service from the Company at one location.
- B. Avoided Cost – shall be equal to the costs avoided by the Company's respective Full Requirements Wholesale Power Suppliers for its Northwest and Northeast Florida Divisions, as calculated by the Full Requirements Wholesale Power Suppliers in accordance with FPSC Rules 25-17.0825 and 17.0832, F.A.C., when making equivalent purchases of energy and/or capacity from a QF or from a QS, as that term is defined at Sheet No. 22.
- C. Capacity Factor – the total kilowatt hours of energy delivered to the Company during a specified period, divided by the product of: (1) the maximum kilowatt capacity contractually committed for delivery to the Company by the QF during that same specified period and (2) the sum of the total hours during that same period less those hours during which the Company was unable to accept energy and capacity deliveries from the QF.
- D. Capacity Rating – the QF's maximum generating capability, expressed in kilowatts, connected to the Company's electric system.
- E. Company – Florida Public Utilities Company acting through its duly authorized officers or employees within the scope of their respective duties.
- F. Customer – any person, firm, or corporation purchasing electric service at one location from the Company under Rules and Regulations of the Company.
- G. Energy – current delivered, expressed in kilowatt-hours.
- H. Full Requirements Wholesale Power Supplier - the wholesale power supplier providing energy and capacity to FPUC under a service contract that includes a load following obligation, whereby the supplier is required to meet the demand on FPUC's distribution system as that demand fluctuates on an hour by hour basis.
- I. KW or Kilowatt – one thousand (1,000) watts.
- J. KWh or Kilowatt-hour – one thousand (1,000) watt-hours.
- K. Month – the period between any two (2) regular readings of the QF's meters at approximately thirty (30) day intervals.

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Florida Public Utilities Company  
F.P.S.C. Standard Offer Rate Schedule  
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**TECHNICAL TERMS AND ABBREVIATIONS**

- L. **Qualifying Facility or QF** - means a cogenerator, small power producer, or non-utility generator that either through self-certification to, or certification by, the Federal Energy Regulatory Commission ("FERC") meets the criteria established by the FERC pursuant to the Public Utility Regulatory Policies Act of 1978, as amended, ("PURPA") or as otherwise designated by Florida Public Service Commission ("FPSC") under Rule 25-17.080, Florida Administrative Code. For purposes of this tariff, the term shall also include a Renewable Generating Facility.
- M. **Power Factor** - ratio of kilowatts to kilovolt-amperes.
- N. **Renewable Generating Facility** - means an electrical generating unit or group of units at a single site, interconnected for synchronous operation and delivery of electricity to an electric utility, where the primary energy in British Thermal Units (BTUs) used for the production of electricity is from one or more of the following sources: hydrogen produced from sources other than fossil fuels, biomass, solar energy, geothermal energy, wind energy, ocean energy, hydroelectric power, or waste heat from a commercial or industrial manufacturing process, consistent with Rules 25-17.210 and 25-17.220, Florida Administrative Code
- O. **Service Line** - all wiring between the Company's main line or transformer terminals and the point of connection to the QF's service entrance.
- P. **Single Service** - one set of facilities over which the QF may deliver electric power to the Company.
- Q. **Year** - a period of three hundred sixty-five (365) consecutive days except that in a year having a date of February twenty-nine (29) such year shall consist of three hundred sixty-six (366) consecutive days.

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Florida Public Utilities Company  
F.P.S.C. Standard Offer Rate Schedule  
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INDEX OF RULES AND REGULATIONS

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**RULES AND REGULATIONS**

**Applicable to As-Available and Firm Standard Offer Rate Schedules**

1. **General**

Company shall furnish service under its rate schedules and these Rules and Regulations as approved from time to time by the Florida Public Service Commission and in effect at the time. These Rules and Regulations shall govern all service except as specifically modified by the terms and conditions of the rate schedules or written contracts. Copies of currently effective Rules and Regulations are available at the office of the Company.

Unless otherwise specifically provided in any applicable rate schedule or in a written contract by or with Company, the term of any agreement shall become operative on the day the Qualifying Facility commences delivery of electric energy and/or capacity to the Company and shall continue for a period of one (1) year and continuously thereafter until cancelled by three (3) or more days' notice by either party.

2. **Application for Service**

An application for service will be required by Company from each Applicant. The application or contract for service shall be in writing. Such application shall contain the information necessary to determine the type of service desired and the conditions under which service will be rendered.

The application or depositing of any sum of money by the Applicant shall not require Company to render service until the expiration of such time as may be reasonable required by Company to determine if Applicant has complied with the provisions of these Rules and Regulations and as may reasonably be required by Company to install the required facilities.

3. **Election of Rate Schedule**

Optional rates are available for the purchase of electric energy by the Company from a Qualifying Facility, namely, As-Available Energy and Firm Power. These optional rates and the conditions under which they are applicable are set forth in Company's Rate Schedule SOA and Rate Schedule SOF. Upon application for service or upon request, Applicant or Qualifying Facility shall elect the applicable rate schedule best suited to his requirements. Once the Qualifying Facility has elected a rate schedule, no change shall be allowed during the remaining term of the then existing contract.

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4. Deposits

An initial deposit in the first year of operation may be required of a Qualifying Facility who is also a purchasing customer of the Company and whose monthly dollar value of purchases from the Company are estimated to exceed the monthly dollar value of sales to the Company. Such deposit shall be based upon the singular month in which the Qualifying Facility's projected purchases from the company exceed by the greatest amount the Company estimated purchased from the Qualifying Facility. The initial deposit shall be equal to twice the amount of the difference estimated for that month and shall be paid upon interconnection. For each year thereafter, a review of actual sales and purchases between the Qualifying Facility and the Company shall be made to determine the actual month of maximum difference. The deposit shall be adjusted to equal twice the greatest amount by which the actual monthly purchases by the Qualifying Facility exceed the actual sales to the Company in that month.

In lieu of a cash deposit, a Qualifying Facility may,

- (a) Furnish a satisfactory guarantor to secure payment of bills for the service requested, with such guarantor required to be a customer of the Company with a satisfactory payment record.
- (b) Furnish an irrevocable letter of credit from a bank.
- (c) Furnish a surety bond.

Retention by Company, prior to a final settlement, of said deposit shall not be considered as payment or part payment of any bill for service. Company shall, however, apply said deposit against unpaid bills for service. In such case, Qualifying Facility shall be required to restore deposit to original amount within 30 days.

Company shall pay interest on deposits annually at the rate of two per cent (2%) per annum. No Qualifying Facility shall be entitled to receive interest on his deposit until and unless the deposit has been in existence for a continuous period of six months; then he shall be entitled to receive interest from the day of placement of deposit. Deposits shall cease to bear interest upon discontinuance of service.

Upon discontinuance of service, the deposit and accrued interest shall be credited against the final account and the balance, if any, shall be returned promptly to the qualifying Facility, but in no event later than fifteen (15) days after service is discontinued.

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5. Metering

Company shall specify the type of meter or meters that shall be installed to properly measure purchases of capacity and energy from Qualifying Facility. The cost of such meters and their installation shall be borne by the Qualifying Facility. Time-differentiated recording meters may be required by the Company when:

- (a) A time record of measured capacity and/or energy purchased is required by the Company to determine the proper billing units.

When a Qualifying Facility is also a purchasing Customer of the Company, the measurement of such purchases by the Qualifying Facility shall be through a separate meter or meters apart from the meter or meters measuring sales to the Company. The cost of meters for measuring purchases by Customer shall be borne by the Company.

Before installation and periodically thereafter, each meter shall be tested and adjusted using methods and accuracy limits prescribed or approved by the Florida Public Service Commission. Periodic test and inspection intervals shall not exceed the maximum period allowed by the Florida Public Service commission.

If, on test, the meter is found to be in error in excess of the prescribed accuracy limits, fast or slow, the amount of refund or charge to the Qualifying Facility shall be determined by methods prescribed or approved by the Florida Public Service Commission.

In the event of stoppage or failure of any meter to register, Qualifying Facility may be paid for such period on an estimated basis; using data on electric energy delivered to Company in a similar period or such other data as may be reasonably obtainable to aid in determining estimated deliveries.

6. Billing and Payments

A. Meter Reading and Payment Schedules

Each Qualifying Facility's meter will be read by the Company at monthly intervals as near as possible to the last day of each calendar month. The Company will prepare the bill and render payment to the Qualifying Facility for purchases during the preceding calendar month within twenty (20) business days following the day the meter is read. Details of the billing units and the applicable rates will accompany payment.

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**B. Selection of Billing Methodology**

Qualifying Facility may elect to make either simultaneous purchases and sales or net sales to the Company. Once made, the selection of a billing methodology may be changed at the option of the Qualifying Facility, subject to the following provisions:

- (1) not more frequently than once every twelve (12) month;
- (2) to coincide with the next Fuel and Purchased Power Cost Recovery Factor billing period;
- (3) upon at least thirty (30) days' advance written notice;
- (4) upon the installation by the Company of any additional metering equipment reasonably required to effect the change in billing and upon payment by the Qualifying Facility for such metering equipment and its installation;
- (5) upon completion and approval by the Company of any alterations to the interconnection reasonably required to effect the change in billing and upon payment by the Qualifying Facility for such alterations; and
- (6) where the election to change billing methods will not contravene the provisions of the tariff under which the Qualifying Facility receives service from the Company or any other previously agreed upon contractual provisions between the Qualifying Facility and the Company.

Should Qualifying Facility elect to make simultaneous purchases and sales, purchases of electric service by the Qualifying Facility from the Company shall be billed at the retail rate schedule under which the Qualifying Facility would receive service as a non-generating customer of the Company; sales of electricity by the Qualifying Facility to the Company shall be purchased at the Company's applicable rate for such purchases.

Should Qualifying Facility elect to make net sales, the monthly energy and capacity sales to the Company shall be purchased at the Company's applicable rate for such purchases. For those months during which Qualifying Facility is a net purchaser, purchases shall be billed at the Company's retail rate schedule under which the Qualifying Facility would receive service as a non-generating customer of the Company.

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Where simultaneous purchases and sales are made by Qualifying Facility, payments to Qualifying Facility may, at the option of Qualifying Facility, be shown as a credit to Qualifying Facility's bill. Details of the billing units and the applicable rates will accompany the bill to Qualifying Facility. A credit will not exceed the amount of the Qualifying Facility's bill from Company and the excess, if any, will be paid to the Qualifying Facility.

7. Interconnection and Standards

Rule 25-17.87 of the Florida Public Service Commission will apply. Copies of this rule are available upon request at the office of the Company.

8. Responsibilities of Qualifying Facilities Providing Power for Purchase by Company

Company shall have the right to enter the premises of Qualifying Facility at all reasonable hours for the purpose of making such inspection of Qualifying Facility's installation as may be necessary for the proper application of Company's rate schedules and Rules and Regulations for installing, removing, testing, or replacing its apparatus or property; for reading meters; and for the entire removal of Company's property in event of termination of service for any reason.

All property of Company installed in or upon a Qualifying Facility's premises used and useful in supplying service is placed there under the Qualifying Facility's protection. All reasonable care shall be exercised by the Qualifying Facility to prevent loss or damage to such property and, ordinary wear and tear excepted, Qualifying Facility will be held liable for any such loss of property or damage thereto and shall pay to Company the cost of necessary repairs or replacements.

Qualifying Facility will be held responsible for breaking the seals, tampering or interfering with Company's meter or meters or other equipment of Company installed on Qualifying Facility's premises, and no one except employees of Company will be allowed to make any repairs or adjustments to any meter or other piece of apparatus belonging to Company except in case of emergency.

Qualifying Facility shall not increase the capacity rating of its electric generating equipment connected to the Company's system without first notifying Company in writing and obtaining written consent.

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*RULES AND REGULATIONS (Continued)*

Company shall have the right, if necessary; to construct its poles, lines and circuits on Qualifying Facility's property and to place its transformers and other apparatus on the property or within the buildings of Qualifying Facility, at a point or points convenient for such purposes, and Qualifying Facility shall provide suitable space for such installation.

Company shall have the right to require, if necessary, the installation of such remote metering equipment as may be necessary for Qualifying Facility to properly monitor Company's load at the delivery point of the Company's Full Requirements Wholesale Power Supplier on the system to which Qualifying Facility is connected. The cost of such installation shall be borne by Qualifying Facility.

9. Responsibilities and Obligations of Company

Company will use reasonable diligence to purchase electric energy and/or capacity from Qualifying Facility as may be practically and safely allowable within the limits of load and line capacity on the Company's system to which Qualifying Facility is connected. Company may interrupt its purchases hereunder, however, for the purpose of making necessary alterations and repairs, but only for such time as may be reasonable or unavoidable, and Company shall give Qualifying Facility, except in case of emergency, reasonable notice of its intention so to do, and shall endeavor to arrange such interruption so as to inconvenience Qualifying Facility as little as possible.

Whenever Company deems an emergency warrants interruption or limitation in the service being rendered, such interruption or limitation shall not constitute a breach of contract and shall not render Company liable for damages suffered thereby or excuse Qualifying Facility from further fulfillment of the contract.

Company shall not be liable to Qualifying Facility for any loss, injury, or damage from use of Qualifying Facility's equipment or from the use of electric service furnished by Company or from the connection of Company's facilities with Qualifying Facility's wiring and equipment.

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10. Force Majeure

Except for payment of bills due, neither the Company nor the Qualifying Facility shall be liable in damage to the other for any act, omission or circumstances occasioned by or in consequence of any acts of God, strikes, lockouts, acts of the public enemy, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, unforeseeable or unusual weather conditions, washouts, arrests and restraint of rules and peoples, civil disturbances, explosions, breakage or accident to machinery or electric lines, temporary failure of electric supply, the binding order of any court or governmental authority which has been resisted in good faith by all reasonable legal means, and any other cause, whether of the kind herein enumerated, or otherwise, and whether caused or occasioned by or happening on account of the act or omission of Company or Qualifying Facility or any other person or concern not reasonably within the control of the party claiming suspension and which by the exercise of due diligence such party is unable to prevent or overcome. A failure to settle or prevent any strike or other controversy with employees or with anyone purporting or seeking to represent employees shall not be considered to be a matter within the control of the party claiming suspension.

11. Discontinuance of Service

The Company reserves the right, but assumes no liability for failure so to do, to discontinue service to or from any Qualifying Facility for cause as follows:

A. Without notice,

- (1) If a dangerous condition exists on Qualifying Facility's wiring or energy-generation devices.
- (2) Because of a fraudulent use of the service or tampering with Company's equipment.
- (3) Upon request by Qualifying Facility, subject to any existing agreement between Qualifying Facility and Company as to unexpired term of service.

B. After five (5) working days' notice in writing,

- (1) For nonpayment of bill for electric service.
- (2) For refusal or failure to make a deposit or increase a deposit, when requested, to assure payment of bills.
- (3) For a violation of these Rules and Regulations which Qualifying Facility refuses or neglects to correct.

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12. Reconnection of Service

When service shall have been disconnected for any of the reasons set forth in these Rules and Regulations, Company shall not be required to restore service until the following conditions have been met by Qualifying Facility.

A. Where service was discontinued without notice,

- (1) The dangerous condition shall be removed and, if the Qualifying Facility had been warned of the condition a reasonable time before the discontinuance and had failed to remove the dangerous condition, a reconnection fee of fifty two dollars (\$52.00) shall be paid.
- (2) All bills for service due Company by reason of fraudulent use or tampering shall be paid, a deposit to guarantee the payment of future bills shall be made, and a reconnection fee of fifty two dollars (\$52.00) shall be paid.
- (3) If reconnection is requested on the same premises after discontinuance, a reconnection fee of fifty two dollars (\$52.00) shall be paid.

B. Where service was discontinued with notice,

- (1) Satisfactory arrangements for payment of all bills for service then due shall be made and a reconnection fee of fifty two dollars (\$52.00) shall be paid.
- (2) A satisfactory guarantee of payment for all future bills shall be furnished and a reconnection fee of fifty two dollars (\$52.00) shall be paid.
- (3) The violation of these Rules and Regulations shall be corrected and a reconnection fee of fifty two dollars (\$52.00) shall be paid.

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**13. Limits of Purchases/Changes**

Company reserves the right, subject to regulatory authority having jurisdiction, to limit, restrict or refuse service that will jeopardize the reliable, safe and proper operation of its distribution system and/or jeopardize service to existing Customers at fair and reasonable rates. Qualifying Facilities providing energy and/or capacity hereunder further recognize that the applicable avoided cost may change, from time to time, and payments hereunder will change to reflect the appropriate avoided cost. In the event that any change in applicable federal or state law renders service under this tariff uneconomic or otherwise unduly burdensome to the Company and its customers or the FPSC denies cost recovery for any purchases made pursuant to this tariff, the Company may seek relief from its obligations hereunder from the appropriate jurisdictional authority.

**14. Special Contracts**

The Company and a Qualifying Facility may enter into a separately negotiated contract for the purchase of capacity and/or energy which varies from the terms and conditions specified in these Rules and Regulations and rate schedules. All such contracts will be filed with the Florida Public Service Commission in accordance with its applicable rules and regulations.

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*SOA Rate Schedule*

**STANDARD OFFER AS AVAILABLE (SOA) RATE SCHEDULE**

**Availability**

The Company will purchase energy offered by any Qualifying Facility with delivery to either of the two individually operated areas served by the Company, both of which are located in the northern part of Florida.

The Northwest Florida (Marianna) Division serves various cities and towns and rural communities in Jackson, Calhoun and Liberty Counties.

The Northeast Florida (Fernandina Beach) Division serves Amelia Island, located in Nassau County.

**Applicability**

To any Qualifying Facility located in the State of Florida and producing energy for sale to the Company on an As-Available basis. As-Available Energy is described by Florida Public Service Commission (FPSC) Rule 25-17.0825, F.A.C. and is energy produced and sold by a Qualifying Facility on an hour-by-hour basis for which contractual commitments as to the time, quantity, or reliability of delivery are not required.

**Character of Service**

Alternating current, 60 cycle, single phase or three phase at the options of the Company, at a specified interconnection point and voltage.

**Limitations of Service**

All service pursuant to this schedule is subject to FPSC Rules 25-17.080 through 25-17.091, Florida Administrative Code.

**Rate for Purchases by the Company**

1. Capacity Rates
  - A. Capacity payments to Qualifying Facilities will not be paid under this Rate Schedule. Capacity payments to Qualifying Facilities may be obtained under Rate Schedule SOF, Firm Power, or pursuant to a negotiated contract.

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*SOA Rate Schedule (Continued)*

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2. Energy Rates

- A. As-Available energy is purchased at a unit cost based on the Avoided Cost, as defined in this Tariff, as applicable to the relevant Company Division. Payments for As-Available Energy to the QF shall only be made for energy that the Company can utilize to meet total system load for the division to which the deliveries are made without creating transmission line constraints on the FPU system.
- B. Details on Gulf Power's avoided costs can be reviewed in their Rate Schedule COG-1. Details on Jacksonville Electric Authority's avoided costs can be reviewed in their Renewable Energy Standard Offer Contract within their Tariff.
- C. A fixed percentage factor for avoided line losses (if any) will be determined by the Company for each QF based upon the locations of the QF on the Company's distribution system and the applicable voltage level.
- D. Energy payments to a QF will be reduced by: (1) the amount of any charges assessed by the Company's Full Requirements Wholesale Power Supplier to the Company pursuant to contract as a result of the delivery of energy to the Company by the QF; and (2) any additional administrative, technical, or legal costs incurred by the Company as a direct result of the delivery of energy to the Company by the QF.
- E. Energy payments to a QF may be adjusted, on a case-by-case basis, to reflect additional, quantifiable savings or benefits that result from the delivery of energy by a QF, such as: (1) avoided line losses associated with the location of the QF; (2) cost reductions associated with the point of energy delivery; (3) cost reductions based on avoiding purchases from the wholesale providers under the existing purchased power agreements for the specific Company Divisions for QFs that directly interconnect with the Company; and (4) additional system stabilization, redundancy or reliability associated with the location of the QF.

3. Negotiated Rates

Upon agreement by both the Company and the Qualifying Facility, an alternate contract rate for the purchase of As-Available Energy may be separately negotiated.

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*SOA Rate Schedule (Continued)*

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4. Charges to Qualifying Facility
  - A. Customer charge for meter reading, billing and other administrative costs shall be equal to the currently monthly customer facilities charge as set forth in the rate schedule which is applicable to the QF for the purchase of energy from the Company.
  - B. Interconnection Charge for Non-Variable Utility Expenses  
The QF shall bear the cost required for the interconnecting the QF, including metering. The QF shall have the option of payment in full for interconnection or making equal monthly installment payments with interest over a period not exceeding 36 months toward the full cost of such interconnection. In the event that the QF elects the monthly installment option, the initial contract term of service shall not be less than the total months over which such installment payments are to be made.
  - C. Interconnection Charge for Variable Utility Expenses  
The Qualifying Facility shall be billed monthly for the cost of variable utility expenses associated with the operation and maintenance of the interconnection facilities. These include (a) the Company's inspections of the interconnection facilities and (b) maintenance of any equipment beyond that which would be required to provide normal electric service to the Qualifying Facility if no sales to the Company were involved.
  - D. Taxes and Assessments  
The Qualifying Facility shall be billed monthly an amount equal to any taxes, assessments or other impositions, for which the Company is liable as a result of its purchases of As-Available Energy produced by the Qualifying Facility. In the event the Company receives a tax benefit as a result of its purchases of As-Available Energy produced by the Qualifying Facility, the Qualifying Facility shall be entitled to a refund in an amount equal to such benefit.

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*SOA Rate Schedule (Continued)*

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Terms of Service

1. It shall be the QF's responsibility to inform the Company in writing of any change in the QF's electric generating capacity.
2. Any electric service delivered by the Company to the QF shall be metered separately and billed under the rate schedule applicable to the Company's other customers with similar load characteristics. The terms and conditions of the Company's standard rate schedule applicable to the class of service shall pertain.
3. A security deposit will be required in accordance with FPSC Rules 25-17.082(5) and 25-6.097, F.A.C., and the following:
  - A. In the first year of operation, the security deposit shall be based upon the singular month in which the Qualifying Facility's projected purchases from the Company exceed, by the greatest amount, the Company's estimated purchases from the Qualifying Facility. The security deposit should be equal to twice the amount of the difference estimated for that month. The deposit shall be required upon interconnection.
  - B. For each year thereafter, a review of the actual sales and purchases between the Qualifying Facility and the Company shall be conducted to determine the actual month of maximum difference. The security deposit shall be adjusted to equal twice the greatest amount by which the actual monthly purchases by the Qualifying Facility exceed the actual sales to the Company in that month.
4. The Company shall specify the point of interconnection and voltage level.
5. The Company will, under the provisions of this schedule, require an agreement with the Qualifying Facility upon the Company's filed Standard Interconnection Agreement for parallel operation between the Qualifying Facility and the Company. The Qualifying Facility shall recognize that its generation facility may exhibit unique interconnection requirements which will be separately evaluated, modifying the Company's General Standards for Safety and Interconnection where applicable.
6. Service under this Schedule is subject to the Rules and Regulations of the Company and the Rules and Regulations of the Florida Public Service Commission.

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*SOA Rate Schedule (Continued)*

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Continued from Sheet No. 20

7. The minimum term for any standard offer contract entered into pursuant to this rate schedule shall be five (5) years from the in-service date of the avoided unit up to a maximum of the life of the avoided unit for any qualifying facility that is a co-generator or small power producer with a design capacity of 100 KW or less, or ten (10) years from the in-service date of the avoided unit up to a maximum of the life of the avoided unit for a qualifying renewable generating facility.

Special Provisions

1. Special contracts deviating from the above Schedule are allowable provided they are agreed to by the Company and approved by the Florida Public Service Commission.
2. For a Qualifying Facility in the Company's service territory that wishes to contract with another electric utility which is directly or indirectly interconnected with the Company, the Company will, upon request, provide information on the availability and the terms and conditions of the specified desired transmission service.

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F.P.S.C. Standard Offer Rate Schedule  
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*SOF Rate Schedule*

**STANDARD OFFER FIRM (SOF) RATE SCHEDULE**

**Availability**

The Company will, under the provisions of this Schedule and the Company's "Standard Offer Contract for the Purchase of Firm Capacity and Energy from a Renewable Energy Facility or a Small Qualifying Facility" ("Standard Offer Contract"), purchase firm capacity and energy offered by any Qualifying Facility with a design capacity of 100 KW or less or from a Renewable Generating Facility qualifying for this Schedule in accordance with Rule 25-17.250, Florida Administrative Code. For purposes of this SOF Rate Schedule only, both of these types of facilities shall also be referred to jointly herein as Qualified Seller or "QS".

The Company will purchase firm capacity and energy under this schedule offered by any Qualified Seller located within the State of Florida with delivery to either of the two individually operated areas served by the Company, both of which are located in the northern part of Florida.

The Northwest Florida (Marianna) Division serves various cities and towns and rural communities in Jackson, Calhoun and Liberty Counties.

The Northeast Florida (Fernandina Beach) Division serves Amelia Island, located in Nassau County.

**Applicability**

To Qualifying Facilities, with a design capacity of 100 KW or less, as specified in FPSC Rule 25-17.0832(4)(a) producing capacity and energy for sale to the Company on a firm basis pursuant to the terms and conditions of this schedule and the Company's "Standard Offer Contract" or to a Renewable Generating Facility producing capacity and energy for sale to the Company on a firm basis pursuant to the conditions of this Schedule and the Company's "Standard Offer Contract." Firm capacity and energy are described by FPSC Rule 25-17.0832, F.A.C., and are capacity and energy produced and sold by a QF or Renewable Generating Facility pursuant to the Standard Offer Contract provisions addressing (among other things) quantity, time and reliability of delivery.

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*SOF Rate Schedule (Continued)*

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Continued from Sheet No. 22

Character of Service

Alternating current, 60 cycle, single phase or three phase at the options of the Company, at a specified interconnection point and voltage.

Limitations of Service

All service pursuant to this schedule is subject to FPSC Rules 25-17.080 through 25-17.091, Florida Administrative Code.

Purchases under this schedule are subject to the Company's current standards for safety and interconnection and to FPSC Rules 25-17.080 through 25-17.091, F.A.C., and are limited to those Qualifying Sellers that:

- A. Beginning upon the date, as prescribed by the FPSC, that a Standard Offer is deemed available, execute the Company's Standard Offer Contract for the purchase of firm capacity and energy; and
- B. Commit to commence deliveries of firm capacity and energy no later than the date specified by the QS's owner or representative. Such deliveries will continue for a minimum of ten (10) years from the anticipated in-service date of the Company's Avoided unit or resource up to a maximum of the life of the Company's Avoided unit or resource.

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*SOF Rate Schedule (Continued)*

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Continued from Sheet No. 23

Rate for Purchases by the Company

1. Capacity and Energy Rates

- A. Firm Capacity and Energy are purchased at a unit cost, based on the Avoided Cost, as defined in this Tariff, for the relevant Company Division. Payments to the QS shall only be made for capacity and energy that the Company can utilize to meet its total system load for the division to which the deliveries are made without creating transmission line constraints on the FPU system.
- B. Details on Gulf Power's avoided capacity and energy costs can be reviewed in their Rate Schedule COG-2. Details on Jacksonville Electric Authority's avoided capacity and energy costs can be reviewed in their Renewable Energy Standard Offer Contract within their Tariff.
- C. A fixed percentage factor for avoided line losses (if any) will be determined by the Company for each QF based upon the locations of the QF on the Company's distribution system and the applicable voltage level
- D. Payments will be made to the Qualifying Seller at the Avoided Cost for the applicable delivery division for each KW of billing capacity and kwh of energy provided - less: (1) the amount of any charges assessed by the Company's Full Requirements Wholesale Power Supplier to the Company pursuant to contract as a result of the delivery of energy to the Company by the QS; and (2) any additional administrative, technical, or legal costs incurred by the Company as a direct result of the delivery of energy to the Company by the QS.
- E. In the event that a delivery of energy and capacity by a QS does not allow the Company to avoid a capacity payment to its Full Requirements Wholesale Power Supplier, the QS will only be eligible for an Energy payment and will not receive payments for delivery of Billing Capacity.
- F. Energy and Capacity payments to a QF may be adjusted, on a case-by-case basis, to reflect additional, quantifiable savings or benefits that result from the delivery of energy by a QF, such as: (1) avoided line losses associated with the location of the QF; (2) cost reductions associated with the point of energy delivery; (3) cost reductions based on avoiding purchases from the wholesale providers under the existing purchased power agreements for the specific Company Divisions for QFs that directly interconnect with the Company; and (4) additional system stabilization, redundancy or reliability associated with the location of the QF.

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*SOF Rate Schedule (Continued)*

Continued from Sheet No. 24.0

2. Determination of Billing Capacity:

- A. The billing capacity in any month shall be based upon the KW capacity supplied by the QS during that month or a previous month valued at a rate equal to the Company's respective Full Requirements Wholesale Power Supplier's avoided cost of the same amount of capacity during the relevant period as calculated in accordance with FPSC Rule 25-17.0832, F.A.C. and reflected in the Full Requirements Wholesale Power Supplier's tariff on file with the FPSC.

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*SOF Rate Schedule (Continued)*

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Continued from Sheet No. 24

3. Measurement

A. The QS's capacity input shall be measured on a time-differentiated demand meter. A QS within the territory served by the Company shall be required to purchase from the Company hourly recording meters to measure their energy deliveries to the Company. Energy purchases from a QS outside the territory of the Company shall be measured as the quantities scheduled for interchange to the Company by the Company's Full Requirements Wholesale Power Supplier.

4. Charges to the QS:

A. Customer charge for meter reading, billing and other administrative costs shall be equal to the currently monthly customer facilities charge as set forth in the rate schedule which is applicable to the QS for the purchase of energy from the Company.

B. Interconnection Charge for Non-Variable Utility Expenses  
The QS shall bear the cost required for the interconnecting the QS, including metering. The QS shall have the option of payment in full for interconnection or making equal monthly installment payments with interest over a period not exceeding 36 months toward the full cost of such interconnection. In the event that the QS elects the monthly installment option, the initial contract term of service shall not be less than the total months over which such installment payments are to be made.

C. Interconnection Charge for Variable Utility Expenses  
The Qualifying Seller shall be billed monthly for the cost of variable utility expenses associated with the operation and maintenance of the interconnection facilities. These include (a) the Company's inspections of the interconnection facilities and (b) maintenance of any equipment beyond that which would be required to provide normal electric service to the Qualifying Seller if no sales to the Company were involved.

D. Taxes and Assessments  
The Qualifying Seller shall be billed monthly an amount equal to any taxes, assessments or other impositions, for which the Company is liable as a result of its purchases of Firm Capacity and Energy produced by the Qualifying Seller. In the event the Company receives a tax benefit as a result of its purchases of Firm Capacity and Energy produced by the Qualifying Seller, the Qualifying Seller shall be entitled to a refund in an amount equal to such benefit.

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*SOF Rate Schedule (Continued)*

Continued from Sheet No. 25

Term of Service

1. It shall be the QS's responsibility to inform the Company in writing of any change in the QS's electric generating capacity.
2. Any electric service delivered by the Company to the QS shall be metered separately and billed under the rate schedule applicable to the Company's other customers with similar load characteristics. The terms and conditions of the Company's standard rate schedule applicable to the class of service shall pertain.
3. A security deposit will be required in accordance with FPSC Rules 25-17.082(5) and 25-6.097, F.A.C., and the following:
  - A. In the first year of operation, the security deposit shall be based upon the singular month in which the Qualifying Seller's projected purchases from the Company exceed, by the greatest amount, the Company's estimated purchases from the Qualifying Seller. The security deposit should be equal to twice the amount of the difference estimated for that month. The deposit shall be required upon interconnection.
  - B. For each year thereafter, a review of the actual sales and purchases between the Qualifying Seller and the Company shall be conducted to determine the actual month of maximum difference. The security deposit shall be adjusted to equal twice the greatest amount by which the actual monthly purchases by the Qualifying Seller exceed the actual sales to the Company in that month.
4. The Company shall specify the point of interconnection and voltage level.
5. The Company will, under the provisions of this schedule, require an agreement with the Qualifying Seller upon the Company's filed Standard Interconnection Agreement for parallel operation between the Qualifying Seller and the Company. The Qualifying Seller shall recognize that its generation facility may exhibit unique interconnection requirements which will be separately evaluated, modifying the Company's General Standards for Safety and Interconnection where applicable.
6. Service under this Schedule is subject to the rules and regulations of the Company and the rules and regulations of the Florida Public Service Commission.

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Florida Public Utilities Company  
F.P.S.C. Standard Offer Rate Schedule  
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*SOF Rate Schedule (Continued)*

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Continued from Sheet No. 26

Special Provisions

1. Special contracts deviating from the above Schedule are allowable provided they are agreed to by the Company and approved by the Florida Public Service Commission.
2. For a Qualifying Seller in the Company's service territory that wishes to contract with another electric utility which is directly or indirectly interconnected with the Company, the Company will, upon request, provide information on the availability and the terms and conditions of the specified desired transmission service.
3. As a means of protecting the Company's customers from the possibility of a Qualifying Seller not coming on line as provided for under an executed Standard Offer Contract and in order to provide the Company with additional and immediately available funds for its use to secure replacement and reserve power in the event that the QS fails to successfully complete construction and come on line in accord with the executed Standard Offer Contract, the Company requires that a cash completion security deposit equal to \$20 per KW of the nameplate capacity of the QS's generator unit(s) at the time the Company's Standard Offer Contract is executed by the QS. At the election of the QS, the completion security deposit may be phased in such that one half of the total deposit due is paid at contract execution and the remainder within 12 months after contract execution.

Depending on the nature of the QS's operation, financial health and solvency, and its ability to meet the terms and conditions of the Company's Standard Offer Contract, one of the following, at the Company's discretion, may be used as an alternative to a cash deposit as a means of securing the completion of the QS's project in accord with the executed Standard Offer Contract:

1. an unconditional, irrevocable direct pay letter; or
2. surety bond; or
3. other means acceptable to the Company.

The Company will cooperate with each QS seeking an alternative to a cash security deposit as an acceptable means of securing the completion of the QS's installation in accord with an executed Standard Offer Contract. The Company will endeavor in good faith to accommodate an equivalent to a cash security deposit which is in the best interests of both the QS and the Company's customers.

In the case of a governmental solid waste QS, pursuant to Subsection 366.91 (3), Florida Statutes and FPSC Rule 25-17.091, F.A.C., the following will be acceptable to the Company.

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*SOF Rate Schedule (Continued)*

Continued from Sheet No. 27

The unsecured promise of a municipal, county, or state government that it will pay the actual damages incurred by the Company because the governmental Facility fails to come on line prior to the planned in-service date for the Avoided unit or resource.

4. Given the terms and conditions ultimately set in the Standard Offer Contract, additional security requirements may be specified by the Company.
5. Company may decline to execute a Standard Offer Contract and seek relief from the FPSC, in accordance with FPSC Rule 5-17.0832(c), Florida Administrative Code, if the Company perceives that the offer will exceed the load requirements on its system or it obtains material evidence showing that because the qualifying facility is not financially or technically viable, it is unlikely that the committed capacity and energy would be made available to the utility by the date specified in the standard offer.

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F.P.S.C. Standard Offer Rate Schedule  
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Original Sheet No. 29

**FLORIDA PUBLIC UTILITIES COMPANY**

**STANDARD OFFER CONTRACT FOR FIRM PURCHASES FROM  
SMALL QUALIFYING FACILITIES AND  
QUALIFYING RENEWABLE GENERATING FACILITIES**

**WITNESSETH:**

That, in consideration of the terms and covenants hereinafter contained and incorporated herein by reference, the parties hereto agree as follows:

1. The customer has a means of generating electric energy at the following location:

\_\_\_\_\_  
\_\_\_\_\_

and agrees to meet Florida Public Service Commission Rule 25-17.87, Interconnection and Standards. This rule outlines the general standards for safety and interconnection to Company lines and is attached hereto as Exhibit.

2. The generating plant is described as follows:

A. Qualifying small power producer \_\_ or cogenerator \_\_\_\_.

B. Power Source (solar, wind, steam, hydro, etc.)\_\_\_\_\_.

C. Manufacturer's Name and Address:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

D. Manufacturer's Reference Number, Type, Style, Model Number, etc.:

\_\_\_\_\_.

E. Manufacturers Serial Number:

\_\_\_\_\_.

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Florida Public Utilities Company  
F.P.S.C. Standard Offer Rate Schedule  
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Continued from Sheet 29

- F. Name Plate Rating:  
\_\_\_\_\_
- G. Maximum Rate of Energy Delivery to Company \_\_\_ KVA.
- H. Normal Rate of Energy Delivery to Company \_\_\_ KVA.
- I. Firm Capacity Delivered to Company \_\_\_ KW.
- J. Normal Monthly Energy Delivery to Company \_\_\_\_\_ KWH.
- K. Other Pertinent Data:  
\_\_\_\_\_  
\_\_\_\_\_
3. The Qualifying Facility agrees to abide by the terms and provisions of Rate Schedule SOF, which is attached hereto as an Exhibit, and included in Company's Standard Offer Rate Schedule on file with the Florida Public Service Commission.
4. Energy and capacity (if applicable) purchased by Company from Qualifying Facility under the terms of this contract will be paid for in accordance with Rate Schedule SOF as approved by the Florida Public Service Commission, which may be modified from time to time in accordance with applicable law.
5. Standby, maintenance and supplementary power for the operation of the electric generating system and associated cogeneration plant load, if applicable, will be supplied separately under the Company's applicable filed standard rate schedules.
6. The Qualifying Facility shall pay the Company on or before the effective date of this Agreement a charge of \_\_\_\_\_(Dollars) for equipment modifications and services furnished solely due to the interconnection of the Qualifying facility's generator to the Company's system. The Qualifying Facility may, at its option, pay the above amount in \_\_\_\_\_ equal monthly installments beginning with the effective date of this Agreement. In such event Qualifying Facility agrees to pay Company by the 15<sup>th</sup> of each month \_\_\_\_\_(Dollars) per month, plus interest at the 30-day Commercial Paper Rate as published in the Wall Street Journal, on the first business day of the month.

When Qualifying Facility has elected to make the above payment in installments, Qualifying Facility agrees to pay Company any amount which may be due Company by Qualifying facility on any account according to the terms of this Agreement, Qualifying Facility hereby waives all exemptions under the constitution and laws of the State of Florida, or any other state as to personal property and agrees to pay all costs of collecting any such amounts, including a reasonable attorney's fee if said amounts are not paid when due.

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Florida Public Utilities Company  
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Original Sheet No. 31

Continued from Sheet No. 30

7. The metering system for the electric generating equipment will be installed by Company at Qualifying Facility's expense. The meter(s) for purchase of energy and capacity (if applicable) will be located to measure the net output of the generator or the net surplus of energy from the Qualifying Facility's installation.
8. If at any time Qualifying Facility desires to decrease or increase the capacity to be maintained by Qualifying facility as set forth in this Agreement, Qualifying Facility shall give written notice thereof, to Company and Company shall as soon thereafter as reasonably practical, submit to Qualifying Facility a proposal outlining the rates, terms and conditions under which such changes in capacity may be rendered subject to the rules, regulations and conditions under which Company may then be operating.
9. In the event the Qualifying Facility's maximum output of capacity to the Company at any time exceeds the capacity required to be maintained by ten percent (10%) or more Qualifying Facility shall be liable for all resulting damage to Company's facilities and equipment and Company may interrupt the service without notice to Qualifying Facility but shall be under no duty to do so.
10. Company reserves the right, subject to regulatory authority having jurisdiction, to limit, restrict or refuse service that may jeopardize the safe and proper operation of its distribution system and/or alterations in its contractual requirements of supply from its Full Requirements Wholesale Power Supplier that may jeopardize service to existing Customers and/or existing Qualifying Facilities. Therefore, from time to time, Company, upon prior notice to Qualifying Facility may decline to accept Energy and/or Capacity delivered hereunder during any given hour, due to an emergency condition, or due to the reasons set forth below. Company shall not be obligated to purchase and may require curtailed or reduced deliveries of Energy and/or Capacity, to the extent necessary to maintain the reliability and integrity of any part of Company's system, or if Company determines that a failure to do so is likely to endanger life or property, or is likely to result in significant disruption of electric service to Company's customers. Company shall use commercially reasonable efforts to give Qualifying Facility as much prior notice as reasonably practicable of its intent to refuse, curtail or reduce its acceptance of Energy and/or Capacity pursuant to this Section 10 and will use commercially reasonable efforts to minimize the frequency and duration of such occurrences. Such interruptions shall not constitute a breach of this Agreement.

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Florida Public Utilities Company  
F.P.S.C. Standard Offer Rate Schedule  
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Continued from Sheet No. 31

11. The Company reserves the right, but assumes no liability for failure so to do, to discontinue service from the Qualifying Facility for cause as follows:
- A. Without notice if a dangerous condition exists as a result of energy delivered by the Qualifying Facility to Company.
  - B. After five (5) working days' notice in writing, for a violation of the Company's Tariff Rules and Regulations which Qualifying Facility refuses or neglects to correct.

When service has been disconnected for any of the reasons set forth in this Section 11, Company shall not be required to restore service until the following conditions have been met by the Qualifying Facility:

- A. Where service was discontinued without notice, the dangerous condition shall be removed and, if the Qualifying Facility had been warned of the condition a reasonable time before the discontinuance and had failed to remove the dangerous condition, a reconnection fee of fifty-two dollars (\$52.00) shall be paid.
  - B. Where service was discontinued with notice, the violation of Section 12 of this Agreement shall be corrected and a reconnection fee of fifty-two dollars (\$52.00) shall be paid.
12. Notwithstanding any other provisions of this Agreement, Company shall have the right to terminate this Agreement, by written notice to Seller giving the reasons therefore, without cause, liability or obligation, if any approval from any Governmental Body having jurisdiction thereof necessary for Company to enter into this Agreement or to allow full recovery by Company from its customers of all payments required to be made by this Agreement shall no longer be in full force and effect, and some portion or all of such payments shall have become disqualified for such recovery in contravention of FPSC Order No. 25668, issued February 23, 1992.
13. Liability insurance in the amount of two million seven hundred fifty thousand dollars (\$2,750,000.00) per occurrence for bodily injury, death, or property damage indemnifying Company against loss or liability due to the presence or operation of Qualifying Facility's generator and interconnections shall be furnished by Qualifying Facility and certified by his agent annually and upon any change of the policy.
14. With the exception of Workers' Compensation, Company shall be named as an additional insured under the Qualifying Facility's Insurance. The Qualifying Facility's Insurance shall be deemed primary to any coverage maintained by the Company and shall provide, to the extent allowed by law, for the waiver of any rights of subrogation against the Company. Any

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Florida Public Utilities Company  
F.P.S.C. Standard Offer Rate Schedule  
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deductibles or retentions shall be the sole responsibility of the Qualifying Facility. Compliance by the Qualifying Facility with the provisions herein shall not serve as a limitation of Qualifying Facility's liability. Failure to comply with all of these provisions will not serve as a waiver by the Company of any rights with regard to coverage required by this Agreement.

15. A surety bond in an amount not to exceed two hundred fifty thousand dollars (\$250,000) shall be required to guarantee repayment to Company any monies that may be due Company for Interconnection costs borne by Company in Qualifying Facility's behalf. If applicable, a second surety bond in an amount not to exceed one hundred thousand dollars (\$100,000) shall be required to guarantee capacity payment refunds and penalties in the event of Qualifying Facility's failure to deliver capacity in accordance with this Agreement.

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Florida Public Utilities Company  
F.P.S.C. Standard Offer Rate Schedule  
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Continued from Sheet No. 32.2

16. Qualifying Facility agrees to accept and be bound by all rules and regulations of Company in connection with the service hereby covered, which are now or may hereafter be filed with, issued or promulgated by the Florida Public Service.
17. Qualifying Facility \_\_\_is/\_\_\_ is not directly interconnected to Company. If Qualifying Facility is not directly interconnected to Company amounts of energy delivered to the wheeling utility in excess the amount scheduled for delivery to Company shall be classified as inadvertent energy. Such inadvertent energy flows shall be resolved between the Qualifying Facility and the wheeling utility and will not affect the energy scheduled and delivered from the wheeling utility to the Company. Company shall only be responsible for payments for energy scheduled for delivery, delivered to, and metered at, the delivery point between the wheeling utility and the Company.
18. Whenever written notice is required to be given by either party it shall be by registered mail, return receipt required. Any period designated for notice shall commence on the date of mailing.
19. This Agreement shall become effective on the \_\_\_\_\_ day of \_\_\_\_\_, and shall be in full force and effect for a period of \_\_\_\_\_ (years) and shall continue thereafter until terminated by either party by written notice sixty (60) days prior to termination. This Agreement shall be binding upon and extend to the heirs, or successors and assigns of the respective parties hereto shall not be assigned without prior written consent of Company.
20. This Agreement is to be consummated only by the written approval of Company as required below; no other contract and no other agreement, consideration or stipulation modifying or changing the tenure thereof shall be recognized or binding unless they are so approved.
21. Any notice required or permitted hereunder shall be in writing and shall be: (i) personally delivered; (ii) transmitted by posted prepaid certified mail; (iii) transmitted by a recognized overnight courier service; or (iv) transmitted by electronic mail with a request for electronic receipt confirmation, to the receiving Party as follows, as elected by the Party giving such notice:

<u>For Qualifying Facility</u>  With a copy to:	<u>For Company</u> P. Mark Cutshaw Florida Public Utilities Company 1750 S. 14th Street, Suite 200 Fernandina Beach, Florida 32034 <a href="mailto:mcutshaw@fpuc.com">mcutshaw@fpuc.com</a>
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Florida Public Utilities Company  
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- 21. All notices and other communications shall be deemed to have been duly given on: (i) the date of receipt if delivered personally; (ii) the date of receipt if transmitted by mail; (iii) the date of receipt if transmitted by courier; or (iv) the date of transmission with confirmation if transmitted by electronic mail, whichever shall first occur. Any Party may change its address or other contact information for purposes hereof by notice to the other Party.
- 22. Within ten (10) days of execution, Company shall submit this Agreement to the FPSC in accordance with Rule 25-17.0825(1)(b), F.A.C. Qualifying Facility and Company each agree to abide by any and all applicable regulatory rulings or orders issued by the FPSC or any other Governmental Body having jurisdiction with regard to the matters governed by this Agreement.
- 23. This Agreement may be executed in two (2) or more counterparts, all of which will be considered one and the same Agreement and each of which will be deemed an original.

IN WITNESS THEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers.

Attest:

**FLORIDA PUBLIC UTILITIES COMPANY**

\_\_\_\_\_

By \_\_\_\_\_  
Title \_\_\_\_\_

Date \_\_\_\_\_

Attest:

**("QUALIFYING FACILITY")**

\_\_\_\_\_

By \_\_\_\_\_  
Title \_\_\_\_\_

Date \_\_\_\_\_

Issued by: Jeffrey Householder, President

Effective:

# Item 4

State of Florida



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

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**DATE:** October 20, 2016

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Engineering (Lee) *POE W*  
Division of Accounting and Finance (Slemkewicz) *TS*  
Division of Economics (Guffey, Wu) *JS M*  
Office of the General Counsel (Janjic) *B of CRBP ALM*

**RE:** Docket No. 160128-EI – Petition for approval to include in base rates the revenue requirement for the Hines Chillers Uprate Project, by Duke Energy Florida, LLC.

Docket No. 160178-EI – Petition for limited proceeding for approval to include in base rates the revenue requirement associated with the acquisition of the Osprey Plant and Phase 2 of the Hines chiller uprate project, by Duke Energy Florida, LLC.

**AGENDA:** 11/1/16 – Regular Agenda – Tariff Filing – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Edgar

**CRITICAL DATES:** Docket No. 160178-EI: Waiver of 60-day time limit (DN 07427-16)

**SPECIAL INSTRUCTIONS:** None

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## Case Background

By Order No. PSC-13-0598-FOF-EI, the Commission approved the Revised and Restated Stipulation and Settlement Agreement (RRSSA).<sup>1</sup> Paragraph 16(a) of the RRSSA includes

<sup>1</sup>Order No. PSC-13-0598-FOF-EI, issued November 12, 2013, in Docket No. 130208-EI, *In re: Petition for limited proceeding to approve revised and restated stipulation and settlement agreement by Duke Energy Florida, Inc. d/b/a Duke Energy.*

provisions for Duke Energy Florida, LLC (DEF) to seek recovery of the prudently incurred revenue requirement of power uprates to existing DEF units, which may be placed in-service prior to year-end 2017, through a separate base rate increase at the time each unit is placed in service.

On October 18, 2016, DEF filed a motion requesting withdrawal of the tariffs for Phase 1 of the Hines Project approved in Docket 160128-EI. The motion is addressed in Issue 3 of the recommendation. Phase 1 work on Hines Units 1-3 and the common equipment was expected to be completed and placed into commercial service in October 2016, while Phase 2 work on Hines Unit 4 was expected to be completed in January 2017. In its motion, DEF stated that a portion of the common equipment required for both phases will not be completed as previously expected. Therefore, DEF requests withdrawal of the approved tariffs until it files another request for both phases of the Hines Project. On October 19, 2016, DEF filed revised tariffs to reflect the withdrawal of Phase 2 of the Hines Project from the instant petition.

The Hines Project consists of installation of chiller modules for the existing Hines Energy Center power block units, a large chilled water storage tank, an auxiliary power system, pumps and chilled water supply and return piping, and gas turbine air inlet chiller coils. The installation of the chiller system on the existing Hines Energy Center power block units (Hines Units 1 - 4) is designed to cool the gas turbine inlet air, thus increasing the capacity of each power block while maintaining fuel efficiency. Hines Units 1 - 4 have a total installed capacity of approximately 1,900 megawatts (MW). The project is expected to increase the summer capacity of those units by approximately 220 MW to meet the summer peak demand, which DEF projected to grow to 9,439 MW by the summer of 2018. By Order No. PSC-14-0590-FOF-EI, the Commission granted DEF a determination of need for the Hines Project.<sup>2</sup> By Order No. PSC-16-0362-TRF-EI, issued August 29, 2016, the Commission determined DEF's cost for the Hines Project to be reasonable and approved the revenue requirement for Phase 1 of the Hines Project.<sup>3</sup> The order was not protested and the consummating order was issued on September 29, 2016. On August 2, 2016, DEF filed a petition for approval to include in base rates the revenue requirement associated with the acquisition of the Osprey Plant and Phase 2 of the Hines Project.

The Osprey Plant is an existing 599 MW natural gas fired combined cycle generation facility in Auburndale, Florida, that was originally put in service in 2004. The plant has been providing its capacity and energy to DEF under a power purchase agreement. The Osprey Plant acquisition was granted by the Commission in a determination of need by Order No. PSC-15-0312-AS-EI in Docket No. 150043-EI.<sup>4</sup> The decision was based on a stipulation reached by parties in that proceeding, including the Office of Public Counsel (OPC), Florida Industrial Power Users Group (FIPUG), Osprey Energy Center, PCS Phosphate-White Springs (PCS), and DEF. Based on information in the docket, the acquisition cost for the Osprey Plant was \$166 million, subject to

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<sup>2</sup>Order No. PSC-14-0590-FOF-EI, issued October 21, 2014, in Docket No. 140111-EI, *In re: Petition for determination of cost effective generation alternative to meet need prior to 2018, by Duke Energy Florida, Inc.*

<sup>3</sup>Order No. PSC-16-0362-TRF-EI, issued August 29, 2016, in Docket No. 160128-EI, *In re: Petition for approval to include in base rates the revenue requirement for the Hines Chillers Uprate Project, by Duke Energy Florida, LLC.*

<sup>4</sup>Order No. PSC-15-0312-AS-EI, issued July 31, 2015, in Docket No. 150043-EI, *In re: Petition for determination that the Osprey Plant acquisition or, alternatively, the Suwannee Simple Cycle Project is the most cost effective generation alternative to meet remaining need prior to 2018, by Duke Energy Florida, Inc.*

Docket Nos. 160128-EI and 160178-EI

Date: October 20, 2016

certain specified adjustments based on the asset purchase agreement. DEF also provided estimates for additional cost after the acquisition including integration, maintenance, and inventory. These costs and time frame for the work were taken into account in the cumulative present value revenue requirements (CPVRR) analysis, to show the cost effectiveness of acquiring the Osprey Plant in comparison with the alternative of the construction of the Suwannee Simple Cycle Project. The order approving the stipulation stated that the acquisition of the Osprey Plant is the most cost effective way to meet DEF's generation need prior to 2018. The closing for the Osprey Plant acquisition is expected to occur on January 3, 2017.

The Commission has jurisdiction pursuant to Section 366.06, Florida Statutes (F.S.).

## Discussion of Issues

**Issue 1:** Should the Commission approve DEF's proposed revenue requirement of \$47,982,181 for Osprey Plant, along with the proposed depreciation rate and methodology for the Osprey Plant?

**Recommendation:** No. The revenue requirement for the Osprey Plant should be \$47,836,801. The proposed depreciation rate and methodology for the Osprey Plant should be approved. In addition, DEF should be required to file annual reports with the Commission, detailing the actual outage costs incurred and the accounting treatment associated with the Osprey outage cost deferral, in its year-end earnings surveillance reports for 2017 through 2019. (Lee, Slemkewicz, Wu)

**Staff Analysis:** DEF is seeking to recover the full, prudently incurred revenue requirement for the asset purchase and additional cost associated with the Osprey Plant acquisition, pursuant to Paragraph 16(a) of the RRSSA. DEF requests that the revenue requirement of \$47,982,181 for the Osprey Plant acquisition be approved. DEF also requests that its proposed depreciation rate and methodology for the Osprey Plant be approved.

### Cost Estimates for the Osprey Plant Acquisition

The acquisition of the 599 MW combined cycle Osprey Plant was approved by the Commission in Docket No. 150043-EI as the most cost effective way to meet DEF's generation need prior to 2018. DEF's testimony and documents presented in that docket included the acquisition cost for the Osprey Plant and estimates for additional cost after the acquisition, which were taken into account in the CPVRR analysis to show the cost effectiveness of acquiring the Osprey Plant.

In response to staff's data request, DEF compared current cost information estimates with those provided in Docket No. 150043-EI. DEF's \$198.2 million capital cost estimate in this docket is composed of \$166 million for Osprey Plant acquisition cost, \$1.8 million for integration cost, and \$30.4 million for capital investment in 2017. The integration capital is necessary for the continued operation of the Osprey Plant on DEF's system consistent with DEF's standard policies and practices, such as costs to re-stock and maintain equipment and material inventory for this purpose. The capital investment in 2017 consists of the capital work scheduled for the maintenance outage in 2017, including work on the combustion turbines and steam turbines that will be coming up on their major maintenance intervals. While the Osprey Plant acquisition cost has not changed, the revised estimates for integration cost and capital investment in 2017 have reduced by \$3.1 million and \$1.3 million respectively.

In addition, DEF lowered its major capital cost estimate in 2018 by approximately \$3.6 million based on updated cost projection and vendor estimates.<sup>5</sup> On the other hand, DEF increased its cost estimates for major Operation and Maintenance (O&M) cost estimates for work scheduled for two major maintenance outages in 2017 and 2018, which were anticipated and addressed in Docket No. 150043-EI. In 2017, the outage O&M cost estimate is \$4.3 million higher in the

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<sup>5</sup>Document No. 07363-16 (DEF's Redacted Response to Staff's First Data Request), Attachment 8, Line 27.

instant docket than in Docket No. 150043-EI.<sup>6</sup> This increase is driven primarily by updated cost estimates and work scope resulting from DEF's ongoing due diligence and integration planning and analysis. The updated cost estimates are driven by actual quotes from vendors and executed contracts.<sup>7</sup> DEF provided a cost breakdown of these major outage O&M costs, projected at approximately \$14.3 million, \$5.1 million, and \$2.5 million for 2017, 2018, and 2019, respectively.<sup>8</sup>

Staff asked DEF to demonstrate the net effect of the variance in capital and operating costs using the same CPVRR analysis performed in Docket No. 150043-EI. DEF's response shows \$72 million CPVRR savings in comparison to the previous estimate of \$61 million, an increase of \$11 million.<sup>9</sup>

While the cumulative effect is favorable to customers, there is an immediate revenue requirement impact by the 2017 outage O&M cost of \$14.3 million, which is \$4.3 million higher than previously estimated. To mitigate this adverse impact to customers, DEF proposed to defer a portion of the outage cost with the creation of a regulatory asset. As further discussed in the next section, this lowers the first year revenue requirement by approximately \$6.5 million on a jurisdictional basis. Based on the above, staff recommends that the cost estimate for the Osprey Plant acquisition be considered reasonable.

#### **Osprey Plant Outage O&M Cost Deferral**

The average of the estimated outage O&M cost for 2017 through 2019 is \$7,282,687, which is \$7,011,732 lower than the estimated outage O&M cost for 2017. Because rates are set based on the first-year revenue requirement, including the 2017 major maintenance outage, DEF proposes to defer a portion of the 2017 outage O&M costs and charge that amount to a regulatory asset. Rather than using the \$14.3 million amount to set rates, DEF proposes to use the 3-year average of \$7,282,687. In 2017, DEF would defer up to \$7,011,732 and debit that amount to a regulatory asset. DEF would amortize the regulatory asset in 2018 and 2019, when outage costs are lower, fully amortizing the regulatory asset balance by the end of 2019.

Staff agrees with DEF that this proposed regulatory asset treatment reduces the impact to customers, while allowing DEF an opportunity to account for its full cost of integrating the Osprey Plant into its system. The creation of the regulatory asset lowers the first year revenue requirement by approximately \$6.5 million on a jurisdictional basis. Consistent with Commission practice, staff recommends that DEF should file annual reports with the Commission, detailing the actual outage O&M costs incurred and the accounting treatment associated with the regulatory asset, in conjunction with its year-end earnings surveillance reports during the three years. This ensures that only the actual cost deferral, subject to a cap of \$7,011,732, be amortized with this proposed regulatory asset treatment.

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<sup>6</sup>Ibid, Attachment 7, Line 15.

<sup>7</sup>Ibid, Pp. 3-4.

<sup>8</sup>Ibid, Attachment 7, Lines 5- 27.

<sup>9</sup>Ibid, Attachment 5.



### **Osprey Plant Depreciation Rate and Methodology**

In determining the revenue requirements associated with acquisition of the Osprey Plant, DEF needs a Commission-approved depreciation rate for the plant. By applying this rate, DEF can calculate the annual depreciation expense and accumulated depreciation reserve so that the operation expense and the net plant as of December 31, 2017, can be derived.

DEF witness Foster testified that the Federal Energy Regulatory Commission (FERC) requires DEF to apply the approved depreciation rate to the original cost of the Osprey Plant of \$359 million, rather than the net acquisition cost of the plant of \$168 million, which is composed of acquisition cost and integration cost. To resolve this unique problem of depreciation accounting, DEF proposed a method to calculate the effective depreciation rate. On page 4, Item 10, of its petition, DEF requested specific approval of the rate and methodology from the Commission.

DEF has assumed a 26-year remaining life (or until 2042) for the generating unit at Osprey.<sup>10</sup> Staff believes this assumption is reasonable based on its review of the reasons and justifications provided by the Company.<sup>11</sup> Based on this assumed plant remaining life, a remaining life depreciation rate of 3.85 percent results in accordance with Rule 25-60436(1)(e), F.A.C. Applying this rate to the net acquisition cost of \$168 million, the actually required annual depreciation expense of \$6.456 million is derived for recovering the plant investment of the Osprey unit within its service life.

To satisfy FERC's accounting and book keeping requirement, DEF must determine a rate to be applied to the original plant cost of \$359 million. Using this original plant cost, divided by the actual annual depreciation expense of \$6.456 million, an effective depreciation rate of 1.80 percent is derived. This is the methodology DEF proposed. Detailed step-by-step calculations are reflected in Attachment A.

Staff believes that DEF's proposed method for deriving the effective depreciation rate is appropriate. Using the resulting rate of 1.80% to apply to the original costs of the Osprey Plant, the actual acquisition cost will be recovered within the plant's service life in accordance with the aforementioned depreciation rule. Staff notes that the Osprey Plant will be included in DEF's next depreciation study, to be filed on or before March 31, 2019, in accordance with the same rule. At that time, the Company's proposed remaining life and depreciation rate associated with the Osprey Plant will be further reviewed by the Commission.

Based on the above, staff recommends approval of DEF's proposed depreciation methodology and rate.

### **Osprey Plant Revenue Requirement**

Based on the estimated cost of the Osprey Plant acquisition, DEF calculated a revenue requirement of \$47,982,181.<sup>12</sup> In accordance with paragraph 16(a) of the RRSSA, DEF utilized the capital structure from its most recent actual Earnings Surveillance Report (ESR) available at

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<sup>10</sup>P.4, Item 10, of DEF's Petition.

<sup>11</sup>See DEF's response to Staff's Data Request, No. 2.

<sup>12</sup> Exhibit C, p. 1 of 3, of Document No. 05793-16 (DEF's Petition).

the time of its filing and a 10.50 percent return on equity to calculate the revenue requirement.<sup>13</sup> The revenue requirement calculation also includes the recovery of O&M expenses, depreciation expense, property insurance, property tax, and income tax. Subsequent to the filing of its petition using the May 2016 ESR, DEF has submitted more current ESRs with the most recent being for August 2016. Staff has calculated a revised revenue requirement of \$47,836,801 based on the capital structure provided in the August 2016 ESR. This represents a \$145,380 revenue requirement reduction. Staff recommends that the \$47,836,801 revenue requirement based on the most recently available ESR is the appropriate amount as shown on Attachment B.

### **Conclusion**

The revenue requirement for the Osprey Plant should be \$47,836,801. The proposed depreciation rate and methodology for the Osprey Plant should be approved. In addition, DEF should be required to file annual reports with the Commission, detailing the actual outage costs incurred and the accounting treatment associated with the Osprey outage cost deferral, in its year-end earnings surveillance reports for 2017 through 2019.

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<sup>13</sup> May 2016 Earnings Surveillance Report.

**Issue 2:** Should the Commission approve DEF's proposed tariffs and associated charges?

**Recommendation:** Yes. If the Commission approves Issue 1, the Commission should give staff administrative authority to approve tariffs and associated charges that implement the Commission vote regarding the Osprey Plant. The charges should go into effect with the first billing cycle in February 2017. If the acquisition of the Osprey Plant is delayed, then the tariffs should become effective at the time the Osprey Plant is acquired. (Guffey)

**Staff Analysis:** As discussed in Issue 1, staff is recommending a reduction in the revenue requirement for the Osprey Plant. DEF provided work papers showing the allocation of the DEF proposed revenue requirements to all its rate classes at a uniform percentage (2.84 percent) as shown in revised Exhibit D filed on October 19, 2016. Under DEF's proposal, a residential customer who uses 1,000 kilowatt-hours will see a \$1.41 increase on the monthly bill (excluding Gross Receipt Tax). The DEF proposed base rates are shown in revised Exhibit E of the revised filing and DEF's proposed tariffs are shown in revised Exhibits F and G. DEF requested that the tariffs become effective with the first billing cycle of February 2017.

### **Conclusion**

If the Commission approves the staff recommendation in Issue 1 to reduce the revenue requirement for the Osprey Plant, DEF should recalculate the rates, and file revised tariff sheets (if DEF's proposed rates are affected by the decrease in the revenue requirements approved in Issue 1) for administrative approval by staff. The charges should go into effect with the first billing cycle in February 2017. If the acquisition of the Osprey Plant is delayed, then the tariffs should become effective at the time the Osprey Plant is acquired.

**Issue 3:** Should DEF's motion requesting withdrawal of the tariffs for Phase 1 of the Hines Project approved in Docket 160128-EI be approved?

**Recommendation:** Yes, DEF's motion requesting withdrawal of the tariffs for Phase 1 of the Hines Project approved in Docket 160128-EI should be approved. (Guffey)

**Staff Analysis:** Phase 1 work on Hines Units 1-3 and the common equipment was expected to be completed and placed into commercial service in October 2016. Therefore, in Order No. PSC-16-0362-TRF-EI, the Commission approved that the tariffs for Phase 1 of the Hines project and associated charges shall go into effect with the first billing cycle in November 2016.

As stated in the case background, DEF stated in its motion requesting withdrawal of the tariffs that a portion of the common equipment required for both phases will not be completed as previously expected. Therefore, DEF requests withdrawal of the approved tariffs until it files another request for both phases of the Hines Project. DEF will continue billing customers consistent with the tariffs that are currently in effect and not the tariffs approved in Docket 160128-EI. This is consistent with provision under Paragraph 16(a) of the RRSSA, which contemplates that customers would not be charged for the project cost until such project is placed into service.

Therefore, staff recommends that DEF's motion requesting withdrawal of the tariffs for Phase 1 of the Hines Project approved in Docket 160128-EI should be approved.

**Issue 4:** Should these dockets be closed?

**Recommendation:** Yes. If Issues 1 and 2 are approved, the tariff related to the Osprey acquisition should go into effect with the first billing cycle in February 2017. If a protest is filed within 21 days of the issuance of the order, the tariff should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, Docket No. 160178-EI should be closed upon the issuance of a consummating order. If Issue 3 is approved, Docket No. 160128-EI should be closed. (Janjic)

**Staff Analysis:** If Issues 1 and 2 are approved, the tariff related to the Osprey acquisition should go into effect with the first billing cycle in February 2017. If a protest is filed within 21 days of the issuance of the order, the tariff should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, these dockets should be closed upon the issuance of a consummating order. If Issue 3 is approved, Docket No. 160128-EI should be closed.

Duke Energy Florida, LLC  
Estimated First Year Revenue Requirements – Osprey Plant

**Proposed Acquisition Journal Entries (\$ in 000s):**

1 Original Plant cost (101)	358,787
2 Accumulated Depreciation (108)	(108,900)
3 Negative acquisition Adjustment (114-108)	<u>(83,887)</u>
4 Net purchase price (Line 1 + 2 + 3)	166,000

**Equivalent Depreciation Rate Calculation:**

5 Net purchase price (Line 4)	166,000
6 Integration Capital & Transaction Costs	<u>1,845</u>
7 Net Acquisition Cost (Line 5 + 6)	167,845
8 Expected Life (26 years)	<u>3.85%</u>
9 Annual Depreciation Expense (Line 7 x 8)	6,456
10 Original Plant cost (101) (Line 1)	358,787
11 Effective Depreciation Expense (Line 9)	6,456
12 Equivalent Depreciation Rate (Line 11 / 10)	1.80%

**Depreciation Expense in Revenue Requirement:**

13 Original Plant cost (101) (Line 1)	358,787
14 2017 Capital Investment	<u>30,379</u>
15 Ending Balance (Line 13 + Line 14)	389,166
16 Average Balance (Line 13 + 15) / 2	373,977
17 Equivalent Depreciation Rate (Line 12)	<u>1.80%</u> (Note 1)
18 Annual Depreciation Expense (Line 16 x 17)	<u>6,729</u>

Note 1: The depreciation rate recovers the book cost of the Osprey asset only, and does not include cost of removal & dismantlement costs. Cost of Removal & Dismantlement will be addressed in DEF's next depreciation and dismantlement study to be filed on or before March 31, 2019, per RRSSA paragraph 20.

DUKE ENERGY FLORIDA, LLC  
 DOCKET NO. 160178-EI  
OSPREY PLANT REVENUE REQUIREMENT CALCULATION

Line No.	OSPREY PLANT		
	DEF ESR May 2016	STAFF ESR Aug 2016	
	<u>Capital Structure Weighted Cost: (a)</u>		
1	Long Term Debt	1.81%	1.79%
2	Short Term Debt	0.02%	0.03%
3	Customer Deposits	0.04%	0.04%
4	Total (L1 + L2 + L3)	<u>1.87%</u>	<u>1.86%</u>
5	Overall Rate of Return (a)	<u>6.74%</u>	<u>6.68%</u>
6	Average Jurisdictional Rate Base	\$165,868,000	\$165,868,000
7	Interest Expense (L4 x L6)	\$3,102,000	\$3,085,145
8	Interest Income Tax (L7 x 38.575%)	(\$1,196,000)	(\$1,190,095)
9	Operating Expenses	(\$31,560,000)	(\$31,560,000)
10	Operating Expenses Income Tax (L9 x 38.575%)	12,174,000	12,174,000
11	Interest Income Tax (L8)	1,196,000	1,190,095
12	Net Operating Income Loss (L9 + L10 + L11)	<u>(\$18,189,000)</u>	<u>(\$18,195,905)</u>
	<u>Revenue Requirement Calculation</u>		
13	Average Jurisdictional Rate Base (L6)	\$165,868,000	\$165,868,000
14	Rate of Return (L5)	6.74%	6.68%
15	Required Return (L13 x L14)	<u>11,179,000</u>	<u>11,079,982</u>
16	Net Operating Income Loss (L12)	(18,189,000)	(18,195,905)
17	Net Operating Income Deficiency (L15 + L16)	<u>29,369,000</u>	<u>29,275,888</u>
18	Net Operating Income Multiplier	1.634	1.634
19	Revenue Requirement (L17 x L18)	<u>\$47,982,181</u>	<u>\$47,836,801</u>
20	Difference		<u>(\$145,380)</u>

Note:

(a) Source - May 2016 ESR and August 2016 ESR, Schedule 4, Page 3 of 4.

# Item 5



!State of Florida



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

**DATE:** October 20, 2016

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Engineering (M. Watts) *mw*  
Division of Accounting and Finance (Norris, Sowards) *TS*  
Division of Economics (Hudson, Johnson) *CAS*  
Office of the General Counsel (Leathers) *ALM*

**RE:** Docket No. 160023-WU – Application for transfer of majority organizational control of Sunny Shores Water Company, Inc., holder of Certificate No. 578-W in Manatee County, from Jack E. Mason to Jack E. Mason, II and Debbie A. Mason.

**AGENDA:** 11/1/16 – Regular Agenda – Tariff Filing for Issue 2 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** 11/24/16 (8-Month Suspension Date)

**SPECIAL INSTRUCTIONS:** None

## Case Background

Sunny Shores Water Company, Inc. (Sunny Shores or Utility) is a Class C water utility serving approximately 262 customers in Manatee County. Original Certificate No. 578-W was approved by Order No. PSC-96-0599-FOF-WS, issued on May 7, 1996.<sup>1</sup> The Utility provides water service to its customers through bulk water purchased from Manatee County. Sunny Shores' 2015 Annual Report shows gross revenues of \$83,977 and a net operating income of \$1,738. Sunny Shores' service area lies in the Southwest Florida Water Management District.

<sup>1</sup>Order No. PSC-96-0599-FOF-WS, issued on May 7, 1996, in Docket No. 960028-WS, *In re: Application for certificates to provide water and wastewater service in Manatee County by Sunny Shores Water Co., Inc. under grandfather rights.*

Docket No. 160023-WU

Date: October 20, 2016

On January 15, 2016, Sunny Shores filed an application for transfer of majority organizational control (TMOC). Staff identified several deficiencies in a letter to Sunny Shores on February 15, 2016. The Utility's response on March 14, 2016, satisfied all but one deficiency. Staff advised the Utility of the outstanding deficiency in a letter dated April 19, 2016. Sunny Shores' June 3, 2016, response satisfied the remaining deficiency.

On March 24, 2016, Sunny Shores filed a request for a late payment charge. At its May 5, 2016 Agenda Conference, the Commission voted to suspend Sunny Shores' request for a late payment charge pending final action in the instant docket.<sup>2</sup> It should also be noted that the Utility has applied for an original wastewater certificate.<sup>3</sup> This recommendation addresses the Utility's application for a TMOC and request for a late payment charge. The Commission has jurisdiction pursuant to Sections 367.071 and 367.091, Florida Statutes (F.S.).

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<sup>2</sup>Order No. PSC-16-0209-PCO-WU, issued on May 24, 2016, in Docket No. 160023-WU, *In re: Application for transfer of majority organizational control of Sunny Shores Water Company, Inc., holder of Certificate No. 578-W in Manatee County, from Jack E. Mason to Jack E. Mason, II and Debbie A. Mason.*

<sup>3</sup>Docket No. 160219-SU, *In re: Application for certificate to provide wastewater service in Manatee County by Sunny Shores Water Co.*, filed on October 7, 2016.

## Discussion of Issues

**Issue 1:** Should the application for transfer of majority organizational control of Sunny Shores Water Company, Inc. in Manatee County from Jack E. Mason to Jack E. Mason, II and Debbie A. Mason be approved?

**Recommendation:** Yes. The transfer of majority organizational control from Jack E. Mason to Jack E. Mason, II and Debbie A. Mason, is in the public interest and should be approved effective the date of the Commission vote. The resultant order should serve as the water certificate, with the territory described in Attachment A. The existing rates and charges should remain in effect until a change is authorized by the Commission in a subsequent proceeding. The tariffs reflecting the transfer should be effective for services rendered or connections made on or after the stamped approval date on the tariffs pursuant to Rule 25-30.475, Florida Administrative Code (F.A.C.). (M. Watts, Sowards, Johnson)

**Staff Analysis:** This application is for the transfer of majority organizational control of Sunny Shores Water Company, Inc. in Manatee County from Jack E. Mason to Jack E. Mason, II and Debbie A. Mason. Based on staff's review, the application is in compliance with the governing statute, Section 367.071, F.S., and Rule 25-30.037(4), F.A.C., concerning applications for transfer of majority organizational control.

### Noticing and Territory

Sunny Shores provided notice of its application pursuant to Section 367.071, F.S., and Rule 25-30.030, F.A.C. No objections to the transfer were filed with the Commission, and the time for doing so has expired. The notice contains a description of the territory for Sunny Shores, which is appended to this recommendation as Attachment A.

### Technical and Financial Ability

Pursuant to Rules 25-30.037(2)(l) and (m), F.A.C., the application contains statements describing the technical and financial ability of the buyers to provide service. The transfer application states that the buyers have sufficient financial assets to ensure the continuing operation of the Utility. Staff reviewed the financial statements of the buyers<sup>4</sup> and believes they have the financial capability to provide any necessary funding. According to the application, the public interest is served by the continuity of management in the Utility as the shares of the majority owner are purchased by buyers who have been the managers of the Utility since 2008. Based on the information above, staff believes the buyers have the technical and financial capability to provide service to the existing service territory.

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<sup>4</sup>Document No. 03356-16.

### **Rates and Charges**

The Utility's rates and charges were last approved in a grandfather certificate docket in 1996.<sup>5</sup> In 2010, the Commission approved a backflow maintenance charge.<sup>6</sup> The Utility also applied for and received approval of numerous price indexes and pass-through rate adjustments. The Utility's existing rates and charges are shown on Schedule No. 1, which is attached to this recommendation. Rule 25-9.044(1), F.A.C., provides that, in the case of a change of ownership or control of a utility, the rates, classifications, and regulations of the former owner must continue unless authorized to change by this Commission. Therefore, staff recommends that the Utility's existing rates and charges remain in effect until a change is authorized by this Commission in a subsequent proceeding.

### **Conclusion**

Based on the above, staff recommends that the transfer of majority organizational control from Jack E. Mason to Jack E. Mason, II and Debbie A. Mason, is in the public interest and should be approved effective the date of the Commission vote. The resultant order should serve as the water certificate, with the territory described in Attachment A. The existing rates and charges should remain in effect until a change is authorized by the Commission in a subsequent proceeding. The tariffs reflecting the transfer should be effective for services rendered or connections made on or after the stamped approval date on the tariffs pursuant to Rule 25-30.475, F.A.C.

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<sup>5</sup>Order No. PSC-96-0599-FOF-WS, issued on May 7, 1996, in Docket No. 960028-WS, *In re: Application for certificates to provide water and wastewater service in Manatee County by Sunny Shores Water Co., Inc. under grandfather rights.*

<sup>6</sup>Order No. PSC-10-0553-TRF-WU, issued on September 3, 2010, in Docket No. 100038-WU, *In re: Application to implement a backflow maintenance program by Sunny Shores Water Co.*

**Issue 2:** Should Sunny Shores' request for a late payment charge of five percent of the total customer's bill be approved?

**Recommendation:** No. Sunny Shores' request to implement a late payment charge of five percent of the total customer's bill should not be approved. However, staff's recommended late payment charge of \$5 should be approved. The charge should be effective for services rendered on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. Sunny Shores should provide proof of the date that the notice was given within 10 days of the date of the notice. (Johnson)

**Staff Analysis:** Section 367.091(6), F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. The Utility requested a late payment charge of five percent of the total customer bill to recover the cost of supplies and labor associated with processing late payment notices. Although the Utility prefers the percentage based late payment charge, it also proposed a cost-based late payment charge of \$8.55. The Utility's request for a late payment charge was accompanied by its reason for requesting the charge, as well as the cost justification required by Section 367.091, F.S.

As mentioned above, the Utility provided cost justification for a late payment charge of \$8.55. The Utility stated that it believed a flat charge would be too high for customers with low bills. Instead, the Utility believes a late payment charge should be based on a percentage of a customer's bill. The Utility's approved service rates consists of a \$69.85 base facility charge, which includes usage up to 10,800 gallons. Based on the cost of a standard bill of \$69.85, a late payment charge of five percent would result in a charge of \$3.49. With a pending wastewater certificate<sup>7</sup> and with 20 percent to 30 percent of customers using more than 10,800 gallons of water, staff believes a late payment charge of five percent of the total bill could potentially lead to an excessively high late payment charge. In addition, past Commission practice indicates that water and wastewater utilities' late payment charges are to be cost-based.<sup>8</sup> The cost of preparing and sending the late payment notice does not vary based on the amount of the bill. Therefore, staff believes the Utility's late payment charge should be cost-based and not percentage-based.

Based on historical data, the Utility anticipates it will prepare late payment notices for approximately 40 accounts per billing cycle. In the past, the Commission has allowed 10-15 minutes per account per month for clerical and administrative labor to research, review, and prepare the notice.<sup>9</sup> The Utility indicated it will spend approximately 10 hours per billing cycle processing late payment notices, which results in an average of approximately 15 minutes per account (600 minutes/40 accounts) and is consistent with past Commission decisions. The Utility

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<sup>7</sup>Docket No. 160219-SU.

<sup>8</sup>Order No. PSC-13-0177-PAA-WU, issued on April 29, 2013, in Docket No. 130052-WU, *In re: Application for grandfather certificate to operate water utility in Charlotte County by Little Gasparilla Water Utility, Inc.*

<sup>9</sup>Order No. PSC-11-0204-TRF-SU, issued on April 25, 2011, in Docket No. 100413-SU, *In re: Request for approval of tariff amendment to include a late fee of \$14.00 in Polk County by West Lakeland Wastewater.*; Order No. PSC-08-0255-PAA-WS, issued on April 24, 2008, in Docket No. 070391-WS, *In re: Application for certificates to provide water and wastewater service in Sumter County by Orange Blossom Utilities, Inc.*; Order No. PSC-01-2101-TRF-WS, issued on October 22, 2001, in Docket No. 011122-WS, *In re: Tariff filing to establish a late payment charge in Highlands County by Damon Utilities, Inc.*

suggested a labor rate of \$7.50 (10 hours x \$30.00 labor cost / 40), but also initially included labor costs for activities not involved in preparing and sending out late payment notices. In response to a staff email inquiry, the Utility indicated that the appropriate labor cost is \$15.00 per hour. This results in a labor rate of \$3.75 (10 hours x \$15.00 labor cost/40) per late payment notice. Both the Utility's and staff's cost justification for the late payment charge are shown below in Table 2-1.

**Table 2-1  
 Late Payment Charge Cost Justification**

Activity	Utility Proposed	Activity	Staff Recommended
Labor	\$7.50	Labor	\$3.75
Printing	0.45	Printing	0.45
Postage	0.60	Postage	0.60
Total Cost	<u>\$8.55</u>	Total Cost	<u>\$4.80</u>

Source: Utility correspondence

Based on staff's research, since the late 1990s, the Commission has approved late payment charges ranging from \$2.00 to \$7.00.<sup>10</sup> The purpose of this charge is not only to provide an incentive for customers to make timely payment, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing delinquent accounts solely upon those who are cost-causers.

Based on the above, Sunny Shores' request to implement a late payment charge of five percent of the total customer's bill should not be approved. However, staff's recommended late payment charge of \$5 should be approved. The charge should be effective for services rendered on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. Sunny Shores should provide proof of the date that the notice was given within 10 days of the date of the notice.

<sup>10</sup>Order No. PSC-01-2101-TRF-WS; Order No. PSC-08-0255-PAA-WS; Order No. PSC-09-0752-PAA-WU, issued on November 16, 2009, in Docket No. 090185-WU, *In re: Application for grandfather certificate to operate water utility in St. Johns County by Camachee Island Company, Inc. d/b/a Camachee Cove Yacht Harbor Utility.*; Order No. PSC-10-0257-TRF-WU, issued on April 26, 2010, in Docket No. 090429-WU, *In re: Request for approval of imposition of miscellaneous service charges, delinquent payment charge and meter tampering charge in Lake County, by Pine Harbour Water Utilities, LLC.*; Order No. PSC-11-0204-TRF-SU; Order No. PSC-14-0105-TRF-WS, issued on February 20, 2014, in Docket No. 130288-WS, *In re: Request for approval of late payment charge in Brevard County by Aquarina Utilities, Inc.*; and Order No. PSC-16-0041-TRF-WU, issued on January 25, 2016, in Docket No. 150215-WU, *In re: Request for approval of tariff amendment to include miscellaneous service charges for the Earlene and Ray Keen Subdivisions, the Ellison Park Subdivision and the Lake Region Paradise Island Subdivision in Polk County, by Keen Sales, Rentals and Utilities, Inc.*

**Issue 3:** Should this docket be closed?

**Recommendation:** No. The docket should remain open pending staff's verification that the revised tariff sheets and customer notice have been filed by Sunny Shores and approved by staff. If a protest is filed within 21 days of the issuance date of the Order, the tariff sheets should remain in effect with the charges held subject to refund pending resolution of the protest. If no timely protest is filed, a consummating order should be issued and, once staff verifies that the notice of the charge has been given to customers, the docket should be administratively closed. (Leathers)

**Staff Analysis:** The docket should remain open pending staff's verification that the revised tariff sheets and customer notice have been filed by Sunny Shores and approved by staff. If a protest is filed within 21 days of the issuance date of the Order, the tariff sheets should remain in effect with the charges held subject to refund pending resolution of the protest. If no timely protest is filed, a consummating order should be issued and, once staff verifies that the notice of the charges has been given to customers, the docket should be administratively closed.

SUNNY SHORES WATER COMPANY, INC.  
WATER SERVICE AREA  
MANATEE COUNTY

Located in a portion of Manatee County, Florida, situated entirely within the Northwest 1/4 of Section 2, Township 35 South, Range 16 East, described as follows:

Commence at the northwest corner of Section 2, Township 35 South, Range 16 East; thence run S 00°00'00" E a distance of 1,444 feet to the northerly ROW line of 40th Avenue West; thence run S 64°00'00" E along said ROW line a distance of 881 feet to the Point of Beginning; thence run N 24°00'00" E a distance of 1,468 feet along the westerly bank of a canal; thence continuing along the westerly bank of said canal run N 16°00'00" E a distance of 131 feet; thence continuing along said canal run N 26°00'00" E to the shoreline of Palma Sola Bay; thence run easterly along the shoreline of Palma Sola Bay a distance of approximately 1,000 feet to the point where a bulkhead intersects said shoreline; thence run along said bulkhead N 26°56'00" E a distance of 302.14 feet; thence continuing along said bulkhead run S 62°30'11" E a distance of 160.67 feet to the easterly ROW line of 115th Street West; thence run S 24°46'00" W along said ROW line a distance of 1,875 feet to the northerly ROW line of 40th Avenue West; thence run N 64°00'00" W along said ROW line a distance of approximately 1,069 feet to the Point of Beginning.



**FLORIDA PUBLIC SERVICE COMMISSION  
Authorizes**

**Sunny Shores Water Company, Inc.  
Pursuant to  
Certificate Number 578-W**

to provide wastewater service in Manatee County in accordance with the provisions of Chapter 367, Florida Statutes, and the Rules, Regulations, and Orders of this Commission in the territory described by the Orders of this Commission. This authorization shall remain in force and effect until superseded, suspended, cancelled or revoked by Order of this Commission.

<u>Order Number</u>	<u>Date Issued</u>	<u>Docket Number</u>	<u>Filing Type</u>
PSC-96-0599-FOF-WS *	05/07/1996 *	960028-WS 160023-WU	Original Certificate Transfer Majority Organizational Control

**\*Order Number and date to be provided at time of issuance**

**Sunny Shores Water Company, Inc.**

**Quarterly Water Rates**

**Residential and General Service**

Base Facility Charge - All Meter Sizes	\$69.85
Charge per 1,000 gallons – Residential and General Service	
0 – 10,800 gallons	\$0.00
Over 10,800 gallons	\$4.78

**Miscellaneous Service Charges**

Initial Connection Charge	\$18.19
Normal Reconnection Charge	\$18.19
Violation Reconnection Charge	\$18.19
Premise Visit Charge (in lieu of disconnection)	\$11.87

**Service Availability Charges**

Meter Installation Charge	
5/8" x 3/4"	\$115.00

# Item 6

State of Florida



# Public Service Commission


CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

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**DATE:** October 18, 2016

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

**FROM:** Thomas E. Ballinger, Director, Division of Engineering 

**RE:** Docket No. 130209-SU - Application for expansion of certificate (CIAC) (new wastewater line extension charge) by North Peninsula Utilities Corp.

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Attached for filing is the revised recommendation in the above-named docket. Staff filed its original recommendation on September 29, 2016. The revised recommendation is necessary to correct a scrivener's error on page 3 of the recommendation. The words "as well as a brief description of each territory" has been deleted. This correction does not alter the staff's overall recommendation in the docket.

EXE Approval \_\_\_\_\_

A handwritten signature in blue ink, consisting of several loops and a long tail, positioned above a horizontal line.

TB/tj

Attachment

State of Florida



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

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**DATE:** October 20, 2016

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Engineering (Lewis, King) *W CKL TB*  
Division of Economics (Bruce) *DBA P. B.*  
Office of the General Counsel (Janjic, Crawford) *DFSC*

**RE:** Docket No. 130209-SU – Application for expansion of certificate (CIAC) (new wastewater line extension charge) by North Peninsula Utilities Corp.

**AGENDA:** 11/01/16 – Regular Agenda – Proposed Agency Action for Issue 2 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Edgar

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

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## Case Background

North Peninsula Utilities Corporation (NPUC or Utility) is a Class B utility, which provides wastewater service to 569 customers in Volusia County. The City of Ormond Beach provides water to the area. NPUC's 2015 Annual Report lists operating revenues of \$221,963 and a net operating income of \$3,600. NPUC bought the assets of Shore Utility Corp. in 1989<sup>1</sup> and filed five subsequent territory amendments, which were all approved by the Commission. On August 2, 2013, the Utility filed an application to amend its wastewater certificate, pursuant to Section 367.045, Florida Statutes (F.S.), and Rule 25-30.036, Florida Administrative Code (F.A.C.). In addition, the Utility requested implementation of a main extension charge and a flat rate adjustment of three percent per year to monthly rates for five years. On November 4, 2013,

<sup>1</sup>Order No. 22445, issued October 6, 2008, in Docket No. 891016-SU, *In re: Application of North Peninsula Utilities Corporation for transfer of Certificate No. 249-S from Shore Utility Corporation in Volusia County.*

NPUC withdrew its request for the flat rate adjustment. Staff identified several deficiencies in the certificate amendment filing and met with the Utility's representatives. At that meeting, it was disclosed that there were potential objections to the territory amendment by Volusia County and the City of Ormond Beach. As such, the processing of the application was put on hold.

On March 10, 2014, the Utility filed a revised application to amend its service territory based upon negotiations with the City of Ormond Beach and Volusia County. The revised application included less territory than its original filing and a proposed tariff for a \$795 main extension charge. Pursuant to Order No. PSC-14-0273-PCO-SU, issued May 29, 2014, the Commission suspended the proposed tariff to allow staff sufficient time to review all pertinent information.<sup>2</sup> On July 21, 2014, NPUC filed additional information to address the deficiencies previously identified by staff. On October 20, 2014, NPUC representatives met with staff to discuss the amended application and on January 13, 2015, NPUC filed supplemental information to address staff's concerns.

On April 2, 2015, staff filed a written recommendation that:

- NPUC's revised application be denied because the application failed to demonstrate a need for service in the territory requested.
- Denial of the application obviated the need for a main extension charge.
- The service availability policy should be revised to reflect that there are no service availability charges because the plant is fully depreciated.

On April 3, 2015, NPUC requested that the item be deferred from the April 16, 2015 Commission Conference so that representatives of the Utility could again meet with staff. The deferral was granted and a noticed informal meeting was convened on April 20, 2015. At that meeting, NPUC informed staff that it was removing certain areas from the previously filed request for territory expansion, abandoning its three-phased approach to expanding the territory, and withdrawing its request for a main extension charge. A map outlining the changes in territory was provided at the meeting, and on May 26, July 24, and August 27, 2015, additional data was filed by the Utility.

On October 22, 2015, staff filed a written recommendation that recommended denial of NPUC's application for the same reasons described in the April 2, 2015 recommendation. On November 5, 2015, the Commission deferred staff's recommendation to allow the Utility to reevaluate its plan to provide service to the requested areas. On February 10, 2016, NPUC again revised its plan. The February 10, 2016, revision removed certain areas from its original request. The filing also contained cost estimates to serve the remaining areas for which the Utility seeks to serve. Accurate legal descriptions for the proposed annexed areas were provided to staff on June 28, 2016. This recommendation addresses NPUC's application as modified on February 10, 2016. The Commission has jurisdiction pursuant to Section 367.045, F.S.

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<sup>2</sup>Order No. PSC-14-0273-PCO-SU, issued May 29, 2014, in Docket No. 130209-SU, *In re: Application for expansion of certificate (CIAC) (new wastewater line extension charge) by North Peninsula Utilities Corp.*

### Discussion of Issues

**Issue 1:** Should North Peninsula Utilities Corporation's proposed territory amendment be approved?

**Recommendation:** Yes in part and no in part. It is in the public interest to amend wastewater certificate number 249-S to include the territory as described in Attachment A, with the exception of the addition identified as Area 4 (i.e., Capri Drive), effective the date of the Commission's vote. The resultant order should serve as NPUC's amended certificate and should be retained by the Utility. If the Commission agrees with staff's recommendation, the Utility should revise its territorial description to exclude Area 4 and file the revision within ten (10) days of the Commission's vote. (Bruce, Janjic, Lewis)

**Staff Analysis:** Based on NPUC's application to amend its authorized service territory as well as additional information provided by the Utility staff believes that NPUC is in compliance with the governing statute, Section 367.045, F.S., and Rule 25-30.036, Florida Administrative Code (F.A.C.), Application for Amendment to Certificate of Authorization to Extend or Delete Service Area. The application contains proof of compliance with the noticing provisions set forth in Rule 25-30.030, F.A.C, Notice of Application and of Customer Meeting. No objections to the application have been received and the time for filing such has expired. Adequate service territory maps and territory descriptions have also been provided.

NPUC currently provides wastewater service in the north peninsula area of Volusia County pursuant to wastewater certificate number 249-S. NPUC's 2016 Application identifies seven (7) distinct areas to be annexed. Service availability charges for each of the seven areas are discussed in Issue 2. Attachment A to this recommendation provides an illustration of NPUC's proposed territory expansion.

Rule 25-30.036, F.A.C., requires a utility to provide a statement showing the need for service in the area requested. All residences in the territory NPUC seeks to serve currently have wastewater treatment in place, either by privately owned and maintained septic tanks or existing wastewater treatment (package) plants.

Staff's previously filed recommendations, addressing NPUC's application, recommended that the Commission deny the Utility's application because the Utility failed to demonstrate a need for service in the territory requested. Specifically, staff was concerned that the existing residents, in the territory NPUC seeks to add, likely would not connect to NPUC's system unless required by the county. Staff's October 22, 2015, recommendation states:

Staff believes that as long as the county continues to issue permits for replacement and repair of existing wastewater treatment systems and mandatory interconnection is not required, customers are highly unlikely to voluntarily connect to NPUC's system....Without an enforced mandatory interconnection, a customer is unlikely to abandon a functioning septic system to connect to NPUC.

On December 22, 2015, the Volusia County Commission revised its ordinances to mandate connection to a municipal or privately owned wastewater provider when the facilities become available.<sup>3</sup> The ordinance further requires residents to connect within five years of installation of wastewater facilities. Giving consideration to the revised ordinance, staff believes NPUC has reasonably demonstrated a need for service in the areas requested.

In the previous recommendation, staff had concerns regarding the vague conditions for obtaining service in certain areas that NPUC was seeking to serve. The Utility was advocating that individual customer service requests would be evaluated and the customer may or may not have to pay for the collection lines depending on the situation or facilities required. Another of staff's concerns was that NPUC's plan appeared to expect customers living along the interior streets between John Anderson Drive and Ocean Shores Blvd (A1A), wishing to connect, to pay for the construction of collection lines. NPUC's request, as amended on February 10, 2016, no longer contains the areas discussed above. Therefore, the Utility's amendment appears to mitigate staff's prior concerns.

As previously discussed, NPUC is proposing service expansion in seven distinct areas. One of the areas that NPUC is proposing to serve consists of 55 homes/lots and is located on Capri Drive. This area is identified as Area 4 in Attachment A. Volusia County constructed a wastewater main along Capri Drive that is currently not in use. Upon confirmation of a service request within the specified area, NPUC proposed to install a new lift station with a grinder pump and connect it to the existing wastewater main.

Staff recommends denial of the addition of Area 4 because NPUC has not provided documentation showing that Volusia County would permit NPUC access to the existing wastewater main on Capri Drive. NPUC states that an agreement concerning the Capri Drive facilities cannot be finalized until Capri Drive lies within the territory of NPUC. Approving extension to Area 4 could lead to a situation in which the Utility would be required to serve customers with infrastructure that it may not be permitted to access. Under such a scenario NPUC may not be able to adequately address customer concerns or quality of service issues that are associated with the wastewater main. Therefore, staff recommends that the Commission deny the addition of Area 4.

The Utility provided analysis as well as an engineer's statement to demonstrate that the Utility has adequate capacity to serve the additional territory. Based on the analysis provided, more than 60 percent of NPUC's wastewater treatment plant is available to serve future customers. Staff believes that the documentation provided by the Utility adequately demonstrates that NPUC has sufficient plant capacity to serve the additional territory. Additionally, at this time there does not appear to be any outstanding Consent Orders or Notices of Violation from DEP associated with NPUC's wastewater treatment plant.

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<sup>3</sup>See Document No. 04082-16



**Conclusion**

Based on the information above, staff recommends it is in the public interest to amend wastewater certificate number 249-S to include the territory as described in Attachment A, with the exception of the addition identified as Area 4 (i.e., Capri Drive), effective the date of the Commission's vote. The resultant order should serve as NPUC's amended certificate and should be retained by the Utility. If the Commission agrees with staff's recommendation, the Utility should revise its territorial description to exclude Area 4 and file the revision within ten (10) days of the Commission's vote.

**Issue 2:** What are the appropriate service availability charges for NPUC?

**Recommendation:** New customers requesting service should be required to either install the mains necessary to connect to the Utility and donate those lines to the Utility, or the Utility may extend the required lines and collect a main extension charge based on whether a road crossing and force main are required. A main extension charge associated with a road crossing of \$762 per equivalent residential connection (ERC) and a main extension charge with no road crossing of \$444 per ERC should be approved. The recommended main extension charges should be based on an estimated 250 gallons per day per ERC of treated wastewater demand. Also, staff recommends a force main extension charge of \$1.25 per linear foot where the Utility will need to extend its force main to provide service. The Utility should be required to file tariffs reflecting the revised service availability policy and charges. The approved service availability policy and charges should be effective for connections made on or after the stamped approval date of the tariff pursuant to Rule 25-30.475, F.A.C. (Bruce)

**Staff Analysis:** As mentioned earlier, NPUC is requesting authority to add seven service areas to its existing territory, which are referred to as proposed service areas 1, 2, 3A, 3B, 3C, 4, and 5. However, as discussed in Issue 1, staff recommended proposed service Area 4 not be approved. The proposed service areas include properties with small package plants, septic tanks, and vacant lots. In addition, the Utility's existing service territory includes an undeveloped eight-acre parcel of land.

Currently, the Utility does not have an approved plant capacity or main extension charge. The Utility's plant capacity charge was eliminated in a prior docket, because continued collection would have resulted in a contribution level at build out in excess of the 75 percent maximum guideline, pursuant to Rule 25-30.580, F.A.C.<sup>4</sup> All collection lines needed to serve the existing service territory are installed with the exception of the eight-acre parcel. In addition, all of the collection system is contributed property and is fully depreciated. The Utility's existing service availability policy provides that in instances where the Utility undertakes the installation of collection lines, in lieu of the developer's installation of such facilities, such installation will be at the cost and expense of the developer. The Utility will provide laterals for wastewater service to the developer's lot line ready for a plumber's "hook-up." The Utility's practice has been to connect new customers without charge for the installation of the service line to the Utility's collection system when a vacant lot is developed.

Rule 25-30.580, F.A.C., establishes guidelines for designing service availability charges. Pursuant to the rule, the maximum amount of contributions-in-aid-of construction (CIAC), net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of the Utility's facilities and plant when the facilities and plant are at their designed capacity. The minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution system or wastewater collection system.

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<sup>4</sup>Order No. 16184, issued June 4, 1986, in Docket No. 850121-SU, *In re: Application of Shore Utility Corporation for a staff-assisted rate case in Volusia County, Florida.*

The Utility originally proposed a main extension charge of \$795, but the request was withdrawn as a result of a revised filing. In the Utility's recent filing, the Utility provided the incremental cost that would be incurred in order to provide service to each of the respective proposed service areas as shown below in Table 2-1. However, the Utility did not propose any service availability charges that correspond to the incremental cost.

**Table 2-1**  
**Estimated Main Extension Costs**

	Service Area	Estimated Cost	Number Connections
1	Kingston Shores Condominiums	\$150,000	106
2	John Anderson Drive (Ormond Beach Plaza)	\$13,100	10
3A	John Anderson Drive (Seabridge)	\$8,200	6
3B	Mid John Anderson Drive	\$13,500	26
3C	Southerly John Anderson Drive	\$13,800	18
5	Fairwinds Shores Condominiums	\$72,000	102

Source: Document No. 008676-16

Service to customers in the proposed service areas will require installation of force mains and laterals. In some areas, a single main extension is needed to connect a particular property; however, in areas where there are single family homes or duplexes, a main extension may serve multiple properties. In December of 2015, Volusia County enacted an ordinance that requires mandatory connection to municipal or investor owned wastewater facilities within five years when such facilities become available. At this time, the Utility is not investing in the proposed infrastructure until there is request for service. Requests for service may either not materialize in any particular proposed service area or come at varying times.

Staff believes it is appropriate to recommend a main extension charge for future connections in areas where a single main extension may serve multiple properties. This will allow those customers to pay their pro rata share of the average cost of the infrastructure needed to provide service to their property. In order to determine the appropriate main extension charge, staff evaluated the Utility's estimated costs to extend service. Staff determined that there are several scenarios under which service may be provided to the respective service areas. Service may be provided either with or without a road crossing to a force main. In some instances, the Utility may need to install an additional force main to provide service. As result, staff determined the average cost of the main extension charge with a road crossing and one without a road crossing. In addition, staff calculated a per linear foot force main charge. Typically, staff would develop a single main extension charge per connection that would reflect the pro rata share of the cost of the lines. However, the circumstances of the amendment are unique because of the uncertainty of the need for the service and the disparity in the cost to provide service to each distinct area. As a result, staff believes that a more reasonable approach is to design a main extension charge that would allow those customers to pay their pro rata share of the average cost of the infrastructure needed to provide service to their property.

Based on the above, staff recommends that, consistent with the guidelines in Rule 25-30.580, F.A.C., new customers requesting service should either install the mains necessary to connect to the Utility and donate those lines to the Utility or, the Utility may extend the required lines and collect a main extension charge based on whether a road crossing is required. A main extension charge associated with a road crossing of \$762 per ERC and a main extension charge with no road crossing of \$444 per ERC should be approved. The recommended main extension charges should be based on an estimated 250 gallons per day of treated wastewater demand. Also, staff recommends a force main extension charge of \$1.25 per linear foot, based on the average cost per connection, where the Utility will need to extend its force main to provide service.

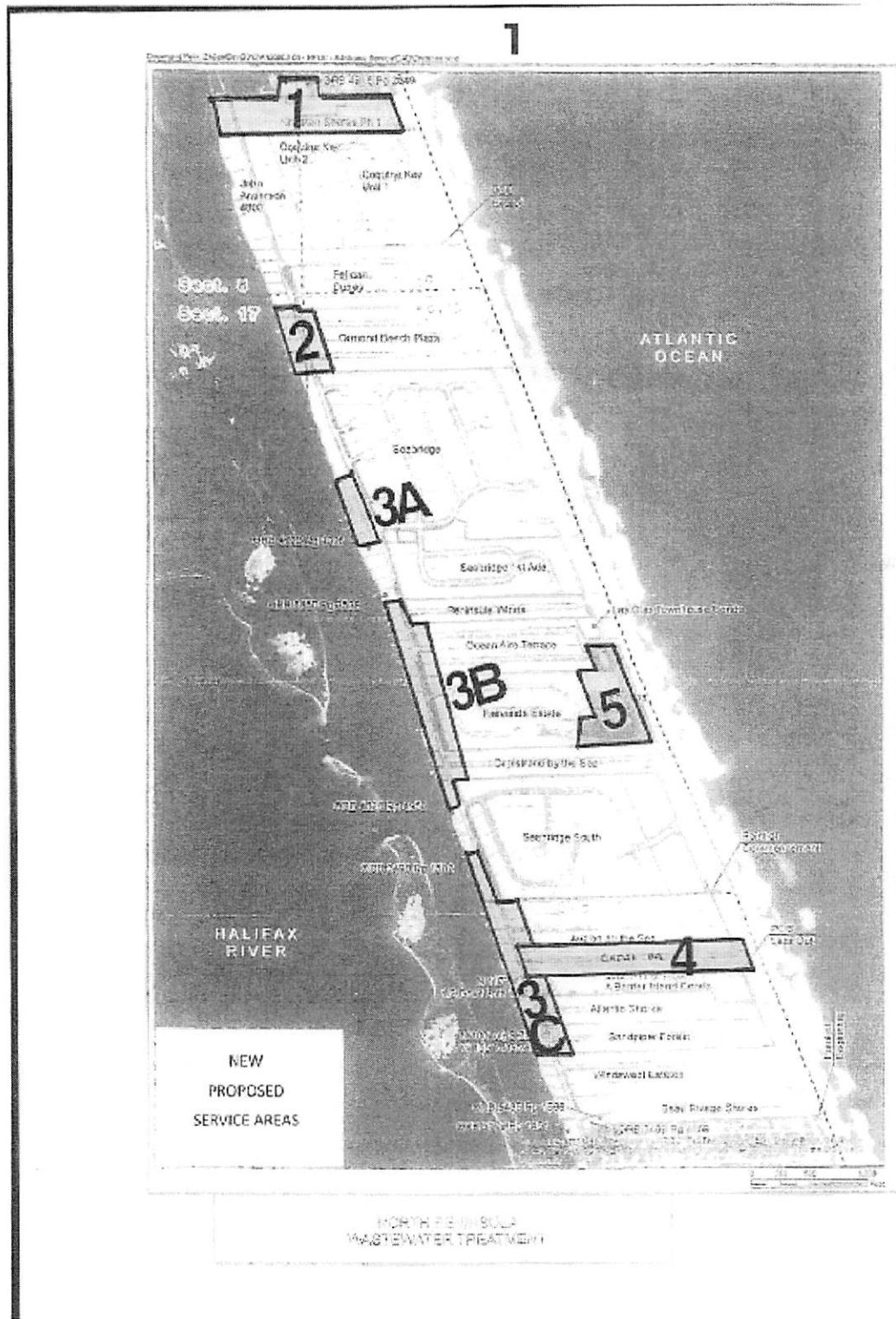
### **Summary**

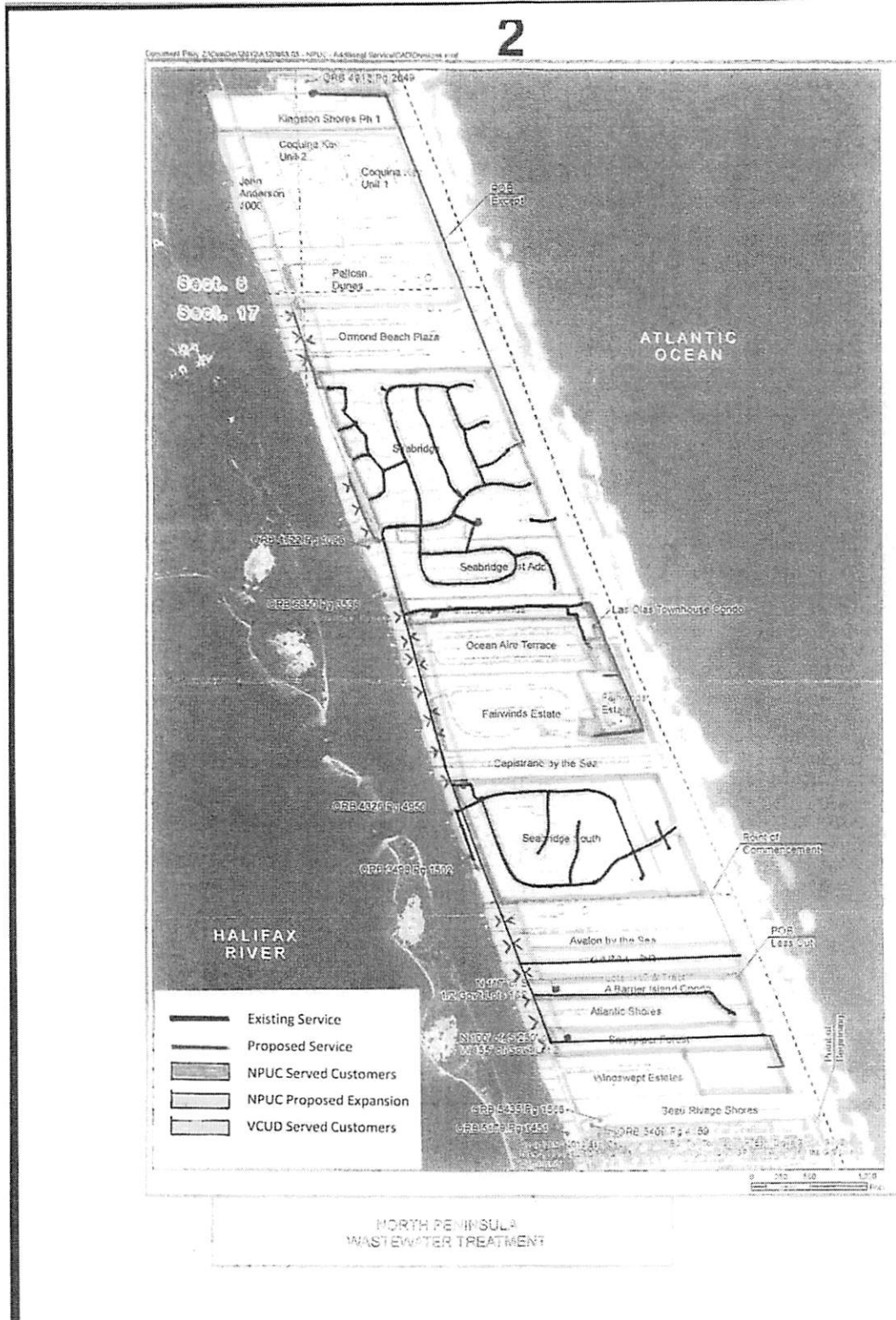
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**Issue 3:** Should this docket be closed?

**Recommendation:** No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued, and the docket should remain open for staff's verification that the revised tariff sheets have been filed by the Utility and approved by staff. If a protest is filed within 21 days of the issuance of the Order, the tariff should remain in effect subject to refund pending the resolution of the protest, and the docket should remain open. (Janjic)

**Staff Analysis:** If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued, and the docket should remain open for staff's verification that the revised tariff sheets have been filed by the Utility and approved by staff. If a protest is filed within 21 days of the issuance of the Order, the tariff should remain in effect subject to refund pending the resolution of the protest, and the docket should remain open.





**ADDITIONAL SERVICE AREA**

**LANDS IN SECTIONS 8, 9, 16, 17 & 21 IN TOWNSHIP 13 SOUTH RANGE 32° EAST VOLUSIA COUNTY FLORIDA DESCRIBED AS FOLLOWS:**

**1**

1. COMMENCE AT THE CENTERLINE OF OCEAN SHORE BLVD (A1A) 1400 FEET NORTH TO THE SOUTH LINE OF SECTION 9;
2. THENCE NORTH 88° EAST 139 FEET TO THE SHORELINE OF THE ATLANTIC OCEAN;
3. THENCE NORTH 23° WEST 332 FEET ALONG THE SHORELINE OF THE ATLANTIC OCEAN TO A POINT 1700 FEET NORTH TO THE SOUTH LINE OF SECTION 9;
4. THENCE NORTH 88° WEST 700 FEET ALONG THE NORTH LINE OF KINGSTON SHORES PER MAP BOOK 33 PAGE 67;
5. THENCE NORTH 1° WEST 159 FEET ALONG THE WEST LINE OF PARCEL 09133200010050 OFFICIAL RECORD BOOK 4915 PAGE 2649;
6. THENCE NORTH 89° WEST 342 FEET ALONG THE NORTH LINE OF PARCEL 09133200010050 OFFICIAL RECORD BOOK 4915 PAGE 2649;
7. THENCE SOUTH 0° WEST 120 FEET ALONG THE WEST LINE OF PARCEL 09133200010050 OFFICIAL RECORD BOOK 4915 PAGE 2649;
8. THENCE SOUTH 90° WEST 141 FEET ALONG THE NORTH LINE OF PARCEL 09133200010050 OFFICIAL RECORD BOOK 4915 PAGE 2649;
9. THENCE SOUTH 0° EAST 39 FEET ALONG THE WEST LINE OF PARCEL 09133200010050 OFFICIAL RECORD BOOK 4915 PAGE 2649;
10. THENCE NORTH 90° WEST 275 FEET ALONG THE NORTH LINE OF THE NORTH LINE OF KINGSTON SHORES PER TAX BOOK 33 PAGE 67;
11. THENCE NORTH 90° WEST 162 FEET TO THE EAST EDGE OF HALIFAX CREEK AND THE WEST LINE OF PARCEL 0813320101C580 PER OFFICIAL RECORD BOOK 6586 PAGE 2933;
12. THENCE SOUTH 23° EAST 357 FEET ALONG THE EAST EDGE OF HALIFAX CREEK AND WEST LINE OF PARCEL 0813320101C580 PER OFFICIAL RECORD BOOK 6586 PAGE 2933;
13. THENCE NORTH 89° EAST 1521 FEET ALONG THE SOUTH LINE OF PARCEL 0813320101C580 PER OFFICIAL RECORD BOOK 6586 PAGE 2933 TO THE POINT OF COMMENCEMENT;

1



**2**

1. COMMENCE AT THE CENTERLINE OF JOHN ANDERSON DRIVE 625 FEET SOUTH OF THE SOUTH LINE OF SECTION 9;
2. THENCE NORTH 90° WEST 153 FEET TO THE EAST EDGE OF HALIFAX CREEK AND THE SOUTH WEST CORNER OF PARCEL 16133201000940 OFFICIAL RECORD BOOK 6825 PAGE 4998;
3. THENCE NORTH 23° WEST 596 FEET ALONG THE EAST EDGE OF HALIFAX CREEK TO THE NORTH° WEST CORNER OF PARCEL 17133200010020 OFFICIAL RECORD BOOK 6834 PAGE 3191;
4. THENCE SOUTH 90° EAST 179 FEET ALONG THE NORTH LINE OF PARCEL 17133200010020 OFFICIAL RECORD BOOK 6834 PAGE 3191 TO THE CENTERLINE OF JOHN ANDERSON DRIVE;
5. THENCE SOUTH 45° EAST 55 FEET TO THE NORTH WEST CORNER OF PARCEL 16133201000270 OFFICIAL RECORD BOOK 7247 PAGE 0769
6. THENCE SOUTH 90° EAST 171 FEET TO THE NORTH EAST CORNER OF PARCEL 16133201000270 OFFICIAL RECORD BOOK 7247 PAGE 0769;
7. THENCE SOUTH 0° EAST 539 FEET MEANDERING ON THE EAST LINE OF PARCEL 16133201000270 OFFICIAL RECORD BOOK 7247 PAGE 0769, PARCEL 16133201000280 OFFICIAL RECORD BOOK 7124 PAGES 0626-0627, PARCEL 16133201000650 OFFICIAL RECORD BOOK 7244 PAGE 1292, PARCEL 16133201000660 OFFICIAL RECORD BOOK 7112 PAGE 1844 TO THE SOUTH EAST CORNER OF PARCEL 16133201000660 OFFICIAL RECORD BOOK 7112 PAGE 1844.
8. THENCE SOUTH 90° EAST 143 FEET ALONG THE EAST LINE OF PARCEL 16133201000660 OFFICIAL RECORD BOOK 7112 PAGE 1844 TO THE POINT OF COMMENCEMENT.

**3A**

1. COMMENCE AT THE CENTERLINE OF JOHN ANDERSON DRIVE 2100 FEET SOUTH OF THE SOUTH LINE OF SECTION 9.
2. THENCE SOUTH 75° WEST 202 FEET TO THE EAST EDGE OF HALIFAX CREEK AND THE SOUTHWEST CORNER OF PARCEL 16133200020040 OFFICIAL RECORD BOOK 6630 PAGE 2850;

3. THENCE NORTH 23° WEST ALONG EAST EDGE OF HALIFAX CREEK 598 FEET TO THE NORTHWEST CORNER OF PARCEL 16133200020052 OFFICIAL RECORD BOOK 3826 PAGE 1155;
4. THENCE NORTH 75° EAST 172 FEET ALONG THE NORTH LINE OF PARCEL 16133200020052 OFFICIAL RECORD BOOK 3826 PAGE 1155 TO THE CENTERLINE OF JOHN ANDERSON DRIVE;
5. THENCE SOUTH 23° EAST 644 FEET ALONG THE CENTERLINE OF JOHN ANDERSON DRIVE TO THE POINT OF COMMENCEMENT;

**3B**

1. COMMENCE AT THE CENTERLINE OF JOHN ANDERSON DRIVE 780 FEET NORTH FROM THE SOUTH LINE OF SECTION 16;
2. THENCE SOUTH 75° WEST 103 FEET TO THE EAST EDGE OF HALIFAX CREEK AND THE SOUTH WEST CORNER OF PARCEL 16133200040021 OFFICIAL RECORD BOOK 4973 PARCEL 3672;
3. THENCE NORTH 23° WEST 1889 FEET ALONG THE EAST EDGE OF HALIFAX CREEK TO THE NORTH WEST CORNER OF PARCEL 16133200030030 OFFICIAL RECORD BOOK 4541 PAGE 4174;
4. THENCE NORTH 88° EAST 166 FEET TO THE CENTERLINE OF JOHN ANDERSON DRIVE;
5. THENCE SOUTH 23° EAST 218 FEET ALONG THE CENTERLINE OF JOHN ANDERSON DRIVE;
6. THENCE SOUTH 88° EAST 151 FEET TO THE NORTH EAST CORNER OF PARCEL 16133202000180 OFFICIAL RECORD BOOK 2610 PAGE 1860;
7. THENCE SOUTH 23° EAST 931 FEET TO THE NORTH CORNER OF PARCEL 16133208000470 OFFICIAL RECORD BOOK 4142 PAGE 2070;
8. THENCE SOUTH 45° EAST 140 FEET ALONG THE NORTHEAST LINE OF PARCEL 16133208000470 OFFICIAL RECORD BOOK 4142 PAGE 2070 AND THE NORTHEAST LINE OF PARCEL 16133208000460 OFFICIAL RECORD BOOK 5625 PAGE 1055 TO THE EAST CORNER OF PARCEL 16133208000460 OFFICIAL RECORD BOOK 5625 PAGE 1055;
9. THENCE SOUTH 30° WEST 135 FEET ALONG THE SOUTHEAST LINE OF PARCEL 16133208000460 OFFICIAL RECORD BOOK 5625 PAGE 1055 TO THE SOUTHEAST CORNER OF PARCEL 16133208000460 OFFICIAL RECORD BOOK 5625 PAGE 1055;
10. THENCE SOUTH 23° EAST 138 FEET ALONG THE EAST LINE OF PARCEL 16133203000330 OFFICIAL RECORD BOOK 4665 PAGE 4177 AND THE EAST LINE OF PARCEL

16133203000320 OFFICIAL RECORD BOOK 6674 PAGE 4101 TO THE CENTERLINE OF  
CAPISTRANO DRIVE;

11. THENCE SOUTH 23° WEST 133 FEET ALONG THE EAST LINE OF PARCEL 16133203000380  
OFFICIAL RECORD BOOK 4824 PAGE 2773 TO THE SOUTHEAST CORNER OF PARCEL  
16133203000380 OFFICIAL RECORD BOOK 4824 PAGE 2773;
12. THENCE NORTH 88° WEST 104 FEET ALONG THE SOUTH LINE OF PARCEL  
16133203000380 OFFICIAL RECORD BOOK 4824 PAGE 2773 TO THE CENTERLINE OF  
JOHN ANDERSON DRIVE;
13. THENCE SOUTH 22° EAST 252 FEET TO THE POINT OF COMMENCEMENT.

**3C**

1. COMMENCE AT THE CENTERLINE OF JOHN ANDERSON DRIVE 1343 FEET SOUTH FROM  
SOUTH LINE OF SECTION 16;
2. THENCE SOUTH 90° EAST 136 FEET TO THE SOUTHEAST CORNER OF PARCEL  
21133228000010 OFFICIAL RECORD BOOK 7094 PAGE 3064;
3. THENCE NORTH 23° WEST 257 FEET TO THE NORTHEAST CORNER OF PARCEL  
21133200010050 OFFICIAL RECORD BOOK 5166 PAGE 4309;
4. THENCE NORTH 88° EAST 35 FEET ALONG THE SOUTH LINE OF PARCEL 21133202000350  
OFFICIAL RECORD BOOK 5464 PAGE 4665 AND TO THE SOUTH EAST CORNER OF PARCEL  
21133202000350 OFFICIAL RECORD BOOK 5464 PAGE 4665;
5. THENCE NORTH 35° WEST 472 FEET ALONG THE EAST EDGE OF PARCEL  
21133202000350 OFFICIAL RECORD BOOK 5464 PAGE 4665, THE EAST EDGE OF PARCEL  
21133202000330 OFFICIAL RECORD BOOK 5078 PAGE 0509, THE EAST EDGE OF PARCEL  
21133200010012 OFFICIAL RECORD BOOK 6860 PAGE 3975 TO THE NORTH EAST  
CORNER OF PARCEL 21133200010012 OFFICIAL RECORD BOOK 6860 PAGE 3975;
6. THENCE SOUTH 88° WEST 118 FEET ALONG THE NORTH LINE OF PARCEL  
21133200010012 OFFICIAL RECORD BOOK 6860 PAGE 3975 TO THE CENTERLINE OF  
JOHN ANDERSON DRIVE;
7. THENCE NORTH 23° WEST 340 FEET ALONG THE CENTERLINE OF JOHN ANDERSON  
DRIVE;
8. THENCE NORTH 88° EAST 149 FEET ALONG THE NORTH LINE OF PARCEL  
21133201000810 OFFICIAL RECORD BOOK 6796 PAGE 0779;
9. THENCE NORTH 23° WEST 367 FEET TO THE CENTERLINE OF VIA MADRID DRIVE;

10. THENCE SOUTH 88° WEST 130 FEET TO THE CENTERLINE OF JOHN ANDERSON DRIVE;
11. THENCE NORTH 23° WEST 500 FEET ALONG THE CENTERLINE OF JOHN ANDERSON DRIVE 417 FEET NORTH OF THE SOUTH LINE OF SECTION 16;
12. THENCE SOUTH 75° WEST 122 FEET TO THE EAST SIDE OF HALIFAX CREEK AT THE NORTH WEST CORNER OF PARCEL 16133207000050 OFFICIAL RECORD BOOK 3498 PAGE 1502;
13. THENCE SOUTH 23° EAST 1820 FEET ALONG THE EAST EDGE OF HALIFAX CREEK AND THE SOUTH WEST CORNER OF PARCEL 21133200020010 OFFICIAL RECORD BOOK 6956 PAGE 3747;
14. THENCE NORTH 90° WEST 156 FEET TO THE CENTERLINE OF JOHN ANDERSON DRIVE AND THE POINT OF COMMENCEMENT.

4

1. COMMENCE AT THE CENTERLINE OF OCEAN SHORE BLVD (A1A) 690 FEET SOUTH OF THE SOUTH LINE OF SECTION 16;
2. THENCE SOUTH 88° EAST 80 FEET TO THE SOUTHEAST CORNER OF PARCEL 21133201001791 OFFICIAL RECORD BOOK 6620 PAGE 4880 AT THE SHORELINE OF THE ATLANTIC OCEAN;
3. THENCE NORTH 23° WEST 291 FEET ALONG THE SHORELINE OF THE ATLANTIC OCEAN TO THE NORTHEAST CORNER OF PARCEL 21133201001131 OFFICIAL RECORD BOOK 6783 PAGE 3207;
4. THENCE SOUTH 88° WEST 1795 FEET TO THE NORTHWEST CORNER OF PARCEL 21133201001430 OFFICIAL RECORD BOOK 3841 PAGE 4495;
5. THENCE NORTH 21° WEST 59 FEET TO THE NORTHEAST CORNER OF PARCEL 21133201000810 OFFICIAL RECORD BOOK 6796 PAGE 0779;
6. THENCE NORTH 88° WEST 150 FEET ALONG THE NORTH SIDE OF PARCEL 21133201000810 OFFICIAL RECORD BOOK 6796 PAGE 0779 TO THE CENTERLINE OF JOHN ANDERSON DRIVE AT 680 FEET SOUTH OF THE SOUTH LINE OF SECTION 16;
7. THENCE SOUTH 21° EAST 343 FEET ALONG THE CENTERLINE OF JOHN ANDERSON DRIVE;
8. THENCE NORTH 88° EAST 1880 FEET TO THE POINT OF COMMENCEMENT.

5

5

1. COMMENCE AT THE CENTERLINE OF OCEAN SHORE BLVD (A1A) 1306 FEET NORTH OF THE SOUTH LINE OF SECTION 16;
2. THENCE NORTH 88° EAST 122 FEET TO THE SHORELINE OF THE ATLANTIC OCEAN AND TO THE SOUTHEAST CORNER OF PARCEL 16133210025070 OFFICIAL RECORD BOOK 3079 PAGE 0584;
3. THENCE NORTH 23° WEST 925 FEET ALONG THE SHORELINE OF THE ATLANTIC OCEAN THE NORTHEAST CORNER OF PARCEL 16133211004020 OFFICIAL RECORD BOOK 7251 PAGE 0524;
4. THENCE SOUTH 88° WEST 83 FEET ALONG THE NORTH LINE OF PARCEL 16133211004020 OFFICIAL RECORD BOOK 7251 PAGE 0524 TO THE NORTHWEST CORNER OF PARCEL 16133211004020 OFFICIAL RECORD BOOK 7251 PAGE 0524;
5. THENCE SOUTH 88° WEST 208 FEET ALONG THE CENTERLINE OF OCEAN AIRE TERRACE TO THE INTERSECTION WITH OCEAN AIRE TERRACE NORTH AND OCEAN AIRE TERRACE SOUTH;
6. THENCE SOUTH 23° EAST 240 FEET ALONG THE WEST LINE OF PARCEL 16133211004020 OFFICIAL RECORD BOOK 7251 PAGE 0524 TO THE SOUTHWEST CORNER OF PARCEL 16133211004020 OFFICIAL RECORD BOOK 7251 PAGE 0524;
7. THENCE NORTH 90° WEST 177 FEET TO THE NORTHWEST CORNER OF PARCEL 16133210030010 OFFICIAL RECORD BOOK 6944 PAGE 2102;
8. THENCE SOUTH 23° EAST 340 FEET TO THE SOUTHWEST CORNER OF PARCEL 16133208000140 OFFICIAL RECORD BOOK 7252 PAGE 4330;
9. THENCE SOUTH 70° WEST 140 FEET ALONG THE SOUTH LINE OF PARCEL 16133208000140 OFFICIAL RECORD BOOK 7252 PAGE 4330 TO THE CENTERLINE OF JULIE DRIVE;
10. THENCE SOUTH 30° WEST 312 FEET TO THE SOUTH WEST CORNER OF PARCEL 16133208000510 OFFICIAL RECORD BOOK 3822 PAGE 1958;
11. THENCE NORTH 88° EAST 708 FEET TO THE POINT OF COMMENCEMENT.

6

**TOTAL SERVICE AREA**

**LANDS IN SECTIONS 8, 9, 16, 17 & 21 IN TOWNSHIP 13 SOUTH RANGE 32° EAST VOLUSIA COUNTY FLORIDA DESCRIBED AS FOLLOWS:**

1. COMMENCE AT THE CENTERLINE OF OCEAN SHORE BLVD (A1A) 3640 FEET NORTH OF THE SOUTH LINE OF SECTION 21;
2. THENCE NORTH 88° EAST 73 FEET TO THE SHORELINE OF THE ATLANTIC OCEAN ALONG THE SOUTH LINE OF PARCEL 21132200040010 PER OFFICIAL RECORD BOOK 6826, PAGE 1586;
3. THENCE NORTH 23° WEST ALONG THE SHORELINE OF THE ATLANTIC OCEAN 1800 FEET TO THE CENTERLINE OF VIA MADRID ROAD ON THE SOUTH LINE OF SECTION 16;
4. THENCE NORTH 88° WEST 93 FEET TO THE CENTERLINE OF OCEAN SHORE BLVD (A1A) ON THE SOUTH LINE OF SECTION 16;
5. THENCE NORTH 23° WEST 1100 FEET ALONG THE CENTERLINE OF OCEAN SHORE BLVD (A1A);
6. THENCE NORTH 88° EAST 97 FEET TO THE SHORELINE OF THE ATLANTIC OCEAN ALONG THE SOUTH LINE OF PARCEL 16133203000010 PER OFFICIAL RECORD BOOK 4446 PAGE 1762;
7. THENCE NORTH 23° WEST 1448 FEET ALONG THE SHORELINE OF THE ATLANTIC OCEAN TO THE SOUTH EAST CORNER OF PARCEL 16133200030022 PER OFFICIAL RECORD BOOK 4234 PAGE 4898;
8. THENCE NORTH 88° WEST 125 FEET ALONG THE SOUTH LINE OF PARCEL 16133200030022 PER OFFICIAL RECORD BOOK 4234 PAGE 4898 TO THE CENTERLINE OF OCEAN SHORE BLVD (A1A);
9. THENCE NORTH 23° WEST 2300 FEET ALONG THE CENTERLINE OF OCEAN SHORE BLVD (A1A);
10. THENCE NORTH 88° EAST 139 FEET ALONG THE SOUTH LINE OF PARCEL 16133201000880 PER OFFICIAL RECORD BOOK 4672 PAGE 0283 TO THE SHORELINE OF THE ATLANTIC OCEAN;
11. THENCE NORTH 23° WEST 1141 FEET ALONG THE SHORELINE OF THE ATLANTIC OCEAN TO THE SOUTH LINE OF PARCEL 09133201000001 PER OFFICIAL RECORD BOOK 5148 PAGE 1248;

12. THENCE NORTH 88° WEST 139 FEET TO THE CENTERLINE OF OCEAN SHORE BLVD (A1A) LOCATED 430 FEET NORTH OF THE SOUTH LINE OF SECTION 9;
13. THENCE NORTH 23° WEST 1052 FEET ALONG THE CENTERLINE OF OCEAN SHORE BLVD (A1A);
14. THENCE NORTH 88° EAST 127 FEET ALONG THE SOUTH LINE OF PARCEL 0813320101C580 PER OFFICIAL RECORD BOOK 6586 PAGE 2933 TO THE SHORELINE OF THE ATLANTIC OCEAN;
15. THENCE NORTH 23° WEST 332 FEET TO THE NORTH EAST CORNER OF PARCEL 0823320101C580 PER OFFICIAL RECORD BOOK 6586 PAGE 2933;
16. THENCE NORTH 88° WEST 700 FEET ALONG THE NORTH LINE OF KINGSTON SHORES PER MAP BOOK 33 PAGE 67;
17. THENCE NORTH 1° WEST 159 FEET ALONG THE WEST LINE OF PARCEL 09133200010050 OFFICIAL RECORD BOOK 4915 PAGE 2649;
18. THENCE NORTH 89° WEST 342 FEET ALONG THE NORTH LINE OF PARCEL 09133200010050 PER OFFICIAL RECORD BOOK 4915 PAGE 2649;
19. THENCE SOUTH 0° EAST 120 FEET ALONG THE WEST LINE OF PARCEL 09133200010050 PER OFFICIAL RECORD BOOK 4915 PAGE 2649;
20. THENCE SOUTH 90° WEST 141 FEET ALONG THE NORTH LINE OF PARCEL 09133200010050 PER OFFICIAL RECORD BOOK 4915 PAGE 2649;
21. THENCE SOUTH 0° EAST 39 FEET ALONG THE WEST LINE OF PARCEL 09133200010050 PER OFFICIAL RECORD BOOK 4915 PAGE 2649;
22. THENCE NORTH 90° WEST 275 FEET ALONG THE NORTH LINE OF PARCEL 0823320101C580 PER OFFICIAL RECORD BOOK 6586 PAGE 2933;
23. THENCE NORTH 90° WEST 162 FEET ALONG THE NORTH LINE OF PARCEL 08133200050010 PER OFFICIAL RECORD BOOK 6528 PAGE 2046;
24. THENCE SOUTH 23° EAST 2505 FEET ALONG THE EAST EDGE OF HALIFAX CREEK TO THE NORTH LINE OF PARCEL 17133200010080 PER OFFICIAL RECORD BOOK 1917 PAGE 0953 AND THE NORTH LINE OF PARCEL 16133200010030 PER OFFICIAL RECORD BOOK 2049 PAGE 1087;
25. THENCE NORTH 90° EAST 153 FEET TO THE CENTERLINE OF JOHN ANDERSON DRIVE ALONG THE NORTH LINE OF PARCEL 17133200010080 PER OFFICIAL RECORD BOOK

1917 PAGE 0953 AND THE NORTH LINE OF PARCEL 16133200010030 PER OFFICIAL RECORD BOOK 2049 PAGE 1087;

26. THENCE SOUTH 23° EAST 929 FEET ALONG THE CENTERLINE OF JOHN ANDERSON DRIVE LOCATED 1493 FEET SOUTH OF THE SOUTH LINE FOR SECTION 9;
27. THENCE SOUTH 78° WEST 153 FEET ALONG THE SOUTH LINE OF PARCEL 16133200010030 PAGE 2049 PAGE 1087 TO THE EAST EDGE OF HALIFAX CREEK;
28. THENCE SOUTH 23° EAST 5242 FEET ALONG EAST EDGE OF HALIFAX CREEK TO THE SOUTHWEST CORNER OF PARCEL 21133200020010 PER OFFICIAL RECORD BOOK 6956 PAGE 3747;
29. THENCE SOUTH 90° EAST 1250 FEET TO THE NORTHWEST CORNER OF PARCEL 21132200040010 PER OFFICIAL RECORD BOOK 6826, PAGE 1586;
30. THENCE SOUTH 23° EAST 404 FEET TO THE SOUTHWEST CORNER OF PARCEL 21132200040010 PER OFFICIAL RECORD BOOK 6826, PAGE 1586;
31. THENCE SOUTH 88° EAST 813 FEET TO THE POINT OF COMMENCEMENT.

LESS OUT

**A**

1. COMMENCE AT THE CENTERLINE OF OCEAN SHORE BLVD (A1A) 632 FEET SOUTH OF THE SOUTH LINE OF SECTION 9;
2. THENCE NORTH 88° EAST 139 FEET TO THE SHORELINE OF THE ATLANTIC OCEAN AT THE SOUTHEAST CORNER OF PARCEL 16133201000880 PER OFFICIAL RECORD BOOK 4672 PAGE 0283;
3. THENCE NORTH 23° WEST 1141 FEET ALONG THE SHORELINE OF THE ATLANTIC OCEAN LOCATED 431 FEET NORTH OF THE SOUTH LINE OF SECTION 9;
4. THENCE NORTH 88° WEST 139 FEET TO THE CENTERLINE OF OCEAN SHORE BLVD (A1A);
5. THENCE NORTH 23° WEST 1052 FEET ALONG THE CENTERLINE OF OCEAN SHORE BLVD (A1A) LOCATED 1416 FEET NORTH OF THE SOUTH LINE OF SECTION 9;
6. THENCE SOUTH 88° WEST 1541 FEET ALONG THE SOUTH LINE OF PARCEL 0813320101C580 PER OFFICIAL RECORD BOOK 6586 PAGE 2933 TO THE EAST EDGE OF HALIFAX CREEK;



7. THENCE SOUTH 23° EAST 1545 FEET ALONG THE EAST EDGE OF HALIFAX CREEK TO THE NORTHEAST CORNER OF PARCEL 17133200010020 OFFICIAL RECORD BOOK 6834 PAGE 3191;
8. THENCE SOUTH 88° EAST 371 FEET TO THE NORTHEAST CORNER OF PARCEL 16133201000270 PER OFFICIAL RECORD BOOK 7247 PAGE 0769;
9. THENCE SOUTH 12° EAST 527 FEET TO THE SOUTHEAST CORNER OF PARCEL 16133201000660 PER OFFICIAL RECORD BOOK 7112 PAGE 1844;
10. THENCE NORTH 88° EAST 1403 FEET TO THE COMMENCEMENT POINT.

**B**

1. COMMENCE AT THE CENTERLINE OF OCEAN SHORE BLVD (A1A) 1030 FEET NORTH OF THE SOUTH LINE OF SECTION 16;
2. THENCE NORTH 88° EAST 111 FEET TO THE SHORELINE OF THE ATLANTIC OCEAN AT THE SOUTH EAST CORNER OF PARCEL 16133203000010 OFFICIAL RECORD BOOK 4446 PAGE 1762;
3. THENCE NORTH 23° WEST 281 FEET ALONG THE SHORELINE OF THE ATLANTIC OCEAN TO THE NORTHEAST CORNER OF PARCEL 16133203000040 OFFICIAL RECORD BOOK 6834 PAGE 2744;
4. THENCE SOUTH 88° WEST 800 FEET TO THE SOUTHWEST CORNER OF PARCEL 16133208000510 OFFICIAL RECORD BOOK 3822 PAGE 1958;
5. THENCE NORTH 30° EAST 342 FEET TO THE CENTERLINE OF JULIE DRIVE;
6. THENCE NORTH 60° EAST 134 FEET TO THE SOUTHEAST CORNER OF PARCEL 16133208000140 OFFICIAL RECORD BOOK 7252 PAGE 4330;
7. THENCE NORTH 23° WEST 335 FEET TO THE NORTHWEST CORNER OF PARCEL 16133210030010 OFFICIAL RECORD BOOK 6944 PAGE 2102;
8. THENCE NORTH 88° EAST 177 FEET TO THE SOUTHWEST CORNER OF PARCEL 16133211004020 OFFICIAL RECORD BOOK 6438 PAGE 4032;
9. THENCE NORTH 23° WEST 493 FEET TO THE NORTHWEST CORNER OF PARCEL 16133216000060 OFFICIAL RECORD BOOK 6967 PAGE 0126;
10. THENCE SOUTH 88° WEST 1303 FEET TO THE NORTHWEST CORNER OF PARCEL 16133202000170 OFFICIAL RECORD BOOK 6172 PAGES 2481-2482;

11. THENCE SOUTH 23° EAST 931 FEET TO THE NORTH CORNER OF PARCEL 16133208000470 OFFICIAL RECORD BOOK 4142 PAGE 2070;
12. THENCE SOUTH 45° EAST 140 FEET ALONG THE NORTHEAST LINE OF PARCEL 16133208000470 OFFICIAL RECORD BOOK 4142 PAGE 2070 AND THE NORTHEAST LINE OF PARCEL 16133208000460 OFFICIAL RECORD BOOK 5625 PAGE 1055 TO THE EAST CORNER OF PARCEL 16133208000460 OFFICIAL RECORD BOOK 5625 PAGE 1055;
13. THENCE SOUTH 23° WEST 135 FEET ALONG THE SOUTHEAST LINE OF PARCEL 16133208000460 OFFICIAL RECORD BOOK 5625 PAGE 1055 TO THE SOUTHEAST CORNER OF PARCEL 16133208000460 OFFICIAL RECORD BOOK 5625 PAGE 1055;
14. THENCE SOUTH 23° EAST 138 FEET ALONG THE EAST LINE OF PARCEL 16133203000330 OFFICIAL RECORD BOOK 4665 PAGE 4177 AND THE EAST LINE OF PARCEL 16133203000320 OFFICIAL RECORD BOOK 6674 PAGE 4101 TO THE CENTERLINE OF CAPISTRANO DRIVE;
15. THENCE SOUTH 23° WEST 133 FEET ALONG THE EAST LINE OF PARCEL 16133203000380 OFFICIAL RECORD BOOK 4824 PAGE 2773 TO THE SOUTHEAST CORNER OF PARCEL 16133203000380 OFFICIAL RECORD BOOK 4824 PAGE 2773;
16. THENCE NORTH 88° EAST 1702 FEET TO THE COMMENCEMENT POINT.

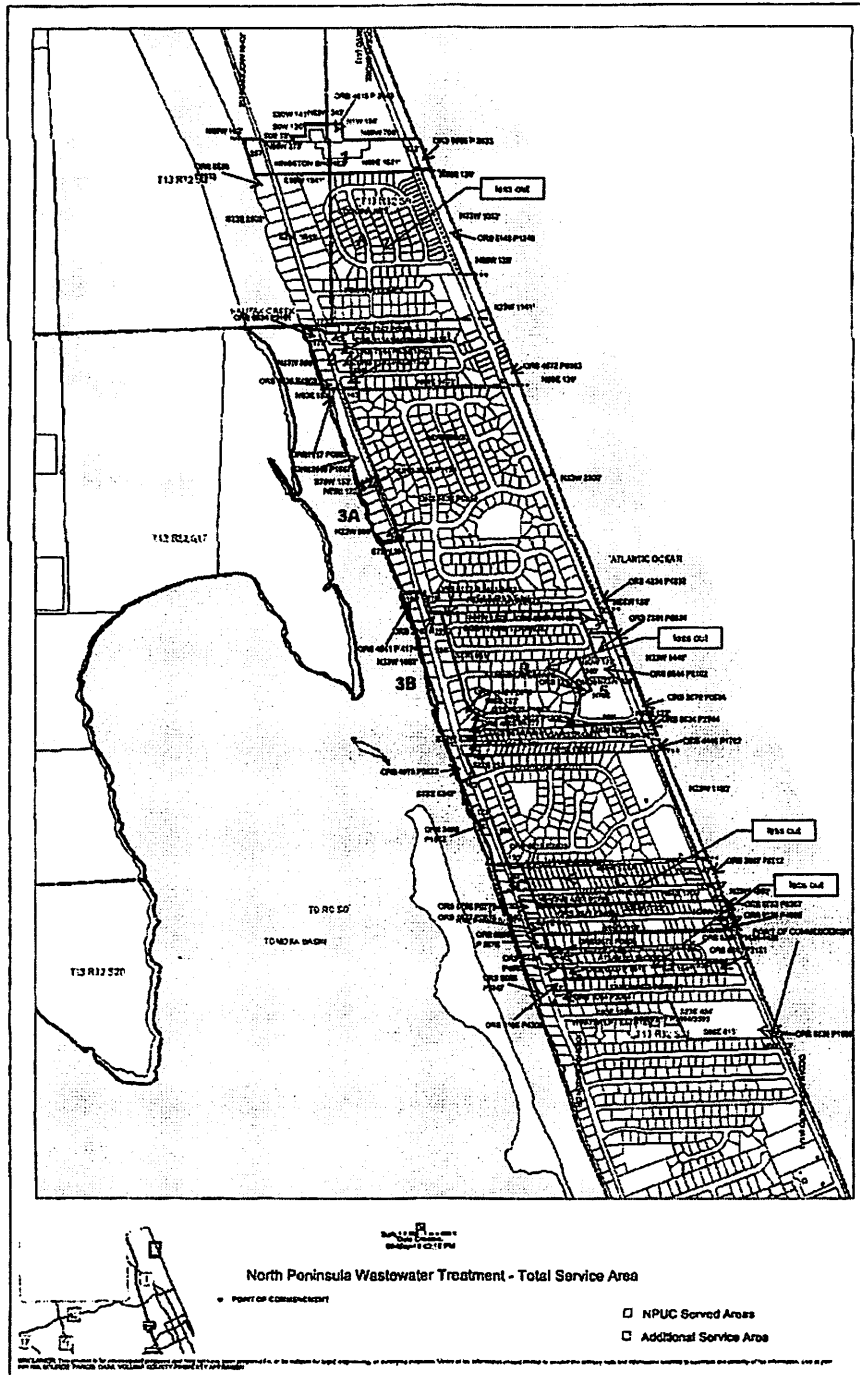
**C**

1. COMMENCE AT THE CENTERLINE OF OCEAN SHORE BLVD (A1A) 418 FEET SOUTH OF THE SOUTH LINE OF SECTION 16;
2. THENCE NORTH 88° EAST 97 FEET TO THE SHORELINE OF THE ATLANTIC OCEAN;
3. THENCE NORTH 23° WEST 443 FEET ALONG THE SHORELINE OF THE ATLANTIC OCEAN TO THE CENTERLINE OF VIA MADRID DRIVE;
4. THENCE SOUTH 88° WEST 1781 FEET ALONG THE CENTERLINE OF VIA MADRID DRIVE;
5. THENCE SOUTH 21° EAST 420 FEET TO THE SOUTHWEST CORNER OF PARCEL 21133201000820 OFFICIAL RECORD BOOK 4337 PAGE 2756;
6. THENCE NORTH 88° EAST 1700 FEET TO THE POINT OF COMMENCEMENT.

**D**

1. COMMENCE AT THE CENTERLINE OF MARLIN DRIVE 200 FEET NORTH 90° WEST OF THE INTERSECTION OF OCEAN SHORE BLVD (A1A) AND MARLIN DRIVE;

2. THENCE SOUTH 23° EAST 125 FEET ALONG THE EAST LINE OF PARCEL 21133202000650 OFFICIAL RECORD BOOK 6660 PAGE 2131 TO THE SOUTHEAST CORNER OF PARCEL 21133202000650 OFFICIAL RECORD BOOK 6660 PAGE 2131;
3. THENCE SOUTH 88° WEST 1541 FEET TO THE SOUTHWEST CORNER OF PARCEL 21133202000380 OFFICIAL RECORD BOOK 6600 PAGE 3613;
4. THENCE NORTH 23° WEST 127 FEET ALONG THE WEST SIDE OF PARCEL 21133202000380 OFFICIAL RECORD BOOK 6600 PAGE 3613 TO THE CENTERLINE OF MARLIN AVENUE;
5. THENCE NORTH 90° WEST 31 FEET ALONG THE CENTERLINE OF MARLIN AVENUE;
6. THENCE NORTH 23° WEST 120 FEET ALONG THE WEST SIDE OF PARCEL 21133202000310 OFFICIAL RECORD BOOK 4235 PAGE 1405 TO THE NORTHWEST CORNER OF PARCEL 21133202000310 OFFICIAL RECORD BOOK 4235 PAGE 1405;
7. THENCE NORTH 0° EAST 1340 FEET TO THE NORTHEAST CORNER OF PARCEL 21133202000080 OFFICIAL RECORD BOOK 6289 PAGES 1424-1426;
8. THENCE SOUTH 23° EAST 127 FEET ALONG THE EAST LINE OF PARCEL 21133202000080 OFFICIAL RECORD BOOK 6289 PAGES 1424-1426 TO THE CENTERLINE OF MARLIN AVENUE;
9. THENCE SOUTH 88° EAST 255 FEET ALONG THE CENTERLINE OF MARLIN AVENUE TO THE POINT OF COMMENCEMENT;



# Item 7

State of Florida



# Public Service Commission


CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

---

**DATE:** October 18, 2016

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

**FROM:** Thomas E. Ballinger, Director, Division of Engineering 

**RE:** Docket No. 150010-WS - Application for staff-assisted rate case in Brevard County by Aquarina Utilities, Inc.

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Attached for filing is the revised recommendation in the above-named docket. Staff filed its original recommendation on September 29, 2016. The revised recommendation is necessary to correct two scrivener's errors. The first correction is to Table 12-5, p. 41 of the recommendation, which now shows the correct Initial Connection Charge as discussed on pp. 38 and 39 of the recommendation. The second correction is to Schedule 4-B on p. 69 of the recommendation. The note at the bottom of the Schedule has been deleted. Neither of these corrections alter the staff's overall recommendation in the docket.

EXE Approval \_\_\_\_\_

A handwritten signature in blue ink, consisting of several loops and a final vertical stroke, positioned over a horizontal line.

TB/pz

Attachment

-State of Florida



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

**DATE:** October 20, 2016

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Engineering (Lewis, King)  
Division of Accounting and Finance (Fletcher, Mouring, Smith II)  
Division of Economics (Bruce)  
Office of the General Counsel (Murphy)

*Handwritten initials and signatures:* 24, B, CKL, TB, CR, ALM, Zm, 10/20/16, JS#

**RE:** Docket No. 150010-WS – Application for staff-assisted rate case in Brevard County by Aquarina Utilities, Inc.

**AGENDA:** 11/01/16 – Proposed Agency Action – Except for Issue Nos. 11, 17, and 18 - Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Brisé

**CRITICAL DATES:** Waived (15-Month Effective Date (SARC))

**SPECIAL INSTRUCTIONS:** None

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## Case Background

Aquarina Utilities, Inc., (Aquarina or Utility) is a Class B utility providing service to approximately 296 water and 311 wastewater customers in Brevard County. Aquarina also provides non-potable water for irrigation to approximately 107 customers. The Utility began providing service in 1984 when it was known as Aquarina Developments, Inc. In 1989, the Commission granted the Utility water and wastewater certificate numbers 517-W and 450-S, respectively. Water and wastewater rates were last established for the Utility in 2003, when it was known as Service Management Systems, Inc.<sup>1</sup> The Utility was transferred to Aquarina in 2012.<sup>2</sup>

On January 2, 2015, Aquarina filed an application for a Staff Assisted Rate Case (SARC). Staff selected the test year ending December 31, 2014, for the instant case. According to Aquarina's 2014 Annual Report, its total operating revenues for water and wastewater were \$269,405 and \$161,736, respectively. The Utility reported a net loss of \$45,050 for the water service and net income of \$5,320 for the wastewater service.<sup>3</sup> On July 14, 2015, Aquarina submitted additional pro forma request for consideration in which staff received the final quotes on October 19, 2015. On January 19, 2016, the Utility requested consideration of additional well expenses.<sup>4</sup>

A customer meeting was held on March 10, 2016, at the Aquarina Community Center to receive customer questions and comments concerning the Utility's rate case and quality of service. The Commission has jurisdiction in this case pursuant to Section 367.0814, Florida Statutes, (F.S.).

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<sup>1</sup>Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, *In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.*

<sup>2</sup>Order No. PSC-12-0614-CO-WS, issued November 16, 2012, in Docket No. 110061-WS, *In re: Application for authority to transfer assets and Certificate Nos. 517-W and 450-S of Service Management Systems, Inc. to Aquarina Utilities, Inc., in Brevard County.*

<sup>3</sup>Aquarina Utilities, Inc. 2014 Annual Report filed March 13, 2015, with the Commission.

<http://www.floridapsc.com/library/financials/WS949-DOCS/ANNUAL-REPORTS/WS949-14-AR.PDF>

<sup>4</sup> See Document 00369-16

## Discussion of Issues

**Issue 1:** Should the quality of service provided by Aquarina be considered satisfactory?

**Recommendation:** Yes. The overall quality of service provided by Aquarina should be considered satisfactory. (Lewis)

**Staff Analysis:** Pursuant to 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 is derived from an evaluation of three separate components of the Utility's operations. These components are: (1) the quality of the utility's product; (2) the operating conditions of the utility's plant and facilities; and (3) the utility's attempt to address customer satisfaction. The Rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered. Additionally, Section 367.0812(1)(c), F.S., requires the Commission to consider the extent to which the utility provides water service that meets secondary water quality standards as established by the DEP.

### Quality of Utility's Product

Staff's evaluation of Aquarina's water quality consisted of a review of the Utility's compliance with DEP primary and secondary drinking water standards, county health department standards, as well as customer complaints. Primary standards protect public health while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water.

Staff reviewed chemical analyses of samples dated July 29, 2012, and September 23, 2015. All results were in compliance with the DEP primary and secondary water quality standards. These chemical analyses are performed every three years; therefore, the next scheduled analysis should be in 2018.

At the customer meeting, two customers complained that the water provided by the Utility was discoloring their in-home filters and they had to replace their filters more frequently than in the past. One of these complaints was also filed with the Commission. The Utility responded to one customer by email and stated that the customer could set up an appointment to have the filters examined. Complaints regarding the quality of the Utility's product have been minimal since 2010.

Jurisdiction of Aquarina's wastewater facilities is under the DEP. The Utility's wastewater treatment plant (WWTP) permit was renewed on March 24, 2013, and expires on March 23, 2018. Currently, the DEP has no violations or corrective orders pending against the Utility concerning the treatment and disposal of Aquarina's domestic wastewater.

In addition to being a water and wastewater service provider, the Utility also provides irrigation and fire-flow to its customer base through an isolated non-potable system. The Consumptive Use Permit (CUP) issued by the St. Johns River Water Management District (SJWMD) on November 7, 2011, allows the Utility to withdraw up to 0.12 million gallons per day (mgd) for household and commercial/industrial use. The CUP also allows up to 0.24 mgd for urban irrigation and

another 0.23 mgd for golf course irrigation. The Utility appears to be operating within the parameters of its CUP. All other regulation of the irrigation and fire-flow system is under the jurisdiction of the Office of the Brevard County Fire Rescue. Staff has not received any information from the Brevard County Fire Department indicating concerns about the pressure of the fire flow system.

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

Aquarina provides finished potable water obtained from two wells, which draw ground water from the aquifer. The raw water is treated by a Reverse Osmosis (RO) system which filters impurities from the raw water. The potable water is then directed into a 3,000-gallon hydropneumatic tank and a 150,000 ground storage tank and then pumped into the water distribution system. The distribution system is composed of PVC pipe.

Sanitary surveys of water treatment plants are conducted triennially. On March 7, 2011, the DEP conducted a Sanitary Survey of Aquarina's water treatment plant and deemed it in compliance on April 25, 2011. On January 14, 2014, the DEP conducted another Sanitary Survey of Aquarina's water treatment plant. The DEP identified the following deficiencies:

- 1) The north well #1 (AAC2808) was noted leaking from the packing seals. Failure to maintain public water system components.
- 2) Failure to provide a smooth-nosed tap for sampling raw well water for well #1 (AAC2808).
- 3) Failure to conduct monitoring for Nitrate/Nitrite annually. The sample collected on December 30, 2013 was invalid due to holding exceedances.

Aquarina's wastewater treatment plant utilizes an extended aeration process. The facility is authorized to accept reject water from the existing RO water treatment plant. Flows (including RO reject water) to the plant are limited to 50,000 gpd which is the permitted capacity of the existing disposal system. A Wastewater Compliance Inspection Report was conducted on January 14, 2014, by the DEP and noted the following deficiencies:

- 1) Not completely filling out its monthly Discharge Monitoring Reports.
- 2) Not having required dual cylinders with automatic switchover or suitable scales for gas chlorination.
- 3) Due to excessive leaking, the sludge seals are in need of repair.

On January 27, 2014, the Utility reported to the DEP that all deficiencies with the water and wastewater treatment plants had been corrected. Subsequently, the DEP deemed the Utility in compliance on February 28, 2014. Staff's review of DEP compliance records indicates that Aquarina had no infractions from 2014 through 2015 for either the water or wastewater systems.

In its previous rate case, the Utility's non-potable water system was not considered satisfactory. At that time, the Utility was deemed to have violated National Fire Protection Association codes concerning the maintenance of the pumping system, maintenance of the distribution system, adequate system pressure, sufficient records of fire hydrant care and testing, etc. Based on discussions with the Brevard County Fire Rescue, the Utility is now in compliance with relevant codes.

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

The final component of the overall quality of service that must be assessed is the Utility's attempt to address customer satisfaction. As part of staff's evaluation of customer satisfaction, staff held a customer meeting on March 10, 2016, to receive customer comments concerning Aquarina's quality of service.

Approximately 45 customers attended the customer meeting in which 14 spoke about their experiences and concerns with the Utility's service. Eight of the customers who spoke at the customer meeting objected to the Utility's current rates or the magnitude of the proposed rate increase. As previously discussed in this issue, two customers reported problems associated with in-home filters.

One customer voiced issues with billing, particularly on the matter of incorrect meter readings that occurred in 2014. When contacted by the customer the Utility stated the high bill was due to a possible leak on the customer's property. The customer conducted an investigation of their pool and lanai however no leak was found. A credit was issued to the customer's bill. The customer filed a complaint with the Commission about the matter on March 7, 2016, prior to the customer meeting. The complaint was closed on March 14, 2016, since the matter was resolved in 2014.

Two customers discussed incidents involving the Utility's repair of water lines which caused water mixed with sand and debris to enter the home. The water line was crushed by the weight of an Oak tree. The Utility stated it advised the affected residence to flush their lines via the outside faucets for 15 minutes to clear the lines.

Finally, there were three accounts of the Utility failing to report service interruptions. The Utility stated it placed Boil Water notices on the doors of each residence and placed copies in the lobby of each of the condominium buildings. It also provided notifications via the development's property management office. The Utility has worked with the property manager to obtain emergency contact information for each of the sub-home owners associations in the community in an effort to better facilitate notification of Boil Water notices.

Staff also requested copies of complaints filed with the Utility during the test year and four years prior to the test year.<sup>5</sup> The Utility responded that three customer complaints were received, all in 2011, all dealt with meter accuracy. A complaint was taken over the telephone; however, the Utility did not record the instance as a complaint. A refund also was provided to the customer.

Staff reviewed the Commission's complaint records from January 1, 2010, through July 13, 2016, and found six complaints, which include the three received by utility and all have been closed. Staff also requested complaints against the Utility filed with DEP for the 2014 test year and four years prior. DEP indicated that it has not received any complaints against the Utility during the requested time frame. Responses to subsequent requests to DEP indicate no complaints were received as of July 13, 2016.

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<sup>5</sup>Document No. 01539-15 filed March 19, 2015.

Subsequent to the test year, Commission staff has received two complaints. The first was filed in March 2016 concerning a billing issue from 2014. The second was received on April 6, 2016, and concerned a leaking pipe on the Utility's side of the meter. The issue was resolved when the pipe was repaired on April 20, 2016. Both complaints filed with the Commission in 2016 have been closed. Table 1-1 below, summarizes the customer contacts for Aquarina.

**Table 1-1  
Customer Contacts**

Subject of Complaint	PSC's Records (CATS)	Utility's Records	DEP	Customer Meeting*
Billing Related	4	3	0	2
Opposing Rate Increase	0	0	0	7
Quality of Service	2	0	0	9
Other	0	0	0	1
Total	6	0	0	19

\*A complaint may appear more than once in this table if it meets multiple categories.

### **Summary**

The Utility is in compliance with all primary and secondary water standards and the DEP deemed the Utility in compliance for both water and wastewater operations on February 28, 2014. Based on the discussion and review above, staff recommends the overall quality of service provided by Aquarina should be considered satisfactory.

**Issue 2:** What are the used and useful percentages (U&U) of Aquarina’s water treatment plant (WTP), WTP storage, distribution system, wastewater treatment plant, collection system, non-potable plant, non-potable distribution system, and non-potable storage?

**Recommendation:** Staff is recommending the following U&U percentages for Aquarina’s water, wastewater, and non-potable systems:

Plant	U&U Percentage
Water Treatment Plant	81.0 Percent
Water Distribution	62.6 Percent
Water Plant Storage	46.7 Percent
Wastewater Plant	55.9 Percent
Wastewater Collection System	65.4 Percent
Non-Potable Plant	100 Percent
Non-Potable Distribution	100 Percent
Non-Potable Storage	61.0 Percent

Staff also recommends that no adjustments to operating expenses be made for excessive unaccounted for water (EUW) or excessive inflow & infiltration (I&I). (Lewis)

**Staff Analysis:** Rates for Aquarina were previously set in 2003. For comparison purposes Table 2-1 below, summarizes the U&U determined in Aquarina’s 2003 rate case and the U&U being recommended by staff in the current case. Staff notes that Rule 25-30.4325, F.A.C., which codifies the Commission’s policy for calculating U&U, became effective in 2008.

**Table 2-1**

	Used and Useful	
	2003	Recommended
Water Treatment Plant	29.7 Percent	81.0 Percent
Water Distribution	62.6 Percent	62.6 Percent
Water Plant Storage	Not Calculated	46.7 Percent
Wastewater Plant	55.9 Percent	55.9 Percent
Wastewater Collection System	65.4 Percent	65.4 Percent
Non-Potable Plant	100 Percent	100 Percent
Non-Potable Distribution	100 Percent	100 Percent
Non-Potable Storage	Not Calculated	61.0 Percent

### **Potable Water Treatment Plant Used & Useful**

Pursuant to Rule 25-30.4325, F.A.C., the U&U calculation for a WTP is ((Max Day - EUW + Fire Flow + Growth)/ Firm Reliable Capacity). Based on Aquarina's Monthly Operating Reports (MORs) the Max Day usage during the test year was 70,000 gallons. The Utility's MORs additionally indicate that there was no EUW during the test year. Staff's analysis of EUW is discussed in greater detail below. Fire flow is handled by a separate, non-potable system, therefore it is not considered in staff's evaluation of WTP used and useful. Historic flows indicate negative growth since 2011; therefore, staff is not making an adjustment for growth.

Rule 25-30.4325, F.A.C., provides that Firm Reliable Capacity (FRC) is expressed in gallons per day (gpd), based on 16 hours of pumping, for systems with storage capacity such as Aquarina's system. Typically the FRC is calculated by using the pumping capacity of the smallest well in the system which in this case is rated at 450 gpm. Based on 16 hours of availability the FRC equals 432,000 gpd. However, the Rule contains a provision by which an alternative calculation may be considered if supporting justification is provided, including service area or treatment capacity restrictions, changes in flows due to conservation or a reduction in the number of customers, and alternative peaking factors. The most recent DEP sanitary survey, for Aquarina's WTP, states that the Max Day capacity of the WTP is 86,400 gpd. Therefore, staff believes that 86,400 gpd should be used as the FRC. Based on the inputs discussed above, the resulting U&U calculation for the WTP equals 81 percent (70,000 - 0 + 0 + 0/86,400).

In Aquarina's 2003 rate case, the water treatment plant was deemed 29.7 percent U&U. As previously noted, Rule 25-30.4325, F.A.C., became effective subsequent to the Commission's decision in that case. Review of the U&U analysis in the previous case shows that storage was considered in determining the FRC. Rule 25-30.4325(3), F.A.C., states that [s]eparate used and useful calculations shall be made for the water treatment system and storage facilities. Staff's U&U calculation for Aquarina's storage facilities is discussed later.

### **Excessive Unaccounted for Water**

Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. When establishing the Rule, the Commission recognized that some uses of water are readily measurable and others are not. Unaccounted for water is all water that is produced that is not sold, metered or accounted for in the records of the Utility. The Rule provides that to determine whether adjustments to plant and operating expenses, such as purchased electrical power and chemicals cost, are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible. The unaccounted for water is calculated by subtracting both the gallons used for other purposes, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year.

Aquarina's MORs show that the Utility treated 12,046,000 gallons and sold 12,322,490 gallons of water during the test year. This indicates the Utility sold 276,490 gallons more than it treated. Therefore, the Utility had an unaccounted for water value of negative 2.24 percent. The Utility explained its flow meter has an error margin of 6 percent.<sup>6</sup> Even if staff were to recommend an

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<sup>6</sup> Document No. 04356-15 filed July 13, 2015.

adjustment to account for the inaccuracy of the flow meter, the unaccounted for water would not exceed 10 percent. Therefore, staff is recommending that no adjustment be made to operating expenses for chemicals and purchase power due to the EUW.

### **Potable Water Treatment Plant Storage Used & Useful**

Pursuant to Rule 25-30.4325, F.A.C., the U&U calculation for WTP storage is  $((\text{Max Day} - \text{EUW} + \text{Fire Flow} + \text{Growth})/\text{usable storage of the water storage tank})$ . Aquarina's water storage tank is rated at 150,000 gallons. The resulting calculation, assuming the Max Day discussed in the previous section, equals 46.7 percent  $((70,000 - 0 + 0 + 0)/150,000)$ .

### **Potable Water Distribution System Used & Useful**

In the Utility's previous rate case, distribution system used and useful was based on the capacity of the system and the number of test year connections measured on the basis of equivalent residential connections (ERCs). A growth allowance of 60 ERCs was also considered in the previous rate case. In response to a staff data request, the Utility stated that it does not have access to records which detail expansion or changes to the distribution system from 2003 to 2011. Due to incomplete records regarding Aquarina's water distribution system, staff is unable to determine the current capacity of the Utility's distribution system. To this point, staff notes that the Utility was obtained by current ownership in 2012.

In Aquarina's 2003 rate case, it was noted that recent approvals from Brevard County expanded the Utility's growth potential from 436 ERCs to 600 ERCs. Therefore, it is reasonable to consider that expansion of the water distribution may have occurred in the 2003 to 2011 timeframe.

Staff additionally considered whether or not the system should be considered built-out which would result in a U&U of 100 percent. Based on staff's review of the area, as well as communication with local community managers, it appears that there is potential for new construction in the area.

Given the lack of available information, staff recommends adhering to the prior Commission decision to consider the water distribution system 62.6 percent U&U. As discussed in Issue 3, staff is recommending granting the Utility's request for Geographic Information System (GIS) mapping of its plant to determine the current connection capacity of its water distribution system. The GIS mapping will allow the Utility to provide accurate information regarding its distribution system.

### **Wastewater Treatment Plant Used & Useful**

In Aquarina's 2003 rate case, the WWTP was found to be 55.9 percent U&U. The Annual Average Daily Flow (AADF) from the Discharge Monitoring Reports filed monthly with DEP was 38,296 gpd. Pursuant to Rule 25-30.432, F.A.C., the U&U calculation for a WWTP is  $((\text{AADF} - \text{I\&I} + \text{Growth})/\text{permitted capacity})$ . As discussed in greater detail below, I&I for the WWTP cannot be accurately determined at this time, therefore, staff is not including an I&I value in its calculation. Based on historic flows, staff does not believe an adjustment for growth should be made at this time. The facility has a permitted capacity of 99,000 gpd.



Based on the inputs discussed above, the resulting calculation equals 44.8 percent  $((38,296 - 0 + 0)/99,000 \text{ gpd})$  which is lower than the previously Commission ordered U&U percentage of 55.9 percent. Therefore, staff recommends adhering to the prior Commission decision to consider the wastewater treatment plant to be 55.9 percent U&U.

### **Inflow & Infiltration (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. Additionally, adjustments to operating expenses such as chemical and electrical costs are also considered necessary. Typically, inflow results from water entering a wastewater collection system through manholes or lift stations; whereas, infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints. It is an industry standard and Commission practice to allow 10 percent of water sold as inflow plus 500 gpd per inch diameter pipe per mile for infiltration.<sup>7</sup> The sum of these amounts is the allowable I&I.

The Utility was not able to provide the size and length of its wastewater mains and indicated that it has incomplete records. Absent this information, an allowance for infiltration cannot be accurately determined. Therefore, staff is recommending no adjustments to operating expenses due to I&I. This recommendation is consistent with the Commission's decision in Aquarina's last rate case in which the Commission identified I&I as N/A and an adjustment was not made.<sup>8</sup>

### **Wastewater Collection System Used & Useful**

For the same reasons discussed in staff's U&U analysis of Aquarina's water distribution system, staff is unable to determine the current capacity of the Utility's wastewater collection system. Therefore, consistent with staff's recommendation regarding the Utility's distribution system, staff recommends adhering to the prior Commission decision to consider the wastewater collection system to be 65.4 percent U&U.

### **Non-Potable Water System and Water Distribution System Used & Useful**

Although a specific rule for non-potable water systems does not exist, staff believes that the U&U equation for a WTP might reasonably be applied to a non-potable water system. Aquarina's non-potable water system is served by a single well. Pursuant to Rule 25-30.4325, F.A.C., a water treatment system is considered 100 percent U&U if the system is served by a single well. Therefore, staff recommends that Aquarina's non-potable water system be considered 100 percent U&U. Moreover, in Aquarina's 2003 rate case, the Utility's non-potable water distribution system was determined to be 100 percent U&U. Staff has not received any information that the non-potable water distribution system has been expanded. Therefore, staff recommends that the non-potable water distribution system be considered 100 percent U&U.

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<sup>7</sup> Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, *In re: Application for rate increase in Martin County by Indiantown Company, Inc.*

<sup>8</sup> Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, *In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.*

**Non-Potable Water Storage Used & Useful**

Similar to staff’s evaluation of Aquarina’s non-potable water system, staff recommends that the standards contained in Rule 25-30.4325, F.A.C., might reasonably be used to determine the U&U of the Utility’s non-potable water storage. Therefore, the U&U of Aquarina’s non-potable water system is  $((\text{Max Day} - \text{EUW} + \text{Fire Flow} + \text{Growth}) / \text{Firm Reliable Capacity})$ . For the Max Day staff relied on test year data and determined a value of 512,052 gallons based on a daily average for the peak month. Based on a response to a staff data request, the Utility is required to maintain 250,000 gallons for fire flow. Historic flows indicate negative growth since 2011, therefore, staff does not believe an adjustment for growth should be made. The FRC of the non-potable water storage is 1.25 million gallons.

Sufficient information was not available to determine EUW, therefore staff has no basis to support an adjustment for EUW. Based on the inputs discussed above, staff recommends that a U&U of 61 percent  $((512,052 - 0 + 250,000) / 1,250,000)$  for Aquarina’s non-potable water storage.

**Summary**

The following U&U percentages for water, wastewater, and non-potable systems should be considered in setting rates for Aquarina.

<b>Plant</b>	<b>U&amp;U Percentage</b>
Water Treatment Plant	81.0 Percent
Water Distribution	62.6 Percent
Water Plant Storage	46.7 Percent
Wastewater Plant	55.9 Percent
Wastewater Collection System	65.4 Percent
Non-Potable Plant	100 Percent
Non-Potable Distribution	100 Percent
Non-Potable Storage	61.0 Percent

Staff also recommends that no adjustments to operating expenses be made for EUW or excessive I&I.

**Issue 3:** What is the appropriate average test year potable water rate base, non-potable water rate base, and wastewater rate base for Aquarina?

**Recommendation:** The appropriate average test year potable water, non-potable water, and wastewater rate bases are \$170,153, \$172,587, and (\$2,091), respectively. (L. Smith, Lewis)

**Staff Analysis:** Aquarina’s net book value was last established in its 2012 transfer docket by Order No. PSC-12-0577-PAA-WS.<sup>9</sup> The test year ended December 31, 2014, was used for the instant case. A summary of each rate base component and recommended adjustments are discussed below.

**Utility Plant in Service (UPIS)**

The Utility recorded UPIS of \$1,907,336 for potable water, \$22,080 for non-potable water, and \$2,116,139 for wastewater. The staff audit identified several adjustments resulting in an increase to UPIS for potable water, non-potable water, and wastewater of \$49,635, \$905, and \$7,708 respectively. These adjustments are shown on Table 3-1, Table 3-2, and Table 3-3.

**Table 3-1**

Potable Water Audit Adjustments			
Acct.	Description	Adjustments	Reason for Adjustment
304	Structures & Improvements	\$210	Correct transfer amount posted in 2011
311	Pumping Equip.	1,820	Reclassify O&M Expense to capitalize to plant net of retirement
320	Water Treatment Equip.	5,559	Correct transfer amount posted in 2011
331	T&D Mains	2,188	Correct transfer amount posted in 2011
333	Services	158	Correct transfer amount posted in 2011
334	Meters & Meter Installations	(5,956)	Correct transfer amount posted in 2011
339	Other Plant & Misc. Equip.	899	Correct transfer amount posted in 2011
341	Transportation Equip.	40,596	To reflect the appropriate allocation between water and wastewater
343	Tools, Shop, & Garage Equip.	900	Reclassify O&M Expense to capitalize to plant
344	Lab Equip.	2,000	Reclassify O&M Expense to capitalize to plant
347	Misc. Equip.	1,261	Correct transfer amount posted in 2011
	Total Adjustments	<u>\$49,635</u>	

Source: Audit

**Table 3-2**

Non-Potable Water Audit Adjustment			
Acct.	Description	Adjustment	Reason for Adjustment
311	Pumping Equip.	\$905	Reclassify O&M Expense to capitalize to plant net of retirement

Source: Audit

<sup>9</sup> Order No. PSC-12-0577-PAA-WS, issued October 25, 2012, in Docket No. 110061-WS, *In re: Application for authority to transfer assets and Certificate Nos. 507-W and 450-S of Service Management Systems, Inc. to Aquarina, Inc. in Brevard County.*

**Table 3-3**

Wastewater Audit Adjustments			
Acct.	Description	Adjustments	Reason for Adjustment
354	Structures & Improvements	\$774	Correct transfer amount posted in 2011
360	Collection - Sewers Forced	2,872	To capitalize plant addition
364	Flow Measurement Devices	1,475	Reclassify O&M Expense to capitalize to plant
380	Treatment & Disposal Equip.	(8,077)	Correct transfer amount posted in 2011
390	Office Furniture & Equip.	(10,200)	To remove transfer
391	Transportation Equip.	20,298	To reflect the appropriate allocation between water and wastewater
394	Laboratory Equipment	565	Correct transfer amount posted in 2011
	Total Adjustments	<u>\$7,708</u>	

Source: Audit

In addition, staff made adjustments to UPIS by decreasing UPIS for potable water and increasing UPIS for non-potable water in order to match the amount of audited Contributions in Aid of Construction (CIAC) for the non-potable system. This resulted in a decrease to potable water UPIS and a corresponding increase to non-potable water UPIS of \$90,305. Staff then reduced UPIS for potable and non-potable water by \$36,324 and \$67,162, respectively, to retire CIAC accounts that were over-amortized.

Staff further reduced potable water UPIS and increased non-potable water UPIS by \$234,124 to reflect Commission-ordered adjustments.<sup>10</sup> Based on conversations with the Chief Operator of the Utility, staff reduced potable water and increased non-potable water by \$149,558, to impute Transmission and Distribution Mains for the non-potable system.

Staff also reduced wastewater UPIS and increased non-potable water UPIS by \$512,792 to reflect previous Commission-ordered adjustments.<sup>11</sup> Further, staff made averaging adjustments to decrease UPIS for potable water, non-potable water, and wastewater by \$2,329, \$31, and \$1,436, respectively.

### Pro Forma Plant

On July 6, 2015, the Utility submitted a request to replace several critical parts of its aging plant along with acquiring new system maps of its infrastructure.<sup>12</sup>

### Water Treatment Plant – Reverse Osmosis Skid

Aquarina requested replacement of its reverse osmosis skid due to its age. The Utility indicated that the unit has been in operation since 1984, it is fully depreciated and replacement parts are

<sup>10</sup> Order Nos. PSC-95-1417-FOF-WS, issued November 21, 1995, in Docket No. 941234-WS, *In re: Application for staff-assisted rate case in Brevard County by Aquarina Developments, Inc.* and PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, *In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.*

<sup>11</sup> Order No. PSC-95-1417-FOF-WS, issued November 21, 1995, in Docket No. 941234-WS, *In re: Application for staff-assisted rate case in Brevard County by Aquarina Developments, Inc.*

<sup>12</sup> See Document 04406-15 filed July 14, 2015.

becoming scarce. Aquarina additionally indicated that it requested quotes for service contracts on the system, but none were provided, even from the vendor that sold Aquarina the original system. Staff agrees with the Utility that it is prudent to replace its reverse osmosis skid at this time. The Utility provided five quotes from three manufactures ranging in price from \$42,637 to \$68,430. Aquarina selected the second to lowest bid based on the system's capacity to provide service to its existing and future customer base.<sup>13</sup> The final quote was \$52,232 and includes maintenance services.<sup>14</sup>

### **Distribution and Collection Systems – GIS Mapping**

Upon purchase, the Utility did not receive adequate records indicating the location and scope of its current distribution and collection systems. The maps and plans in the possession of the Utility do not represent the modifications and changes to the system up to this date. Aquarina stated that plans and diagrams are needed to delineate its three systems (potable, non-potable, and sewer). The maps and plans will also allow the Utility to respond to 811 Florida One-Call. Aquarina requested two quotes to perform system mapping. Only one party provided a quote to the Utility in the amount of \$76,768. Based on review of a previous rate case the quote appears to be reasonable.<sup>15</sup> Aquarina service area is larger and has three (two water distribution and a wastewater collection) systems while only wastewater service is provided by the referenced Utility in Docket No. 130178-SU.

### **Wastewater Treatment Plant – Catwalks & Sand Filter Blowers**

The catwalks inside the WWTP are rusted and need repair. Due to the safety concerns, Aquarina requested the replacement of the catwalks. During a plant visit on June 3, 2015, staff observed the condition of the catwalks and agrees that the catwalks should be replaced. A single quote of \$9,431 was provided to replace the catwalks. In addition, the operator stated the blowers for the sand filters needed to be replaced due to their age. During staff's site visit, the blowers appeared to be very aged and worn down by the coastal environment. Staff selected the lower of two quotes (\$5,446 and \$11,296) received to replace the sand filter air compressors.

### **Wastewater Treatment Plant – Blowers**

The Utility stated the WWTP blowers are aged and often need repair. After observing the condition of blowers, staff believes it is prudent for the Utility to replace the blowers to diminish the frequency of repair. The Utility received three quotes ranging from \$27,912 to \$71,500 to perform the requested work. The selected quote to replace the blowers is \$27,912.<sup>16</sup>

### **Meter Retirements and Safety Equipment**

Aquarina states several of its residential customer meters are not working properly and need to be replaced. Staff suggested to the Utility to incorporate a meter replacement program into its maintenance program. Based on the information provided by the Utility, staff expects the replacement of 40 meters per year at an estimated cost of \$2,800 per year. The Chief Operator of the Utility, stated approximately 100 meters have been replaced over the previous four years due to the corrosiveness of the environment with 20 meters still needing replacement as of August

<sup>13</sup> See Document 04356-15 filed July 13, 2015, p. 61.

<sup>14</sup> See Document 06654-15 filed October 19, 2015.

<sup>15</sup> Order No. PSC-16-0204-FOF-SU filed May 19, 2016.

<sup>16</sup> See Document 04356-15 filed July 13, 2015, p. 71.

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2015. The provided meter records indicate 17 residential water meters were replaced during 2014. Thus, it appears to be reasonable to allow the Utility to replace approximately of 20 potable and 20 non-potable water meters per year. In addition, the Utility included the cost of protective gear (cones, vests, helmets and boots) which staff agrees is necessary and appropriate for personnel safety.

As a result, staff made net adjustments increasing UPIS for potable water, non-potable water, and wastewater of \$5,896, \$2,774, and \$2,424, respectively, for these pro forma plant additions. Therefore, staff recommends that the appropriate UPIS balances are \$1,450,227 ( $\$1,907,336 + \$49,635 - \$90,305 - \$36,324 - \$234,124 - \$149,558 - \$2,329 + \$5,896$ ) for potable water, \$945,345 ( $\$22,080 + \$905 + \$90,305 - \$67,162 + \$234,124 + \$149,558 + \$512,792 - \$31 + \$2,774$ ) for non-potable water, and \$1,612,043 ( $\$2,116,139 + \$7,708 - \$512,792 - \$1,436 + \$2,424$ ) for wastewater.

### **Land & Land Rights**

The Utility recorded test year land values of \$62,080 for potable water and \$33,680 for wastewater. Based on staff's review, an adjustment was made to allocate a portion of land to non-potable water based on the ratio of potable to non-potable plant. Accordingly, staff reduced the balance for potable water and increased the balance for non-potable water by \$24,498. Therefore, staff recommends that the appropriate land balances are \$37,582 ( $\$62,080 - \$24,498$ ) for potable water and \$24,498 for non-potable water. No adjustment was required to the Utility's wastewater land balance of \$33,680.

### **Non-Used and Useful (U&U) Plant**

As discussed in Issue 2, the water treatment plant should be considered 81.0 percent U&U. The water treatment storage is calculated as 46.7 percent U&U and the water distribution system is 62.6 percent U&U. The non-potable storage tank should be considered 61.0 percent U&U. The wastewater treatment plant should be considered 55.9 percent U&U and the wastewater collection system should be considered 65.4 percent U&U. Based on these U&U percentages, staff has reduced potable water plant by \$490,147 and reduced potable water accumulated depreciation by \$416,953. Staff also reduced non-potable water plant and accumulated depreciation by \$199,989. Additionally, staff has reduced wastewater plant by \$480,926 and reduced accumulated depreciation by \$418,603. Based on the above, the non-U&U component is \$73,194 ( $\$490,147 - \$416,953$ ) for potable water, \$0 ( $\$199,989 - \$199,989$ ) for non-potable water, and \$62,323 ( $\$480,926 - \$418,603$ ) for wastewater, respectively.

### **Accumulated Depreciation**

The Utility recorded a test year Accumulated Depreciation balance of \$1,522,797 for potable water and \$1,866,188 for wastewater. No Accumulated Depreciation was recorded for non-potable water. The staff auditor recalculated Accumulated Depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and increased these accounts by \$10,652 for potable water and \$18,566 for wastewater. Staff made an adjustment to allocate the appropriate amount of Accumulated Depreciation to the non-potable water system. This adjustment resulted in a decrease to the balance for potable water and an increase to the balance for non-potable water of \$10,365.

Staff also made adjustments to Accumulated Depreciation to match the amount of the audited balances of Accumulated Amortization of CIAC. Staff therefore decreased Accumulated Depreciation for potable water and increased this account for non-potable water by \$99,758. Staff reduced Accumulated Depreciation for potable and non-potable water by \$52,420 and \$86,236, respectively, to reflect the retirements associated with the fully amortized CIAC accounts.

Staff further decreased Accumulated Depreciation for potable water and increased this account for non-potable water by \$202,514, and decreased wastewater and increased non-potable water by \$512,792 to reflect the Commission-ordered adjustments discussed in the UPIS section. Staff decreased Accumulated Depreciation for potable water and increased this account for non-potable water by \$67,369 to reflect the imputation of T&D Mains for the non-potable water system.

Staff made averaging adjustments that resulted in decreases of \$20,232 for potable water, \$265 for non-potable water, and \$14,814 for wastewater. Further, staff made adjustments based on pro forma plant additions and retirements resulting in a decrease of \$9,898 for potable water and \$923 for non-potable water, and an increase of \$45 for wastewater. Staff's adjustments result in Accumulated Depreciation balances of \$1,070,894 ( $\$1,522,797 + \$10,652 - \$10,365 - \$99,758 - \$52,420 - \$202,514 - \$67,369 - \$20,232 - \$9,898$ ) for potable water, \$805,374 ( $\$10,365 + \$99,758 - \$86,236 + \$202,514 + \$512,792 + \$67,369 - \$265 - \$923$ ) for non-potable water, and \$1,357,193 ( $\$1,866,188 + \$18,566 - \$512,792 - \$14,814 + \$45$ ) for wastewater.

### **Contributions In Aid of Construction (CIAC)**

The Utility recorded CIAC balances of \$483,149 for potable water and \$603,375 for wastewater. No CIAC was recorded for non-potable water. Based on the staff audit, potable water CIAC was decreased by \$95,372 and non-potable water was increased by \$107,222 to reflect the appropriate CIAC balances. Staff reduced CIAC for potable and non-potable water by \$36,324 and \$67,162, respectively, to reflect retirements staff made to CIAC accounts that were over-amortized. Averaging adjustments were made to decrease the balances for potable water by \$13,585, non-potable water by \$4,275, and wastewater by \$6,032. Therefore, staff recommends that the appropriate CIAC balances are \$337,868 ( $\$483,149 - \$95,372 - \$36,324 - \$13,585$ ) for potable water, \$35,785 ( $\$107,222 - \$67,162 - \$4,275$ ) for non-potable water, and \$597,343 ( $\$603,375 - \$6,032$ ) for wastewater.

### **Accumulated Amortization of CIAC**

The Utility recorded accumulated amortization of CIAC of \$276,662 for potable water and \$299,305 for wastewater. No accumulated amortization of CIAC was recorded for non-potable water. Accumulated amortization of CIAC has been recalculated by staff using composite depreciation rates. As a result, staff decreased the balance by \$70,242 for potable water, increased the balance by \$107,911 for non-potable water, and increased the balance for wastewater by \$58,562. Staff reduced this account for potable and non-potable by \$52,420 and \$86,236, respectively, associated with the CIAC retirements discussed above. Staff also decreased the balances by \$4,657 for potable water, \$1,564 for non-potable water, and \$7,758 for wastewater to reflect the appropriate averaging adjustments. Staff's recommended accumulated amortization of CIAC balances are \$149,343 ( $\$276,662 - \$70,242 - \$52,420 - \$4,657$ ) for potable

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water, \$20,111 (\$107,911 - \$86,236 - \$1,564) for non-potable water, and \$350,109 (\$299,305 + \$58,562 - \$7,758) 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(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$14,957 for potable water, \$23,792 for non-potable water and \$18,936 for wastewater.

### **Rate Base Summary**

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$170,153 for potable water, \$172,587 for non-potable water, and (\$2,091) for wastewater. Potable water, non-potable water, and wastewater rate bases are shown on Schedule Nos. 1-A, 1-B, and 1-C, respectively. The related adjustments are shown on Schedule No. 1-D.



**Issue 4:** What is the appropriate return on equity and overall rate of return for Aquarina Utilities, Inc.?

**Recommendation:** The appropriate return on equity (ROE) is 11.16 percent with a range of 10.16 percent to 12.16 percent. The appropriate overall rate of return is 3.66 percent. (L. Smith)

**Staff Analysis:** According to the staff audit, Aquarina's test year capital structure reflected negative common equity of \$505,064 and a long-term debt balance of \$863,346. Staff increased long-term debt by \$8,921 to correct the outstanding principal balance for a State Revolving Fund Loan on the Utility's general ledger. Staff further reduced long-term debt by \$425,516 and included it in common equity. This amount is included in the Utility's Annual Reports as "Advances from Associated Companies" and represents deferred payments to or cash infusions by the Utility owners and related parties. In accordance with Commission practice, staff further reduced the negative common equity to set it to zero.<sup>17</sup> The Utility recorded customer deposits of \$193. Staff reduced customer deposits by \$32 to reflect an averaging adjustment. Therefore, staff recommends a customer deposit balance of \$161 (\$193 - \$32) and a long-term debt balance of \$446,751 (\$863,346 + \$8,921 - \$425,516). Finally, the Utility's capital structure was reconciled with staff's recommended rate base.

The appropriate ROE for the Utility is 11.16 percent based upon the Commission-approved leverage formula currently in effect.<sup>18</sup> Staff recommends an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 3.66 percent. The ROE and overall rate of return are shown on Schedule No. 2.

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<sup>17</sup> See e.g., Order No. PSC-08-0483-PAA-WS, issued July 25, 2008, in Docket No. 070627-WU, *In re: Application for staff-assisted rate case in Lake County by Raintree Utilities, Inc.*

<sup>18</sup> Order No. PSC-16-0254-PAA-WS, issued June 29, 2016, in Docket No. 160006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

**Issue 5:** What are the appropriate test year revenues for Aquarina’s water and wastewater system?

**Recommendation:** The appropriate test year revenues for Aquarina’s water and wastewater systems are \$268,677 (\$170,848 potable + \$97,829 non-potable) and \$161,821, respectively. (Bruce)

**Staff Analysis:** Aquarina recorded total test year revenues of \$266,168 for water and \$160,261 for wastewater. The water revenues included \$263,949 of service revenues and \$2,219 of miscellaneous revenues. The wastewater revenues included \$159,976 of service revenues and \$285 of miscellaneous revenues. In order to determine the appropriate test year service revenues, staff normalized the number of bills by adjusting for customers moving in and out during the test year to reflect 12 months of bills. Based on staff’s review of the Utility’s billing determinants and the service rates that were in effect during the test year, staff determined test year service revenues should be \$264,604 for water and \$161,166 for wastewater. This results in increases of \$655 and \$1,190 for water and wastewater test year service revenues, respectively.

Staff also made adjustments to miscellaneous revenues for water and wastewater. The Utility recorded unsupported revenues to miscellaneous water revenues and improperly recorded late payment charges for wastewater. As discussed in Issue 12, staff increased the Utility’s miscellaneous service charges for water and wastewater to allow the cost causer to pay the cost associated with those services; therefore, staff annualized the Utility’s miscellaneous service revenues. For this reason, staff increased miscellaneous water service revenues by \$1,853 and increased miscellaneous wastewater service revenues by \$370. Table 5-1 below, represents a summary of staff’s adjustments for test year revenues.

**Table 5-1  
 Test Year Revenues**

	<b>Water*</b>	<b>Wastewater</b>
<b>Service Revenues</b>		
Utility Recorded Service Revenues	\$263,949	\$159,976
Staff’s Adjustment	\$ 655	\$1,190
<b>Total Service Revenues</b>	\$264,605	\$161,166
<b>Miscellaneous Revenues</b>		
Utility Recorded Miscellaneous Revenues	\$2,219	\$285
Staff’s Miscellaneous Revenue Adjustments	\$1,853	\$370
<b>Total Miscellaneous Revenues</b>	\$4,072	\$655
<b>Total Test Year Revenues</b>	\$ 268,677	\$161,821
* Includes both potable and non-potable revenues		

Source: Utility’s general ledger and staff’s calculations.

Based on the above, the appropriate test year revenues for Aquarina’s water and wastewater systems, including miscellaneous revenues are \$268,677 and \$161,821, respectively.

**Issue 6:** What is the appropriate test year water and wastewater operating expenses for Aquarina Utilities, Inc.?

**Recommendation:** The appropriate amount of operating expense for the Utility is \$152,028 for potable water, \$240,466 for non-potable water, and \$169,664 for wastewater. (L. Smith, Lewis)

**Staff Analysis:** Aquarina recorded operating expense of \$113,009 for potable water, \$170,010 for non-potable water, and \$146,926 for wastewater for the test year ended December 31, 2014. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made several adjustments to the Utility's operating expenses as summarized below.

## Operation and Maintenance Expenses

### Salaries and Wages for Employees (601/701)

Aquarina recorded Salaries and Wages for Employees expense of \$48,832 for potable water, \$74,014 for non-potable water, and \$61,423 for wastewater. Staff reduced potable water, non-potable water, and wastewater Salaries and Wages for Employees expense by \$1,707, \$2,587, and \$2,147, respectively. The adjustments are to normalize Salaries and Wages for Employees expense by removing payroll associated with two former employees that were not replaced by the Utility. Also, staff reduced potable water, non-potable water, and wastewater Salaries and Wages for Employees expense by \$183, \$278, and \$231, respectively, in order to remove an insurance reimbursement to an employee who no longer works for Aquarina and was not replaced. In addition, staff reduced potable water, non-potable water, and wastewater Salaries and Wages for Employees expense by \$4,807, \$7,286, and \$6,046, respectively, in order to remove unpaid salary accruals from outside the test year. Further, staff increased potable water, non-potable water, and wastewater Salaries and Wages for Employees expense by \$28,663, \$43,444, and \$36,053, respectively, to include three new maintenance workers that were requested by the Utility. Aquarina's facilities are more than 30 years old. The new employees are needed to help maintain the system and to respond to customer complaints. Staff believes the addition of three employees is reasonable and necessary.

All common O&M expenses were allocated between potable water and non-potable water based on the methodology described in the last rate case with the exception of accounts 632, 634, 635, 667, and 675.<sup>19</sup> Staff believes the expenses included in these accounts are either directly allocable or reflect fixed costs and has adjusted the percentages accordingly. The portions of the expenses that are fixed were allocated between potable water and non-potable water based on ERCs. The variable portion of these expenses are allocated based on gallons sold. This allocation method is shown on Attachment A. Therefore, staff recommends Salaries and Wages for Employees expenses of \$70,798 (\$48,832 - \$1,707 - \$183 - \$4,807 + \$28,663) for potable water, \$107,308 (\$74,014 - \$2,587 - \$278 - \$7,286 + \$43,444) for non-potable water, and \$89,052 (\$61,423 - \$2,147 - \$231 - \$6,046 + \$36,053) for wastewater.

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<sup>19</sup> Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, p. 40, in Docket No. 021228-WS, *In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.*

### **Employee Pension and Benefits (604/704)**

The Utility did not record any Employee Pension and Benefits expense. Staff increased potable water, non-potable water, and wastewater Employee Pension and Benefits expense by \$5,670, \$8,594, and \$7,132, respectively. These adjustments reclassify \$7,132 of insurance expense from Account 659/759 – Insurance Other and annualize that amount to provide health insurance for Aquarina’s two existing employees. The adjustments are based on an annualized premium of \$21,396 ( $\$7,132 / 4 \text{ months} \times 12 \text{ months}$ ). Staff also increased potable water, non-potable water, and wastewater Employee Pension and Benefits expense by \$5,446, \$8,254, and \$6,850, respectively, in order to include health insurance and workers compensation insurance for the three new maintenance employees. Therefore, staff recommends Employee Pension and Benefits expenses of \$11,116 ( $\$5,670 + \$5,446$ ) for potable water, \$16,848 ( $\$8,594 + \$8,254$ ) for non-potable water, and \$13,982 ( $\$7,132 + \$6,850$ ) for wastewater.

### **Purchased Power (615/715)**

The Utility recorded Purchased Power expense of \$3,180 for potable water, \$32,150 for non-potable water, and \$17,665 for wastewater. Staff increased the expense for potable and non-potable water by \$357 and \$3,609, respectively, and reduced wastewater expense by \$4,254 to recognize the following adjustments. Staff replaced the December 2013 electric bills that were included in the general ledger with the December 2014 electric bills resulting in a net increase of \$462, and removed a monthly allocation for office purchased power that ceased in May 2014 resulting in a decrease of \$750. The adjustments result in a net reduction of \$288 ( $\$462 - \$750$ ) to Purchased Power expense. Staff also directly charged a lift station power bill to wastewater Purchased Power expense and reallocated the total common purchased power from 66.67 percent for water and 33.33 percent for wastewater which was used by Aquarina to 75 percent for water and 25 percent for wastewater based on staff’s engineering evaluation of power usage allocation established in Order No. PSC-03-1342-PAA-WS. Therefore, staff recommends Purchased Power expenses of \$3,537 ( $\$3,180 + \$357$ ) for potable water, \$35,759 ( $\$32,150 + \$3,609$ ) for non-potable water, and \$13,411 ( $\$17,665 - \$4,254$ ) for wastewater.

### **Chemicals (618/718)**

The Utility recorded Chemical expense of \$1,564 for potable water, \$48 for non-potable water, and \$1,289 for wastewater. Staff has reviewed the invoices and charges to this account and finds this amount to be reasonable. Therefore, staff recommends Chemical expense of \$1,564 for potable water, \$48 for non-potable water, and \$1,289 for wastewater.

### **Materials and Supplies (620/720)**

The Utility recorded Materials and Supplies expense of \$6,424 for potable water, \$4,873 for non-potable water, and \$6,023 for wastewater. Staff increased Materials and Supplies expense for potable water, non-potable water, and wastewater by \$705, \$1,686, and \$1,196, respectively, to include reimbursement for an October miscellaneous expense voucher that was not posted to the general ledger. Staff also reduced Materials and Supplies expense for potable water by \$1,079 and non-potable water by \$2,578 to reclassify and capitalize to Account 311 – Pumping Equipment the cost to replace two 7 ½ horse power (hp) booster pumps at the water plant. Staff further reduced Materials and Supplies expense for potable water, non-potable water and wastewater expense by \$110, \$263, and \$186, respectively, to remove non-utility purchases in June and September of the test year. Therefore, staff recommends Materials and Supplies

expense of \$5,941 ( $\$6,424 + \$705 - \$1,079 - \$110$ ) for potable water, \$3,717 ( $\$4,873 + \$1,686 - \$2,578 - \$263$ ) for non-potable water, and \$7,033 ( $\$6,023 + \$1,196 - \$186$ ) for wastewater.

#### **Contractual Services - Professional (632/732)**

Aquarina recorded Contractual Services – Professional expense of \$3,807 for potable water, non-potable water, and wastewater. This account consists of expenses related to income tax and PSC Annual Report preparation. Staff reduced this account by \$533 ( $\$666 - \$133$ ) for potable water, non-potable water, and wastewater to remove accounting expenses associated with filing an extension for income taxes. Since this expense is non-recurring, staff has decreased this account by \$666 for potable water, non-potable water, and wastewater, to remove the expense and increased this expense by \$133 for potable water, non-potable water, and wastewater to amortize the amount over five years. Therefore, staff recommends Contractual Services Professional Expense of \$3,274 for potable water, non-potable water, and wastewater.

#### **Contractual Services – Management Fees (634/734)**

Aquarina recorded Contractual Services – Management Fees expense of \$1,930 for potable water, non-potable water, and wastewater. Staff believes this amount is reasonable, but would note that we are not recommending an increase related to payroll processing for the new employees requested by the Utility.

#### **Contractual Services - Testing (635/735)**

Aquarina recorded Contractual Services - Testing expense of \$669 for potable water and \$3,107 for wastewater. Staff reduced potable water by \$401 and wastewater by \$1,106. These adjustments remove non-utility testing expenses that were identified during the review of the contract vendors' invoices for testing services. Therefore, staff recommends Contractual Services – Testing expenses of \$268 ( $\$669 - \$401$ ) for potable water and \$2,001 ( $\$3,107 - \$1,106$ ) for wastewater.

#### **Contractual Services - Other (636/736)**

Aquarina recorded Contractual Services - Other expense of \$2,737 for potable water, \$6,541 for non-potable water, and \$2,154 for wastewater. Staff reduced non-potable water expense by \$3,620 to reclassify and capitalize to Account 311 – Pumping Equipment, the cost to replace a 75-hp non-potable well pump at the water plant. Staff increased potable water by \$2,703 and non-potable water by \$720 to include contract labor to service the potable booster pumps shown on an October miscellaneous expense voucher that was not posted to the general ledger.

Staff also increased this expense for potable water by \$1,160, for non-potable water by \$36, and wastewater by \$298 to reflect an amortized amount of pro forma repairs. Since this increase is non-recurring, staff has amortized this amount over five years in accordance with Rule 25-30.433(8), F.A.C. Staff also reduced this expense by \$783 for potable water, \$1,872 for non-potable water, and \$390 for wastewater to remove charges for meter reading that will be performed by one of the new employees covered earlier.

Staff further reduced this expense by \$183 for potable water, \$437 for non-potable water, and \$584 for wastewater to remove and amortize non-recurring expenses in this account. Therefore, staff recommends Contractual Services – Other expense of \$5,634 ( $\$2,737 + \$2,703 + \$1,160 - \$783 - \$183$ ) for potable water, \$1,368 ( $\$6,541 - \$3,620 + \$720 + \$36 - \$1,872 - \$437$ ) for non-potable water, and \$1,478 ( $\$2,154 + \$298 - \$390 - \$584$ ) for wastewater.

### **Rental of Building/Property 641/741)**

Aquarina recorded Rental of Building/Property expense of \$334 for potable and non-potable water, and \$333 for wastewater. Staff decreased this expense for potable and non-potable water by \$334, and wastewater expense by \$333 for the test year. This adjustment removes the 2014 office rental expense for an office at the owner's home. That office is no longer needed as the Utility now has an onsite office. Staff then increased Rental of Building/Property expense by \$3,000 for potable water, non-potable water, and wastewater to reflect the rental of 1,200 square feet of a 2,400 square foot maintenance/storage building on the owner's property. This represents a price per square foot of \$0.63. While related party transactions require close scrutiny, the fact that the transaction is between related parties does not mean that the transaction is unreasonable. However, it is a Utility's burden to prove that its costs are reasonable.<sup>20</sup> The burden is even greater when the transaction is between related parties. The Florida Supreme Court established that the standard to use in evaluating affiliate transactions is whether those transactions exceed the going market rate or are otherwise inherently unfair.<sup>21</sup> Based on its analysis, staff reduced Rental of Building/Property expense by \$396 for potable water, non-potable water, and wastewater to reflect a price per square foot of \$0.54. This price was derived by taking the average rental price for seven similarly sized warehouse rentals in the City of Melbourne. Thus, staff recommends Rental of Building/Property expense of \$2,604 ( $\$334 - \$334 + \$3,000 - \$396$ ) for potable and non-potable water, and \$2,604 ( $\$333 - \$333 + \$3,000 - \$396$ ) for wastewater.

### **Rental of Equipment (642/742)**

Aquarina recorded Rental of Equipment expense of \$7,800 for potable water, non-potable water, and wastewater. The owners of the Utility own this equipment and lease it to the Utility. Staff reduced this expense for potable water, non-potable water, and wastewater by \$7,800 for the test year.<sup>22</sup> These adjustments remove 2014 water and wastewater annual equipment lease expenses. Staff then increased Rental of Equipment expense by \$6,000 for potable water, non-potable water, and wastewater to include the 2015 water and wastewater lease expense. Staff further reduced Rental of Equipment expense by \$1,200 for potable water, non-potable water, and wastewater. This adjustment removes the lease for a lawn mower because Aquarina has now purchased a mower. This adjustment also includes a reduction to a separate lawn equipment lease. This adjustments further removes the electric golf cart and dump trailer which were deemed to be duplicative given the other equipment already rented by the Utility. Thus, staff recommends Rental of Equipment expense of \$4,800 ( $\$7,800 - \$7,800 + \$6,000 - \$1,200$ ) for potable water, non-potable water, and wastewater.

### **Transportation Expense (650/750)**

Aquarina recorded Transportation expense of \$3,731 for potable water, \$8,917 for non-potable water, and \$6,520 for wastewater. During the test year, Aquarina paid \$3,518 for mileage reimbursements to its employees and contractors.

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<sup>20</sup> *Florida Power Corp. v. Cresse*, 413 So. 2d 1187, 1191 (Fla. 1982).

<sup>21</sup> *GTE Florida Inc. v. Deason*, 642 So. 2d 545 (Fla. 1994). (Court applying higher standard.).

<sup>22</sup> Staff's analysis included comparing lease amounts to a rate of return methodology.

Date: October 20, 2016

The office manager uses her personal vehicle to travel to and from the bank, post office, and for other related duties. She estimated her monthly mileage to be 645 miles based on historical documents. Accordingly, staff believes the mileage estimate is reasonable given the remote location of the Utility with respect to commercial centers of business, such as the bank and post office. Staff recommends the office manager be reimbursed for the business use of her personal vehicle at the IRS 2015 mileage rate of \$0.575 applied to an annual estimate of 7,740 miles (645 miles per month x 12 months). This results in an annual amount of \$4,451 (7,740 x \$0.575). Therefore, staff has made a net increase to Transportation expense of \$933 (\$4,451 - \$3,518), allocated at \$183 for potable water, \$439 for non-potable water, and \$311 for wastewater.

The fuel portion of the Transportation expense was reduced by \$733 for potable water, \$1,752 for non-potable water, and \$1,242 for wastewater to remove reimbursement for non-utility purchases. Staff also reduced Transportation expense by \$292 for potable water, \$699 for non-potable water, and \$496 for wastewater to remove repairs for non-utility vehicles. Further, staff removed expenses of \$148 for potable water, \$352 for non-potable water, and \$250 for wastewater related to unsupported costs for airline tickets. Therefore, staff recommends Transportation expense of \$2,742 (\$3,731 + \$183 - \$733 - \$292 - \$148) for potable water, \$6,552 (\$8,917 + \$439 - \$1,752 - \$699 - \$352) for non-potable water, and \$4,843 (\$6,520 + \$311 - \$1,242 - \$496 - \$250) for wastewater.

#### **Insurance - Vehicles (656/756)**

Aquarina recorded Insurance - Vehicle expense of \$1,728 for potable water, non-potable water, and wastewater. Staff reduced Insurance - Vehicle expense for potable water, non-potable water, and wastewater by \$1,162 to remove the 2015 vehicle insurance premiums associated with the electric-powered golf cart and the dump trailer. Therefore, staff recommends Insurance - Vehicle expense of \$566 (\$1,728 - \$1,162) for potable water, non-potable water, and wastewater.

#### **Insurance - General Liability (657/757)**

Aquarina recorded Insurance - General Liability expense of \$2,624 for potable water, non-potable water, and wastewater. Staff reduced potable water and non-potable water by \$10, and wastewater expense by \$11 to remove the 2014 premium and include the 2015 general liability insurance premiums to reflect the actual going-forward cost for Aquarina. Therefore, staff recommends Insurance - General Liability expense of \$2,614 (\$2,624 - \$10) for potable water and non-potable water, and \$2,613 (\$2,624 - \$11) for wastewater.

#### **Insurance - Other Expense (659/759)**

Aquarina recorded Insurance - Other expense of \$2,378 for potable water and non-potable water, and \$2,377 for wastewater. Staff reduced Insurance - Other expense by \$2,378 for potable water and non-potable water, and \$2,377 for wastewater, to remove the 2014 employee health insurance premiums that were reclassified to Account 604/704 – Employee Pension and Benefits expense.

#### **Regulatory Commission Expense (667/767)**

Aquarina recorded Regulatory Commission expense of \$25 for potable water and non-potable water, and \$50 for wastewater. Staff reduced potable water and non-potable water by \$25 and reduced wastewater expense by \$50 to reclassify the Department of Environmental Regulation

(DEP) permit fees to Accounts 675/775 – Miscellaneous expense. By Rule 25-22.0407, F.A.C., the Utility is required to mail notices of the customer meeting and notices of the Phase I and final rates in this case to its customers. For these notices, staff has estimated \$581 for postage, \$406 for printing, and \$61 for envelopes. Additionally, Aquarina paid a \$2,000 rate case filing fee. The Utility also provided invoices and estimates for legal fees of \$7,670. This work relates to data requests, reviewing staff's report and recommendation, and attending the agenda conference. Staff reviewed the billing rates and hours for this expense. Staff reduced the estimated attorney's fees by \$1,440 (4 hours at \$360 per hour) in order to split the estimated driving time to attend the Commission Conference with another Utility is representing on the same Commission Conference. Based on the above, staff recommends that the total Regulatory Commission expense is \$9,277, which amortized over four years is \$2,319. This results in a Regulatory Commission expense of \$773 for potable water, non-potable water, and wastewater.

### **Miscellaneous Expense (675/775)**

Aquarina recorded Miscellaneous expense of \$4,239 for potable water, \$4,239 for non-potable water, and \$7,116 for wastewater, respectively. Staff made a net reduction to Miscellaneous expense of \$2,253 for potable water, non-potable water, and wastewater. This resulted from removing \$9,835 currently in these accounts for telephone and internet expenses and including \$2,760 for the going-forward annual cost of one internet and business telephone provider, as well as two cellular telephones used by Aquarina's full-time employees.

Staff also reduced wastewater expense by \$2,872 to reclassify and capitalize to Account 360 – Collection Sewers – Force the cost to refurbish the master lift station pumps. Staff increased this expense for potable water and non-potable water by \$376 and wastewater by \$375, to include reimbursements for an October miscellaneous expense voucher that was not posted to the general ledger. Staff further reduced this expense for potable water, non-potable water, and wastewater by \$970 to remove reimbursements for non-utility meal purchases. Staff further increased this expense by \$34 for potable water, and by \$33 for non-potable water and wastewater to reclassify DEP permit fees that were recorded in Accounts 667/767 – Regulatory Commission expense. Staff therefore recommends a Miscellaneous Expense of \$1,425 ( $\$4,239 - \$2,253 + \$376 - \$970 + \$34$ ) for potable water, \$1,424 ( $\$4,239 - \$2,253 + \$376 - \$970 + \$33$ ) for non-potable water, and \$1,429 ( $\$7,116 - \$2,253 - \$2,872 + \$375 - \$970 + \$33$ ) for wastewater.

### **Operation and Maintenance Expenses Summary**

Based on the above, staff recommends that the O&M expense balances are \$119,658 for potable water, \$190,332 for non-potable water, and \$151,489 for wastewater. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A through 3-E.

### **Depreciation Expense**

Aquarina did not record any Depreciation expense for the test year. Staff recalculated Depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff calculated Depreciation expense of \$45,851 for potable water, \$601 for non-potable water, and \$28,200 for wastewater, for the test year. Staff has decreased Depreciation expense for potable water and increased this expense for non-potable water by \$9,782 to reflect the reclassification of UPIS from the potable to the non-potable water system. Staff also reduced this expense for



potable water and increased it for non-potable by \$3,576 to reflect the imputation of the T&D Mains discussed above.

Staff also increased Depreciation expense for non-potable water and decreased this expense for wastewater by \$12,820 to reflect the reclassification of the non-potable water tank. Staff also decreased Depreciation expense for potable water by \$908 and non-potable by \$2,150 to reflect the retirements associated with CIAC.

Staff has increased Depreciation expense by \$163 for potable water, \$127 for non-potable water, and \$45 for wastewater, to reflect Depreciation expense related to pro forma plant additions. Based on the U&U percentages addressed in Issue 2, staff has decreased Depreciation expense by \$10,950 for potable water, and by \$4,419 for wastewater. Based on the above, Aquarina's Depreciation expense is \$20,797 ( $\$45,851 - \$9,782 - \$3,576 - \$908 + \$163 - \$10,950$ ) for potable water, \$24,757 ( $\$601 + \$9,782 + \$3,576 + \$12,820 - \$2,150 + \$127$ ) for non-potable water, and \$11,006 ( $\$28,200 - \$12,820 + \$45 - \$4,419$ ) for wastewater.

### **CIAC Amortization Expense**

Aquarina did not record any CIAC Amortization expense for the test year. Based on staff's audit calculations, the Utility CIAC Amortization expenses are \$9,758 for potable water, \$2,684 for non-potable water, and \$15,514 for wastewater. As discussed in Issue 3, staff has reduced these amounts by \$908 for potable water and by \$2,150 for non-potable water to reflect retirements. Therefore, staff recommends CIAC Amortization expense of \$8,849 ( $\$9,758 - \$908$ ) for potable water, \$534 ( $\$2,684 - \$2,150$ ) for non-potable water, and \$15,514 for wastewater.

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

Aquarina recorded TOTI of \$19,493 for potable water, \$16,413 for non-potable water, and \$19,126 for wastewater. Staff has decreased property taxes by \$118 for potable water, non-potable water, and wastewater to reflect the appropriate test year property taxes. Staff also decreased payroll taxes by \$130 for potable water, \$198 for non-potable water, and \$164 for wastewater to remove the payroll taxes associated with the adjustment to salaries described in Staff's Audit Finding No. 8. Additionally, staff increased payroll taxes by \$2,527 for potable water, \$3,830 for non-potable water, and \$3,178 for wastewater to reflect the payroll taxes associated with the new employees described above.

Further, staff increased regulatory assessment fees (RAFs) by \$108 for potable water, \$62 for non-potable water, and \$134 for wastewater to reflect the 2014 RAFs. In addition, staff increased property taxes by \$91 for potable water, \$43 for non-potable water, and \$38 for wastewater to reflect pro forma property taxes. Staff reduced property taxes by \$980 for potable water, by \$825 for non-potable water, and \$314 for wastewater associated with the recommended non-U&U components. Finally, as discussed in Issues 7 and 9, revenues have been decreased by \$12,593 for potable water, increased by \$148,954 for non-potable water and \$17,842 for wastewater, to reflect the change in revenue required to cover expenses and allow an opportunity to earn the recommended return on investment. As a result, RAFs should be decreased by \$567 for potable water, and increased by \$6,703 for non-potable water and \$803 for wastewater to reflect RAFs of 4.5 percent on the change in revenues. Based on these adjustments, the recommended TOTI

expenses for potable water, non-potable water, and wastewater are \$20,423, \$25,911, and \$22,683, respectively.

### **Income Tax Expense**

Aquarina recorded \$1,442 for Income Tax expense for potable water, non-potable water, and wastewater. Staff reduced this amount to zero based on the staff audit. Aquarina has shown a net loss for the last several years in its Annual Reports and income tax returns. This tax loss carry-forward is in excess of the income tax provision on a going-forward basis, and is expected to continue to be so for at least the next 10 years. In this instance, it is Commission practice to allow no provision for income tax.<sup>23</sup> Therefore, staff recommends no income tax provision.

### **Operating Expenses Summary**

The application of staff's recommended adjustments to Aquarina's test year operating expenses result in operating expenses of \$152,028 for potable water, \$240,466 for non-potable water, and \$169,664 for wastewater. Operating expenses are shown on Schedule Nos. 3-A, 3-B, and 3-C. The related adjustments are shown on Schedule Nos. 3-D, 3-E, and 3-F.

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<sup>23</sup> See e.g., Order Nos. PSC-15-0535-PAA-WU, issued November 19, 2015, in Docket No. 140217-WU, *In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.*; and PSC-10-0124-PAA-WU, issued March 1, 2010, in Docket No. 090244-WU, *In re: Application for staff-assisted rate case in Lake County by TLP Water, Inc.*

**Issue 7:** What is the appropriate revenue requirement for potable and non-potable water?

**Recommendation:** The appropriate revenue requirement is \$158,255 for potable water, resulting in an annual decrease of \$12,593 (or -7.37 percent). The appropriate revenue requirement is \$246,783 for non-potable water, resulting in an annual increase of \$148,954 (or 152.26 percent). (L. Smith)

**Staff Analysis:** The appropriate revenue requirement for the potable system results in a decrease of \$12,593 (or -7.37 percent). However, staff recommends not changing revenues for the potable system and the disposition of the revenue decrease will be addressed in Issue 10. The calculations are shown in Tables 7-1 and 7-2 for potable water and non-potable water, respectively. Aquarina should be allowed an annual increase of \$148,954 (or 152.26 percent) for non-potable water. This increase will allow the Utility the opportunity to recover its expenses and earn a 3.66 percent return on the investment for the non-potable water system.

**Table 7-1**

Potable Water Revenue Requirement	
Adjusted Rate Base	\$170,153
Rate of Return	<u>x 3.66%</u>
Return on Rate Base	\$6,226
Adjusted O&M Expense	119,658
Depreciation Expense	20,797
CIAC Amortization Expense	(8,849)
Taxes Other Than Income	20,990
Test Year RAFs	<u>(7,688)</u>
Revenue Before RAFs	\$151,134
RAF Gross-up Factor	<u>x 0.955</u>
Total Revenues	\$158,255
Less Adjusted Test Year Revenues	<u>170,848</u>
Annual Increase	<u>(\$12,593)</u>
Percent Increase	<u>-7.37%</u>

**Table 7-2**

Non-Potable Water Revenue Requirement	
Adjusted Rate Base	\$172,587
Rate of Return	<u>x 3.66%</u>
Return on Rate Base	\$6,317
Adjusted O&M Expense	190,332
Depreciation Expense	24,757
CIAC Amortization Expense	(534)
Taxes Other Than Income	19,208
Test Year RAFs	<u>(4,402)</u>
Revenues Before RAFs	\$235,678
RAF Gross-up Factor	<u>x 0.955</u>
Total Revenues	\$246,783
Less Adjusted Test Year Revenues	<u>97,829</u>
Annual Increase	<u>\$148,954</u>
Percent Increase	<u>152.26%</u>

**Issue 8:** Should the Commission utilize the operating ratio methodology as an alternative means to calculate the wastewater revenue requirement for Aquarina, and, if so, what is the appropriate margin?

**Recommendation:** Yes. The Commission should utilize the operating ratio methodology for calculating wastewater revenue requirement for Aquarina. The margin should be 6.60 percent of O&M expenses. (L. Smith)

**Staff Analysis:** Section 367.0814(9), F.S., provides that the Commission may, by rule, establish standards and procedures for setting rates and charges of small utilities using criteria other than those set forth in Sections 367.081(1), (2)(a), and (3), F.S. Further, Rule 25-30.456, F.A.C., provides, in part, as an alternative to a staff-assisted rate case as described in Rule 25-30.455, F.A.C., that water utilities whose total gross annual operating revenues are less than \$275,000 per system may petition the Commission for staff assistance using alternative rate setting.

Although the Utility did not petition the Commission for alternative rate setting under the aforementioned rule, staff believes the Commission should exercise its discretion to employ the operating ratio methodology to set wastewater rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the Utility's rate base, the revenue requirement is based on Aquarina's wastewater O&M expenses plus a margin. This methodology has been applied in cases that satisfy the qualifying criteria discussed below and cases in which the traditional calculation of the revenue requirement would not provide sufficient protection against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU, the Commission, for the first time, utilized the operating ratio methodology as an alternative means for setting rates.<sup>24</sup> This order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expenses capped at \$10,000. This criterion was applied again in Order No. PSC-97-0130-FOF-SU.<sup>25</sup> Recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-15-0535-PAA-WU.<sup>26</sup>

By Order No. PSC-96-0357-FOF-WU, the Commission established criteria to determine whether to utilize the operating ratio methodology for those utilities with low or non-existent rate base. The qualifying criteria established by Order No. PSC-96-0357-FOF-WU and how they apply to the Utility are discussed below:

**1) Whether the Utility's O&M expenses exceeds rate base.** The operating ratio method substitutes O&M expenses for rate base in calculating the amount of return. A utility generally

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<sup>24</sup> Issued March 13, 1996, in Docket No. 950641-WU, *In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.*

<sup>25</sup> Issued February 10, 1997, in Docket No. 960561-SU, *In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.*

<sup>26</sup> Issued November 19, 2015, in Docket No. 140217-WU, *In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.*

would not benefit from the operating ratio method if rate base exceeds O&M expenses. The decision to use the operating ratio method depends partly on the determination of whether the primary risk resides in capital costs or operating expenses. In the instant case, the Utility has a negative rate base and under traditional rate base regulation, Aquarina would not be entitled to any return on investment. Based on the staff's recommendation, the adjusted wastewater rate base for the test year is (\$2,091), while adjusted wastewater O&M expenses are \$151,489. The Utility's primary risk resides with covering its operating expense.

**2) Whether the Utility is expected to become a Class B Utility in the foreseeable future.** Pursuant to Rule 25-30.456, F.A.C., the alternative form of regulation being considered in this case only applies to small utilities with gross annual revenue of \$275,000 or less. Even though Aquarina is a Class B Utility, the recommended wastewater revenue requirement of \$179,663 is well below the threshold level for Class B status (\$200,000 per system).

**3) Quality of service and condition of plant.** As discussed in Issue 1, staff has recommended that the quality of service is satisfactory.

**4) Whether the Utility is developer-owned.** Aquarina is not owned by the developer. This Utility was established almost 30 years ago, and there has been no significant growth in years. Staff does not anticipate any significant growth in the foreseeable future.

**5) Whether the Utility operates treatment facilities or is simply a distribution and/or collection system.** The issue in general is whether purchased water and/or wastewater costs should be excluded in the computation of the operating margin. Aquarina operates the wastewater treatment plant. Therefore, there is no concern regarding excluding purchased wastewater costs. Based on staff's review of Aquarina's situation relative to the above criteria, staff recommends that the Utility is a viable candidate for the operating ratio methodology.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU<sup>27</sup>, the Commission determined that a margin of 10 percent shall be used unless unique circumstances justify the use of a greater or lesser margin. In addition, this order suggested a cap of \$10,000. The important question is not what the percentage should be, but what level of operating margin will allow a utility to provide safe and reliable service and remain a viable entity. In order to answer this question, the particular circumstances of a utility must be reviewed and considered thoroughly.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenue for a utility to cover its interest expense.

Second, the use of the operating ratio methodology rests on the contention that the principal risk to a utility resides in operating costs rather than in cost of the plant. The fair return on a small rate base may not adequately compensate a utility owner for incurring the risk associated with covering the much larger operating cost. Therefore, staff believes the margin should adequately compensate the utility owner for the principal risk, which lies with the operating costs.

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<sup>27</sup> Issued February 10, 1999, in Docket No. 960561-WU, *In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.*

Third, in consideration of Aquarina's capital structure being 99.95 percent long-term debt, with an overall cost of capital of 3.66 percent, staff believes that an operating margin of 6.60 percent, which equates to the cap of \$10,000, is appropriate. Staff believes this would be sufficient to cover debt service obligations associated with regulated operations and provide protection against variability in revenues and expenses.

**Conclusion**

The above factors show that the Utility needs a higher margin of revenue over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide Aquarina with adequate cash flow to provide some assurance of safe and reliable service, staff recommends application of the operating ratio methodology at a margin of 6.60 percent of O&M expenses for determining the wastewater revenue requirement.

**Issue 9:** What is the appropriate wastewater revenue requirement?

**Recommendation:** The appropriate wastewater revenue requirement is \$179,094, resulting in an annual increase of \$17,273 (or 10.67 percent). (L. Smith)

**Staff Analysis:** Aquarina should be allowed an annual increase of \$17,842 (or 11.03 percent) for wastewater. This will allow the Utility the opportunity to recover its expenses and earn a 6.60 percent margin over its wastewater system’s operating and maintenance expenses. The calculations are shown in Table 9-1.

**Table 9-1**

Wastewater Revenue Requirement	
O&M Expenses	\$151,489
Operating Ratio	<u>x 6.60%</u>
Operating Margin	\$10,000
Adjusted O&M Expense	151,489
Depreciation Expense	11,006
CIAC Amortization Expense	(15,514)
Taxes Other Than Income	21,880
Test Year RAFs	<u>(7,282)</u>
Revenue Before RAFs	\$171,579
RAF Gross-Up Factor	<u>x 0.955</u>
Total Revenues	\$179,663
Less Adjusted Test Year Revenues	<u>161,821</u>
Annual Increase (Decrease)	<u>\$17,842</u>
Percent Increase (Decrease)	<u>11.03%</u>



**Issue 10:** What are the appropriate rate structures and rates for Aquarina's water and wastewater systems?

**Recommendation:** The recommended rate structures and monthly water 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. (Bruce)

**Staff Analysis: Water Rates (Potable)**

Aquarina is located in Brevard County within the St. Johns River Water Management District (SJRWMD). The Utility provides water service to approximately 271 residential customers and 25 general service customers including master-metered developments, clubhouses, and a fire station. Typically, staff evaluates the seasonality of utility customers based on the percentage of bills at zero gallons, which is 13 percent. However, for this Utility, the customers are in residence periodically throughout each month rather than a few months out of the year. Therefore, staff believes it is appropriate to evaluate the seasonality based on the percentage of bills at the 1,000 gallon level, which is 36 percent. As a result, it appears that the customer base is somewhat seasonal. The average residential water demand is 2,150 gallons per month. The average water demand excluding zero gallon bills is 2,479 per month. Currently, the Utility's water rate structure consists of a monthly base facility charge (BFC) and uniform gallonage charge for the residential and general service customers.

As discussed in Issue 7, the potable water system is overearning by 7.37 percent (or \$12,593). To the extent possible, when there are overearnings for a water and wastewater system, staff believes it is appropriate to avoid decreasing water rates by netting the revenues of the systems if the customer bases are similar. Staff believes decreasing the potable water rates undermine conservation efforts. In this case, there is a minimal difference in the potable water and wastewater customer bases. There are 296 potable customers and 311 wastewater customers, which is a difference of 15 customers (approximately 5 percent). Due to the low percentage difference between potable water and wastewater customers, staff believes it is appropriate to net the water system overearnings against the wastewater system increase. This will allow the water rates to remain unchanged rather than decrease. Furthermore, since staff is recommending the rates remain unchanged, a repression adjustment is not appropriate in this case.

**Irrigation Rates (Non-Potable)**

The Utility provides irrigation service to approximately 107 residential and general service customers including a golf course and master-metered irrigation systems through a non-potable system. Although the customer base is seasonal, the customers irrigate while out of residence. The average non-potable water demand is 97,325 gallons per month. The groundwater is pumped from a dedicated well and piped directly to irrigation customers without treatment. The current

rate structure consists of a gallonage charge only and no base facility charge because the Utility was unable to locate the various meters.<sup>28</sup>

Staff evaluated whether a gallonage charge only rate structure is appropriate on a going-forward basis. In this case, the Utility was able to locate all irrigation meters. Staff believes that it is appropriate to implement a BFC and uniform gallonage charge for irrigation customers to provide a fixed revenue stream while sending the appropriate pricing signals to target those customers with high levels of consumption. Therefore, staff recommends 30 percent of the non-potable revenues be allocated to the BFC for ratesetting purposes. This will allow lower bills for irrigation and promote the continued use of non-potable water for irrigation purposes.

### **Wastewater Rates**

The Utility provides wastewater service to approximately 269 residential customers and 19 general service customers who also receive water service from Aquarina. The Utility also provides wastewater only service to 23 residential customers who receive their water service from the South Brevard Water Cooperative. Currently, the wastewater rate structure for residential customers consists of a monthly uniform BFC for all meter sizes and a gallonage charge with an 8,000 gallon cap. The wastewater-only customers are billed a flat rate, which reflects approximately 2,622 gallons per month of demand. General service customers are billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

As discussed earlier, staff recommends netting the potable water system's overearnings against the wastewater system's increase to avoid a decrease in rates. Netting the potable water and wastewater systems' revenues results in an increase of 3.25 percent for the wastewater system. However, a 3.15 percent increase reflects the recommended revenue increase excluding miscellaneous revenue. Due to the low overall increase for wastewater, staff recommends an across-the-board increase of 3.15 to the existing rates.

### **Summary**

Based on the above, staff recommends that the potable water system overearnings be netted against the wastewater system increase. The potable water rate structure and rates should remain unchanged. Staff recommends a BFC and uniform gallonage charge rate structure with 30 percent of the revenues allocated to the BFC for non-potable water. The wastewater rate structure should be an across-the-board increase to the existing rates.

The recommended rate structures and monthly water 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

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<sup>28</sup>Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, *In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.*, p. 45.

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 in four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S?<sup>29</sup>

**Recommendation:** The water and wastewater 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 four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Aquarina should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Bruce, L. Smith)

**Staff Analysis:** Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. This results in a reduction of \$813 for potable water, \$813 for non-potable water, and \$810 for wastewater.

The water and wastewater 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 four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Aquarina should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

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<sup>29</sup> Section 367.0816, F.S., was repealed effective July 1, 2016. The Statute was in effect at the time Aquarina filed its staff-assisted rate case, therefore, the Statute applies.

**Issue 12:** Should Aquarina's miscellaneous service charges be revised?

**Recommendation:** Yes. Aquarina's miscellaneous service charges should be revised. The charges should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges 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:** Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. During the course of this proceeding, the Utility requested a \$25 meter box maintenance charge, \$40 meter lock-off charge, and a \$200 emergency call out charge. The Utility provided cost justification in support of its requested charges. Although titled differently by the Utility, staff believes the Utility's proposed charges are consistent with the services provided under its existing miscellaneous service charges as provided in Rule 25-30.460, F.A.C.

Aquarina's current initial connection, normal reconnection, premises visit, and violation reconnection charges were last established on November 27, 1990.<sup>30</sup> However, in reviewing the Utility's cost justification for the proposed charges, staff determined that the existing miscellaneous service charges may not adequately recover the cost of the respective service. Staff believes that the cost justification provided for the requested charges is consistent with the information needed to update the Utility's existing miscellaneous service charges. The charges are designed to ensure that as these services are provided by the Utility, the cost burden is placed on the cost causer consistent with Commission practice. The changes and additions to the Utility's miscellaneous service charges are discussed below.

### **Initial Connection Charge**

Currently, the Utility's initial connection charge is \$15 for water and wastewater. The initial connection charge is levied for service initiation at a location where service did not exist previously. The Utility representative makes one trip when performing the service of an initial connection. While the Utility did not specifically request an increase in the initial connection charge, based on labor and transportation to and from the service territory, staff recommends initial connection charges of \$26 and \$32 for normal and after hours, respectively for water and wastewater service. Staff's calculation is shown below in Table 12-1.

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<sup>30</sup>Order No. 23812, issued November 27, 1990, in Docket No. 900168-WS, *In re: Application for a staff-assisted rate case in Brevard County by Aquarina Developments, Inc.*

**Table 12-1  
 Initial Connection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00	Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00
Labor (Field) (\$36/hr x 1/3 hr)	\$12.00	Labor (Field) (\$54/hr x 1/3hr)	\$18.00
Transportation (\$.54/mile x 10 miles-to/from)	\$5.40	Transportation (\$.54/mile x 10 miles-to/from)	\$5.40
<b>Total</b>	<b>\$26.40</b>	<b>Total</b>	<b>\$32.40</b>

Source: Utility's cost justification documentation.

**Normal Reconnection Charge**

The Utility's existing normal reconnection charge is \$15 for water and wastewater. Normal reconnection is a charge to be levied for the transfer of service to a new customer account at a previously served location, or reconnection of service subsequent to a customer requested disconnection. A normal reconnection requires two trips, which includes one to turn service on and the other to turn service off.

The Utility requested a \$40 meter lock-off charge. The majority of Aquarina's customer base is seasonal and the Utility encourages the customers to have their meter locked off to avoid any potential excessive water losses when they are not in residence. The Utility indicated that there is a fair amount of water from theft, running toilets, and damaged water heaters. The Utility believes it is a legitimate service to offer and requested a charge of \$25, which includes a premises visit and its existing normal reconnection charge. Subsequent to its original requested charge of \$25, Aquarina revised its requested meter box lock-off charge to \$40, which includes two premises visits of \$10, a normal reconnection charge of \$15, and \$5 to cover the expense of the lock.

Staff believes the Utility could use its normal reconnection charge to achieve the same result without any special designation for meter box lock-off. As stated earlier, a normal reconnection charge includes two trips, which would cover the Utility turning off the service and subsequently turning on the service when the customer returns. Staff does not believe the \$5 lock charge is appropriate. The Utility indicated that the locks will be re-useable. Therefore, staff believes that the lock should be a cost of doing business.

Based on labor and transportation to and from the service territory, staff recommends that the normal reconnection charge should be \$38 and \$47 for normal and after hours, respectively for water and wastewater service. Staff's calculations are shown below in Table 12-2.

**Table 12-2  
 Normal Reconnection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00	Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00
Labor (Field) (\$36/hr x 1/4 hr x 2)	\$18.00	Labor (Field) (\$54/hr x 1/4hr x 2)	\$27.00
Transportation (\$.54/mile x 10 miles-to/from x 2)	<u>\$10.80</u>	Transportation (\$.54/mile x 10 miles-to/from x 2)	<u>\$10.80</u>
<b>Total</b>	<b>\$37.80</b>	<b>Total</b>	<b>\$46.80</b>

Source: Utility's cost justification documentation.

**Violation Reconnection Charge**

The Utility's existing violation reconnection charge is \$15 for water and actual cost for wastewater. The violation reconnection charge is levied prior to reconnection of an existing customer after discontinuance of service for cause. The service performed for violation reconnection requires two trips, which includes one trip to turn off service and a subsequent trip to turn on service once the violation has been remedied. Based on labor and transportation to and from the service territory, staff recommends water violation reconnection charges of \$38 and \$47 for normal and after hours, respectively. Due to the labor intensive nature of a wastewater disconnection and pursuant to Rule 25-30.460, F.A.C., wastewater violation reconnection is and should remain at actual cost. Staff's calculations for water violation reconnection charges are shown below in Table 12-3.

**Table 12-3  
 Violation Reconnection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00	Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00
Labor (Field) (\$36/hr x 1/4 hr x 2)	\$18.00	Labor (Field) (\$54/hr x 1/4hr x 2)	\$27.00
Transportation (\$.54/mile x 10 miles-to/from x 2)	<u>\$10.80</u>	Transportation (\$.54/mile x 10 miles-to/from x 2)	<u>\$10.80</u>
<b>Total</b>	<b>\$37.80</b>	<b>Total</b>	<b>\$46.80</b>

Source: Utility's cost justification documentation.

**Premises Visit**

The Utility's existing premises visit is \$10 for water and wastewater. The premises visit charge is levied when a service representative visits a premises at the customer's request for complaint resolution and the problem is found to be the customer's responsibility. In addition, the premises visit can be levied when a service representative visits a premises for the purpose of

discontinuing service for nonpayment of a due and collectible bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. A premises visit requires one trip.

Aquarina requested a \$200 emergency hours call out charge to cover costs incurred when the Utility owners travel from their home after hours and on holidays at the customer's request. The Utility's proposed charge included two hours of labor for two people and mileage to and from the service area. Staff does not believe that labor should be included for two people. Staff believes the Utility could use its premises visit charge to achieve the same result without any special designation for an emergency call out charge. Staff believes its recommended after hours premises visit charge recovers the appropriate cost incurred for after hours emergency calls. For the after hours calculation, staff included additional labor time and miles since the Utility representative would be traveling from a location other than the Utility's office. Based on labor and transportation to and from the service territory, staff recommends premises visit charges of \$26 and \$99 for normal and after hours, respectively for water and wastewater service. Staff's calculations are shown below in Table 12-4.

**Table 12-4  
 Premises Visit Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00	Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00
Labor (Field) (\$36/hr x 1/3 hr)	\$12.00	Labor (Field) (\$54/hr x 1.10 hr)	\$59.40
Transportation (\$.54/mile x 10 miles-to/from)	\$5.40	Transportation (\$.54/mile x 28 miles-to/from)	\$30.24
Total	\$26.40	Total	\$98.64

Source: Utility's cost justification documentation.

The Utility requested a \$25 meter box maintenance charge and this charge should not be approved because it is the Utility's responsibility to maintain the customer's meters as provided by Rules 25-30.230 and 25-30.231, F.A.C. Below, in Table 12-5 are staff's recommended miscellaneous service charges.

**Table 12-5  
 Summary of Staff's Recommended Miscellaneous Service Charges**

Miscellaneous Service Charges	Water		Wastewater	
	During Hours	After Hours	During Hours	After Hours
Initial Connection Charge	\$26	\$32	\$26	\$32
Normal Reconnection Charge	\$38	\$47	\$38	\$47
Violation Reconnection Charge	\$38	\$47	Actual Cost	Actual Cost
Premises Visit Charge (in lieu of Disconnection)	\$26	\$99	\$26	\$99



**Summary**

Aquarina's miscellaneous service charges should be revised. The charges should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges 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 13:** Should Aquarina’s request for direct debit charge be approved?

**Recommendation:** Yes. Aquarina’s request for a direct debit charge should be approved. The direct debit charge should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charge 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:** Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. During the course of this proceeding, the Utility requested a direct debit charge. The Utility provided cost justification in support of the requested charge.

Aquarina requested to implement a direct debit charge. The purpose of the charge is to cover the costs of Aquarina’s bank debiting the bank account of a customer for its utility bill. The Utility mailed response cards to its customers to determine how many would actually use this method of payment and 55 customers provided the information required to use this payment option. For 40 or more debit items, Aquarina’s bank charges a \$10 monthly maintenance charge, \$45 for an automatic clearing house (ACH) Module (monthly service charge), \$12 per file sent (batch), and \$.14 per debit item. Staff believes a direct debit charge is appropriate because it places the cost on the cost causer. Below in Table 13-1, is the calculation of staff’s recommended direct debit charge.

**Table 13-1**  
**Direct Debit Charge Calculation**

Aquarina Bank Charges	
Monthly Maintenance	\$10.00
ACH Module	\$45.00
Charge Per File	<u>\$12.00</u>
Total Fixed Charges	\$67.00
# of customers per month	55
Per Customer Fixed Charge	\$1.22
Charge Per Debit Sent	<u>\$0.14</u>
Direct Debit Charge	\$1.36

Source: Utility’s cost justification documentation.

### Summary

Aquarina’s request for a direct debit charge should be approved. The direct debit charge should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charge 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 14:** Should Aquarina be authorized to collect Non-Sufficient Funds (NSF) charges?

**Recommendation:** Yes. Aquarina should be authorized to collect NSF charges for both systems. Staff recommends that Aquarina revise its tariffs to reflect the NSF charges currently set forth in Section 68.065, F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. Furthermore, the charges should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within 10 days of the date of the notice. (Bruce)

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

- 1) \$25, if the face value does not exceed \$50.
- 2) \$30, if the face value exceeds \$50 but does not exceed \$300.
- 3) \$40, if the face value exceeds \$300.
- 4) Or 5 percent of the face amount of the check, whichever is greater.

Approval of NSF charges is consistent with prior Commission decisions.<sup>31</sup> Furthermore, NSF charges place the cost on the cost-causer, rather than requiring that the costs associated with the return of the NSF checks be spread across the general body of ratepayers. As such, Aquarina should be authorized to collect NSF charges for both systems. Staff recommends that Aquarina revise its tariff sheet to reflect the NSF charges currently set forth in Section 68.065, F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. Furthermore, the NSF charges should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within 10 days of the date of the notice.

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<sup>31</sup> See e.g., Order Nos. PSC-14-0198-TRF-SU, issued May 2, 2014, in Docket No. 140030-SU, *In re: Request for approval to amend Miscellaneous Service charges to include all NSF charges by Environmental Protection Systems of Pine Island, Inc.*; and PSC-13-0646-PAA-WU, issued December 5, 2013, in Docket No. 130025-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*

**Issue 15:** Should Aquarina’s existing service availability charges be revised, and if so, what are the appropriate charges?

**Recommendation:** No. The appropriate service availability charges are the Utility’s existing charges for the potable and non-potable water systems. The wastewater main extension charge should be discontinued. (Bruce)

**Staff Analysis:** The Utility’s existing service availability charges for the potable water system consist of a \$500 main extension charge, a \$780 plant capacity charge, and a \$150 meter installation charge. The non-potable water system’s existing service availability charges consist of a \$50 main extension charge, \$250 plant capacity charge, and a \$150 meter installation charge. For the wastewater system, the existing service availability charge is a \$635 main extension charge.

Service availability charges are one-time charges applicable to new connections, which allows a customer to pay its pro rata share of the facilities and plant cost. Rule 25-30.580, F.A.C., establishes guidelines for designing service availability charges. Pursuant to the Rule, the maximum amount of contributions-in-aid-of construction (CIAC), net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of the utility’s facilities and plant when the facilities and plant are at their designed capacity. The minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution system or wastewater collection system. The existing contribution levels are 63 percent, 7 percent, and 97 percent for potable water, non-potable water, and wastewater, respectively. Below in Table 15-1, is a summary of the contributions-in-aid-of contribution levels for each system based on the recommended rate base.

**Table 15-1  
 Contributions-in- Aid-of-Construction Levels**

	Potable Water	Non-Potable Water	Wastewater
Utility Plant in Service	\$1,300,669	\$1,094,903	\$1,612,043
Accumulated Depreciation	\$1,003,525	\$872,742	\$1,357,193
CIAC	\$337,868	\$35,785	\$597,343
Amortization of CIAC	\$149,343	\$20,111	\$350,109
Contribution Level	63%	7%	97%

The Utility requested that staff evaluate its existing service availability charges, including any appropriate charges for irrigation service for new connections. Aquarina requested its service availability charges be increased to account for growth that may not materialize due to a major development in the Utility’s certificated territory being at an indefinite stalemate. In addition, the

Utility is concern that its existing service availability charges do not reflect current costs of maintaining the plant in today’s economy.

The design and development plans of Aquarina’s certificated territory have changed over time. According to the Utility, various lines have been constructed, connected, interconnected, and abandoned. The Utility requested and staff has recommended approval of pro forma revenue for GIS mapping. The GIS mapping will allow the Utility to delineate the potable, non-potable, and wastewater distribution and collection systems. At that time, staff would be able to determine the appropriate number of equivalent residential connections to use in development of revised service availability charges. Staff believes the existing potable and non-potable service availability charges are sufficient within the guidelines of Rule 25-30.580 F.A.C., and should remain unchanged at this time. However, the wastewater system’s contribution level exceeds the maximum amount of 75 percent pursuant to Rule 25-30.580, F.A.C.; therefore, the Utility’s existing main extension charge for wastewater should be discontinued. Staff notes that once the GIS mapping is completed the Utility can file a service availability application and have its service availability charges evaluated.

**Summary**

The appropriate service availability charges are the Utility’s existing charges for the potable and non-potable water systems. The wastewater main extension charge should be discontinued.

**Table 15-2  
 Current and Recommended Service Availability Charges**

	Current and Recommended		Current and Recommended	
	Potable	Non Potable	Wastewater	
Meter Extension Charge	\$500	\$50	\$635	\$0
Plant Capacity Charge	\$780	\$250	N/A	N/A
Meter Installation Charge	\$150	\$150	N/A	N/A

**Issue 16:** Should the Commission approve a Phase II increase for pro forma items for Aquarina?

**Recommendation:** Yes. The Commission should approve a Phase II revenue requirement associated with pro forma items. The Utility's Phase II revenue requirement is \$171,277 for potable water, \$252,165 for non-potable water, and \$185,657 for wastewater, which equates to increases of 8.23 percent, 2.18 percent, and 3.34 percent, respectively, over the Phase I revenue requirements. Staff recommends that the potable water rates remain unchanged for Phase II. The Phase II wastewater rates should be designed to produce revenues of \$185,002, excluding miscellaneous revenues.

Implementation of the Phase II rates is conditioned upon Aquarina completing the pro forma items within 12 months of the issuance of a consummating order in this docket. The Utility should be required to submit a copy of the final invoices and cancelled checks or other payment confirmation documentation for all pro forma plant items. The Utility should be allowed to implement the above rates once all pro forma items have been completed and documentation provided showing that the improvements have been made. Once verified by staff, the 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. The rates should not be implemented until notice has been received by the customers. Aquarina should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing. (Lewis, L. Smith)

**Staff Analysis:** As discussed in Issue 3, the Utility has requested recognition of several pro forma plant items in the instant case. Several of the pro forma items either have been or will be completed before implementation of the Phase I rates and, therefore, staff has included these items in the Phase I revenue requirement as reflected in previous issues. In addition, the Utility has additional pro forma items that are to be completed after Phase I rates become effective. Table 16-1 summarizes the Phase II pro forma plant items and estimated cost.

Staff is recommending a Phase II revenue requirement associated with the pro forma items for a number of reasons. First, it assures that the pro forma items are completed prior to the Utility's recovery of the investment in rates. In addition, addressing the pro forma items in a single case saves additional rate case expense to the customers because the Utility would not need to file another rate case or limited proceeding to seek recovery for these items. The Commission has approved a Phase-In approach in Docket Nos. 140175-WU and 140177-WU.<sup>32</sup>

Staff's adjustment to the Phase II UPIS balances results in increases of \$13,434 for potable water and \$11,005 for wastewater. Staff reduced accumulated depreciation by \$37,859 for potable water and \$30,431 for wastewater for retirements. Staff also reduced wastewater plant and accumulated depreciation by \$3,784 and \$245, respectively, for non-U&U components. Further,

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<sup>32</sup> Order Nos. PSC-15-0592-PAA-WU, issued December 30, 2015, in Docket No. 140175-WU, *In re: Application for staff-assisted rate case in Pasco County by Crestridge Utilities, LLC.*; and PSC-15-0588-PAA-WU, issued December 29, 2015, in Docket No. 140177-WU, *In re: Application for staff-assisted rate case in Pasco County by Holiday Gardens Utilities, LLC.*

staff increased the working capital allowance by \$1,221 for potable water, \$640 for non-potable water, and \$640 for wastewater.

Staff adjustments for Phase II include an increase in O&M expenses of \$9,769 for potable water, \$5,117 for non-potable water, and \$5,117 for wastewater. Staff has adjusted depreciation expense to reflect the pro forma additions, retirements, and U&U adjustments resulting in increases of \$610 for potable water and \$436 for wastewater. Staff has increased TOTI by \$208 for potable water and \$170 for wastewater to reflect the increase in property taxes related to pro forma additions. Staff's total adjustment to operating expenses, including additional RAFs, results in increases of \$11,173 for potable water, \$5,360 for non-potable water, and \$5,993 for wastewater. The resulting operating expenses are \$163,201 for potable water, \$245,825 for non-potable water, and \$175,657 for wastewater.

**Table 16-1**

Phase II Pro Forma Adjustments			
Description	UPIS	Accum Depr.	Depr. Expense
<u>Potable Water</u>			
Reverse Osmosis Skid	\$53,736	(\$2,443)	\$2,443
Retirement	<u>(40,302)</u>	<u>40,302</u>	<u>(1,832)</u>
Total	<u>\$13,434</u>	<u>\$37,859</u>	<u>\$611</u>
<u>Wastewater</u>			
Catwalks at Plant	\$9,703	(\$359)	\$359
Blower	28,716	(1,914)	1,914
Sand Filters	5,603	(311)	311
Retirements	<u>(33,016)</u>	<u>33,016</u>	<u>(1,939)</u>
Total	<u>\$11,005</u>	<u>\$30,431</u>	<u>\$646</u>

The Utility's Phase II revenue requirement should be \$171,277 for potable water, \$252,165 for non-potable water, and \$185,657 for wastewater. These totals represent increases of 8.23 percent, 2.18 percent, and 3.34 percent for potable water, non-potable water, and wastewater, respectively, over the recommended Phase I revenue requirements. As previously mentioned in Issue 10, staff recommends netting the Phase I potable water systems' overearnings and wastewater systems' revenues. The netting of wastewater revenues to potable water revenues avoided a reduction to Phase I potable water rates. Including miscellaneous revenues, the Phase I rates generate 99.7 percent of the Phase II potable water revenue requirement. As a result, the potable water rates should remain unchanged for Phase II. The wastewater rates should be design to generate revenues of \$185,002, excluding miscellaneous revenues. The BFC allocation should remain the same as the test year revenue allocation of 60 percent. The residential gallonage cap

should remain at 8,000 gallons. The general service gallonage charge should continue at 1.2 times the residential gallonage charge consistent with Commission practice.

Phase II rate bases are shown on Schedule Nos. 5-A, 5-B, and 5-C. The capital structure for Phase II is shown on Schedule No. 6. The revenue requirements are shown on Schedule Nos. 7-A, 7-B, and 7-C. The resulting rates are shown on Schedule Nos. 8-A, 8-B, and 8-C.

Implementation of the Phase II rates is conditioned upon Aquarina completing the pro forma items within 12 months of the issuance of a consummating order in this docket. The Utility should be required to submit a copy of the final invoices and cancelled checks for all pro forma plant items. The Utility should be allowed to implement the above rates once all pro forma items have been completed and documentation provided showing that the improvements have been made. Once verified by staff, the 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. The rates should not be implemented until notice has been received by the customers. Aquarina should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing.



**Issue 17:** Should the recommended rates 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?

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

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

The Utility should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$102,802. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

- 1) The Commission Clerk, or his or her designee, must be a signatory to the escrow agreement.
- 2) No monies in the escrow account may be withdrawn by the Utility without the 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 security, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

**Issue 18:** Should the Utility 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 (USOA) associated with the Commission approved adjustments?

**Recommendation:** Yes. The Utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Aquarina should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (L. Smith)

**Staff Analysis:** The Utility should be required to notify the Commission, in writing that it has adjusted its books in accordance with the Commission's decision. Aquarina should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

**Issue 19:** Should this docket be closed?

**Recommendation:** No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the outstanding Phase I pro forma items have been completed, the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and the Utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Also, the docket should remain open to allow staff to verify that the Phase II pro forma items have been completed, and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively. (Murphy)

**Staff Analysis:** If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the outstanding Phase I pro forma items have been completed, the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and the Utility has provided staff with proof that the adjustments for all applicable NARUC USOA primary accounts have been made. Also, the docket should remain open to allow staff to verify that the Phase II pro forma items have been completed and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively.

AQUARINA UTILITIES, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS	
SCHEDULE OF POTABLE WATER RATE BASE PHASE I			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$1,907,336	(\$457,110)	\$1,450,227
LAND & LAND RIGHTS	62,080	(24,498)	37,582
NON-USED AND USEFUL COMPONENT	0	(73,194)	(73,194)
ACCUMULATED DEPRECIATION	(1,522,797)	451,903	(1,070,894)
CIAC	(483,149)	145,281	(337,868)
AMORTIZATION OF CIAC	276,662	(127,319)	149,343
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>14,957</u>	<u>14,957</u>
WATER RATE BASE	<u>\$240,132</u>	<u>(\$69,980)</u>	<u>\$170,153</u>

<b>AQUARINA UTILITIES, INC.</b>		<b>SCHEDULE NO. 1-B</b>	
<b>TEST YEAR ENDED 12/31/2014</b>		<b>DOCKET NO. 150010-WS</b>	
<b>SCHEDULE OF NON-POTABLE WATER RATE BASE PHASE I</b>			
<b>DESCRIPTION</b>	<b>BALANCE PER UTILITY</b>	<b>STAFF ADJUSTMENTS TO UTIL. BAL.</b>	<b>BALANCE PER STAFF</b>
UTILITY PLANT IN SERVICE	\$22,080	\$923,265	\$945,345
LAND & LAND RIGHTS	0	24,498	24,498
NON-USED AND USEFUL COMPONENT	0	0	0
ACCUMULATED DEPRECIATION	0	(805,374)	(805,374)
CIAC	0	(35,785)	(35,785)
AMORTIZATION OF CIAC	0	20,111	20,111
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>23,792</u>	<u>23,792</u>
<b>WATER RATE BASE</b>	<b><u>\$22,080</u></b>	<b><u>\$150,507</u></b>	<b><u>\$172,587</u></b>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 1-C	
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS	
SCHEDULE OF WASTEWATER RATE BASE PHASE I			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$2,116,139	(\$504,096)	\$1,612,043
LAND & LAND RIGHTS	33,680	0	33,680
NON-USED AND USEFUL COMPONENT	0	(62,323)	(62,323)
ACCUMULATED DEPRECIATION	(1,866,188)	508,995	(1,357,193)
CIAC	(603,375)	6,032	(597,343)
AMORTIZATION OF CIAC	299,305	50,804	350,109
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>18,936</u>	<u>18,936</u>
WASTEWATER RATE BASE	<u>(\$20,439)</u>	<u>\$18,348</u>	<u>(\$2,091)</u>

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 ADJUSTMENTS TO RATE BASE PHASE I	SCHEDULE NO. 1-D DOCKET NO. 150010-WS PAGE 1 OF 1		
	WATER-P	NP-WATER	WASTEWATER
<b>UTILITY PLANT IN SERVICE</b>			
1. To reflect the audited plant balances. (AF 1)	\$49,635	\$905	\$7,708
2. To match CIAC adjustments in audit	(90,305)	90,305	0
3. To reflect retirements related to CIAC	(36,324)	(67,162)	0
4. To reflect reclassification from Potable to NP	(234,124)	234,124	0
5. To impute T&D Mains for NP system.	(149,558)	149,558	0
6. To reflect reclassification from Wastewater to NP	0	512,792	(512,792)
7. To reflect the appropriate averaging adjustment.	(2,329)	(31)	(1,436)
8. To reflect the appropriate pro forma additions.	5,896	2,774	2,424
Total	<u>(\$457,110)</u>	<u>\$923,265</u>	<u>(\$504,096)</u>
<b>LAND &amp; LAND RIGHTS</b>			
To reflect appropriate land balances.	<u>(\$24,498)</u>	<u>\$24,498</u>	<u>\$0</u>
<b>NON-USED AND USEFUL COMPONENT</b>			
1. To reflect the appropriate Non-U&U UPIS.	(\$490,147)	(\$199,989)	(\$480,926)
2. To reflect the appropriate Non-U&U Accumulated Depreciation.	<u>416,953</u>	<u>199,989</u>	<u>418,603</u>
Total	<u>(\$73,194)</u>	<u>\$0</u>	<u>(\$62,323)</u>
<b>ACCUMULATED DEPRECIATION</b>			
1. To reflect the appropriate Accumulated Depreciation balances. (AF 5)	(\$10,652)	\$0	(\$18,566)
2. To reflect pro rata Potable/NP split.	10,365	(10,365)	0
3. To match CIAC adjustments in audit	99,758	(99,758)	0
4. To reflect retirements related to CIAC	52,420	86,236	0
5. To reflect reclassification from Potable to NP	202,514	(202,514)	0
6. To reflect reclassification from Wastewater to NP	0	(512,792)	512,792
7. To reflect imputation of T&D Mains for NP system.	67,369	(67,369)	0
8. To reflect the appropriate averaging adjustment.	20,232	265	14,814
9. To reflect the appropriate pro forma additions.	<u>9,898</u>	<u>923</u>	<u>(45)</u>
Total	<u>\$451,903</u>	<u>(\$805,374)</u>	<u>\$508,995</u>
<b>CIAC</b>			
1. To reflect the appropriate CIAC balance. (AF 4)	\$95,372	(\$107,222)	\$0
2. To reflect retirements	36,324	67,162	0
3. To reflect the appropriate CIAC averaging adjustments.	<u>13,585</u>	<u>4,275</u>	<u>6,032</u>
Total	<u>\$145,281</u>	<u>(\$35,785)</u>	<u>\$6,032</u>
<b>AMORTIZATION OF CIAC</b>			
1. To reflect the audited Accumulated Amortization of CIAC balance. (AF 6)	(\$70,242)	\$107,911	\$58,562
2. To reflect retirement of CIAC	(52,420)	(86,236)	0
3. To reflect the appropriate averaging adjustment.	<u>(4,657)</u>	<u>(1,564)</u>	<u>(7,758)</u>
Total	<u>(\$127,319)</u>	<u>\$20,111</u>	<u>\$50,804</u>
<b>WORKING CAPITAL ALLOWANCE</b>			
To reflect 1/8 of test year O & M expenses.	<u>\$14,957</u>	<u>\$23,792</u>	<u>\$18,936</u>



AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 SCHEDULE OF CAPITAL STRUCTURE - PHASE I							SCHEDULE NO. 2 DOCKET NO. 150010-WS	
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$0	\$0	\$0					
2. RETAINED EARNINGS	0	0	0					
3. PAID IN CAPITAL	0	0	0					
4. OTHER COMMON EQUITY	<u>(505,064)</u>	<u>505,064</u>	<u>0</u>					
TOTAL COMMON EQUITY	<u>(\$505,064)</u>	<u>\$505,064</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	<u>11.16%</u>	<u>0.00%</u>
5. LONG-TERM DEBT	\$863,346	(\$416,595)	\$446,751	(\$106,263)	\$340,488	99.95%	3.66%	3.66%
6. SHORT-TERM DEBT	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%
TOTAL DEBT	\$863,346	(\$416,595)	\$446,751	(\$106,263)	\$340,488	99.95%		
7. CUSTOMER DEPOSITS	<u>193</u>	<u>(32)</u>	<u>161</u>	<u>0</u>	<u>161</u>	<u>0.05%</u>	<u>2.00%</u>	<u>0.00%</u>
8. TOTAL	<u>\$358,475</u>	<u>\$88,437</u>	<u>\$446,912</u>	<u>(\$106,263)</u>	<u>\$340,649</u>	<u>100.00%</u>		<u>3.66%</u>
<b>RANGE OF REASONABLENESS</b>						<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>	
OVERALL RATE OF RETURN						<u>3.66%</u>	<u>3.66%</u>	

AQUARINA UTILITIES, INC.			SCHEDULE NO. 3-A		
TEST YEAR ENDED 12/31/2014			DOCKET NO. 150010-WS		
SCHEDULE OF POTABLE WATER OPERATING INCOME PHASE I					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
<b>OPERATING REVENUES</b>	<u>\$169,239</u>	<u>\$1,609</u>	<u>\$170,848</u>	<u>(\$12,593)</u> -7.37%	<u>\$158,255</u>
<b>OPERATING EXPENSES:</b>					
OPERATION & MAINTENANCE	\$92,074	\$27,582	\$119,658	\$0	\$119,658
DEPRECIATION EXPENSE	0	20,797	20,797	0	20,797
CIAC AMORTIZATION EXPENSE	0	(8,849)	(8,849)	0	(8,849)
TAXES OTHER THAN INCOME	19,493	1,497	20,990	(567)	20,423
INCOME TAXES	<u>1,442</u>	<u>(1,442)</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$113,009</u>	<u>\$39,586</u>	<u>\$152,595</u>	<u>(\$567)</u>	<u>\$152,028</u>
<b>OPERATING INCOME/(LOSS)</b>	<u>\$56,230</u>		<u>\$18,253</u>		<u>\$6,226</u>
<b>WATER RATE BASE</b>	<u>\$240,132</u>		<u>\$170,153</u>		<u>\$170,153</u>
<b>RATE OF RETURN</b>	<u>23.42%</u>		<u>10.73%</u>		<u>3.66%</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 3-B			
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS			
SCHEDULE OF NON-POTABLE WATER OPERATING INCOME PHASE I					
	TEST YEAR	STAFF	STAFF	ADJUST.	REVENUE
	PER UTILITY	ADJUSTMENTS	ADJUSTED	FOR	REQUIREMENT
			TEST YEAR	INCREASE	
<b>OPERATING REVENUES</b>	<u>\$96,929</u>	<u>\$900</u>	<u>\$97,829</u>	\$148,954 152.26%	<u>\$246,783</u>
<b>OPERATING EXPENSES:</b>					
OPERATION & MAINTENANCE	\$152,155	\$38,180	\$190,332	\$0	\$190,332
DEPRECIATION EXPENSE	0	24,757	24,757	0	24,757
CIAC AMORTIZATION EXPENSE	0	(534)	(534)	0	(534)
TAXES OTHER THAN INCOME	16,413	2,795	19,208	6,703	25,911
INCOME TAXES	<u>1,442</u>	<u>(1,442)</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$170,010</u>	<u>\$63,755</u>	<u>\$233,763</u>	<u>\$6,703</u>	<u>\$240,466</u>
<b>OPERATING INCOME/(LOSS)</b>	<u>(\$73,081)</u>		<u>(\$135,934)</u>		<u>\$6,317</u>
<b>WATER RATE BASE</b>	<u>\$22,080</u>		<u>\$172,587</u>		<u>\$172,587</u>
<b>RATE OF RETURN</b>	<u>-330.99%</u>		<u>-78.76%</u>		<u>3.66%</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 3-C			
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS			
SCHEDULE OF WASTEWATER OPERATING INCOME PHASE I					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
<b>OPERATING REVENUES</b>	<u>\$160,261</u>	<u>\$1,560</u>	<u>\$161,821</u>	<u>\$17,842</u> 11.03%	<u>\$179,663</u>
<b>OPERATING EXPENSES:</b>					
OPERATION & MAINTENANCE	\$126,358	\$25,131	\$151,489	\$0	\$151,489
DEPRECIATION EXPENSE	0	11,006	11,006	0	11,006
CIAC AMORTIZATION EXPENSE	0	(15,514)	(15,514)	0	(15,514)
TAXES OTHER THAN INCOME	19,126	2,754	21,880	803	22,683
INCOME TAXES	<u>1,442</u>	<u>(1,442)</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$146,926</u>	<u>\$21,935</u>	<u>\$168,861</u>	<u>\$803</u>	<u>\$169,664</u>
<b>OPERATING INCOME/(LOSS)</b>	<u>\$13,335</u>		<u>(\$7,040)</u>		<u>\$10,000</u>
<b>WASTEWATER O&amp;M EXPENSE</b>	<u>\$126,358</u>		<u>\$151,489</u>		<u>\$151,489</u>
<b>OPERATING MARGIN</b>	<u>10.55%</u>		<u>-4.65%</u>		<u>6.60%</u>

AQUARINA UTILITIES, INC.	Schedule No. 3-D		
TEST YEAR ENDED 12/31/2014	DOCKET NO. 150010-WS		
ADJUSTMENTS TO OPERATING INCOME PHASE I	Page 1 of 3		
	WATER-P	WATER-NP	WASTEWATER
<b>OPERATING REVENUES</b>			
To reflect appropriate revenues for the systems.	<u>\$1,609</u>	<u>\$900</u>	<u>\$1,560</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>			
Salaries and Wages - Employees (601/701)			
a. To normalize salary expense to remove payroll for former employees. (AF 8)	(\$1,707)	(\$2,587)	(\$2,147)
b. To remove insurance reimbursement to former employee.	(183)	(278)	(231)
c. To remove unpaid salary accruals from outside the test year.	(4,807)	(7,286)	(6,046)
d. To include maintenance employees	<u>28,663</u>	<u>43,444</u>	<u>36,053</u>
	<u>\$21,966</u>	<u>\$33,294</u>	<u>\$27,629</u>
Employee Pensions and Benefits (604/704)			
a. To reflect the appropriate amount of pensions and benefits. (AF 8)	\$5,670	\$8,594	\$7,132
b. To reflect the increase for new maintenance employees.	<u>5,446</u>	<u>8,254</u>	<u>6,850</u>
Subtotal	<u>\$11,116</u>	<u>\$16,848</u>	<u>\$13,982</u>
Purchased Power (615/715)			
To reflect the correct amount of purchase power expense. (AF 8)	<u>\$357</u>	<u>\$3,609</u>	<u>(\$4,254)</u>
Materials and Supplies (620/720)			
a. To include reimbursement for October expense voucher. (AF8)	\$705	\$1,686	\$1,196
b. To reclassify potable booster pumps. (AF8)	(1,079)	(2,578)	0
c. To remove non-utility purchases. (AF8)	<u>(110)</u>	<u>(263)</u>	<u>(186)</u>
Subtotal	<u>(\$484)</u>	<u>(\$1,155)</u>	<u>\$1,010</u>
Contractual Services - Professional			
To remove and amortize non-recurring accounting fees	<u>(\$533)</u>	<u>(\$533)</u>	<u>(\$533)</u>
Contractual Services - Testing (635/735)			
To remove non-utility testing expenses. (AF 8)	<u>(\$401)</u>	<u>\$0</u>	<u>(\$1,106)</u>
Contractual Services - Other (636/736)			
a. To capitalize non-potable pump that was expensed. (AF 8)	\$0	(\$3,620)	\$0
b. Pump service expense that was not posted to ledger (AF 8)	2,703	720	0
c. To reflect amortization of pro forma repairs.	1,160	36	298
d. To remove meter reading expense.	(783)	(1,872)	(390)
e. To remove and amortize non-recurring repairs.	<u>(183)</u>	<u>(437)</u>	<u>(584)</u>
Subtotal	<u>\$2,897</u>	<u>(\$5,173)</u>	<u>(\$676)</u>
Rental of Building/Property (641/741)			
a. To remove 2014 amount of rental expense for office space. (AF 8)	(\$334)	(\$334)	(\$333)
b. To include 2015 storage building rental expense. (AF 8)	3,000	3,000	3,000
c. To reflect reduction in price per square foot.	<u>(396)</u>	<u>(396)</u>	<u>(396)</u>
Subtotal	<u>\$2,270</u>	<u>\$2,270</u>	<u>\$2,271</u>
Rental of Equipment (642/742)			
a. To remove 2014 amount of equipment rental expense. (AF 8)	(\$7,800)	(\$7,800)	(\$7,800)
b. To include 2015 rental expense. (AF 8)	6,000	6,000	6,000
c. To adjust rental expense.	<u>(1,200)</u>	<u>(1,200)</u>	<u>(1,200)</u>
Subtotal	<u>(\$3,000)</u>	<u>(\$3,000)</u>	<u>(\$3,000)</u>

AQUARINA UTILITIES, INC.	Schedule No. 3-D		
TEST YEAR ENDED 12/31/2014	DOCKET NO. 150010-WS		
ADJUSTMENTS TO OPERATING INCOME PHASE I	Page 2 of 3		
	WATER-P	WATER-NP	WASTEWATER
Transportation Expenses (650/750)			
a. To reflect the correct amount of mileage expenses. (AF 8)	\$183	\$439	\$311
b. To reflect the correct amount of mileage expenses. (AF 8)	(733)	(1,752)	(1,242)
c. To removed repairs to non-utility vehicles. (AF 8)	(292)	(699)	(496)
d. To remove unsupported airline tickets. (AF 8)	(148)	(352)	(250)
Subtotal	<u>(\$989)</u>	<u>(\$2,365)</u>	<u>(\$1,677)</u>
Insurance - Vehicle Expenses (656/756)			
To reflect the appropriate amount of insuranc vehicle expense. (AF 8)	<u>(\$1,162)</u>	<u>(\$1,162)</u>	<u>(\$1,162)</u>
Insurance - General Liability Expenses (657/757)			
To reflect the correct amount of general liability insurance. (AF 8)	<u>(\$10)</u>	<u>(\$10)</u>	<u>(\$11)</u>
Insurance - Other Expenses (659/759)			
To reflect appropriate amount of insurance other expenses. (AF 8)	<u>(\$2,378)</u>	<u>(\$2,378)</u>	<u>(\$2,377)</u>
Regulatory Commission Expense (667/767)			
a. To reflect the correct amount of regulatory commission expense. (AF 8)	(\$25)	(\$25)	(\$50)
b. To reflect the appropriate amount of rate case expense.	773	773	773
Subtotal	<u>\$748</u>	<u>\$748</u>	<u>\$723</u>
Miscellaneous Expense (675/775)			
a. To reflect communication costs. (AF 8)	(\$2,253)	(\$2,253)	(\$2,253)
b. To reclassify and capitalize to Account 360.	0	0	(2,872)
c. To reflect reimbursements for October Misc. expenses.	376	376	375
d. To remove non-utility reimbursements.	(970)	(970)	(970)
e. To reflect reclassification for DEP permits .	34	33	33
Subtotal	<u>(\$2,814)</u>	<u>(\$2,815)</u>	<u>(\$5,687)</u>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>	<b><u>\$27,582</u></b>	<b><u>\$38,180</u></b>	<b><u>\$25,131</u></b>
<b>DEPRECIATION EXPENSE</b>			
a. To reflect audited depreciation expense.	\$45,851	\$601	\$28,200
b. To reflect reclassification from Potable to Non-Potable.	(9,782)	9,782	0
c. To reflect retirements imputation of T&D Mains for NP system.	(3,576)	3,576	0
d. To reflect reclassification from Wastewater to Non-Potable	0	12,820	(12,820)
e. To reflect retirements.	(908)	(2,150)	0
f. To reflect pro forma depreciation expense.	163	127	45
g. Non-U&U depreciation expense.	<u>(10,950)</u>	<u>0</u>	<u>(4,419)</u>
Total	<u>\$20,797</u>	<u>\$24,757</u>	<u>\$11,006</u>
<b>AMORTIZATION OF CIAC EXPENSE</b>			
a. To reflect audited amount of CIAC amortization expense.	(\$9,758)	(\$2,684)	(\$15,514)
b. To reflect retirements.	908	2,150	0
Total	<u>(\$8,849)</u>	<u>(\$534)</u>	<u>(\$15,514)</u>

AQUARINA UTILITIES, INC.		Schedule No. 3-D		
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS		
ADJUSTMENTS TO OPERATING INCOME PHASE I		Page 3 of 3		
	<u>WATER-P</u>	<u>WATER-NP</u>	<u>WASTEWATER</u>	
<b>TAXES OTHER THAN INCOME</b>				
a. To reflect the correct amount of property taxes.	(\$118)	(\$118)	(\$118)	(\$118)
b. To reflect the correct amount of payroll taxes.	(130)	(198)	(164)	(164)
c. To reflect the appropriate amount of payroll taxes for new employees.	2,527	3,830	3,178	3,178
d. To reflect the appropriate amount of regulatory assessment fees. (RAFs).	108	62	134	134
e. To reflect pro forma property taxes.	91	43	38	38
f. Non-U&U property taxes.	<u>(980)</u>	<u>(825)</u>	<u>(314)</u>	<u>(314)</u>
Total	<u>\$1,497</u>	<u>\$2,795</u>	<u>\$2,754</u>	<u>\$2,754</u>
<b>INCOME TAX</b>				
To reflect the correct amount of income tax expenses.	<u>(\$1,442)</u>	<u>(\$1,442)</u>	<u>(\$1,442)</u>	<u>(\$1,442)</u>

<b>AQUARINA UTILITIES, INC.</b>		<b>SCHEDULE NO. 3-E</b>	
<b>TEST YEAR ENDED 12/31/2014</b>		<b>DOCKET NO. 150010-WS</b>	
<b>ANALYSIS OF POTABLE WATER OPERATION AND MAINTENANCE EXPENSE PHASE I</b>			
	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUST- MENT</b>	<b>TOTAL PER STAFF</b>
(601) SALARIES AND WAGES - EMPLOYEES	\$48,832	\$21,966	\$70,798
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	11,116	11,116
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	3,180	357	3,537
(616) FUEL FOR POWER PRODUCTION	74	0	74
(618) CHEMICALS	1,564	0	1,564
(620) MATERIALS AND SUPPLIES	6,424	(484)	5,941
(632) CONTRACTUAL SERVICES - PROFESSIONAL	3,807	(533)	3,274
(634) CONTRACTUAL SERVICES - MANAGEMENT FEES	1,930	0	1,930
(635) CONTRACTUAL SERVICES - TESTING	669	(401)	268
(636) CONTRACTUAL SERVICES - OTHER	2,737	2,897	5,634
(640) RENTS	0	0	0
(641) RENTAL OF BUILDING/PROPERTY	334	2,270	2,604
(642) RENTAL OF EQUIPMENT	7,800	(3,000)	4,800
(650) TRANSPORTATION EXPENSE	3,731	(989)	2,742
(656) INSURANCE - VEHICLE	1,728	(1,162)	566
(657) INSURANCE - GENERAL LIABILITY	2,624	(10)	2,614
(659) INSURANCE - OTHER	2,378	(2,378)	0
(667) REGULATORY COMMISSION EXPENSE	25	748	773
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSE	<u>4,239</u>	<u>(2,814)</u>	<u>1,425</u>
<b>Total</b>	<b><u>\$92,074</u></b>	<b><u>\$27,583</u></b>	<b><u>\$119,658</u></b>



<b>AQUARINA UTILITIES, INC.</b>	<b>SCHEDULE NO. 3-F</b>		
<b>TEST YEAR ENDED 12/31/2014</b>	<b>DOCKET NO. 150010-WS</b>		
<b>ANALYSIS OF NON-POTABLE WATER OPERATION AND MAINTENANCE EXPENSE PHASE I</b>			
	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUST- MENT</b>	<b>TOTAL PER STAFF</b>
(601) SALARIES AND WAGES - EMPLOYEES	\$74,014	\$33,294	\$107,308
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	16,848	16,848
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	32,150	3,609	35,759
(616) FUEL FOR POWER PRODUCTION	750	0	750
(618) CHEMICALS	48	0	48
(620) MATERIALS AND SUPPLIES	4,873	(1,155)	3,717
(632) CONTRACTUAL SERVICES - PROFESSIONAL	3,807	(533)	3,274
(634) CONTRACTUAL SERVICES - MANAGEMENT FEES	1,930	0	1,930
(635) CONTRACTUAL SERVICES - TESTING	0	0	0
(636) CONTRACTUAL SERVICES - OTHER	6,541	(5,173)	1,368
(640) RENTS	0	0	0
(641) RENTAL OF BUILDING/PROPERTY	334	2,270	2,604
(642) RENTAL OF EQUIPMENT	7,800	(3,000)	4,800
(650) TRANSPORTATION EXPENSE	8,917	(2,365)	6,552
(656) INSURANCE - VEHICLE	1,728	(1,162)	566
(657) INSURANCE - GENERAL LIABILITY	2,624	(10)	2,614
(659) INSURANCE - OTHER	2,378	(2,378)	0
(667) REGULATORY COMMISSION EXPENSE	25	748	773
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSE	<u>4,239</u>	<u>(2,815)</u>	<u>1,424</u>
Total	<u>\$152,155</u>	<u>\$38,179</u>	<u>\$190,332</u>

<b>AQUARINA UTILITIES, INC.</b>	<b>SCHEDULE NO. 3-G</b>		
<b>TEST YEAR ENDED 12/31/2014</b>	<b>DOCKET NO. 150010-WS</b>		
<b>ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE PHASE I</b>			
	<b>TOTAL PER UTILITY*</b>	<b>STAFF ADJUST- MENT</b>	<b>TOTAL PER STAFF</b>
(701) SALARIES AND WAGES - EMPLOYEES	\$61,423	\$27,629	\$89,052
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	13,982	13,982
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	0	0	0
(715) PURCHASED POWER	17,665	(4,254)	13,411
(716) FUEL FOR POWER PRODUCTION	412	0	412
(718) CHEMICALS	1,289	0	1,289
(720) MATERIALS AND SUPPLIES	6,023	1,010	7,033
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(732) CONTRACTUAL SERVICES - PROFESSIONAL	3,807	(533)	3,274
(733) CONTRACTUAL SERVICES - LEGAL	0	0	0
(734) CONTRACTUAL SERVICES - MANAGEMENT FEES	1,930	0	1,930
(735) CONTRACTUAL SERVICES - TESTING	3,107	(1,106)	2,001
(736) CONTRACTUAL SERVICES - OTHER	2,154	(676)	1,478
(741) RENTAL OF BUILDING/PROPERTY	333	2,271	2,604
(742) RENTAL OF EQUIPMENT	7,800	(3,000)	4,800
(750) TRANSPORTATION EXPENSE	6,520	(1,677)	4,843
(756) INSURANCE - VEHICLE	1,728	(1,162)	566
(757) INSURANCE - GENERAL LIABILITY	2,624	(11)	2,613
(759) INSURANCE OTHER	2,377	(2,377)	(0)
(767) REGULATORY COMMISSION EXPENSES	50	723	773
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSE	<u>7,116</u>	<u>(5,687)</u>	<u>1,429</u>
<b>TOTAL O&amp;M EXPENSES</b>	<b><u>\$126,358</u></b>	<b><u>\$25,131</u></b>	<b><u>\$151,489</u></b>

<b>AQUARINA UTILITIES, INC.</b>		<b>SCHEDULE NO. 4-A</b>	
<b>TEST YEAR ENDED SEPTEMBER 30, 2014</b>		<b>DOCKET NO. 150010-WS</b>	
<b>MONTHLY WATER RATES (PHASE I)</b>			
	<b>RATES AT TIME OF FILING</b>	<b>STAFF RECOMMENDED PHASE I RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential and General Service</u></b>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$19.16	\$19.16	\$0.10
3/4"	\$28.74	\$28.74	\$0.15
1"	\$47.90	\$47.90	\$0.25
1-1/2"	\$95.79	\$95.79	\$0.50
2"	\$153.27	\$153.27	\$0.80
3"	\$306.55	\$306.55	\$1.61
4"	\$478.96	\$478.96	\$2.52
6"	\$957.93	\$957.93	\$5.03
Charge per 1,000 gallons - Residential and General Service	\$6.95	\$6.95	\$0.04
<b><u>Irrigation Service - Non-Potable</u></b>			
Base Facility Charge by Meter Size			
5/8" x 3/4"		\$16.90	\$0.06
3/4"		\$25.35	\$0.08
1"		\$42.25	\$0.14
1-1/2"		\$84.50	\$0.28
2"		\$135.20	\$0.45
3"		\$270.40	\$0.89
4"		\$422.50	\$1.40
6"		\$845.00	\$2.79
Charge per 1,000 gallons - Irrigation Service	\$0.78	\$1.38	\$0.00
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
2,000 Gallons	\$33.06	\$33.06	
6,000 Gallons	\$60.86	\$60.86	
8,000 Gallons	\$74.76	\$74.76	

\*Phase I water rates will remain at the current rates.

<b>AQUARINA UTILITIES, INC.</b>		<b>SCHEDULE NO. 4-B</b>	
<b>TEST YEAR ENDED SEPTEMBER 30, 2014</b>		<b>DOCKET NO. 150010-WS</b>	
<b>MONTHLY WASTEWATER RATES (PHASE I)</b>			
	<b>RATES AT TIME OF FILING</b>	<b>STAFF RECOMMENDED PHASE I RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential</u></b>			
Base Facility Charge - All Meter Sizes			
Charge Per 1,000 gallons	\$22.13	\$22.83	\$0.11
8,000 gallon cap	\$4.79	\$4.94	
Flat Rate Service	\$34.69	\$35.78	\$0.18
<b><u>General Service</u></b>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$22.13	\$22.83	\$0.11
3/4"	\$33.16	\$34.25	\$0.17
1"	\$55.28	\$57.08	\$0.28
1-1/2"	\$110.56	\$114.15	\$0.56
2"	\$176.90	\$182.64	\$0.90
3"	\$353.81	\$365.28	\$1.79
4"	\$552.83	\$570.75	\$2.80
6"	\$1,105.67	\$1,141.50	\$5.60
Charge per 1,000 gallons - General Service	\$5.76	\$5.94	\$0.03
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
2,000 Gallons	\$31.71	\$32.71	
6,000 Gallons	\$50.87	\$52.47	
8,000 Gallons	\$60.45	\$62.35	

AQUARINA UTILITIES, INC.		SCHEDULE NO. 5-A	
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS	
SCHEDULE OF POTABLE WATER RATE BASE PHASE II			
DESCRIPTION	PHASE I BALANCE	STAFF	BALANCE
		ADJUSTMENTS TO UTIL. BAL.	PER STAFF
UTILITY PLANT IN SERVICE	\$1,450,227	\$13,434	\$1,463,661
LAND & LAND RIGHTS	37,582	0	37,582
NON-USED AND USEFUL COMPONENT	(73,194)	0	(73,194)
ACCUMULATED DEPRECIATION	(1,070,894)	37,859	(1,033,035)
CIAC	(337,868)	0	(337,868)
AMORTIZATION OF CIAC	149,343	0	149,343
WORKING CAPITAL ALLOWANCE	<u>14,957</u>	<u>1,221</u>	<u>16,178</u>
WATER RATE BASE	<u>\$170,153</u>	<u>\$52,514</u>	<u>\$222,667</u>

<b>AQUARINA UTILITIES, INC.</b>		<b>SCHEDULE NO. 5-B</b>	
<b>TEST YEAR ENDED 12/31/2014</b>		<b>DOCKET NO. 150010-WS</b>	
<b>SCHEDULE OF NON-POTABLE WATER RATE BASE - PHASE II</b>			
<b>DESCRIPTION</b>	<b>PHASE I BALANCE</b>	<b>STAFF ADJUSTMENTS TO UTIL. BAL.</b>	<b>BALANCE PER STAFF</b>
UTILITY PLANT IN SERVICE	\$945,345	\$0	\$945,345
LAND & LAND RIGHTS	24,498	0	24,498
NON-USED AND USEFUL COMPONENT	0	0	0
ACCUMULATED DEPRECIATION	(805,374)	0	(805,374)
CIAC	(35,785)	0	(35,785)
AMORTIZATION OF CIAC	20,111	0	20,111
WORKING CAPITAL ALLOWANCE	<u>23,792</u>	<u>640</u>	<u>24,432</u>
<b>WATER RATE BASE</b>	<b><u>\$172,587</u></b>	<b><u>\$640</u></b>	<b><u>\$173,227</u></b>

<b>AQUARINA UTILITIES, INC.</b>		<b>SCHEDULE NO. 5-C</b>	
<b>TEST YEAR ENDED 12/31/2014</b>		<b>DOCKET NO. 150010-WS</b>	
<b>SCHEDULE OF WASTEWATER RATE BASE PHASE II</b>			
<b>DESCRIPTION</b>	<b>PHASE I BALANCE</b>	<b>STAFF ADJUSTMENTS TO UTIL. BAL.</b>	<b>BALANCE PER STAFF</b>
UTILITY PLANT IN SERVICE	\$1,612,043	\$11,005	\$1,623,048
LAND & LAND RIGHTS	33,680	0	33,680
NON-USED AND USEFUL COMPONENT	(62,323)	(3,538)	(65,861)
ACCUMULATED DEPRECIATION	(1,357,193)	30,431	(1,326,762)
CIAC	(597,343)	0	(597,343)
AMORTIZATION OF CIAC	350,109	0	350,109
WORKING CAPITAL ALLOWANCE	<u>18,936</u>	<u>640</u>	<u>19,576</u>
WASTEWATER RATE BASE	<u>(\$2,091)</u>	<u>\$38,538</u>	<u>\$36,447</u>

<b>AQUARINA UTILITIES, INC.</b>		<b>SCHEDULE NO. 5-D</b>		
<b>TEST YEAR ENDED 12/31/2014</b>		<b>DOCKET NO. 150010-WS</b>		
<b>ADJUSTMENTS TO RATE BASE</b>				
	<b><u>WATER-P</u></b>	<b><u>WATER-NP</u></b>	<b><u>WASTEWATER</u></b>	
<b><u>UTILITY PLANT IN SERVICE</u></b>				
To reflect the appropriate pro forma additions.	<u>\$13,434</u>	<u>\$0</u>	<u>\$11,005</u>	
<b><u>NON-USED AND USEFUL COMPONENT</u></b>				
To reflect the appropriate Non-U&U UPIS.	\$0	\$0	(\$3,784)	
To reflect the appropriate Non-U&U Accumulated Depreciation.	<u>0</u>	<u>0</u>	<u>245</u>	
Total	<u>\$0</u>	<u>\$0</u>	<u>(\$3,538)</u>	
<b><u>ACCUMULATED DEPRECIATION</u></b>				
To reflect the appropriate pro forma additions.	<u>\$37,859</u>	<u>\$0</u>	<u>\$30,431</u>	
<b><u>WORKING CAPITAL ALLOWANCE</u></b>				
To reflect 1/8 of test year O & M expenses.	<u>\$1,221</u>	<u>\$640</u>	<u>\$640</u>	



AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 SCHEDULE OF CAPITAL STRUCTURE- PHASE II							SCHEDULE NO. 6 DOCKET NO. 150010-WS		
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	WEIGHTED COST	WEIGHTED COST	
1. COMMON STOCK	\$0	\$0	\$0						
2. RETAINED EARNINGS	0	0	0						
3. PAID IN CAPITAL	0	0	0						
4. OTHER COMMON EQUITY	<u>(505,064)</u>	<u>505,064</u>	<u>0</u>				11.16%		
TOTAL	<u>(\$505,064)</u>	<u>\$505,064</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	<u>11.16%</u>	<u>0.00%</u>	
5. LONG-TERM DEBT	\$446,751	\$0	\$446,751	(\$7,285)	\$439,466	99.96%	3.66%	3.66%	
6. SHORT-TERM DEBT	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
TOTAL DEBT	\$446,751	\$0	\$446,751	(\$7,285)	\$439,466	99.96%	0.00%	0.00%	
7. CUSTOMER DEPOSITS	161	0	161	0	161	<u>0.04%</u>	<u>2.00%</u>	<u>0.00%</u>	
8. TOTAL	<u>(\$58,152)</u>	<u>\$505,064</u>	<u>\$446,912</u>	<u>(\$7,285)</u>	<u>\$439,627</u>	<u>100.00%</u>		<u>3.66%</u>	
<b>RANGE OF REASONABLENESS</b>						<b>LOW</b>	<b>HIGH</b>		
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>		
OVERALL RATE OF RETURN						<u>3.66%</u>	<u>3.66%</u>		

AQUARINA UTILITIES, INC.		SCHEDULE NO. 7-A			
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS			
SCHEDULE OF POTABLE WATER OPERATING INCOME PHASE II					
	PHASE I	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
<b>OPERATING REVENUES</b>	<u>\$158,255</u>	<u>\$0</u>	<u>\$158,255</u>	<u>\$13,022</u> 8.23%	<u>\$171,277</u>
<b>OPERATING EXPENSES:</b>					
OPERATION & MAINTENANCE	\$119,658	\$9,769	\$129,427	\$0	\$129,427
DEPRECIATION (NET)	20,797	610	21,407	0	21,407
AMORTIZATION OF CIAC	(8,849)	0	(8,849)	0	(8,849)
TAXES OTHER THAN INCOME	20,423	208	20,631	586	21,217
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$152,028</u>	<u>\$10,587</u>	<u>\$162,615</u>	<u>\$586</u>	<u>\$163,201</u>
<b>OPERATING INCOME/(LOSS)</b>	<u>\$6,226</u>		<u>(\$4,361)</u>		<u>\$8,075</u>
<b>WATER RATE BASE</b>	<u>\$170,153</u>		<u>\$222,667</u>		<u>\$222,667</u>
<b>RATE OF RETURN</b>	<u>3.66%</u>		<u>-1.96%</u>		<u>3.63%</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 7-B			
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS			
SCHEDULE OF NON-POTABLE WATER OPERATING INCOME PHASE II					
	PHASE I	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
<b>OPERATING REVENUES</b>	<u>\$246,783</u>	<u>\$0</u>	<u>\$246,783</u>	<u>\$5,382</u> 2.18%	<u>\$252,165</u>
<b>OPERATING EXPENSES:</b>					
OPERATION & MAINTENANCE	\$190,332	\$5,117	\$195,450	\$0	\$195,450
DEPRECIATION (NET)	24,757	0	24,757	0	24,757
AMORTIZATION OF CIAC	(534)	0	(534)	0	(534)
TAXES OTHER THAN INCOME	25,911	0	25,911	242	26,153
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$240,466</u>	<u>\$5,117</u>	<u>\$245,583</u>	<u>\$242</u>	<u>\$245,825</u>
<b>OPERATING INCOME/(LOSS)</b>	<u>\$6,317</u>		<u>\$1,200</u>		<u>\$6,340</u>
<b>WATER RATE BASE</b>	<u>\$172,587</u>		<u>\$173,227</u>		<u>\$173,227</u>
<b>RATE OF RETURN</b>	<u>3.66%</u>		<u>0.69%</u>		<u>3.66%</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 7-C			
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS			
SCHEDULE OF WASTEWATER OPERATING INCOME PHASE II					
	PHASE I	STAFF ADJS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
<b>OPERATING REVENUES</b>	<u>\$179,663</u>	<u>\$0</u>	<u>\$179,663</u>	<u>\$5,994</u> 3.34%	<u>\$185,657</u>
<b>OPERATING EXPENSES:</b>					
OPERATION & MAINTENANCE	\$151,489	\$5,117	\$156,607	\$0	\$156,607
DEPRECIATION EXPENSE	11,006	436	11,442	0	11,442
AMORTIZATION OF CIAC	(15,514)	0	(15,514)	0	(15,514)
TAXES OTHER THAN INCOME	22,683	170	22,853	270	23,123
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$169,664</u>	<u>\$5,724</u>	<u>\$175,388</u>	<u>\$270</u>	<u>\$175,657</u>
<b>OPERATING INCOME/(LOSS)</b>	<u>\$9,999</u>		<u>\$4,275</u>		<u>\$10,000</u>
<b>WASTEWATER OPERATING EXPENSES</b>	<u>\$151,489</u>		<u>\$156,607</u>		<u>\$156,607</u>
<b>OPERATING MARGIN</b>	<u>6.60%</u>		<u>2.73%</u>		<u>6.39%</u>

AQUARINA UTILITIES, INC.	Schedule No. 7-D		
TEST YEAR ENDED 12/31/2014	DOCKET NO. 150010-WS		
ADJUSTMENTS TO OPERATING INCOME	<u>WATER-P</u>	<u>WATER-NP</u>	<u>WASTEWATER</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>			
Contractual Services - Professional (632/732) RO Service Contract.	<u>\$4,652</u>	<u>\$0</u>	<u>\$0</u>
Contractual Services - Other (636/736) To reflect amortization of GIS Mapping.	<u>\$5,117</u>	<u>\$5,117</u>	<u>\$5,117</u>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>	<u><b>\$9,769</b></u>	<u><b>\$5,117</b></u>	<u><b>\$5,117</b></u>
<b>DEPRECIATION EXPENSE</b>			
a. To reflect pro forma depreciation expense.	\$610	\$0	\$646
b. To reflect Non-U&U depreciation expense.	<u>0</u>	<u>0</u>	<u>(210)</u>
Total	<u>\$610</u>	<u>\$0</u>	<u>\$436</u>
<b>TAXES OTHER THAN INCOME</b>			
To reflect pro forma property taxes.	<u>\$208</u>	<u>\$0</u>	<u>\$170</u>

<b>AQUARINA UTILITIES, INC.</b>		<b>SCHEDULE NO. 8-A</b>	
<b>TEST YEAR ENDED SEPTEMBER 30, 2014</b>		<b>DOCKET NO. 150010-WS</b>	
<b>MONTHLY WATER RATES (PHASE II)</b>			
	<b>STAFF RECOMMENDED PHASE I RATES</b>	<b>STAFF RECOMMENDED PHASE II RATES</b>	
<b><u>Residential and General Service</u></b>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$19.16	\$19.16	
3/4"	\$28.74	\$28.74	
1"	\$47.90	\$47.90	
1-1/2"	\$95.79	\$95.79	
2"	\$153.27	\$153.27	
3"	\$306.55	\$306.55	
4"	\$478.96	\$478.96	
6"	\$957.93	\$957.93	
Charge per 1,000 gallons - Residential and General Service	\$6.95	\$6.95	
<b><u>Irrigation Service - Non-Potable</u></b>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$16.90	\$17.26	
3/4"	\$25.35	\$25.89	
1"	\$42.25	\$43.15	
1-1/2"	\$84.50	\$86.30	
2"	\$135.20	\$138.08	
3"	\$270.40	\$276.16	
4"	\$422.50	\$431.50	
6"	\$845.00	\$863.00	
Charge per 1,000 gallons - Irrigation Service	\$1.38	\$1.41	
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
2,000 Gallons	\$33.06	\$33.06	
6,000 Gallons	\$60.86	\$60.86	
8,000 Gallons	\$74.76	\$74.76	

\*Phase I & II water rates will remain unchanged.

<b>AQUARINA UTILITIES, INC.</b>		<b>SCHEDULE NO. 8-B</b>	
<b>TEST YEAR ENDED SEPTEMBER 30, 2014</b>		<b>DOCKET NO. 150010-WS</b>	
<b>MONTHLY WASTEWATER RATES (PHASE II)</b>			
	<b>STAFF RECOMMENDED PHASE I RATES</b>	<b>STAFF RECOMMENDED PHASE II RATES</b>	
<b><u>Residential</u></b>			
Base Facility Charge - All Meter Sizes			
Charge Per 1,000 gallons	\$22.83	\$25.05	
8,000 gallon cap	\$4.94	\$5.68	
Flat Rate Service	\$35.78	\$37.32	
<b><u>General Service</u></b>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$22.83	\$25.05	
3/4"	\$34.25	\$37.58	
1"	\$57.08	\$62.63	
1-1/2"	\$114.15	\$125.25	
2"	\$182.64	\$200.40	
3"	\$365.28	\$400.80	
4"	\$570.75	\$626.25	
6"	\$1,141.50	\$1,252.50	
Charge per 1,000 gallons - General Service	\$5.94	\$6.81	
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
2,000 Gallons	\$32.71	\$36.41	
6,000 Gallons	\$52.47	\$59.13	
8,000 Gallons	\$62.35	\$70.49	

	Cost Recovery Allocation		Fixed Allocations		Variable Allocations		
	Common Costs	Fixed	Variable	Potable - 50%	NP - 50%	Potable - 9%	NP - 91%
(601) SALARIES AND WAGES - EMPLOYEES	\$122,846	75.00%	25.00%	\$46,067	\$46,067	\$2,764	\$27,947
(604) EMPLOYEE PENSIONS AND BENEFITS	0	75.00%	25.00%	\$0	\$0	\$0	\$0
(615) PURCHASED POWER	35,330	0.00%	100.00%	\$0	\$0	\$3,180	\$32,150
(616) FUEL FOR POWER PRODUCTION	824	0.00%	100.00%	\$0	\$0	\$74	\$750
(618) CHEMICALS	0	0.00%	100.00%	\$0	\$0	\$0	\$0
(620) MATERIALS AND SUPPLIES	6,570	50.00%	50.00%	\$1,642	\$1,642	\$296	\$2,989
(632) CONTRACTUAL SERVICES - PROFESSIONAL	7,613	100.00%	0.00%	\$3,807	\$3,807	\$0	\$0
(634) CONTRACTUAL SERVICES - MANAGEMENT FEES	3,860	100.00%	0.00%	\$1,930	\$1,930	\$0	\$0
(635) CONTRACTUAL SERVICES - TESTING	0	50.00%	50.00%	\$0	\$0	\$0	\$0
(636) CONTRACTUAL SERVICES - OTHER	9,278	50.00%	50.00%	\$2,320	\$2,320	\$418	\$4,221
(641) RENTAL OF BUILDING/PROPERTY	667	100.00%	0.00%	\$334	\$334	\$0	\$0
(642) RENTAL OF EQUIPMENT	15,600	100.00%	0.00%	\$7,800	\$7,800	\$0	\$0
(650) TRANSPORTATION EXPENSE	12,648	50.00%	50.00%	\$3,162	\$3,162	\$569	\$5,755
(656) INSURANCE - VEHICLE	3,456	100.00%	0.00%	\$1,728	\$1,728	\$0	\$0
(657) INSURANCE - GENERAL LIABILITY	5,247	100.00%	0.00%	\$2,624	\$2,624	\$0	\$0
(659) INSURANCE - OTHER	4,755	100.00%	0.00%	\$2,378	\$2,378	\$0	\$0
(667) REGULATORY COMMISSION EXPENSE	50	100.00%	0.00%	\$25	\$25	\$0	\$0
(675) MISCELLANEOUS EXPENSE	8,477	100.00%	0.00%	\$4,239	\$4,239	\$0	\$0
	<u>\$237,221</u>			<u>\$78,054</u>	<u>\$78,054</u>	<u>\$7,301</u>	<u>\$73,812</u>



# Item 8

State of Florida



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

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**DATE:** October 20, 2016

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Economics (Whitchurch, Guffey, Coston) *W*  
Office of the General Counsel (Taylor) *SKG WSC WT JC*

**RE:** Docket No. 160194-EU – Joint petition for approval of amendment to territorial agreement in Alachua County by the City of Alachua and Duke Energy Florida, LLC.

**AGENDA:** 11/01/16 – Regular Agenda – Proposed Agency Action - Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Brisé

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

RECEIVED-FPSC  
2016 OCT 20 AM 9:18  
COMMISSION  
CLERK

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## Case Background

On August 25, 2016, the City of Alachua (Alachua) and Duke Energy Florida, LLC (DEF) filed a joint petition for approval of an amended territorial agreement (proposed agreement) in Alachua County. The proposed agreement is attached to the petition, while the maps and written descriptions are not attached to this recommendation due to the volume of exhibits.

The Commission approved the existing territorial agreement between Alachua and DEF in 1996.<sup>1</sup> The existing agreement was for a term of 20 years, and the joint petitioners desire to amend and continue the agreement. The joint petitioners negotiated the proposed agreement delineating their respective service boundaries in Alachua County for a term of an additional 20

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<sup>1</sup> Order No. PSC-96-1102-FOF-EU, issued August 29, 1996, in Docket No. 960542-EU, In re: Joint Petition for approval of territorial agreement between Florida Power corporation and City of Alachua.

Docket No. 160194-EU  
Date: October 20, 2016

years. If approved, the agreement will result in the transfer of one commercial customer, and one residential customer from DEF to Alachua. There will be no customer transfers from Alachua to DEF. The transfer will be implemented when it is operationally feasible for Alachua to serve the two customers, but no later than 24 months after the approval and written notice of the proposed agreement by the Commission. The Commission has jurisdiction over this matter pursuant to Section 366.04, Florida Statutes (F.S.).

## Discussion of Issues

**Issue 1:** Should the Commission approve the proposed territorial agreement between the City of Alachua and DEF?

**Recommendation:** Yes. The proposed agreement is an extension of the existing agreement set to expire in 2016. It is in the public interest and will enable Alachua and DEF to better serve their current and future customers. It eliminates any potential uneconomic duplication of facilities and staff believes it will not cause a decrease in the reliability of electric service. Staff recommends that the Commission should approve the proposed territorial agreement between Alachua and DEF. (Whitchurch, Guffey, Coston)

**Staff Analysis:** Pursuant to Section 366.04(2)(d), F.S., and Rule 25-6.0440(2), Florida Administrative Code (F.A.C.), the Commission has jurisdiction to approve territorial agreements between, and among, rural electric cooperatives, municipal electric utilities, and investor-owned utilities. Unless the Commission determines that the agreement will cause a detriment to the public interest, the agreement should be approved.<sup>2</sup>

Through the proposed agreement, the joint petitioners desire to continue the existing agreement and verify the territorial boundaries within Alachua County in order to serve customers reliably and economically. The proposed agreement modifies the territorial boundaries to eliminate split parcels. In response to staff's data request, DEF stated that during the in-field due diligence process, it found the extra-territorial customers to be inadvertently served by the company. As a result, one commercial customer and one residential customer will be transferred from DEF to Alachua. In addition to transferring the two customers, the joint petitioners updated the territorial boundary maps using Geographic Information System (GIS) software to demonstrate the boundary lines in greater detail.

The petitioners negotiated the proposed agreement for a 20-year term with the condition that after the expiration date, the agreement will remain in effect until and unless either party provides a written notice of termination at least 12 months prior to termination. Pursuant to Section 1.8 of the proposed agreement, the effective date of the agreement will be the date on which a final Order is issued by the Commission, provided no timely protests are filed.

In accordance with Rule 25-6.0440(1)(d), F.A.C., the petitioners state that the impacted customers pursuant to the proposed agreement were notified by mail of the transfer and provided a description of the differences in rates between DEF and Alachua.<sup>3</sup> As of June 2016, the rate comparison for the non-demand commercial customer, using 1,500 kilowatt-hours, was \$171.22 for DEF and \$186.43 for Alachua. As of June 2016, the rate comparison for the residential customer, using 1,000 kilowatt-hours, was \$111.95 for DEF and \$120.40 for Alachua. DEF will apply any deposits of the two customers that will be transferred to their last electric bill and will directly refund any surplus. With regard to the degree of acceptance by the affected customers, the petitioners state that DEF has not received any feedback, questions, or concerns from the

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<sup>2</sup> Utilities Commission of the City of New Smyrna Beach v. Florida Public Service Commission, 469 So. 2d 731 (Fla. 1985).

<sup>3</sup> Exhibit C of the petition.

customers. The joint petitioners expect that the customer transfers will be completed within 24 months of the effective date of the proposed agreement and will notify the Commission in writing if additional time is needed.

Pursuant to section 3.4 (compensation of related service facilities) of the proposed agreement, Alachua may elect to purchase electric distribution facilities used exclusively for providing electric service to the transferred customers. To determine the facilities' value, DEF will use a common engineering cost elimination methodology such as the Hanley-Whitman index. In response to staff's data request, the joint petitioners stated that Alachua does not intend to purchase any facilities from DEF in order to provide service to the two transferred customers. Alachua states it has existing facilities that can serve these two customers.

The joint petitioners assert that the proposed agreement will avoid duplication of services and wasteful expenditures and will protect the public health and safety from potentially hazardous conditions. The joint petitioners believe and represent that the Commission's approval of the proposed agreement is in the public interest.

**Conclusion:** After review of the petition, the proposed agreement, and the joint petitioners' responses to staff's data request, staff believes that the proposed agreement is in the public interest and will enable Alachua and DEF to better serve their current and future customers. It appears that the proposed agreement eliminates any potential uneconomic duplication of facilities and will not cause a decrease in the reliability of electric service. As such, staff recommends that the Commission should approve the proposed territorial agreement between Alachua and DEF.

**Issue 2:** Should this docket be closed?

**Recommendation:** If no protest is filed by a person whose substantial interests are affected within 21 days of the issuance of the Order, this docket should be closed upon the issuance of a Consummating Order. (Taylor)

**Staff Analysis:** If no protest is filed by a person whose substantial interests are affected within 21 days of the issuance of the Order, this docket should be closed upon the issuance of a Consummating Order.

# Item 9

State of Florida



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

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**DATE:** October 20, 2016

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Economics (Guffey) *SKG EJD PD GS*  
Office of the General Counsel (Brownless) *mmjca*

**RE:** Docket No. 160204-EI – Petition for approval of tariff changes to implement approved generation base rate adjustment, by Tampa Electric Company.

**AGENDA:** 11/01/16 – Regular Agenda – Tariff Filing - Participation is at the discretion of the Commission

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** Pursuant to Order No. PSC-13-0443-FOF-EI the tariff is effective with the first billing cycle of January 2017 or the in-service date of the Polk Conversion Project, whichever is later

**SPECIAL INSTRUCTIONS:** None

RECEIVED-FPSC  
OCT 20 AM 9:25  
COMMISSION  
CLERK

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## Case Background

On September 7, 2016, Tampa Electric Company (Tampa Electric or company) filed a petition for approval of tariff changes to implement a previously approved step increase. This step increase was approved in Order No. PSC-13-0443-FOF-EI, in which the Commission approved a stipulation and settlement agreement in Tampa Electric's 2013 rate case (Settlement Order).<sup>1</sup> The Settlement Order provides a phased-in approach to the rate increase: a \$57.5 million increase effective November 2013, a \$7.5 million increase effective November 2014, and a \$5 million increase effective November 2015. The final increase approved in the Settlement Order is the

<sup>1</sup> Order No. PSC-13-0443-FOF-EI, issued September 30, 2013, in Docket No. 130040-EI, *In re: Petition for rate increase by Tampa Electric Company.*



Docket No. 160204-EI  
Date: October 20, 2016

Polk Generation Base Rate Adjustment (Polk GBRA) of an additional \$110 million of annual revenues. Pursuant to the settlement agreement, the Polk GBRA is effective with the first billing cycle of January 2017 or the commercial in-service date of the Polk Conversion Project, whichever is later.

Section 366.05(1)(e), Florida Statutes, (F.S.) states that new tariffs and changes to an existing tariff, other than an administrative change that does not substantially change the meaning or operation of the tariff, must be approved by the majority vote of the Commission, except as otherwise specifically provided by law. Staff's recommendation addresses Tampa Electric's proposed tariffs to implement the \$110 million Polk GBRA rate increase. The Commission has jurisdiction over this matter pursuant to Chapter 366.04, 366.05, and 366.06, F.S.

## Discussion of Issues

**Issue 1:** Should the Commission approve Tampa Electric's tariff changes to implement the Polk GBRA increase approved in the Settlement Order?

**Recommendation:** Yes, the Commission should approve Tampa Electric's tariff changes to implement the Polk GBRA increase approved in the Settlement Order. Pursuant to the Settlement Order, the Polk GBRA rate changes should become effective with the first billing cycle of January 2017, or the commercial in-service date of the Polk Conversion Project, whichever is later. Tampa Electric should notify its customers of the approved new rates in the December 2016 bills. (Guffey)

**Staff Analysis:** Tampa Electric's petition includes the proposed tariff sheets, the allocation of the revenue increase to the various rate classes, calculations showing the revenue from the sale of electricity by rate schedule under current and proposed rates, and a comparison of monthly bills for the major rate classes. A residential customer who uses 1,000 kilowatt-hours (kWh) per month will see an increase of \$6.68 on the base rate portion of the monthly bill as a result of the Polk GBRA increase. However, the company also proposed in the cost recovery clause dockets a decrease in the fuel, capacity, and environmental charges which, if approved, would result in an overall decrease in residential customer bills of \$1.54 per month in 2017.<sup>2</sup>

Pursuant to the settlement, the Polk GBRA is allocated to all rate classes based on each class's percentage of total base revenues calculated using the base rates in effect on December 1, 2016, and the company's projected 2017 billing determinants consistent with the company's clause filing for 2017. The class revenue increases are then allocated to all base rates and credits at an equal percentage (10.8 percent). Attachment A to this recommendation shows current and proposed base rates for major rate classes.

Tampa Electric states that, at this time, the Polk Conversion project is still under construction with a planned in-service date of January 16, 2017; however, this in-service date is not certain. Tampa Electric will notify staff of the commercial in-service date of the Polk Conversion project.

Staff has reviewed Tampa Electric's proposed tariff sheets and supporting documentation. The calculations are correct and reflect the Settlement Order. The Commission should approve Tampa Electric's tariff rate changes to implement the step increase approved in the Settlement Order. Pursuant to the Settlement Order, the rate changes should become effective with the first billing cycle of January 2017 or the in-service date of the Polk Conversion Project, whichever is later. Tampa Electric should notify its customers of the approved new rates in the December bills.

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<sup>2</sup> The current 1,000 kwh residential bill is \$106.22 and under Tampa Electric's proposal in this docket and the clause dockets, it will decrease to \$104.68 or by \$1.54 in 2017.

**Issue 2:** Should this docket be closed?

**Recommendation:** Yes, if the Commission approves Issue I, this docket should be closed.  
(Brownless)

**Staff Analysis:** If the Commission approves Issue 1, this docket should be closed.

**Present and Proposed Rates for Major Rate Classes**

<b>Rate Class</b>	<b>Charge</b>	<b>Current Rate</b>	<b>Proposed Rate</b>
Residential Service	Basic Service Charge	\$15.00	\$16.62
	Energy Charge (1 <sup>st</sup> 1,000 kwh)	4.694 ¢/kwh	5.200 ¢/kwh
	Energy Charge (above 1,000 kwh)	5.694 ¢/kwh	6.308 ¢/kwh
General Service – Non Demand	Basic Service Charge	\$18.00	\$19.94
	Energy Charge	5.009 ¢/kwh	5.549 ¢/kwh
General Service – Demand	Basic Service Charge	\$30.00	\$33.24
	Energy Charge	1.583 ¢/kwh	1.754 ¢/kwh
	Demand Charge	9.25 \$/kw	10.25 \$/kw
Interruptible Service (closed to new businesses as of 5/7/2009)	Basic Service Charge	\$622.00	\$689.11
	Energy Charge	2.504 ¢/kwh	2.774 ¢/kwh
	Demand Charge	1.45 \$/kw	1.61 \$/kw

Source: TECO revised tariff sheets 6.030, 6.050, 6.080, 6.085, 6.806

# Item 10

State of Florida



## Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

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**DATE:** October 20, 2016

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Economics (Ollila) *A.O. P. E. J. D. R.*  
Office of the General Counsel (Taylor) *W. T. J. S. C.*

**RE:** Docket No. 160198-GU – Petition for approval of safety, access, and facility enhancement program (SAFE) true-up and associated cost recovery factors, by Florida City Gas.

**AGENDA:** 11/01/16 – Regular Agenda – Tariff Filing – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** 8-Month Effective Date: 04/30/17 (60-day suspension date waived by the utility)

**SPECIAL INSTRUCTIONS:** None

2016 OCT 20 AM 9:10  
RECEIVED-FPSC  
COMMISSION CLERK

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### Case Background

On August 31, 2016, Florida City Gas (City Gas or Company) filed a petition for approval of its safety, access, and facility enhancement program (SAFE) true-up and associated cost recovery factors. The SAFE program, approved by the Commission in 2015, is a 10-year program that will relocate mains and associated facilities from rear lot easements to the street front.<sup>1</sup> According to City Gas, relocation to the street front provides for more direct access to facilities and will enhance the level of service provided to all customers through improved safety and reliability. The Commission ordered the Company to file an annual petition, beginning in 2016, for a review

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<sup>1</sup> Order No. PSC-15-0390-TRF-GU, issued September 15, 2015, in Docket No. 150116-GU, *In re: Petition for approval of safety, access, and facility enhancement program and associated cost recovery methodology, by Florida City Gas.* (2015 order)

Docket No. 160198-GU

Date: October 20, 2016

and reset of the surcharge factors to true-up any prior over- or under-recovery and to set the surcharge for the coming year.

In its filing, City Gas waived the 60-day suspension deadline pursuant to Section 366.06(3), Florida Statutes (F.S.). The Office of Public Counsel (OPC) requested interested party status in this docket on September 15, 2016. City Gas filed its responses to staff's first data request on September 23, 2016, and to staff's second and third data requests on October 10, 2016. The proposed tariff page is contained in Attachment 2. The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, 366.06, and 368, F.S.

## Discussion of Issues

**Issue 1:** Should the Commission approve City Gas' proposed SAFE surcharges for 2017?

**Recommendation:** Yes. The Commission should approve City Gas' proposed 2017 SAFE surcharge factors with an effective date of the first billing cycle of 2017. (Ollila)

**Staff Analysis:** Under the SAFE program, City Gas plans to relocate and replace 254.3 miles of mains and associated facilities from rear property easements to the street front over a 10-year period, ending in 2025. The surcharges have been in effect since January 2016; City Gas began its replacements at the end of 2015, as provided for in the 2015 order.

The Company's 2015 - 2016 replacement plan includes 10 projects. Six projects are in the Miami area (Cutler Bay, Hialeah, and Opalocka). Four projects are in Brevard County (Rockledge and three on Merritt Island). Attachment 1 displays City Gas's replacement progress, both actual and forecasted.

City Gas stated in response to staff's data request that its replacement projects are generally prioritized based on the risk assessment model in its Distribution Integrity Management (DIM) program. Prioritization factors include, but are not limited to, the location of the pipeline, pipeline material, leak incident rates, and rear lot pipelines with maintenance access complications and customer encroachments.

### True-up

There is no true-up for 2015; however, the revenue requirement associated with the net plant in service installed in 2015 was included in the rates implemented for 2016. The 2016 true-up includes seven months of actual and five months of estimated 2016 expenses and revenues. The actual/estimated revenue requirement for 2016 is \$736,045 and includes a return on investment, depreciation, and taxes.<sup>2</sup> The estimated 2016 revenue is \$931,494, resulting in an over-recovery of \$195,449 for 2016.

The Company's total projected expenditures for 2017 are \$9,583,423. The corresponding revenue requirement, which includes return on investment, depreciation, and taxes, is \$2,204,344. After the 2016 over-recovery is subtracted, the 2017 revenue requirement is \$2,008,895. Table 1-1 displays the true-up calculation for 2017.

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<sup>2</sup> Beginning with its second annual filing in 2017, the Company will report any operations and maintenance and depreciation expense savings or incremental costs associated with the SAFE program that may occur.



**Table 1-1  
True-up Calculation for 2017**

2017 Projected Replacements	\$9,583,423
Return on Investment	\$1,502,702
Depreciation Expense	\$547,033
Property Tax Expense	\$154,609
2017 Revenue Requirement	\$2,204,344
Less 2016 True-up	(\$195,449)
Total 2017 Revenue Requirement	\$2,008,895

Source: Schedule 2 of the Petition

### **Proposed Surcharges**

The Company's cost allocation method was approved in the 2015 order, and according to City Gas, used for the instant filing. The methodology allocates the cost of a 2-inch pipe to all customers (other than those with pre-existing contracts) on a per customer basis and allocates the incremental cost of replacing pipe larger than 2 inches to customers who use 6,000 or more therms per year. For larger customers, the cost pool takes into account that the minimum pipe is insufficient to serve their demand, and therefore, allocates an incremental per foot cost in addition to the all-customer cost. The resulting allocation factors are applied to the revenue requirement to develop the monthly customer surcharges.

Staff notes that the average residential customer uses 240 therms per year. The proposed fixed monthly surcharge is \$1.53 for customers using less than 6,000 therms per year, compared to the current charge of \$0.71 per month. For customers using 6,000 therms or more per year, the proposed fixed monthly surcharge is \$2.77, compared to the current charge of \$1.31 per month. The surcharge is cumulative; therefore, if City Gas files a rate case before 2025, the then-current SAFE surcharge program would be folded into any newly approved rate base, and the surcharge would begin anew.

### **Conclusion**

Staff has reviewed the filing and supporting documentation and believes that the calculations are consistent with the methodology and are reasonable and accurate. Therefore, staff recommends approval of City Gas' proposed 2017 SAFE surcharge factors with an effective date of the first billing cycle of 2017.

**Issue 2:** Should this docket be closed?

**Recommendation:** If Issue 1 is approved and a protest is filed within 21 days of the issuance of the order, the tariffs should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Taylor)

**Staff Analysis:** If Issue 1 is approved and a protest is filed within 21 days of the issuance of the order, the tariffs should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.

**Florida City Gas' SAFE Program Progress**

Year	Main Replacements			Service Replacements		
	Replaced main (miles)	Remaining main at Year End (miles)	Total Miles Remaining	Replaced Services (No.)	Remaining Services at year end	Total Remaining Services
2014	0.0	254.3	254.3	0	13956	13956
2015	0.0	254.3	254.3	0	13956	13956
2016	14.2	240.1	240.1	706	13250	13250
2017	46.8	193.3	193.3	2536	10713	10713
2018	28.2	165.1	165.1	1545	9168	9168
2019	25.0	140.1	140.1	1372	7797	7797
2020	25.0	115.1	115.1	1372	6425	6425
2021	25.0	90.1	90.1	1372	5053	5053
2022	25.0	65.1	65.1	1372	3681	3681
2023	25.0	40.1	40.1	1372	2309	2309
2024	25.0	15.1	15.1	1372	937	937
2025	15.1	0.0	0.0	937	0	0

Florida City Gas  
 FPSC Natural Gas Tariff  
Volume No. 8

Second Revised Sheet No. 71

RIDER "F"

SAFETY, ACCESS AND FACILITY ENHANCEMENT (SAFE) PROGRAM

(Continued)

- i. all customers regarding the implementation of the SAFE Program and the approved surcharge factors;
  - ii. the immediately affected customers where the eligible infrastructure is being replaced; and
  - iii. the general public through publications (newspapers) covering the geographic areas of the eligible infrastructure replacement activities;
4. Ad valorem taxes; and
5. Federal and state income taxes.

The Company is utilizing a surcharge mechanism in order to recover the costs associated with the SAFE Program. The Company has developed the revenue requirement for the SAFE Program using the same methodology approved in its most recent rate case. The SAFE revenue requirement will be allocated to each customer class (Rate Schedule) using allocation factors established by the Florida Public Service Commission for the SAFE Program. The per customer SAFE surcharge is calculated by dividing the revenue requirement allocated to each customer class by the number of customers in the class.

The cost recovery factors including tax multiplier for the twelve month period from January 1, 2017 through December 31, 2017 are:

<u>Rate Class</u>	<u>Rates Per Customer</u>
Rate Schedule GS-1	\$ 1.53
Rate Schedule GS-100	\$ 1.53
Rate Schedule GS-220	\$ 1.53
Rate Schedule GS-600	\$ 1.53
Rate Schedule GS-1.2k	\$ 1.53
Rate Schedule GS-6k	\$ 2.77
Rate Schedule GS-25k	\$ 2.77
Rate Schedule GS-60k	\$ 2.77
Rate Schedule GS-120k	\$ 2.77
Rate Schedule GS-250k	\$ 2.77
Rate Schedule GS-1.250k	\$ 2.77
Rate Schedule GL	\$ 1.53
Rate Schedule RSG	\$ 1.53
Rate Schedule CSG	\$ 1.53

Issued by: Carolyn Bermudez Vice President, Southern Operations	Effective: January 1, 2017
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# Item 11

State of Florida



## Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

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**DATE:** October 20, 2016

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Economics (Ollila) *S.O. PD ELD GS*  
Office of the General Counsel (Trierweiler) *WJ JSC*

**RE:** Docket No. 160201-GU – Petition for approval of 2015 true-up, projected 2016 true-up and 2017 revenue requirements and surcharges associated with cast iron/bare steel pipe replacement rider, by Peoples Gas System.

**AGENDA:** 11/01/16 – Regular Agenda – Tariff Filing – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** 8-Month Effective Date: 05/01/17 (60-day suspension date waived by the utility)

**SPECIAL INSTRUCTIONS:** None

*RECEIVED-FPSC  
OCT 20 AM 9:18  
COMMISSION CLERK*

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### Case Background

On September 1, 2016, Peoples Gas System (Peoples or Company) filed a petition for approval of its projected 2016 true-up and 2017 revenue requirements and surcharges associated with the cast iron/bare steel pipe replacement rider (rider). The rider was originally approved in Order No. PSC-12-0476-TRF-GU to recover the cost of accelerating the replacement of cast iron and bare steel distribution pipes through a surcharge on customers' bills.<sup>1</sup> The program is expected to be

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<sup>1</sup> Order No. PSC-12-0476-TRF-GU, issued September 18, 2012 in Docket No. 110320-GU, *In re: Petition for approval of Cast Iron/Bare Steel Pipe Replacement Rider (Rider CI/BSR), by Peoples Gas System.* (2012 order)

complete in 2022. Peoples' current surcharges were approved in Order No. PSC-15-0572-TRF-GU.<sup>2</sup>

In the 2012 order, the Commission found that the "replacement of these types of pipelines is in the public interest to improve the safety of Florida's natural gas infrastructure, and reduce the possibility of loss of life and destruction of property should an incident occur." As provided for in the 2012 order, the filing includes a final true-up for 2015, an actual/estimated true-up for 2016, and the projected revenue requirement for 2017.

In its filing, Peoples waived the 60-day suspension deadline pursuant to Section 366.06(3), Florida Statutes (F.S.). Peoples filed its responses to staff's first data request on September 28, 2016. The proposed tariff page is contained in Attachment 2. The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, F.S.

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<sup>2</sup> Order No. PSC-15-0572-TRF-GU, issued December 18, 2015, in Docket No. 150203-GU, *In re: Petition for approval of 2014 true-up, projected 2015 true-up and 2016 revenue requirements and surcharges associated with cast iron/bare steel pipe replacement rider, by Peoples Gas System.* (2015 order)

## Discussion of Issues

**Issue 1:** Should the Commission approve Peoples' proposed rider surcharges for 2017?

**Recommendation:** Yes. The Commission should approve Peoples' proposed 2017 rider surcharges for each rate class commencing with bills rendered for meter readings taken on and after January 1, 2017. (Ollila)

**Staff Analysis:** The rider surcharges have been in effect since January 2013. Peoples' replacement program continues to identify and target the replacement pipelines in the Company's more urban and high consequence areas. Peoples uses a risk-based prioritization to determine the replacement order, which is primarily identified by the Distribution Integrity Management Program (DIMP). Other factors considered include leak incident rates, the pressure under which the pipeline is operating, areas of significant construction, and the pipeline's age. In response to a staff data request, Peoples stated that its 2016 replacement activity has been in Ocala, Sarasota, Daytona, Jacksonville, Eustis, Orlando, St. Petersburg, Miami, and Tampa, with the larger concentration of replacements in the Orlando, Tampa, and St. Petersburg areas.

Attachment 1 displays Peoples' pipe replacement progress, both actual and forecasted. Staff notes that in prior years this table was based on plant accounting records. Peoples determined that reporting replacement numbers from its Geographical Information System (GIS) provides more current information than the plant accounting records, since there is a lag associated with plant accounting records. The table in Attachment 1 uses GIS reporting numbers.

### Audit

The 2015 order required staff to work with the Office of Public Counsel (OPC) and Peoples to conduct an audit of the rider program. Staff asked for input from OPC for the audit service request, which OPC provided. The audit was designed to ensure that costs were properly stated, recoverable through the surcharge, and incremental to base rates where appropriate. The final audit report was issued on August 31, 2016, and filed in Docket No. 150203-GU; no audit exceptions were noted.

### Savings

The 2012 order stated that Peoples agreed to identify and report any operations and maintenance (O&M) and depreciation savings in its annual petition, beginning in the second year. In this filing, Peoples reported depreciation expense savings for 2015 (\$153,747), 2016 (\$109,580), and 2017 (\$108,000). Peoples stated in response to a staff data request that no O&M savings have been identified since the filing of the 2015 docket.

### One-time Credit

Order No. PSC-16-0205-AS-GU required Peoples to add a one-time credit of \$2,000,000 to customers subject to the rider and to clearly identify the inclusion of the \$2,000,000 one-time credit in its rider petition.<sup>3</sup> Peoples has complied with that order.

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<sup>3</sup> Order No. PSC-16-0205-AS-GU, issued May 19, 2016, in Docket No. 150259-GU, *In re: Initiation of show cause proceedings against Peoples Gas System for apparent violations of Sections 368.01 – 05, F.S., and Chapter 25-12, F.A.C.*



### True-ups by Year

Peoples' calculations for the 2017 revenue requirement and surcharges include a final true-up for 2015, an actual/estimated true-up for 2016, and projected costs for 2017.

#### ***Final True-up for 2015***

Peoples stated that the revenues for 2015 were \$3,463,088, compared to a revenue requirement of \$3,537,028. The resulting under-recovery is \$73,941. After adding interest of \$253 and the final 2014 over-recovery of \$36,203 and subtracting the 2015 over-recovery amount (\$61,277) that was already collected in the 2015 surcharges, the final 2015 true-up is an under-recovery of \$98,762.

#### ***Actual/Estimated 2016 True-up***

Peoples provided actual revenues for January through July and forecast revenues for August through December, totaling \$5,684,028. The actual/estimated revenue requirement for 2016 is \$5,127,130 and includes a return on investment, depreciation expense (less savings), and property tax expense. The forecast over-recovery for 2016 is \$556,899. After adding interest of \$5,082, subtracting the final 2015 under-recovery of \$98,762, and subtracting the 2015 over-recovery amount (\$273,526) that was already collected in the 2016 surcharges, the total 2015 true-up is an over-recovery of \$189,693. Pursuant to Order No. PSC-16-0205-AS-GU, Peoples added a one-time credit of \$2,000,000, for a total 2016 over-recovery of \$2,189,693.

#### ***Projected 2017 Costs***

Peoples projects capital expenditures of \$10,875,000 for the replacement of cast iron/bare steel infrastructure in 2017. This compares with final 2015 expenditures of \$11,361,478 and actual/estimated 2016 expenditures of \$12,385,955. After subtracting the total 2016 over-recovery of \$2,189,693, the 2017 revenue requirement is \$4,596,953. Table 1-1 displays the true-up calculation.

**Table 1-1  
True-up Calculation for 2017**

2017 Projected Replacements	\$10,875,000
Return on Investment	\$4,512,722
Depreciation Expense (less savings)	\$1,503,918
Property Tax Expense	\$770,007
2017 Revenue Requirement	\$6,786,646
Less 2016 True-up	(\$2,189,693)
Total 2017 Revenue Requirement	\$4,596,953

Source: Exhibit C, page 1, of the Petition,

### Proposed Surcharge

As established in the 2012 order, the total 2017 revenue requirement is allocated to rate classes using the same methodology that was used for the allocation of mains and services in the cost of service study used in Peoples' most recent rate case. After calculating the percentage of total plant costs attributed to each rate class, the respective percentages were multiplied by the 2017

revenue requirement resulting in the revenue requirement by rate class. Dividing each rate class's revenue requirement by projected therm sales provides the rider surcharge for each rate class.

The proposed 2017 rider surcharge for residential customer is \$0.02309 per therm (compared to the current surcharge of \$0.02137 per therm). The monthly bill impact is \$0.46 beginning January 1, 2017 for a residential customer who uses 20 therms. The proposed tariff page is provided in Attachment 2.

**Conclusion**

Staff believes the calculation of the 2017 rider revenue requirement and the proposed rider surcharge for each rate class is reasonable and accurate. Therefore, staff recommends approval of Peoples' proposed 2017 rider surcharge for each rate class commencing with bills rendered for meter readings taken on and after January 1, 2017.

**Issue 2:** Should this docket be closed?

**Recommendation:** If Issue 1 is approved and a protest is filed within 21 days of the issuance of the order, the tariffs should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Trierweiler)

**Staff Analysis:** If Issue 1 is approved and a protest is filed within 21 days of the issuance of the order, the tariffs should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.

**Peoples' Pipe Replacement Program Progress**

Year	Main Replacements					Service Replacements	
	Replaced Cast Iron (miles)	Replaced Bare Steel (miles)	Remaining Cast Iron at Year End (miles)	Remaining Bare Steel at Year End (miles)	Total Miles Remaining	Replaced Number of Steel Services	Total Number of Remaining Steel Services
2012			100	354	454		14,978
2013	13	38	87	316	403	907	14,071
2014	2	18	85	298	383	950	13,121
2015	26	60	59	238	297	3,521	9,600
2016 (projected)	9	40	50	198	248	1,600	8,000
2017	10	39	40	159	199	1,400	6,600
2018	10	38	30	121	151	1,400	5,200
2019	10	38	20	83	103	1,300	3,900
2020	10	38	10	45	55	1,300	2,600
2021	10	38	0	7	7	1,300	1,300
2022	0	7	0	0	0	1,300	0

Peoples Gas System  
a Division of Tampa Electric Company  
Original Volume No. 3

Fourth Revised Sheet No. 7.806  
Cancels Third Revised Sheet No. 7.806

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**CAST IRON/BARE STEEL REPLACEMENT RIDER  
RIDER CI/BSR**

The monthly bill for Gas Service in any Billing Period shall be increased by the CI/BSR Surcharge determined in accordance with this Rider. CI/BSR Surcharges approved by the Commission for bills rendered for meter readings taken on or after January 1, 2017, are as follows with respect to Customers receiving Gas Service under the following rate schedules:

<u>Rate Schedule</u>	<u>CI/BSR Surcharge</u>
Residential/Residential Standby Generator	\$0.02309 per therm
Small General Service	\$0.01453 per therm
General Service – 1/ Commercial Standby Generator Service	\$0.00806 per therm
General Service – 2	\$0.00747 per therm
General Service – 3	\$0.00628 per therm
General Service – 4	\$0.00421 per therm
General Service – 5	\$0.00229 per therm
Commercial Street Lighting	\$0.01026 per therm
Natural Gas Vehicle Service	\$0.01635 per therm
Wholesale	\$0.00281 per therm

The CI/BSR Surcharges set forth above shall remain in effect until changed pursuant to an order of the Commission.

CI/BSR Surcharges shall be determined in accordance with the provisions of this Rider set forth below.

**Definitions**

For purposes of this Rider:

**"Eligible Replacements"** means the following Company plant investments that (i) do not increase revenues by directly connecting new customers to the plant asset, (ii) are in service and used and useful in providing utility service and (iii) were not included in the Company's rate base for purposes of determining the Company's base rates in its most recent general base rate proceeding:

Mains and service lines, as replacements for existing cast iron, wrought iron and bare steel facilities, and regulators and other pipeline system components the installation of which is required as a consequence of the replacement of the aforesaid facilities.

**"CI/BSR Revenues"** means the revenues produced through CI/BSR Surcharges, exclusive of revenues from all other rates and charges.

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Issued By: G. L. Gillette, President  
Issued On:

Effective: January 1, 2017

# Item 12

State of Florida



# Public Service Commission


CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

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**DATE:** October 20, 2016

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

**FROM:** Gregory L. Shafer, Director, Division of Economics 

**RE:** Docket No. 150181-WU – Application for staff-assisted rate case in Duval County by Neighborhood Utilities, Inc.

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Staff filed a recommendation in this docket on August 31, 2016. The item was deferred for consideration at a later date. The revisions made to this recommendation relate to the write-up for Pro forma Plant on pages 11-13; Salaries and Wages – Employees and Salaries and Wages - Officers on page 17; Pro Forma Expenses on pages 18-20; Rental of Building/Property on page 21; and Operation and Maintenance Expense Summary on page 22. There were no changes to the revenue requirement or attached schedules. Staff is filing a revised recommendation for consideration at the November 1, 2016 Commission Conference.

EXE Approval 

GLS:sjh

Attachment

State of Florida



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

**DATE:** October 20, 2016

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Economics (Hudson, Johnson) *M PD*  
 Division of Accounting and Finance (Mouring, Smith II) *CRSB*  
 Division of Engineering (Buys, King) *ALM*  
 Office of the General Counsel (Corbari) *CAS*

**RE:** Docket No. 150181-WU – Application for staff-assisted rate case in Duval County by Neighborhood Utilities, Inc.

**AGENDA:** 11/01/16 – Proposed Agency Action – Except for Issue Nos. 9, 10, and 18 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Edgar

**CRITICAL DATES:** 01/12/17 (15-Month Effective Date (SARC))

**SPECIAL INSTRUCTIONS:** None

RECEIVED-PSC  
 2016 OCT 20 AM 11:59  
 COMMISSION  
 CLERK



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### Case Background

Neighborhood Utilities, Inc. (Neighborhood or utility) is a Class C utility providing service to approximately 441 water customers in Duval County, and is located within the St. Johns River Water Management District (SJRWMD). Neighborhood was granted Certificate No. 430-W in 1984.<sup>1</sup> The utility's rates and charges were last approved in a staff-assisted rate case (SARC) in 2010.<sup>2</sup> In 2014, the utility's index application was approved and the rates were reduced to reflect the expiration of rate case expense approved in 2010.

On August 10, 2015, Neighborhood filed its application for a SARC, in accordance with a payment plan negotiated with staff for the payment of delinquent regulatory assessment fees (RAFs) owed by the utility. Staff selected the test year ended June 30, 2015, for the instant docket. According to Neighborhood's 2015 annual report, its total gross revenues were \$138,830 and total operating expenses were \$137,980. The Commission has jurisdiction in this case pursuant to Sections 367.0812, 367.0814, and 367.091, Florida Statutes, (F.S.).

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<sup>1</sup> Order No. 13723, issued September 28, 1984, in Docket No. 840063-WU, *In re: Application of Neighborhood Utilities, Inc. for a certificate to operate a water utility in Duval County, Florida.*

<sup>2</sup> Order No. PSC-10-0024-PAA-WU, issued January 11, 2010, in Docket No. 090060-WU, *In re: Application for staff-assisted rate case in Duval County by Neighborhood Utilities.*

## Discussion of Issues

**Issue 1:** Is the quality of service provided by Neighborhood Utilities, Inc. satisfactory?

**Recommendation:** Yes. In its previous rate case, Neighborhood's quality of service was deemed marginal due to its failure to provide routine maintenance on plant facilities, problems related to maintaining chlorine residuals, and customers not receiving boil water notices. The utility is in compliance with Department of Environment Protection's (DEP) chemical standards and the last enforcement from DEP was a warning letter in 2009. Neighborhood corrected all but one deficiency from its last DEP survey and requested pro forma items to maintain its plant facilities and to correct the last deficiency. The utility also corrected the issues with notifying customers of boil water notices. Therefore, staff recommends that the overall quality of service provided by Neighborhood should be considered satisfactory. (P. Buys)

**Staff Analysis:** Pursuant to 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, which is derived from evaluating three separate components of the utility operations. These components are: (1) the quality of the utility's product; (2) the operating conditions of the utility's plant and facilities; and (3) the utility's attempt to address customer satisfaction. The Rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered. Additionally, Section 367.0812(1)(c), F.S., requires the Commission to consider the extent to which the utility provides water service that meets secondary water quality standards as established by the DEP.

In its previous rate case, Neighborhood's quality of service was deemed marginal due to its failure to provide routine maintenance on plant facilities, problems related to maintaining chlorine residuals, and customers not receiving boil water notices. On May 27, 2016, the Office of Public Counsel (OPC) submitted a letter<sup>3</sup> outlining specific concerns regarding information in staff's preliminary review of Neighborhood's requested increase (Staff Report). In its letter, OPC stated that it believes that the utility continues to provide marginal quality of service due to the deferral of maintenance on the plant and poor customer service. Staff's analysis outlined below gives consideration to the Commission's decision in Neighborhood's previous rate case as well as the concerns expressed by OPC.

### Quality of the Utility's Product

Staff's evaluation of Neighborhood's product quality consisted of a review of the utility's compliance with the DEP primary and secondary drinking water standards as well as a review of customer complaints. Primary standards protect public health while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water.

Staff reviewed chemical analyses of samples dated June 4, 2012, and June 17, 2015. All results comply with the DEP primary and secondary water quality standards. These chemical analyses are performed every three years, with the next scheduled analysis to be completed in 2018.

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<sup>3</sup> Document No. 03247-16

At the time of the Commission's order in Neighborhood's previous rate case, the utility was in compliance with DEP rules and regulations. The Commission did note however, that the utility was experiencing sporadic compliance problems related to maintaining chlorine residuals at points furthest from the water treatment plant. Staff reviewed DEP records to determine if the compliance problems described in the utility's last rate case remained an issue, and staff did not find any issues of non-compliance since its last rate case in 2010. Therefore, staff believes Neighborhood has taken steps to address the issues identified in the last rate case such as replacing the chlorine pump and supply feed lines.

Staff's analysis also considered input from customers regarding the quality of the utility's product. Staff reviewed the Commission's complaint records since January 1, 2010, and found no quality of service complaints filed against Neighborhood.

Staff also requested complaints against the utility filed with the DEP since January 1, 2010. DEP responded with two complaints, one in 2015 and one in 2016. Both DEP complaints were made by the same individual, and expressed concern regarding hydrogen sulfide odor due to low chlorine residual. Neighborhood claimed that it had chlorine feed equipment problems at the time of the customer's complaint. Neighborhood's chlorine levels did not fall below DEP's minimum requirements; however, they did fall to a level that customers noticed a sulfur odor. In both instances, the utility resolved/repared the issues with the chlorine feed equipment within two days. After each repair, the utility flushed the water lines to eliminate the sulfur smell.

Last, staff reviewed customer complaints filed with the utility since January 1, 2010. Staff identified 16 complaints made with the utility concerning quality of service. The complaints addressed low pressure, water quality, and the water smelling like sulfur. There were two complaints in 2011, three in 2012, four in 2013, two in 2014, one in 2015, and four in 2016. Neighborhood responded to the complaints by testing water pressure, which was at normal levels, and flushing and repairing the chlorine feed equipment.

Based on staff's review, giving consideration to the utility's current compliance with DEP standards, improvement since its last rate case, as well as the low number of complaints over a period greater than 5 years, the quality of Neighborhood's product should be considered satisfactory.

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

Neighborhood's water treatment system has one well rated at 350 gallons per minute (gpm). The raw water is treated with liquid chlorine for disinfection purposes. The utility's water system has three storage tanks totaling 62,000 gallons. The distribution system is a composite mix of PVC pipes of varying sizes. Staff's evaluation of Neighborhood's facilities included a review of the utility's compliance standards of operation, as well as a site visit.

Neighborhood's last two DEP Sanitary Survey Reports, dated September 29, 2011, and January 24, 2014, each identified multiple deficiencies. The most recent report identified the following deficiencies, three of which are repeat deficiencies:

- Well casings corroded (repeat);
- Aerator screens not cleaned;
- Tank inspections not performed by licensed engineer;
- Ground storage tank corroded (repeat); and
- No Operation & Maintenance manual (repeat).

Neighborhood corrected four of the five deficiencies by August 2014. The one deficiency that has not yet been corrected is the tank inspection. The utility noted that it had not corrected this deficiency due to insufficient funds from declining revenues. Neighborhood requested that the tank inspection be included as a pro forma project. In the utility's last rate case, the Commission stated that the utility's deferred maintenance to its water treatment plant and distribution system had caused sporadic substandard service to its customers.<sup>4</sup> The Commission further stated that the quality of the utility's product and the operating condition of the utility's water plant were marginal based on the utility's failure to perform routine maintenance of its facilities.<sup>5</sup>

In its May 27, 2016 letter, OPC stated that the utility is still deferring maintenance, which is impacting the utility's quality of service. In its letter, OPC expressed its belief that the uncured deficiency, the tank inspection identified by DEP, is an important deficiency. OPC additionally stated that the numerous pro forma plant (Issue 3) and expense (Issue 6) items requested appear to reflect neglected maintenance items. OPC's concerns regarding these items will be discussed in the respective issues below.

Staff agrees with OPC that the deferral of maintenance can ultimately affect the quality of a utility's service and can result in additional costs. However, the utility corrected the majority of deficiencies identified by DEP, and requested funds to cure the remaining deficiency. Once the utility performs its tank inspection, it should be in compliance with DEP requirements. DEP has neither issued a Consent Order against the utility nor assessed any fines for failing to correct the outstanding deficiency. For the reasons outlined above, staff recommends that no financial adjustments be made to the utility's return on equity (ROE) or officer's salaries to reflect the operating condition of Neighborhood's water treatment plant and facilities.

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

As part of staff's evaluation of customer satisfaction, staff held a customer meeting on May 18, 2016, to receive customer comments concerning Neighborhood's quality of service. Six customers attended the meeting with three customers speaking. The concerns raised during the customer meeting addressed customers not receiving boil water notices, estimated bills, customer service, water quality, and broken equipment.

In Neighborhood's previous rate case, several customers expressed concern regarding how the utility delivered boil water notices. As a result, the Commission Ordered the utility to provide the Commission with boil water notices for a year after the Order was issued.<sup>6</sup> During that time, the

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<sup>4</sup> Order No. PSC-10-0024-PAA-WU.

<sup>5</sup> *Id.*

<sup>6</sup> *Id.*

utility did not have any boil water notices. Staff found that the utility had a boil water notice in 2012, which was after the Commission-ordered reporting period.

The Commission's order also stated that hand delivered notices often fall off mail boxes onto the ground, that some customers may never become aware of the situation, and that follow-up notifications, rescinding the boil water notices, rarely occurred. At the customer meeting, a customer had an issue with not being promptly informed of service interruptions. To this point, the utility responded that field personnel hand deliver boil water notices to customers' front door rather than their mailbox when service interruptions are being investigated and repaired, which complies with DEP requirements. The utility also made changes to its website to address these customer concerns. Specifically, the utility now posts messages regarding boil water notices and rescission notices, as well as messages when a service interruption occurs and when it is fixed. Based on the utility's response, it appears the utility is actively taking steps to address concerns regarding boil water notifications. Only one customer, in contrast to six in the prior case, voiced concern on this issue.

In Neighborhood's prior rate case, the Commission also stated that customers shall have reasonable access to contact the utility during normal business hours, as well as an emergency, after-hours contact.<sup>7</sup> In its letter to the Commission, OPC recommended that the utility should be required to establish an emergency contact number for emergency situations. However, the utility provided staff with a copy of a customer bill, which contained the utility's office and emergency contact numbers where customers could easily locate the numbers. Staff believes this is a reasonable means of providing the utility's contact information.

One customer questioned if the utility's service personnel were qualified to perform the requisite utility services. Neighborhood contracts with an outside company, U.S. Water, whose employees are qualified and properly licensed to manage and operate the water systems and treatment facilities.

Another customer had concerns with broken meters. The utility acknowledged the broken meters, noted its plans to replace the meters, and confirmed that some usage for locations with broken meters was estimated. The same customer addressed issues with broken and leaking service connections. The utility believes that one reason for this issue is that customers drive over and/or park on the meters and boxes. Neighborhood has requested to replace the plastic meter boxes and lids in this customer's subdivision with fiberglass concrete boxes and lids. The request to replace meters is discussed more fully in Issue 6.

The same customer also stated that customers "get a run around" when calling the utility's office. Neighborhood explained that when a problem is reported to its office, the appropriate person investigates the issue and determines the solution. The utility calls the customer back with a report of its findings and repair plans. Neighborhood assures that emergency problems are handled immediately, and confirmed the emergency telephone number, as well as the office telephone number, are shown on every bill.

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<sup>7</sup>*Id.*

Neighborhood provided customer contacts from January 1, 2010, through May 20, 2016. As shown in Table 1-1, there were 163 customer contacts; 121 were related to billing issues (high bills, payment arrangement, meter readings, and receiving no bills); 16 were quality of service related complaints; and 26 were other issues (equipment repair, leaks, and property damage). The utility investigated and followed up with the customers in each instance, usually within one day.

Staff also requested complaints against the utility with the DEP for the period of January 1, 2010, through June 13, 2016. DEP responded with two complaints, one in 2015 and one in 2016. Both complaints were made by the same individual, and expressed concern regarding hydrogen sulfide odor due to low chlorine residual. These complaints were discussed in the Quality of Utility Product section above.

Finally, staff reviewed the Commission’s complaint records from January 1, 2010, through June 1, 2016, and found seven complaints. All complaints concerned improper bills and were resolved. Staff additionally adds that no customer correspondence has been filed in the docket.

**Table 1-1  
 Customer Contacts**

Subject of Complaint	PSC's Records (CATS) (01/01/2010 - 06/01/2016)	Utility's Records (01/01/2010 - 05/20/2016)	DEP (01/01/2010 - 06/13/2016)	Customer Meeting*
Billing Related	7	121		2
Opposing Rate Increase				
Quality of Service		16	2	2
Other**		26		
<b>Total</b>	<b>7</b>	<b>163</b>	<b>2</b>	<b>4</b>

\*Note: Customers spoke on multiple issues.

\*\*Note: Other Includes: Equipment Repair, Leaks, Property Damage, Illegal Usage

Source: Responses to staff data requests

Based on the utility’s responses to customer concerns expressed at the customer meeting, complaints filed with the Commission, and complaints filed with the DEP, staff believes the utility’s attempt to address customer satisfaction should be considered satisfactory. Additionally, staff believes the utility addressed the concerns outlined in the Commission’s prior order.

**Conclusion**

Based on the discussion and review above, staff recommends that the quality of the utility’s product, the condition of utility’s facilities, and the utility’s attempt to address customer satisfaction be considered satisfactory. Therefore, staff recommends the overall quality of service be considered satisfactory.

**Issue 2:** What is the used and useful percentage (U&U) of Neighborhood Utilities, Inc.'s water treatment plant and distribution system?

**Recommendation:** Neighborhood's water treatment plant (WTP) and distribution system should be considered 100 percent U&U. Additionally, there appears to be no excessive unaccounted for water. Therefore, staff does recommend no adjustment be made to operating expenses for chemicals and purchased power. (P. Buys)

**Staff Analysis:** Neighborhood's water treatment system has one well rated at 350 gpm. The raw water is treated with liquid chlorine for disinfection purposes. The utility's water system has three storage tanks totaling 62,000 gallons. Neighborhood is also interconnected with JEA for emergency situations. There are 24 fire hydrants located throughout the utility's service area and its distribution system is a composite mix of PVC pipes of varying sizes. In the utility's last rate case, the Commission determined that both the WTP and distribution system were 100 percent U&U.<sup>8</sup>

### **Water Treatment Plant and Distribution System Used & Useful**

As noted above, both Neighborhood's WTP and distribution system were deemed 100 percent U&U during its previous rate case.<sup>9</sup> Since the utility's last rate case, there has been no change in circumstances. Therefore, consistent with the Commission's prior decision, staff recommends that Neighborhood's WTP and distribution system should be considered 100 percent U&U.

### **Excessive Unaccounted for Water (EUW)**

Pursuant to Rule 25-30.4325, F.A.C., the calculation of U&U for a water treatment plant must consider EUW. Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. When establishing the Rule, the Commission recognized that some uses of water are readily measurable and others are not.<sup>10</sup> Unaccounted for water is all water that is produced that is not sold, metered, or accounted for in the records of the utility. The unaccounted for water is calculated by subtracting both the gallons used for other purposes, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year. The Rule additionally provides that to determine whether adjustments to plant and operating expenses, such as purchased electrical power and chemicals cost, are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible.

The Monthly Operating Reports that the utility files with the DEP indicate that the utility treated 28,132,000 gallons during the test year. The utility's annual reports indicate that it purchased 361,000 gallons of water and used 180,000 gallons for other uses during the test year. According

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<sup>8</sup> Order No. PSC-10-0024-PAA-WU

<sup>9</sup> Id.

<sup>10</sup> Order No. PSC-93-0455-NOR-WS, issued on March 24, 1993, in Docket No. 911082-WS, *In re: Proposed revisions to Rules 25-22.0406, 25-30.020, 25-30.025, 25-30.030, 25-30.032 through 25-30.037, 25-30.060, 25-30.110, 25-30.111, 25-30.135, 25-30.255, 25-30.320, 25-30.335, 25-30.360, 25-30.430, 25-30.436, 25-30.437, 25-30.443, 25-30.455, 25-30.515, 25-30.565; adoption of Rules 25-22.0407, 25-22.0408, 25-22.0371, 25-30.038, 25-30.039, 25-30.090, 25-30.117, 25-30.432 through 25-30.435, 25-30.4385, 25-30.4415, 25-30.456, 25-30.460, 25-30.465, 25-30.470, 25-30.475; and repeal of Rule 25-30.441, F.A.C., pertaining to water and wastewater regulation*, at p. 102



to the staff audit report, the utility sold 27,167,355 gallons of water for the test year. Based on the values above, unaccounted for water is only 4 percent. Therefore, staff recommends no adjustment be made to operating expenses for chemicals and purchase power due to EUW.

**Conclusion**

Consistent with its prior rate case, Neighborhood's WTP and distribution system should be considered 100 percent U&U. Additionally, since the utility's unaccounted for water is only 4 percent, no adjustment should be made to operating expenses for chemicals and purchased power.

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

**Recommendation:** The appropriate average test year rate base is \$160,840. (L. Smith)

**Staff Analysis:** Neighborhood's rate base was last established in its 2009 SARC by Order No. PSC-10-0024-PAA-WU.<sup>11</sup> The test year ended June 30, 2015 was used for the instant case. A summary of each rate base component and recommended adjustments are discussed below.

**Utility Plant in Service (UPIS)**

The utility recorded UPIS of \$646,773. The staff audit identified several adjustments resulting in a net increase to UPIS of \$21,591 to reflect the appropriate balances, Commission-ordered adjustments, and additions that were not booked. These adjustments are shown on Table 3-1. Staff also made an averaging adjustment to decrease UPIS by \$188.

**Table 3-1  
 Audit Adjustments**

Acct.	Description	Adjustments
302	Franchise	(\$243)
304	Structures & Improvements	7,447
307	Wells & Springs	7,695
309	Supply Mains	1,680
311	Pumping Equip.	674
320	Water Treatment Equip.	1,242
330	Distribution Reservoirs	2,522
331	T&D Mains	(2,570)
333	Services	3,880
334	Meters & Meter Installations	(1,036)
335	Tools, Shop, & Garage Equip.	<u>300</u>
	<b>Total Adjustments</b>	<b>\$21,591</b>

Source: Audit

**Pro Forma Plant**

As shown in Table 3-2, staff made a net adjustment increasing UPIS by \$3,640 for pro forma plant addition items. On several occasions, staff asked for bids and quotes for each pro forma project and was only provided with one bid. The utility indicated that it had difficulty finding companies or persons to provide quotes and perform the specific jobs. During its site visit, staff observed the condition of the utility's plant and believes the pro forma projects are warranted. Although multiple bids were not provided, staff believes these pro forma plant additions are prudent and reasonable. Therefore, staff recommends an average UPIS balance of \$671,816 (\$646,773 + \$21,591 - \$188 + \$3,640). The details of each pro forma item are discussed below.

<sup>11</sup> Order No. PSC-10-0024-PAA-WU, issued January 11, 2010, in Docket No. 090060-WU, *In re: Application for staff-assisted rate case in Duval County by Neighborhood Utilities.*

***Electric Panel Repairs, including Water Level Controls Replacement***

The utility requested \$14,250 to rewire and replace the electric panel. According to Neighborhood, the electric panel does not work consistently. A 2016 U.S. Water proposal reflects that the existing electrical panel should be replaced. The bid noted, "The existing panel is very outdated and has had multiple problems." This installation would require special disposal as the existing electric panel contains mercury. The bid includes a line item for "Materials and Labor to Complete Scope of Service." Also, the bid "as quoted represents labor, material, and project management specific to items listed" in the description of the project. The retirement associated with this project is \$5,209.

***High Service Pump #1***

The utility requested \$3,977 to replace and upgrade a high service pump. Neighborhood stated the pump upgrade to 450 gallons per minute will increase fire flow capacity. U.S. Water provided a proposal to perform work associated with this project. The proposal includes "Materials and Labor to Complete Scope of Service" at \$1,000. The proposal stated the utility will supply the 20hp motor, seals, and gaskets. Neighborhood provided documentation from the USA BlueBook that shows the cost for the motor, seals, and gaskets at \$2,977. The retirement associated with this project is \$2,271.

***Pump House Roof***

Neighborhood stated that the leaky roof is 33 years old and could cause problems with the electric control panel. The proposal by Florida Residential to replace the pump house roof is \$945. The proposal includes removing existing shingles and felt (\$120), replacing any wood rot that is needed (no price) and installing new drip edge and shingles (\$350). Materials are \$400 and a Dump fee is \$75. The retirement associated with this project is \$347.

***Check Valve***

The utility requested \$4,111 to replace a check valve at the water treatment plant. Neighborhood explained that the check valve will not shut after use which results in water flowing back through the pump. This action could cause damage to the pump and motor. The check valve has been temporarily isolated, and service has been switched to another pump. The utility received a 2016 proposal from U.S. Water to replace the valve. The bid includes material and labor to complete the task. The retirement associated with this project is \$3,083.

***Flushing Valve***

The utility requested \$4,700 to install a two-inch flushing valve at the corner of Rothbury Drive South and Blair Road. A customer at this location complained about odors and installing a flushing valve could help resolve this complaint. Neighborhood reported that the nearest flushing source is a fire hydrant 450 feet away. U.S. Water provided a proposal to complete this work. The proposal is to dig up and install a new flushing valve on the existing 8-inch water main. There is no retirement associated with this project.

***Meters and Meter Box Retirements***

As discussed in Issue 6, staff is recommending a meter replacement program. Staff is also recommending replacing 50 meter boxes. The appropriate retirement associated with this project is \$13,433.

**Table 3-2  
 Pro-Forma Plant Items**

<b>Project</b>	<b>Description</b>	<b>Amount</b>
Electric Panel Repairs	Rewire and replace the electric panel	\$14,250
	Associated Retirement	(5,209)
High Service Pump #1	Replace and upgrade a high service pump	3,977
	Associated Retirement	(2,271)
Pump House Roof	Replace the pump house roof	945
	Associated Retirement	(347)
Check Valve	Install new check valve	4,111
	Associated Retirement	(3,083)
Flushing Valve	Install a 2-inch flushing valve	4,700
Meter and Meter Boxes	Reflect meter and meter box retirements	<u>(13,433)</u>
	Net Adjustment	<u>\$3,640</u>

Source: Responses to staff data requests

**Land & Land Rights**

The utility recorded a test year land value of \$1,000. Staff did not make any adjustments to this account.

**Accumulated Depreciation**

Neighborhood recorded an Accumulated Depreciation balance of \$462,169 on its 2014 Annual Report. The staff auditor calculated Accumulated Depreciation to be \$459,458 as of June 30, 2015, resulting in a decrease of \$2,711. This balance included Commission-ordered adjustments that the utility did not make. Staff also made an averaging adjustment to Accumulated Depreciation that resulted in a decrease of \$10,320. Further, staff made adjustments based on pro forma plant additions and retirements resulting in a net decrease of \$22,986. Staff's adjustments result in an Accumulated Depreciation balance of \$426,152 (\$462,169 - \$2,711 - \$10,320 - \$22,986).

**Contributions In Aid of Construction (CIAC)**

Neighborhood recorded a CIAC balance of \$786,998 as of June 30, 2015. The utility was unable to provide sufficient documentation to support this CIAC amount. As such, staff believes it is necessary to impute CIAC pursuant to Rule 25-30.570, F.A.C., which states:

If the amount of CIAC has not been recorded on the utility's books and the utility does not submit competent substantial evidence as to the amount of CIAC, the amount of CIAC shall be imputed to be the amount of plant costs charged to the cost of land sales for tax purposes if available, or the proportion of the cost of the facilities and plant attributable to the water transmission and distribution system and the sewage collection system.

Pursuant to this rule, staff included \$243,607 which is the balance in Account 331 T&D Mains. Staff also recalculated the appropriate amount of meter installation fees and plant capacity charges based on the utility's tariff. This resulted in an increase to CIAC of \$39,402 for the meter installation fees and \$421,465 for plant capacity charges. Additionally, staff reduced CIAC by \$421,465 to retire the plant capacity fees that were fully amortized. Further, staff reduced CIAC by \$13,433 to reflect meter retirements associated with pro forma meter replacements. Therefore, staff recommends that the appropriate CIAC balance is \$269,576 ( $\$243,607 + \$39,402 + \$421,465 - \$421,465 - \$13,433$ ). This results in a net decrease of \$517,422 ( $\$786,998 - \$269,576$ ).

### **Accumulated Amortization of CIAC**

The utility recorded Accumulated Amortization of CIAC of \$567,803 on its 2014 Annual Report. Staff recalculated this amount based on the imputed balances for CIAC. Based on staff's calculations, the appropriate components of Accumulated Amortization of CIAC are \$145,438 for the T&D Mains, \$33,357 for the Meter Installation Fees, and \$421,465 for the Plant Capacity Fees. Staff also reduced Accumulated Amortization of CIAC by \$421,465 to retire the fully amortized plant capacity fees and \$13,433 associated with pro forma meter retirements. Therefore, staff recommends an Accumulated Amortization of CIAC balance of \$165,362 ( $\$145,438 + \$33,357 + \$421,465 - \$421,465 - \$13,433$ ). This results in a net decrease of \$402,441 ( $\$567,803 - \$165,362$ ).

### **Working Capital Allowance**

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$18,390.

### **Rate Base Summary**

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$160,840. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

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

**Recommendation:** The appropriate return on equity (ROE) is 11.16 percent with a range of 10.16 percent to 12.16 percent. The appropriate overall rate of return is 6.62 percent. (L. Smith)

**Staff Analysis:** Neighborhood's test year capital structure reflected negative common equity of \$622,743, customer deposits of \$7,995, and a long-term debt balance of \$178,919. In accordance with Commission practice, staff set the negative common equity to zero.<sup>12</sup> Staff increased customer deposits by \$1,338 to reflect the amount on the utility's deposit log and decreased customer deposits by \$1,783 to reflect an averaging adjustment. This results in a net decrease of \$445 in customer deposits. Thus, staff recommends a customer deposit balance of \$7,550 (\$7,995 - \$445).

Staff reduced long-term debt by \$89,769 to remove two amounts on the utility's books that Neighborhood stated were already paid. Staff also reduced long-term debt by \$82,078 to remove two additional debts that were on the utility's books. The Utility President informed the audit staff that these debts were unenforceable. Further, staff increased long-term debt by \$95,068 to include two promissory notes that were not on the utility's books. Additionally, staff increased long-term debt by \$1,307 to reflect an averaging adjustment. Thus, staff recommends a long-term debt balance of \$103,447 (\$178,919 - \$89,769 - \$82,078 + \$95,068 + \$1,307).

Neighborhood's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE for the utility is 11.16 percent based upon the Commission-approved leverage formula currently in effect.<sup>13</sup> Staff recommends an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 6.62 percent. The ROE and overall rate of return are shown on Schedule No. 2.

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<sup>12</sup> Order Nos. PSC-15-0535-PAA-WU, issued November 19, 2015, p. 6, in Docket No. 140217-WU, *In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.*; and PSC-13-0140-PAA-WU, issued March 25, 2013, p. 6, in Docket No. 120183-WU, *In re: Application for staff-assisted rate case in Lake County by TLP Water, Inc.*

<sup>13</sup> Order No. PSC-16-0254-PAA-WS, issued June 29, 2016, in Docket No. 160006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

**Issue 5:** What are the appropriate test year revenues for Neighborhood's water system?

**Recommendation:** The appropriate test year revenues for Neighborhood's water system are \$141,920. (Johnson, Hudson)

**Staff Analysis:** Neighborhood recorded total test year revenues of \$135,972. The water revenues included \$134,866 of service revenues and \$1,106 of miscellaneous revenues. Based on staff's review of the utility's billing determinants and the service rates that were in effect during the test year, staff determined test year service revenues should be \$132,143. This results in a decrease of \$2,723 (\$134,866-\$132,143) to service revenues for water.

On a contractual basis, U.S. Water provides disconnect and reconnection services to Neighborhood. In order to recover its cost, the utility charged customers \$20, which is more than its tariff and not in compliance with Commission Rules and Florida Statutes. As discussed in Issue 12, staff is recommending an increase to the utility's existing miscellaneous service charges, as well as adding a late payment charge. As a result, miscellaneous revenues should be increased to reflect the incremental increase of the miscellaneous service charges and the addition of a late payment charge. Based on staff's review of the number of miscellaneous service occurrences during the test year and the utility's recommended miscellaneous service charges, staff determined miscellaneous revenues should be \$9,777 on a going forward basis. This results in an increase of \$8,761 (\$9,777-\$1,106) to miscellaneous revenues for water. Based on the above, staff recommends that the appropriate test year revenues for Neighborhood's water system are \$141,920 (\$132,143+\$9,777).

Although the utility charged more than its approved violation reconnection charge, staff does not believe the utility "willfully" disregarded Commission rules or statutes. As outlined above, the disconnection service is provided on a contractual basis and the utility was attempting to pass the cost to the cost causer. As discussed in Issue 12, staff is recommending violation reconnection charges of \$30 and \$32, for normal and after hours, respectively, which are more than the utility's tariff charges (\$10 normal hours and \$15 after hours), and an unauthorized charge of \$20. The purpose of these miscellaneous service charges is to place the cost burden on the cost causers and not by the general body of ratepayers. The utility's existing violation reconnection charge results in subsidization from the general body of ratepayers because it does not cover the costs associated with service disconnections. Based on the above, staff believes no enforcement action is warranted at this time. However, Neighborhood should be put on notice that, in the future, it may be subject to a show cause proceeding by the Commission, including penalties, if the utility charges amounts other than those approved by the Commission.

**Issue 6:** What is the appropriate test year operating expenses for Neighborhood?

**Recommendation:** The appropriate amount of test year operating expense for the utility is \$176,221. (L. Smith, P. Buys, Johnson)

**Staff Analysis:** Neighborhood recorded operating expense of \$157,952. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made several adjustments to the utility's operating expenses as summarized below.

## **Operation and Maintenance Expenses**

### **Salaries and Wages - Employees (601)**

Neighborhood recorded Salaries and Wages - Employees expense of \$17,777. Staff increased this account by \$223. This adjustment is to reflect the actual Salaries and Wages expense paid by the utility. Staff used Cedar Acres, Inc., a similarly-situated utility, for comparison purposes in this case. Both are Class C utilities, have a President, an office manager, and use contractors for meter reading, operating the utility, and various repairs. In Docket No. 140217-WU, the Commission approved a combined amount (before reductions for unsatisfactory Quality of Service) of \$43,080 (\$38,938 + \$4,142) for Salaries and Wages – Employees and Salaries and Wages – Officers.<sup>14</sup> This equates to \$135 (\$43,080 / 319) per customer annually. In this case, the combined recommended Salaries and Wages – Employees and Salaries and Wages – Officers is \$44,400 (\$18,000 + \$26,400), which equates to \$101 (\$44,400 / 441) per customer. Given the similarities in duties and responsibilities for the president and the office manager of each utility, staff believes this expense is reasonable. Therefore, staff recommends Salaries and Wages - Employees expense of \$18,000 (\$17,777 + \$223).

### **Salaries and Wages - Officers (603)**

Neighborhood recorded Salaries and Wages - Officers expense of \$26,400. In the utility's last rate case, the Commission approved an expense of \$24,000 for this account. Staff indexed this amount, using Commission-approved index factors from 2010 to 2015, which resulted in an amount of \$26,178. Because the difference is only \$222, and in light of the analysis of total salaries above, staff believes the utility-recorded amount is reasonable. Therefore, staff recommends Salaries and Wages expenses - Officers expense of \$26,400.

### **Purchased Power (615)**

Neighborhood recorded Purchased Power expense of \$5,261. Staff increased Purchased Power expense by \$187 to reflect the actual amount incurred. The utility did not record any Purchased Power expense related to Neighborhood's office. Staff used a Commission-approved amount (\$1,572) for a utility with a similarly-sized customer base and indexed that amount to 2015.<sup>15</sup> This results in an increase to Purchased Power expense of \$1,705. Therefore, staff recommends Purchased Power expense of \$7,153 (\$5,261 + \$187 + \$1,705).

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<sup>14</sup> Order No. PSC-15-0535-PAA-WU, p. 7, issued November 19, 2015, in Docket No. 140217-WU, *In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.*

<sup>15</sup> Order No. PSC-11-0436-PAA-WS, p. 8, issued September 29, 2011, in Docket No. 100472-WS, *In re: Application for staff-assisted rate case in Manatee County by Heather Hills Estates Utilities LLC.*



***Chemicals (618)***

The utility recorded Chemicals expense of \$5,339. Staff decreased Chemicals expense by \$635 to remove a transaction that was outside the test year. Therefore, staff recommends Chemicals expense of \$4,704 ( $\$5,339 - \$635$ ).

***Contractual Services - Billing (630)***

Neighborhood recorded Contractual Services - Billing expense of \$4,912. Staff reduced Contractual Services - Billing expense by \$1,123 to remove several bills that were outside the test year. Therefore, staff recommends Contractual Services - Billing expense of \$3,789 ( $\$4,912 - \$1,123$ ).

***Contractual Services - Testing (635)***

The utility recorded Contractual Services - Testing expense of \$2,632. Staff reduced Contractual Services - Testing expense by \$39 to remove unsupported expenses. Further, staff increased Contractual Services - Testing expense by \$485 to reflect an annualized amount related to DEP required tri-annual contaminants testing that was not performed during the test year. Therefore, staff recommends Contractual Services - Testing expense of \$3,078 ( $\$2,632 - \$39 + \$485$ ).

***Contractual Services - Other (636)***

Neighborhood recorded Contractual Services - Other expense of \$19,774. This amount includes the expense related to U.S. Water for operating the system, meter reading and turn offs, as well as various repairs. It also includes payment to Merchant Services for generating customer bills. Staff has increased Contractual Services - Other expense by \$1,560 to reflect the cost of lawn maintenance. Consistent with Rule 25-30.433(8), F.A.C., staff reduced this account by \$2,685 to remove and amortize various non-recurring repair expenses. Further, staff increased Contractual Services - Other expense by \$25,027 to reflect pro forma expenses as discussed and reflected in Table 6-1 below. Therefore, staff recommends Contractual Services - Other expense of \$43,676 ( $\$19,774 + \$1,560 - \$2,685 + \$25,027$ ).

***Pro Forma Expenses***

Neighborhood has requested several pro forma expense items, which are summarized in Table 6-1. On several occasions, staff asked for bids and quotes for each pro forma project and was only provided with one bid. The utility indicated that it had difficulty finding companies or persons to provide quotes and perform specific jobs. During its site visit, staff observed the condition of the utility's plant and believes the pro forma projects are warranted. Although multiple bids were not provided, staff believes these pro forma expenses are reasonable based on the analysis of each item below. Pursuant to Rule 25-30.433(8), F.A.C., non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified.

***Meter Reading***

As part of the pro forma adjustments, staff increased this account by \$6,092 to reflect the going-forward expense associated with meter reading services through U.S. Water, a non-related, third party. The utility submitted a quote from U.S. Water on June 1, 2016, that reflected meter reading services for up to 500 meters for an annual amount of \$16,200, or \$3.06 per meter per month. Since Neighborhood currently has 441 meters, and within a year should have installed 60 touch read meters, staff reduced this amount to reflect 381 meters. This reduction results in an

annual amount of \$12,344 (381 x \$3.06 x 12), which represents an increase of \$6,092 over the current contract. In Docket No. 140217-WU, the Commission approved an amount equal to \$6.30 per meter read. Staff therefore believes \$3.06 per meter read to be reasonable. However, staff would note that the utility is currently seeking to negotiate a lower contract amount with U.S. Water, as well as exploring alternatives.

### ***Tank Inspection***

Neighborhood is requesting \$3,850 for a tank inspection. The utility originally provide a 2014 quote from U.S. Water for \$6,926. When staff asked for a current quote, Neighborhood provided a 2016 proposal from American Tank Maintenance, LLC for \$3,850. The proposal includes tank cleaning, inspections, and disinfection. The proposed inspection is a five-year inspection required by DEP and is currently overdue by 18 months. DEP did note this as a deficiency on the utility's last sanitary survey. The utility has indicated that the tank inspection has not been completed due to insufficient revenues. The adjustment to O&M Expenses would be \$770 (\$3,850 over five years).

### ***Fire Hydrant Service***

Neighborhood is requesting \$5,400 for fire hydrant service. The 2016 proposal from Bob's Backflow and Plumbing Services states that the annual testing of the hydrants would include inspecting, operating, flushing, and greasing the ports of each hydrant. The proposal quoted \$225 per hydrant. There are 24 hydrants in the distribution system. The adjustment to O&M Expenses would be an increase of \$2,700 (\$225 per fire hydrant over two years).

### ***Valves***

The utility is requesting \$3,650 to clean and exercise valves. Neighborhood received a 2016 proposal from U.S. Water who would locate, exercise, and cleanout all the valves. The adjustment to O&M Expenses would be an increase of \$730 (\$3,650 over five years).

### ***Generator Switch Gear***

The utility is requesting \$2,181 to diagnosis and repair the generator switch gear. The utility reports that currently the switch gear works intermittently and needs troubleshooting and repair. Neighborhood received a 2016 quote from Premier Power Systems. Premier Power Systems recommends its full major service, which includes oil, oil filter, air filter, coolant filter, coolant system flush and refill, belts and hoses replaced, diesel fuel tested cleaned and treated, full system test, and two hour load bank test. The adjustment to O&M Expenses would be \$435 (\$2,181 over five years).

### ***Line Break***

On January 12, 2016, U.S. Water repaired a line break. U.S. Water located the line break on the water main through the woods "in the middle of a swamp". The utility provided an invoice from U.S. Water, dated February 15, 2016. The cost for location, labor, and materials is \$4,147. The adjustment to O&M Expenses would be \$829 (\$4,147 over five years).

**Meter Replacements**

Neighborhood is requesting \$90,280 to replace approximately 441 meters. The estimated cost for the meter replacement project is based on a 2016 U.S. Water proposal. During the last rate case, the Commission approved pro forma expense to replace 40 meters per year at \$5,255. Since then, Neighborhood has only replaced 57 meters. Neighborhood stated that water use and revenues have declined since the last rate case; therefore, there were insufficient funds to pay for new meters. Neighborhood stated that all the meters would be replaced; even the 57 meters previously replaced due to the fact those meters are not touch read meters. Staff recommends that funds for the meter replacement program need to be collected in an escrow account at the rate of \$12,360 (\$206 per meter for 60 meters per year). Staff believes the implementation of such an escrow program will provide extra protection to the customers and ensure the completion of the meter replacement program by the utility. The retirement associated with this project is \$9,270. The Commission approved a meter replacement plan for Little Gasparilla Water Utility, Inc. in 2014. The meter replacement plan equated to \$249.15 per meter.<sup>16</sup>

**Meter Boxes and Lids Replacement**

The utility is requesting \$5,550 to replace 50 meter boxes and lids at an estimated \$111 per meter. Based upon a 2015 Ferguson Enterprises, Inc. proposal submitted by Neighborhood, the cost breakdown is: meter boxes \$47, lids \$34, and installation \$30. Neighborhood would like to replace the plastic boxes and lids with fiberglass concrete boxes and lids. This replacement would take place in the Cherokee Cove subdivision only. Accordingly, this cost should be amortized over five years, which equates to \$1,110.

The total pro forma expenses recommended by staff are as follows:

**Table 6-1  
 Pro-Forma Expenses Items**

<b>Project</b>	<b>Description</b>	<b>Amount</b>
Meter Reading	To reflect going-forward meter reading expense	\$6,092
Tank Inspection	To inspect storage tank per DEP requirements	770
Fire Hydrant Service	To annually test and service fire hydrants	2,700
Valves	To clean and exercise the valves	730
Generator Switch Repair	To replace switch in generator	435
Line Break Repair	To repair line break	829
Meter Replacement	To replace 60 meters per year	12,360
Meter Boxes	To replace 50 meter boxes	1,110
	<b>Total</b>	<b>\$25,027</b>

Source: Responses to staff data requests

<sup>16</sup> Order No: PSC-14-0626-PAA-WU, issued October 29, 2014, in Docket No: 130265-WU, *In re: Application for staff-assisted rate case in Charlotte County by Little Gasparilla Water Utility, Inc.*, p. 7.

***Rental of Building/Property (640)***

Neighborhood did not record any Rental of Building/Property expense. The utility is currently using an office, with no lease agreement, free of charge. The business that originally provided the office space to Neighborhood has since been sold and the utility has been asked to move out of the space. Based on a recent telephone discussion, the Utility's President informed staff that he has not signed a lease because Neighborhood does not currently have the money. In addition, the President stated that he is awaiting the outcome of this rate case before signing a lease.

The utility has submitted a quote, from a non-related, third party for an 800 square foot office at \$13.50 per square foot, on a yearly basis. This equates to an annual rent expense of \$10,800. Prior to the customer meeting, staff performed an analysis of 11 suitably-sized office spaces in the Jacksonville area. Specifically, in an effort to test the reasonableness of this quote, staff used a commercial real estate website to calculate an average annual per square foot price of \$14.64. Staff's analysis resulted in an amount of \$11,715 (800 x \$14.64).

Further, staff notes that in the utility's last rate case, the Commission approved rent expense in the amount of \$8,222. Staff indexed this amount from 2010 to 2015, using Commission approved index factors, resulting in an amount of \$8,968.

Staff believes that rent expense is a necessary cost of providing service that should be included in the revenue requirement. Based on staff's analysis of average annual office rentals in the Jacksonville area and the indexed amount from the previous rate case, staff believes the utility's quote from the non-related, third party is reasonable. Therefore, staff recommends Rental of Building expense of \$10,800.

***Transportation Expense (650)***

Neighborhood recorded Transportation expense of \$6,746. The main vehicle used by Neighborhood is a 1998 Honda Accord. The title to this vehicle is in the name of the spouse of the Utility's President. There are no lease payments associated with this vehicle. The utility pays for all gas and maintenance on the vehicle. In addition to the Honda Accord, the utility occasionally uses a 2001 Lexus that is also the personal vehicle of the Utility President. There are no lease payments associated with this vehicle either, however the utility pays for the gasoline in exchange for the use of that vehicle. Staff increased Transportation expense by \$632 to reflect supported expenses. Staff also reduced this account by \$2,411 to remove a non-utility payment. Therefore, staff recommends Transportation expense of \$4,967 ( $\$6,746 + \$632 - \$2,411$ ).

***Insurance Expense (655)***

The utility recorded Insurance expense of \$4,164. Staff increased this expense by \$1,344 to reflect actual expenses that are supported by documentation. Staff also reduced this account by \$3,346 to remove payments for a life insurance policy on Neighborhood's President. According to the NARUC Uniform System of Accounts, these payments should be recorded below the line. Therefore, staff recommends Insurance expense of \$2,162 ( $\$4,164 + \$1,344 - \$3,346$ ).

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

The utility did not record any Regulatory Commission expense. By Rule 25-22.0407, F.A.C., Neighborhood is required to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, staff has estimated \$431 for postage, \$308 for printing, and \$44 for envelopes. Additionally, the utility paid a \$1,000 rate case filing fee. Based on the above, staff recommends that the total rate case expense is \$1,783, which amortized over four years results in a Regulatory Commission expense of \$446 ( $\$1,783 / 4$ ).

### **Bad Debt (670)**

Neighborhood recorded Bad Debt expense of \$387. However, this amount was removed by the auditors due to lack of support. To establish an appropriate amount of Bad Debt expense for the test year, staff calculated a 3-year average using annual reports filed for the years 2013, 2014, and 2015. The 3-year average is consistent with Commission practice.<sup>17</sup> Using the 3-year average, staff recommends a decrease of \$71. Therefore, staff recommends Bad Debt expense of \$316 ( $\$387 - \$71$ ).

### **Miscellaneous Expense (675)**

The utility recorded Miscellaneous expense of \$32,085. Staff decreased Miscellaneous expense by \$11,795 to remove expenses that were outside the test year. Staff also decreased Miscellaneous expense by \$7,895 to remove expenses that had no supporting documentation. Staff increased Miscellaneous expense by \$5,032 to include expenses that were not recorded on Neighborhood's books. Staff decreased this account by \$128 to reclassify and capitalize expenses to UPIS. Further, staff reduced this account by \$897 to reflect the going-forward cost of telephone service. Finally, staff reduced this account by \$2,307 to remove non-utility expenses. Therefore, staff recommends Miscellaneous expense of \$14,095 ( $\$32,085 - \$11,795 - \$7,895 + \$5,032 - \$128 - \$897 - \$2,307$ ).

### **Operation and Maintenance Expenses Summary**

Based on the above, staff recommends that O&M expenses are \$147,120. Staff would note that the total O&M expense per customer in this case is \$334. Using the 2014 Annual Reports, staff performed an analysis of Class C utilities and calculated that the average O&M expenses, indexed to 2016, were \$331 per customer. Therefore, staff believes the recommended O&M expenses to be reasonable. Staff's recommended adjustments to O&M expenses are shown on Schedule Nos. 3-B and 3-C.

### **Depreciation Expense**

The utility recorded Depreciation expense of \$13,390 for the test year. Staff auditors recalculated Depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. and found that Depreciation expense was understated by \$9,422. Staff also increased Depreciation expense by \$849 associated with pro forma plant additions. Based on the above, staff recommends a test year Depreciation expense of \$23,661 ( $\$13,390 + \$9,422 + \$849$ ).

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<sup>17</sup> Order Nos. PSC-15-0335-PAA-WS, issued August 20, 2015, in Docket No. 140147-WS, *In re: Application for staff-assisted rate case in Sumter County by Jumper Creek Utility Company*, p. 9; and PSC-16-0013-PAA-SU, issued January 6, 2016, in Docket No. 150102-SU, *In re: Application for increase in wastewater rates in Charlotte County by Utilities, Inc. of Sandalhaven*, p. 23.

### **CIAC Amortization Expense**

Neighborhood did not record any CIAC Amortization expense for the test year. Staff calculated CIAC Amortization expense for the test year to be \$9,118. Staff decreased this expense by \$1,179 to reflect retirements related to pro forma meter installations. Based on staff's calculations, the utility's CIAC Amortization expense is \$7,938 (\$9,118 - \$1,179).

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

Neighborhood recorded TOTI of \$11,550. Staff reduced this amount by \$195 to reflect the appropriate test year property taxes. Staff increased TOTI by \$2,023 to reflect RAFs associated with the revenue increase. It should be also noted that although it is not included in the revenue requirement, the utility applies ten percent and five percent to customer's bills for a public service tax and a right of way tax for Duval County. The public service tax and right of way tax are self-reporting, which means it is the utility's responsibility to report and pay the county tax collector. Staff is therefore recommending TOTI of \$13,378 (\$11,550 - \$195 + \$2,023).

### **Income Tax**

The utility did not record any income tax expense for the test year. Neighborhood has shown a net loss for the last several years in its annual reports and income tax returns. This tax loss carry forward is in excess of the income tax provision on a going-forward basis, and is expected to continue to be so for at least the next 10 years. In this instance, it is Commission practice to allow no provision for income tax.<sup>18</sup> Therefore, staff recommends no income tax provision for the utility.

### **Operating Expenses Summary**

The application of staff's recommended adjustments to Neighborhood's test year operating expenses result in operating expenses of \$176,221. Operating expenses are shown on Schedule Nos. 3-A. The related adjustments are shown on Schedule No. 3-B.

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<sup>18</sup> Order Nos. PSC-15-0535-PAA-WU, p. 11, issued November 19, 2015, in Docket No. 140217-WU, *In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.*; and PSC-10-0124-PAA-WU, p. 9, issued March 1, 2010, in Docket No. 090244-WU, *In re: Application for staff-assisted rate case in Lake County by TLP Water, Inc.*

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

**Recommendation:** The appropriate revenue requirement is \$186,869, resulting in an annual increase of \$44,949 (or 31.67 percent). (L. Smith)

**Staff Analysis:** Neighborhood should be allowed an annual increase of \$44,949 (or 31.67 percent). This will allow the utility the opportunity to recover its expenses and earn a 6.62 percent return on its water system. The calculations are shown in Table 7-1.

**Table 7-1  
Revenue Requirement**

Adjusted Rate Base	\$160,840
Rate of Return	<u>6.62%</u>
Return on Rate Base	\$10,648
Adjusted O&M Expense	147,120
Depreciation Expense (Net)	15,723
Taxes Other Than Income	13,378
Income Taxes	<u>0</u>
Revenue Requirement	\$186,869
Less Adjusted Test Year Revenues	<u>(141,920)</u>
Annual Increase	<u>\$44,949</u>
Percent Increase	31.67%

Source: Staff's calculation

**Issue 8:** What are the appropriate rate structure and rates for Neighborhood's water system?

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

**Staff Analysis:** Neighborhood is located in Duval County within the SJRWMD and provides water service to approximately 437 residential and 4 general service customers. Approximately one percent of the residential customer bills during the test year had zero gallons indicating a non-seasonal customer base. The average residential water demand is 5,065 gallons per month. The utility's current water system rate structure for residential customers consists of a base facility charge (BFC) and a three-tier inclining block rate structure. The rate blocks are: (1) 0-6,000 gallons; (2) 6,001-12,000 gallons; and (3) all usage in excess of 12,000 gallons per month. The general service rate structure includes a BFC based on meter size and a uniform 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.

Currently, the utility's BFC generates approximately 43 percent of the test year revenues. In order to design gallonage charges that will send the appropriate pricing signals to target non-discretionary usage, staff believes 30 percent of the revenue requirement should be recovered through the BFC. At the 30 percent BFC allocation, the percentage increase in price increases as consumption increases, which is one of the rate design goals. In addition, the average number of people per household served by the water system is three; therefore, based on the number of persons per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 5,000 gallons per month instead of 6,000 gallons. Staff recommends shifting the third tier to 10,000 gallons and over, rather than 12,000 gallons and over, to provide a greater pricing signal for usage in excess of 10,000 gallons per month. Staff recommends a BFC and a three-tier gallonage charge rate structure, which includes a gallonage charge for non-discretionary usage for residential water customers. The rate tiers should be: (1) 0-5,000 gallons (non-discretionary); (2) 5,001-10,000 gallons; and (3) all usage in excess of 10,000 gallons per month. Staff recommends a BFC and uniform gallonage charge rate structure for general service water customers.

Further, based on the recommended revenue increase of approximately 31.7 percent, the residential consumption can be expected to decline by 1,537,000 gallons resulting in anticipated



average residential demand of 4,771 gallons per month. Staff recommends a 5.8 percent reduction in total test year residential gallons for rate setting purposes and corresponding reductions of \$405 for purchased power, \$266 for chemical expense, and \$32 for RAFs to reflect the anticipated repression. These adjustments result in a post repression revenue requirement of \$176,390. Table 8-1 contains staff's recommended rate structure and rates and alternative rate structure, which includes varying BFC allocations and rate blocks. Although provided as alternatives, staff is not in support of alternative one because the percentage increase in price decreases as consumption increases, which is contrary to setting the conservation-oriented rate structure. For alternative two, the across-the-board increase does not allow for an adjustment for repression, which could put the utility at a revenue shortfall.

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

	<b>RATES AT TIME OF FILING</b>	<b>STAFF RECOMMENDED RATES (30% BFC)</b>	<b>ALTERNATIVE I (40% BFC)</b>	<b>ALTERNATIVE II (Across-the-board to existing rates) (43% BFC)</b>
<b>Residential</b>				
5/8" x 3/4" Meter Size	\$9.17	\$8.46	\$11.29	\$12.29
Charge per 1,000 gallons				
0-6,000 gallons	\$2.40			\$3.22
6,001 – 12,000 gallons	\$3.60			\$4.82
Over 12,000 gallons	\$4.80			\$6.43
0 – 5,000 gallons		\$4.35	\$3.73	
5,001 – 10,000 gallons		\$5.35	\$4.36	
Over 10,000 gallons		\$8.02	\$6.54	
5,000 Gallons	\$21.17	\$30.21	\$29.94	\$28.39
10,000 Gallons	\$37.97	\$56.96	\$51.74	\$50.89
12,000 Gallons	\$52.37	\$84.01	\$64.82	\$60.53

Source: Current tariff and staff's calculations

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

**Issue 9:** What is the appropriate amount by which rates should be reduced in four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816 F.S.?

**Recommendation:** The water rates should be reduced to remove rate case expense grossed-up for RAFs and amortized over a four-year period, as shown on Schedule No. 4-A. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Neighborhood should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Johnson, Hudson, L. Smith)

**Staff Analysis:** Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. This results in a reduction of \$471.

Neighborhood's water rates should be reduced to remove rate case expense grossed-up for RAFs and amortized over a four-year period, as shown on Schedule No. 4-A. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Neighborhood should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

**Issue 10:** Should the recommended rates 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?

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

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

The utility should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$29,966. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

- 1) The Commission Clerk, or his or her designee, must be a signatory to the escrow agreement; and,
- 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 security, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

**Issue 11:** What are the appropriate amount, terms, and conditions for the escrow account established for the meter replacement program?

**Recommendation:** The utility should be required to escrow \$1,030 every month. The appropriate terms and conditions of the escrow account are set forth below in the Staff Analysis Section. (L. Smith, P. Buys)

**Staff Analysis:** As discussed in Issue 6, staff is recommending a meter replacement program for the utility. The meter replacement program includes replacing 60 meters per year, resulting in a total annual cost of \$12,360. Staff believes that in order to assure that the meters are replaced and the customers are protected, \$1,030 should be escrowed monthly. Further, in order for approval of funds to be released, the utility must submit support documentation of installation of meters and associated costs. The meter replacement program is expected to be completed within eight years.

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; and,
- 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.

Neighborhood should maintain a record of the amount escrowed, and the amount of revenues that are subject to refund.

**Issue 12:** Should Neighborhood's miscellaneous service charges be revised?

**Recommendation:** Yes. Neighborhood's miscellaneous service charges should be revised. The charges should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges 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. (Johnson, Hudson)

**Staff Analysis:** Neighborhood's current initial connection, normal reconnection, premises visit, and violation reconnection charges were last established on September 28, 1984.<sup>19</sup> Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. The utility's request to revise its miscellaneous charges was accompanied by its reason for requesting the charge, as well as the cost justification required by Section 367.091(6), F.S.

**Initial Connection Charge**

Currently, the utility's initial connection charges are \$10 and \$15 for normal and after hours, respectively. The initial connection charge is levied for service initiation at a location where service did not exist previously. The utility representative makes one trip when performing the service of an initial connection. Based on labor and transportation to and from the service territory, staff recommends initial connection charges of \$19 and \$21 for normal and after hours, respectively. Staff's calculation is shown below.

**Table 11-1  
 Initial Connection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$8.65/hr x 1/4 hr)	\$2.16	Labor (Administrative) (\$8.65/hr x 1/4 hr)	\$2.16
Labor (Field) (\$12.69/hr x 1/3 hr)	\$4.23	Labor (Field) (\$19.03/hr x 1/3hr)	\$6.34
Transportation (\$.54/mile x 24 miles-to/from)	\$12.96	Transportation (\$.54/mile x 24 miles-to/from)	\$12.96
<b>Total</b>	<b>\$19.35</b>	<b>Total</b>	<b>\$21.46</b>

Source: Utility's cost justification documentation

**Normal Reconnection Charge**

The utility's normal reconnection charges are \$10 and \$15 for normal and after hours, respectively. The normal reconnection charge is levied for the transfer of service to a new customer account at a previously served location or reconnection of service subsequent to a customer requested disconnection. A normal reconnection requires two trips, which includes one to turn service on and the other to turn service off at a later date.

<sup>19</sup>Order No. 13723, issued September 28, 1984, in Docket No. 84003, *Application of Neighborhood Utilities, Inc., for a certificate to operate a water utility in Duval County.*

Based on labor and transportation to and from the service territory, staff recommends that the normal reconnection charges should be \$34 and \$38 for normal and after hours, respectively for water service. Staff's calculations are shown below.

**Table 11-2  
 Normal Reconnection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$8.65/hr x 1/4 hr)	\$2.16	Labor (Administrative) (\$8.65/hr x 1/4 hr)	\$2.16
Labor (Field) (\$12.69/hr x 1/4 hr x 2)	\$6.35	Labor (Field) (\$19.03/hr x 1/4 hr x 2)	\$9.52
Transportation (\$.54/mile x 24 miles-to/from x 2)	\$25.92	Transportation (\$.54/mile x 24 miles-to/from x 2)	\$25.92
<b>Total</b>	<b>\$34.43</b>	<b>Total</b>	<b>\$37.60</b>

Source: Utility's cost justification documentation

**Violation Reconnection Charge**

The utility's existing violation reconnection charges are \$10 and \$15 for normal and after hours, respectively. The violation reconnection charge is levied prior to reconnection of an existing customer after discontinuance of service for cause. The service performed for violation reconnection requires two trips, which includes one trip to turn off service and a subsequent trip to turn on service once the violation has been remedied. Neighborhood has contracted with U.S. Water for turn-offs when there is a violation. U.S. Water's first billed hour is for one to five turn-offs and an additional charge for fuel. The same billing methodology would apply for turn-ons, as well. The utility averages approximately 20 turn-offs per request made for turn-offs. However, the utility may not be able to avoid having only one turn-on at any given time. In order to minimize the cost of turn-ons, the utility has opted to perform this service when a violation has been remedied. Based on labor and transportation to and from the service territory, staff recommends water violation reconnection charges of \$30 and \$32 for normal and after hours, respectively, based on the cost to turnoff service by U.S. Water and the average cost to restore service either during normal business hours or after hours by the utility. Staff's calculations for the water violation reconnection charges are shown below.

**Table 11-3  
 Violation Reconnection Charge Calculation – Turn Off**

Activity	Normal and After Hours Cost
Labor – (Administrative - utility) (\$8.65/hr x 1/4hr)	\$2.16
Labor – (outside contractor)	\$11.58
Transportation (outside contractor)	<u>\$.62</u>
<b>Total</b>	<b>\$14.36</b>

Source: Utility’s cost justification documentation

**Table 11-4  
 Violation Reconnection Charge Calculation – Turn On**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Field) (\$12.69/hr x 1/4 hr)	\$3.17	Labor (Field) (\$19.03/hr x 1/4 hr)	\$4.76
Transportation (\$.54/mile x 24 miles-to/from)	<u>\$12.96</u>	Transportation (\$.54/mile x 24 miles-to/from)	<u>\$12.96</u>
<b>Total</b>	<b>\$16.13</b>	<b>Total</b>	<b>\$17.72</b>

Source: Utility’s cost justification documentation

**Premises Visit Charge**

The utility’s existing premises visit charge is \$8 during regular business hours. The premises visit charge is levied when a service representative visits a premises at the customer’s request for complaint resolution and the problem is found to be the customer’s responsibility. In addition, the premises visit can be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. A premises visit requires one trip. Based on labor and transportation to and from the service territory, staff recommends premises visit charges of \$19 and \$21 for normal and after hours. Staff’s calculations are shown below.

**Table 11-5  
 Premises Visit Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$8.65/hr x 1/4hr)	\$2.16	Labor (Administrative) (\$8.65/hr x 1/4hr)	\$2.16
Labor (Field) (\$12.69/hr x 1/3 hr)	\$4.23	Labor (Field) (\$19.03/hr x 1/3 hr)	\$6.34
Transportation (\$.54/mile x 24 miles-to/from)	<u>\$12.96</u>	Transportation (\$.54/mile x 24 miles-to/from)	<u>\$12.96</u>
<b>Total</b>	<b>\$19.35</b>	<b>Total</b>	<b>\$21.46</b>

Source: Utility’s cost justification documentation



**Table 11-6**  
**Summary of Staff's Recommended Miscellaneous Service Charges**

Miscellaneous Service Charges	During Hours	After Hours
Initial Connection Charge	\$19	\$21
Normal Reconnection Charge	\$34	\$38
Violation Reconnection Charge	\$30	\$32
Premises Visit Charge (in lieu of Disconnection)	\$19	\$21

Source: Staff's recommended charges

**Summary**

Neighborhood's miscellaneous service charges should be revised. The charges should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges 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 13:** Should Neighborhood's request to implement a late payment charge be approved?

**Recommendation:** Yes. Neighborhood's request to implement a late payment charge should be approved. Neighborhood should be allowed to implement a late payment charge of \$4.30. Neighborhood should be required to file a proposed customer notice to reflect the Commission-approved charge. The approved charge 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 approved charge should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than ten days after the date of the notice. (Johnson)

**Staff Analysis:** Section 367.091(6), F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. The utility is requesting a \$5.00 late payment charge to recover the cost of supplies and labor associated with processing late payment notices. The utility's request for a late payment charge was accompanied by its reason for requesting the charge, as well as the cost justification required by Section 367.091(6), F.S.

The utility indicated that approximately 35 percent or 150 (35% x 430) of Neighborhood's bills are delinquent on a monthly basis. The utility indicated that it processes six late payment charges an hour. Neighborhood's cost justification included labor cost of \$4.17, which was based on salary of \$25 per hour. However, staff determined that the appropriate combine labor for the clerical and administrative employees is \$21 per hour. Based on the labor and six late payment notices per hour, staff determined labor cost of \$3.50 (\$21/6). Neighborhood provided a cost justification for a late payment charge of \$4.93. The cost basis for the utility's requested and staff's recommended late payment charge, including labor, is shown below. Staff's recommended charge has been rounded to the nearest tenth.

**Table 12-1  
Late Payment Charge Calculation**

	Utility's Proposed	Staff Recommended
Labor	\$4.17	\$3.50
Printing	0.20	0.20
Postage	<u>0.56</u>	<u>0.56</u>
Total	\$4.93	\$4.26

Source: Utility cost justification and staff's calculation

Based on staff's research, since the late 1990s, the Commission has approved late payment charges ranging from \$2.00 to \$7.00.<sup>20</sup> The purpose of this charge is not only to provide an

<sup>20</sup> See Order Nos. PSC-14-0335-PAA-WS, in Docket No. 130243-WS, issued June 30, 2014, *In re: Application for staff-assisted rate case in Highlands County by Lake Placid Utilities Inc.*; PSC-14-0105-TRF-WS, in Docket No. 130288-WS, issued February 20, 2014, *In re: Request for approval of late payment charge in Brevard County by Aquarina Utilities, Inc.*; PSC-13-0177-PAA-WU, in Docket No. 130052-WU, issued April 29, 2013, *In re:*

incentive for customers to make timely payment, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing delinquent accounts solely upon those who are cost causers. Based on the above, staff recommends that Neighborhood's request to implement a late payment charge should be approved. Neighborhood should be allowed to implement a late payment charge of \$4.30. Neighborhood should be required to file a proposed customer notice to reflect the Commission-approved charge. The approved charge 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 approved charge should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than ten days after the date of the notice.

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*Application for grandfather certificate to operate water utility in Charlotte County by Little Gasparilla Water Utility, Inc.; PSC-10-0257-TRF-WU, in Docket No. 090429-WU, issued April 26, 2010, In re: Request for approval of imposition of miscellaneous service charges, delinquent payment charge and meter tampering charge in Lake County, by Pine Harbour Water Utilities, LLC.; and PSC-11-0204-TRF-SU, in Docket No. 100413-SU, issued April 25, 2011, In re: Request for approval of tariff amendment to include a late fee of \$14.00 in Polk County by West Lakeland Wastewater.*

**Issue 14:** Should Neighborhood be authorized to collect Non-Sufficient Funds Charges (NSF)?

**Recommendation:** Yes. Neighborhood should be authorized to collect NSF charges. Staff recommends that Neighborhood revise its tariffs to reflect the NSF charges currently set forth in Section 68.065, F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. Furthermore, the charges should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given within 10 days of the date of the notice. (Johnson, Hudson)

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

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

Approval of NSF charges is consistent with prior Commission decisions.<sup>21</sup> Furthermore, NSF charges place the cost on the cost-causer, rather than requiring that the costs associated with the return of the NSF checks be spread across the general body of ratepayers. As such, Neighborhood should be authorized to collect NSF charges for its water system. Staff recommends that Neighborhood revise its tariff sheet to reflect the NSF charges currently set forth in Section 68.065, F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. Furthermore, the NSF charges should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given within 10 days of the date of the notice.

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<sup>21</sup>Order Nos. PSC-14-0198-TRF-SU, issued May 2, 2014, in Docket No. 140030-SU, *In re: Request for approval to amend Miscellaneous Service charges to include all NSF charges by Environmental Protection Systems of Pine Island, Inc.*; and PSC-13-0646-PAA-WU, issued December 5, 2013, in Docket No. 130025-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*

**Issue 15:** What are the appropriate initial customer deposits for Neighborhood's water service?

**Recommendation:** The appropriate water initial customer deposit should be \$58 for the residential 5/8" x 3/4" meter size based on staff's recommended rates. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water service. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C. In addition, the utility should refund those deposits that have met the refund requirements of Rule 25-30.311(5), F.A.C., within 60 days of the issuance of a consummating order in this matter. The utility should file a refund report within 30 days of the completion of the customer deposit refunds. Neighborhood should be on notice that it may be subject to a show cause proceeding by the Commission, including penalties, if customer deposits are not refunded pursuant to Commission rules. (Johnson, Hudson)

**Staff Analysis:** Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the utility and, ultimately, the general body of ratepayers. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.<sup>22</sup> Currently, the utility's initial customer deposits for residential and general service are \$39 for 5/8" x 3/4", \$54 for one inch, \$78 for the one and one half inch, and \$108 for two inch and over meter sizes. Based on the staff recommended water rates and post repression average residential demand, the appropriate initial customer deposit should be \$58 for water to reflect an average residential customer bill for two months.

Pursuant to Rule 25-30.311(5), F.A.C., after a customer has established a satisfactory payment record and has had continuous service for a period of 23 months, the utility shall refund the residential customer's deposit. The utility applies interest and refunds deposits in January of each year if the rule requirement has been met in the prior year. The utility is currently holding 35 deposits of customers who have met the requirement of the Rule. However, based the utility's existing policy, the deposit will not be refunded until January of 2017.

Rule 25-30.311(4)(b), F.A.C., requires that deposit interest shall be simple interest in all cases and settlement shall be made annually. Staff does not believe it is appropriate to only refund customer deposits annually when the rule requirement has been met prior utility's to January of each year. Neighborhood should refund the customer deposits consistent with the rule requirement. The refund should be made within 60 days of a consummating order being issued in this matter. It should be noted that Neighborhood should be on notice that it may be subject to a show cause proceeding by the Commission, including penalties, if customers deposits are not refunded pursuant to Commission rules.

Staff recommends that the appropriate water initial customer deposit should be \$58 for the residential 5/8" x 3/4" meter size based on staff's recommended rates. The initial customer

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<sup>22</sup>Order Nos. PSC-13-0611-PAA-WS, issued November 19, 2013, in Docket No. 130010-WS, *In re: Application for increase in water rates in Lee County and wastewater rates in Pasco County by Ni Florida, LLC.* and PSC-14-0016-TRF-WU, issued January 6, 2014, in Docket No. 130251-WU, *In re: Application for approval of miscellaneous service charges in Pasco County, by Crestridge Utility Corporation.*

deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water service. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C. The utility should refund those deposits that have met the requirement pursuant to Rule 25-30.311(5), F.A.C., within 60 days of the issuance of a consummating order in this matter. The utility should file a refund report within in 30 days of the completion of the customer deposit refunds.

**Issue 16:** What are the appropriate meter installation charges?

**Recommendation:** The appropriate meter installation charges of \$206 for the 5/8" x 3/4" meters and all other meter sizes should be at actual cost. The meter installation charge may only be collected from new connections to the utility's water system. The approved meter installation charges should be effective for service rendered on or after the stamped approval date of the tariff pursuant to Rule 25-30.475, F.A.C. (Hudson)

**Staff Analysis:** A meter installation charge is designed to recover the cost of the meter and the installation. Neighborhood's current meter installation charges were approved on September 28, 1984.<sup>23</sup> The meter installation charges are \$90 for the 5/8" x 3/4" meter, \$110.00 for the 1" meter, \$202 for the 1 1/2" meter, \$338 for the 2" meter, and actual cost for meter sizes over 2". As discussed in Issue 3, staff is recommending approval of a meter replacement program to replace existing meters with remote read meters. Based on the cost justification provided for the meter replacement program, staff believes it appropriate to update the utility's existing meter installation charges. Staff believes the requested meter installation charge is reasonable.

Based on the above, the appropriate meter installation charges of \$206 for the 5/8" x 3/4 meters and all other meter sizes should be at actual cost. The meter installation charge may only be collected from new connections to the utility's water system. The approved meter installation charges should be effective for service rendered on or after the stamped approval date of the tariff pursuant to Rule 25-30.475, F.A.C.

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<sup>23</sup> *Id.*

**Issue 17:** What is the appropriate manner in which the utility should handle estimated bills?

**Recommendation:** The utility should handle estimated bills in the manner prescribed in Rule 25-30.335, F.A.C. The utility should submit a sample bill displaying the appropriate designation for estimated bills within 30 days of the consummating order. In addition, Neighborhood should be put on notice that, in the future, it may be subject to a show cause proceeding by the Commission, including penalties for failure to comply with Rule 25-30.335, F.A.C. (Hudson)

**Staff Analysis:** As discussed previously, in the utility's last rate case, the Commission approved pro forma for the replacement of meters. However, according to the utility, due to declining revenues the utility was unable to maintain its meter replacement program. As a result, the utility estimates demand for those meters which are inoperable or unreadable. Staff received copies of a customer's bills, which a designation of "E" when the bill was estimated. Pursuant to Rule 25-30.335(2), F.A.C., if the utility estimates a bill, the bill statement shall prominently show the word "Estimated" on the face of the bill. In addition, the utility is obligated to timely correct any problems within the utility's control causing the need to estimate bills. Further, in no event shall a utility provide an estimated bill to any one customer more than four times in any 12-month period due to circumstances that are within the utility's control and service obligations.

Although the utility had a designation of "E" and not "Estimated" on the customer bill, staff does not believe the utility "willfully" disregarded Commission rules or statutes. The utility estimates approximately 20 percent of its bills of which 5 percent is due to inoperable or unreadable meters. Until the inoperable or unreadable meters are replaced, the utility will continue to have estimated bills. When undertaking the meter replacement program, the utility should prioritize the replacement such that those meters that are inoperable or unreadable are replaced first in order to avoid noncompliance with the Rule. Staff believes the utility is proactive in its efforts to resolve the estimated bill issue because of its request for the meter replacements. Based on the above, staff believes no enforcement action is warranted at this time. However, Neighborhood should be put on notice that, in the future, it may be subject to a show cause proceeding by the Commission, including penalties, if the utility fails to comply with Rule 25-30.335, F.A.C.

Based on the above, the utility should handle estimated bills in the manner prescribed in Rule 25-30.335, F.A.C. The utility should submit a sample bill displaying the appropriate designation for estimated bills within 30 days of the consummating order. In addition, Neighborhood should be put on notice that, in the future, it may be subject to a show cause proceeding by the Commission, including penalties for failure to comply with Rule 25-30.335, F.A.C.



**Issue 18:** Should the utility 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 (USOA) associated with the Commission approved adjustments?

**Recommendation:** Yes. The utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Neighborhood should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the utility's books and records. In the event the utility needs additional time to complete the adjustments, notice should be provided within seven days prior to deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (L. Smith)

**Staff Analysis:** The utility should be required to notify the Commission, in writing that it has adjusted its books in accordance with the Commission's decision. Neighborhood should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the utility's books and records. In the event the utility needs additional time to complete the adjustments, notice should be provided within seven days prior to deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

**Issue 19:** Should this docket be closed?

**Recommendation:** No. Except for the granting of temporary rates in the event of protest, the four year rate reduction, and proof of adjustments of books and records, which are final actions, if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and the Utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Also, the docket should remain open to allow staff to verify that the customer deposits have been properly refunded. Once the above actions are completed this docket will be closed administratively. (Corbari)

**Staff Analysis:** Except for the granting of temporary rates in the event of protest, the four year rate reduction, and proof of adjustments of books and records, which are final actions if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will be issued if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and the utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Also, the docket should remain open to allow staff to verify that the customer deposits have been properly refunded. Once the above actions are completed this docket will be closed administratively.

NEIGHBORHOOD UTILITIES, LLC		SCHEDULE NO. 1-A	
TEST YEAR ENDED 06/30/15		DOCKET NO. 150181-WU	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$646,773	\$25,043	\$671,816
LAND & LAND RIGHTS	1,000	0	1,000
ACCUMULATED DEPRECIATION	(462,169)	36,017	(426,152)
CIAC	(786,998)	517,422	(269,577)
ACCUMULATED AMORTIZATION OF CIAC	567,803	(402,441)	165,362
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>18,390</u>	<u>18,390</u>
WATER RATE BASE	<u>(\$33,591)</u>	<u>\$194,431</u>	<u>\$160,840</u>

NEIGHBORHOOD UTILITIES, LLC TEST YEAR ENDED 06/30/15 ADJUSTMENTS TO RATE BASE	SCHEDULE NO. 1-B DOCKET NO. 150181-WU
	<u>WATER</u>
<b><u>UTILITY PLANT IN SERVICE</u></b>	
1. To reflect prior COAs and additions that were not booked.	\$21,591
2. To reflect an averaging adjustment.	(188)
3. To reflect pro forma plant additions.	<u>3,640</u>
Total	<u>\$25,043</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>	
1. To reflect the appropriate balance.	\$2,711
2. To reflect an averaging adjustment.	10,320
3. To reflect pro forma plant additions.	<u>22,986</u>
Total	<u>\$36,017</u>
<b><u>CIAC</u></b>	
1. To remove CIAC on the Utilities books.	\$786,998
2. To reflect CIAC associated with T&D mains.	(243,607)
3. To reflect CIAC associated with Meter Installation Fees.	(39,402)
4. To reflect CIAC associated with Plant Capacity Fees.	(421,465)
5. To reflect retirement of Plant Capacity Fees.	421,465
6. To reflect retirements associated with Pro Forma Meters.	<u>13,433</u>
Total	<u>\$517,422</u>
<b><u>ACCUMULATED AMORTIZATION OF CIAC (AA of CIAC)</u></b>	
1. To remove AA of CIAC on the Utilities books.	(567,803)
2. To reflect AA of CIAC associated with T&D mains.	145,438
3. To reflect AA of CIAC associated with Meter Installation Fees.	33357
4. To reflect AA of CIAC associated with Plant Capacity Fees.	421,465
5. To reflect retirement of Plant Capacity Fees.	(421,465)
6. To reflect retirements associated with Pro Forma Meters.	<u>(13,433)</u>
Total	<u>(\$402,441)</u>
<b><u>WORKING CAPITAL ALLOWANCE</u></b>	
To reflect 1/8 of test year O & M expenses.	<u>\$18,390</u>

NEIGHBORHOOD UTILITIES, LLC							SCHEDULE NO. 2		
TEST YEAR ENDED 06/30/15							DOCKET NO. 150181-WU		
SCHEDULE OF CAPITAL STRUCTURE									
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON STOCK	(\$622,743)	\$622,743	\$0						
2. RETAINED EARNINGS	0	0	0						
3. PAID IN CAPITAL	0	0	0						
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>						
TOTAL COMMON EQUITY	(\$622,743)	\$622,743	\$0	\$0	\$0	0.00%	11.16%	0.00%	
5. LONG TERM DEBT	\$178,919	(\$75,472)	\$103,447	\$46,383	\$149,830	95.20%	6.85%	6.52%	
6. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%	
7. PREFERRED STOCK	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%	
TOTAL LONG TERM DEBT	\$178,919	(\$75,472)	\$103,447	\$46,383	\$149,830	95.20%			
8. CUSTOMER DEPOSITS	<u>\$7,995</u>	<u>(\$445)</u>	<u>\$7,550</u>	<u>\$0</u>	<u>\$7,550</u>	<u>4.80%</u>	2.00%	<u>0.10%</u>	
9. TOTAL	<u>(\$435,829)</u>	<u>\$546,826</u>	<u>\$110,997</u>	<u>\$46,383</u>	<u>\$157,380</u>	<u>100.00%</u>		<u>6.62%</u>	
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>		
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>		
OVERALL RATE OF RETURN						<u>6.62%</u>	<u>6.62%</u>		

NEIGHBORHOOD UTILITIES, LLC			SCHEDULE NO. 3-A		
TEST YEAR ENDED 06/30/15			DOCKET NO. 150181-WU		
SCHEDULE OF WATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$135,972</u>	<u>\$5,948</u>	<u>\$141,920</u>	<u>\$44,949</u> 31.67%	<u>\$186,869</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	\$133,012	\$14,108	\$147,120	\$0	\$147,120
3. DEPRECIATION	13,390	10,271	23,661	0	23,661
4. AMORTIZATION	0	(7,938)	(7,938)	0	(7,938)
5. TAXES OTHER THAN INCOME	11,550	(195)	11,355	2,023	13,378
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$157,952</u>	<u>\$16,246</u>	<u>\$174,198</u>	<u>\$2,023</u>	<u>\$176,221</u>
8. OPERATING INCOME/(LOSS)	<u>(\$21,980)</u>		<u>(\$32,278)</u>		<u>\$10,648</u>
9. WATER RATE BASE	<u>(\$33,591)</u>		<u>\$160,840</u>		<u>\$160,840</u>
10. RATE OF RETURN	<u>65.43%</u>		<u>-20.07%</u>		<u>6.62%</u>

NEIGHBORHOOD UTILITIES, LLC TEST YEAR ENDED 06/30/15 ADJUSTMENTS TO OPERATING INCOME	Schedule No. 3-B DOCKET NO. 150181-WU Page 1 of 2
	<b>WATER</b>
<b>OPERATING REVENUES</b>	
1. To reflect the appropriate test year services revenues.	(\$2,723)
2. To reflect the appropriate test year miscellaneous service revenues.	<u>8,671</u>
Subtotal	<u>\$5,948</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>	
1. Salaries and Wages - Employees (601) To reflect appropriate employee salaries.	<u>\$223</u>
2. Purchased Power (615)	
a. To reflect actual purchased power expense.	\$187
b. To include estimate of electric for office.	<u>1,705</u>
Subtotal	<u>\$1,892</u>
3. Chemicals (618) To remove invoice that occurred outside the test year.	<u>(\$635)</u>
4. Contractual Services - Billing (630) To remove invoices outside the test year.	<u>(\$1,123)</u>
5. Contractual Services - Testing (635)	
a. To remove unsupported invoices.	(\$39)
b. To reflect the appropriate testing expense.	<u>485</u>
Subtotal	<u>\$446</u>
6. Contractual Services - Other (636)	
a. To reflect lawn maintenance.	\$1,560
b. To remove and amortize non-recurring expenses.	(2,685)
c. To reflect pro forma expenses.	<u>25,027</u>
Subtotal	<u>\$23,902</u>
7. Rents (640) To include rent expense.	<u>\$10,800</u>

NEIGHBORHOOD UTILITIES, LLC	Schedule No. 3-B
TEST YEAR ENDED 06/30/15	DOCKET NO. 150181-WU
ADJUSTMENTS TO OPERATING INCOME	Page 2 of 2
8. Transportation Expense (650)	
a. To reflect supported amount.	\$632
b. To remove loan payment.	<u>(2,411)</u>
Subtotal	<u>(\$1,779)</u>
9. Insurance Expenses (655)	
a. To reflect supported amounts.	\$1,344
b. To remove Life Insurance Expense.	<u>(3,346)</u>
Subtotal	<u>(\$2,002)</u>
10. Regulatory Commission Expense	
Allowance for rate case expense amortized over 4 years.	<u>\$446</u>
11. Bad Debt Expense (670)	
a. To remove undocumented expense. (AF 11)	(\$387)
b. To reflect three year average bad debt expense.	<u>316</u>
Subtotal	<u>(\$71)</u>
12. Miscellaneous Expense (675)	
a. To removed expenses outside the test year. (AF11)	(\$11,795)
b. To remove expenses due to lack of support. (AF11)	(7,895)
c. To include supported expenses not on utility's books. (AF11)	5,032
d. To reclassify and capitlize to UPIS.	(128)
e. To reflect going-forward cost of phone service.	(897)
f. To remove non-utility expense.	<u>(2,307)</u>
Subtotal	<u>(\$17,990)</u>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>	<b><u>\$14,109</u></b>
<b>DEPRECIATION EXPENSE</b>	
1. To reflect the appropriate test year depreciation expense. (AF3)	\$9,422
2. To reflect pro forma additions.	<u>849</u>
Total	<u>\$10,271</u>
<b>AMORTIZATION</b>	
To reflect the appropriate test year amortization expense.	<u>(\$7,938)</u>
<b>TAXES OTHER THAN INCOME</b>	
To reflect the appropriate test year TOTI.	<u>(\$195)</u>



<b>NEIGHBORHOOD UTILITIES, LLC</b>		<b>SCHEDULE NO. 3-C</b>	
<b>TEST YEAR ENDED 06/30/15</b>		<b>DOCKET NO. 150181-WU</b>	
<b>ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE</b>			
	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUST- MENT</b>	<b>TOTAL PER STAFF</b>
(601) SALARIES AND WAGES - EMPLOYEES	\$17,777	\$223	\$18,000
(603) SALARIES AND WAGES - OFFICERS	26,400	0	26,400
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	5,261	1,892	7,153
(618) CHEMICALS	5,339	(635)	4,704
(620) MATERIALS AND SUPPLIES	1,300	0	1,300
(630) CONTRACTUAL SERVICES - BILLING	4,912	(1,123)	3,789
(631) CONTRACTUAL SERVICES - PROFESSIONAL	3,475	0	3,475
(635) CONTRACTUAL SERVICES - TESTING	2,632	446	3,078
(636) CONTRACTUAL SERVICES - OTHER	19,774	23,902	43,676
(640) RENTS	0	10,800	10,800
(650) TRANSPORTATION EXPENSE	6,746	(1,779)	4,967
(655) INSURANCE EXPENSE	4,164	(2,002)	2,162
(656) GENERATOR LEASE	2,760	0	2,760
(665) REGULATORY COMMISSION EXPENSE	0	446	446
(670) BAD DEBT EXPENSE	387	(71)	316
(675) MISCELLANEOUS EXPENSE	<u>32,085</u>	<u>(17,990)</u>	<u>14,095</u>
	<u>\$133,012</u>	<u>\$14,108</u>	<u>\$147,120</u>

<b>NEIGHBORHOOD UTILITIES, INC.</b>		<b>SCHEDULE NO. 4</b>	
<b>TEST YEAR ENDED 06/30/15</b>		<b>DOCKET NO. 150181-WU</b>	
<b>MONTHLY WATER RATES</b>			
	<b>UTILITY CURRENT RATES</b>	<b>STAFF RECOMMENDED RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential and General Service</u></b>			
<b>Base Facility Charge by Meter Size</b>			
5/8" X 3/4"	\$9.17	\$8.46	\$0.02
3/4"	\$13.76	\$12.69	\$0.03
1"	\$22.94	\$21.15	\$0.06
1-1/2"	\$45.86	\$42.30	\$0.11
2"	\$73.39	\$67.68	\$0.18
3"	\$146.77	\$135.36	\$0.37
4"	\$229.33	\$211.50	\$0.57
6"	\$458.67	\$423.00	\$1.14
<b>Charge per 1,000 gallons - Residential</b>			
0 - 6,000 gallons	\$2.40	N/A	N/A
6,001 - 12,000 gallons	\$3.60	N/A	N/A
Over 12,000 gallons	\$4.80	N/A	N/A
0 - 5,000 gallons	N/A	\$4.35	\$0.01
5,001 - 10,000 gallons	N/A	\$5.35	\$0.01
Over 10,000 gallons	N/A	\$8.02	\$0.02
<b>Charge per 1,000 gallons - General Service</b>	<b>\$2.45</b>	<b>\$4.82</b>	<b>\$0.01</b>
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
5,000 Gallons	\$21.17	\$30.21	
10,000 Gallons	\$37.97	\$56.96	
12,000 Gallons	\$52.37	\$84.01	

# Item 13

State of Florida



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

**DATE:** October 20, 2016

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Economics (Bruce, Hudson)  
Division of Accounting and Finance (Brown)  
Division of Engineering (Hill)  
Office of the General Counsel (Mapp)

*Handwritten signatures and initials:*  
AS, J, CRB, ALM, M, K, J, M, Y

**RE:** Docket No. 160030-WS – Application for increase in water rates in Lee County and wastewater rates in Pasco County by Ni Florida, LLC.

**AGENDA:** 11/01/16 – Proposed Agency Action – Except Issue Nos. 15 and 20 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Graham

**CRITICAL DATES:** 11/1/2016 (5-Month Effective Date Waived Through November 1, 2016)

**SPECIAL INSTRUCTIONS:** None

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## Case Background

Ni Florida, LLC (Ni Florida or utility) is a Class A utility serving approximately 745 water connections in Lee County and 2,757 wastewater connections in Pasco County. Water and wastewater rates were last established for the utility in 2013.<sup>1</sup> On April 4, 2016, Ni Florida filed its application to increase rates.

On May 3, 2016, staff sent the utility a letter indicating deficiencies in the filing of its minimum filing requirements (MFRs). On May 13, 2016, the utility provided corrections to the MFRs and staff determined that the MFRs were complete. Therefore, the official filing date is May 13, 2016. The utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for final rates is based on a 13-month average for the period ended December 31, 2015. Ni Florida requested final revenue increases of \$87,150 (37.1 percent) for water and \$475,000 (24.6 percent) for wastewater.

By Order No. PSC-16-0249-PCO-WS, issued June 29, 2016 (Interim Order), the Commission authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, Florida Statutes (F.S.). The approved interim revenue requirement for water was \$310,891, which represented an increase of \$87,202 or 38.98 percent. The approved interim revenue requirement for wastewater was \$2,264,770, which represented an increase of \$332,619 or 17.21 percent.

The five-month statutory deadline for the Commission to vote on the utility's proposed rates was September 13, 2016. However, by letter dated August 23, 2016, the utility agreed to waive the time to the November 1, 2016 Commission Conference. The Office of the Public Counsel (OPC) is actively monitoring this docket and provided a letter of concerns and issues on August 30, 2016.

This recommendation addresses Ni Florida's request for final rates. The Commission has jurisdiction pursuant to Section Nos. 367.081, 367.0816, and 367.091, F.S.

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<sup>1</sup>Order No. PSC-13-0611-PAA-WS, issued November 19, 2013, in Docket No. 130010-WS, *In re: Application for increase in water rates in Lee County and wastewater rates in Pasco County by Ni Florida, LLC.*

## Discussion of Issues

**Issue 1:** Is the quality of service provided by Ni Florida satisfactory?

**Recommendation:** Yes. Staff recommends that the condition of the water distribution system and wastewater collection systems are satisfactory. It also appears that the utility has attempted to address customers' concerns. Therefore, staff recommends that the overall quality of service for the Ni Florida water and wastewater systems in Lee and Pasco Counties is satisfactory. (Hill)

**Staff Analysis:** Pursuant to 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 is derived from an evaluation of three separate components of the utility's operations. These components are: (1) the quality of the utility's product; (2) the operating conditions of the utility's plant and facilities; and (3) the utility's attempt to address customer satisfaction. The Rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered. Additionally, Section 367.0812(1)(c), F.S., requires the Commission to consider the extent to which the utility provides water service that meets secondary water quality standards as established by the DEP.

### Quality of Utility's Product and Operating Conditions of the Utility's Facilities

Ni Florida's service areas are located in Lee and Pasco Counties. Ni Florida's water system is located in Lee County. The Utility purchases all of the water it sells to customers from Lee County Utilities. The Utility maintains and operates the distribution system that delivers the treated water to its customers. Ni Florida's wastewater collection system is located in Pasco County. All wastewater is pumped to Pasco County Utilities for treatment and disposal pursuant to an agreement made in 1990. Similar to its water system, Ni Florida maintains and operates its wastewater collection system. Because Ni Florida does not have water or wastewater treatment plants, its existing facilities are not inspected by DEP. Staff notes however, that the Utility's facility operators maintain licenses issued by the DEP.

Staff reviewed analyses of water samples dated December 15, 2015, and all results were deemed satisfactory by the Lee County Health Department. Based on the discussion above, staff believes that the quality of Ni Florida's product and the condition of its facilities are satisfactory at this time.

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

In Ni Florida's last rate case, the Commission determined that the utility's quality of service with regards to its wastewater system in Pasco County was satisfactory. The Commission found the quality of service for the utility's water system, in Lee County, to be marginal based on the utility's responsiveness to customers. Based on the Commission's prior decision and the difference in the size of the customer base of Ni Florida's two systems, staff will analyze the utility's attempt to address its water and wastewater customer satisfaction separately.

### Wastewater

Staff held a customer meeting for Ni Florida’s wastewater customers on July 27, 2016, in New Port Richey, Florida. No customers attended this meeting. Three wastewater customers provided written comments to the Commission (docket correspondence) expressing concern with the proposed rate increase.

In its MFRs the utility provided customer complaints filed with the utility during the test year and four years prior. The utility provided 31 complaints as well as the utility’s resolution of each respective complaint. The majority of the complaints dealt with billing issues. Many of these complaints were resolved by the utility making an adjustment to the customer’s bill. All complaints filed with the Commission were contained in the utility’s filing. Subsequent to the test year, two complaints have been filed with the Commission, both of which have been closed. Table 1-1 below summarizes the complaints considered and reviewed by staff in evaluating the utility’s attempt to address its wastewater customers’ concerns.

**Table 1-1  
 Summary of Wastewater Complaints**

Subject of Complaint	PSC’s Records (CATS)	Utility’s Records	Docket Correspondence	Customer Meeting
Billing Related	25	27	1	
Opposing Rate Increase			3	
Quality of Service	1			
Other	4	4		
Total*	30	31	3	0

\* A customer may appear twice in this table if they made multiple complaints.

Based on the small number of complaints, considering more than 2,500 wastewater connections, it appears that Ni Florida’s wastewater customers are satisfied with the service provided by the utility. Additionally, it appears that the utility has adequately responded to customers when a complaint was received. Therefore, staff believes that the Ni Florida has satisfactorily attempted to address its wastewater customers’ concerns.

### Water

As previously stated, in Ni Florida’s last rate case the quality of the utility’s water service was deemed marginal by the Commission. Commission Order No. PSC-13-0611-PAA-WS, specifically states “it is clear from customer comments at the service hearing and before this Commission that the Utility has continued to fail to provide timely responses and service when problems do arise in Lee County.” The Commission further stated that “[q]uality of service is totally within the control of the Utility and there is no excuse for the Utility’s continued failure to resolve billing and service problems both quickly and politely.”

On August 30, 2016, the Office of Public Counsel (OPC) submitted a letter<sup>2</sup> stating that it believes that the customers continue to experience problems communicating with the utility.

<sup>2</sup>Document No. 07117-16



Staff's analysis outlined below gives consideration to the Commission's decision in Ni Florida's previous rate case as well as the concerns expressed by OPC.

A customer meeting was held in Fort Myers, Florida, on July 28, 2016, for the customers of Ni Florida's water system. Eighty customers attended the meeting and seven spoke. The concerns raised during the meeting included the amount of the rate increase and the quality of the water. Two customers expressed concern regarding the utility's responsiveness to customer inquiries or requests and no customers asserted that the utility was impolite. In addition to the customers who spoke at the meeting, four customers have sent written comments to the Commission. These four comments address similar concerns raised at the customer meeting regarding the rate increase and the water quality.

In its August 30, 2016, letter, OPC identified three events that it believes demonstrates that the utility continues to have issues communicating with its customers. First, in May 2016, Tamiami Village & RV Park (Park) asserted it had sent a letter to the utility to coordinate future infrastructure work, and that Ni Florida had not responded. In a letter<sup>3</sup> responding to this specific allegation, the utility stated that, at the time the Park contacted the utility, it had no infrastructure work to coordinate and thus had not communicated with the Park.

Second, at the customer meeting held on July 28, 2016, Park representatives stated that they have never met the new utility contract operator and wished to do so considering how much the Park works as a liaison between the customers and the utility. OPC states that to date the utility had not made an effort to organize such a meeting since. The utility responded that it had provided cell phone numbers for the Chief Financial Officer of Ni America and the President of the Utility Group of Florida, and that they had directed the contract operator to stop by the Park office to introduce himself to the staff at the Park.

Third, OPC's letter notes that the utility was not responsive when Park representatives attempted to reach it regarding flooding caused by a water main break. While the break was subsequently found to be on Lee County Utilities' system, the Park was concerned about the contract operator's lack of response. Ni Florida responded that it assumed Lee County would respond to the affected customers. The utility additionally stated that it would attempt to improve its communication with customers in cases where the problem is outside of the utility's control.

In its MFRs, the utility provided customer complaints filed with the utility during the test year and four years prior. The utility provided six complaints as well as the utility's resolution of each respective complaint. All six complaints dealt with billing issues. All complaints filed with the Commission were contained in the utility's filing and all have been closed. Table 1-2 below summarizes the complaints considered and reviewed by staff in evaluating the utility's attempt to address its water customers' concerns.

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<sup>3</sup>Document No. 07475-16

**Table 1-2  
 Summary of Water Complaints**

<b>Subject of Complaint</b>	<b>PSC's Records (CATS)</b>	<b>Utility's Records</b>	<b>Docket Correspondence</b>	<b>Customer Meeting</b>
Billing Related	6	6		
Opposing Rate Increase			3	3
Quality of Water			1	2
Quality of Service			1	2
Other			2	1
<b>Total*</b>	6	6	4	8

\* A customer may appear twice in this table if they made multiple complaints.

As previously discussed, no customer input in the current docket has specified that the utility's customer service is impolite as was the circumstance in the utility's previous rate case. Furthermore, only one complaint has been filed with Commission since the utility's last rate case in 2013. Therefore, it is reasonable to believe that customer satisfaction has improved since the last rate case in which the utility's quality of service was deemed marginal. Staff last notes that, the overall number of complaints is minimal considering that the utility serves more than 700 water connections. Based on this review, staff believes that utility has improved the quality of its service to water customers since its last rate case and the utility has satisfactorily attempted to address its water customer's concerns.

**Summary**

Staff recommends that the condition of the water distribution system and wastewater collection systems are satisfactory. It also appears that the utility has attempted to address customers' concerns. Therefore, staff recommends that the overall quality of service for the Ni Florida water and wastewater systems in Lee and Pasco Counties is satisfactory.

**Issue 2:** Should the audit adjustments to which the utility and staff agree be made?

**Recommendation:** Yes. Based on the audit adjustments agreed to by the utility and staff, increases of \$6,568 and \$3,634 should be made to wastewater contribution-in-aid-of construction (CIAC) and deferred income taxes, respectively. Wastewater operating expense should also be increased by \$2,845 to reflect the appropriate level of amortization expense. (Brown)

**Staff Analysis:** In its response to staff's Ni Florida audit report and the audit of affiliate transactions, received September 22, 2016, the utility agreed to the audit adjustments as set forth in the table below.

**Table 2-1  
Ni Florida Audit Adjustments**

<b>Audit Finding</b>	<b>Description of Adjustments</b>
Audit Finding No. 4	This finding relates to the correction of the cost rate for customer deposits. Audit staff found that the utility has been applying a cost rate of 6% instead of 2% in the MFRs.
Audit Finding No. 6	This finding relates to adjustments made to correct the number of customer bills for water and wastewater and to take into account a four-year rate reduction in calculating the annualized test year.

Source: Staff audit and utility responses to audit reports

Staff made the appropriate change to the customer deposit cost rate as part of Issue 9 and is reflected in Schedule No. 2. While the utility agreed to Audit Finding No. 6, staff notes that a different adjustment to operating revenues is recommended in a subsequent issue.

In addition to the specific findings agreed to by Ni Florida, there were several other audit adjustments that the utility did not explicitly address in its audit response. Staff included discussion of those adjustments here because they were not objected to in writing. Since Ni Florida took the time to file audit responses for 8 of the 12 audit findings, staff believes that if the utility had any issues or concerns with the 4 audit findings below, they would have been included with the other audit responses. As such, staff believes that the audit adjustments as set forth in the table below should be considered uncontested for purposes of this recommendation.

**Table 2-2  
 Ni Florida Audit Adjustments – No Utility Response**

<b>Audit Finding</b>	<b>Description of Adjustments</b>
Aff. Audit Finding No. 4	This finding relates to the appropriate amount of debt and the cost rate for debt to be included in cost of capital.
Audit Finding No. 2	This finding relates to the appropriate adjustment to accumulated amortization of wastewater CIAC using the current composite rate.
Audit Finding No. 3	This finding relates to a \$50,119 adjustment made to wastewater working capital to correct a mathematical error, prepayments, and accrued interest
Audit Finding No. 5	This finding relates to the removal of a deferred income tax credit balance of \$3,634 for wastewater from rate base. The amount is still reflected in the capital structure schedule.

Source: Staff audit and utility responses to audit reports

In Affiliate Audit Finding No. 4, audit staff found that the subsidiary included two long-term debts that were paid off during the test year and recommended that they not be included in the utility's cost of capital calculations. However, the audit finding also noted that zero debt is reflected from March 2015 to August 2015. Starting in September 2015, the parent allocated a portion of its debt to Ni Florida in the amount \$4,736,843 for September, October, and November. This amount increased to \$5,000,000 in December 2015. Staff believes the amounts included in the utility's MFRs accurately reflect the capital structure and are representative of the long-term debt on the utility's books during the historic test year. Using a 13-month average, the utility has reflected when debt was paid off and included new debt as it was incurred, including a several month period where the balance was zero. As such, staff believes that no audit adjustment needs to be made.

In regard to Audit Finding No. 2, the utility amortized wastewater CIAC using the composite rate from the previous rate case. Ni Florida should have amortized CIAC based on the plant that it is related to, which would require an updated composite rate. Audit staff calculated the current composite rate and applied that rate to amortized CIAC for wastewater. Based on the updated composite rate, the 13-month average accumulated amortization of CIAC for wastewater should be increased by \$6,568 and amortization expense should be increased by \$2,845.

Staff also reduced working capital by \$50,119 in Issue 6 and removed the deferred income tax credit balance of \$3,634 for wastewater from rate base. Rule 25-30.433(3) F.A.C. states that a credit deferred tax balance shall be included only in capital structure. As such, staff made the appropriate adjustment.

Based on the audit adjustments agreed to by the utility and staff above, staff recommends increasing wastewater CIAC by \$6,568 and decreasing deferred income taxes by \$3,634. Wastewater amortization expense should be reduced by \$2,845.

**Issue 3:** Should any audit adjustments contested by the utility be made?

**Recommendation:** Yes. Ni Florida's test year Operations & Maintenance (O&M) expenses should be reduced by \$10,277 for water and \$39,742 for wastewater. Taxes other than income (TOTI) should be decreased by \$835 for water and \$1,378 for wastewater. (Brown)

**Staff Analysis:** Staff's audit reports were released on August 12, 2016,<sup>4</sup> and the utility's response was received on September 22, 2016. The following recommendation addresses the contested audit adjustment and the appropriate adjustments that should be made.

### **Affiliate Audit Finding No. 1**

The staff audit report noted non-utility expense adjustments, allocated down, in the amount of \$187 for water and \$717 for wastewater. These adjustments consisted of late payment fees, country club membership fees, non-utility office expenses, non-supported expenses, and outside the test year expenses. The utility did not specifically disagree with these adjustments and staff believes that they are appropriate. In its response to OPC's concerns, Ni Florida also agreed to remove the cost of the country club membership for the entire year. Membership fees for the year are \$2,508 (\$209 per mo. x 12 months) and staff auditors had already removed approximately \$1,885 as part of their review. To calculate the additional adjustment necessary, staff then allocated the difference, \$623 (\$2,508 - \$1,885), to Ni Florida. On an allocated basis, this represents a reduction of \$11 to water and \$43 to wastewater. As such, staff believes that water and wastewater miscellaneous expense should be reduced by \$198 and \$760, respectively.

Staff's audit report also noted that adjustments to Director and Officer Liability (DOL) Insurance were necessary. Audit staff calculated a total annualized cost of \$19,479 (\$14,568 + \$4,911). This amount consisted of a six-year coverage in the amount of \$4,911 (\$29,464/6) and \$14,568 annually for a DOL policy. In the utility's last rate case, the Commission determined that the cost of DOL insurance benefits both the ratepayers and the shareholders, and should be shared equally between them.<sup>5</sup> Using that methodology, and the utility's allocation percentages, the audit report recommended DOL insurance costs of \$173 for water and \$665 for wastewater. The resulting audit adjustments, \$610 for water and \$2,340 for wastewater, reflect the allocation of the six-year coverage insurance and the removal of the shared costs. The utility did not specifically disagree with these adjustments. Staff agrees that the appropriate amount of DOL insurance is \$173 for water and \$665 for wastewater. Staff's adjustments differ slightly from the audit since it is being made to the amount included in the MFRs. According to the utility, the MFRs included \$851 and \$3,267 for water and wastewater, respectively, for DOL insurance.<sup>6</sup> As such, staff recommends a reduction of \$678 (\$173 - \$851) for water and \$2,602 (\$665 - \$3,267) for wastewater.

In addition, audit staff recommended the reclassification of \$390 to water and \$13,195 to wastewater based on Ni America Operating, LLC's books. The water adjustment consisted of \$390 for legal expenses, while the wastewater adjustments consisted of \$3,900 for legal expenses and \$9,295 for transportation expenses. These particular adjustments were the only ones the utility disagreed with in its response. The utility believes that this is effectively what was done

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<sup>4</sup>Document Nos. 06552-16 (Rate Case Audit) and 06553-16 (Audit of Affiliate Transactions).

<sup>5</sup>Order No. PSC-13-0611-PAA-WS, p.17.

<sup>6</sup> Document No. 08250-16, filed October 14, 2016.

with these costs in the specific assignment of these costs in the MFRs. Although these costs were recorded on the books of Ni America, they were specifically assigned to Ni Florida's water and wastewater systems. Staff agrees with the utility that these assignments were adequately addressed in the MFRs. As such, no reclassification is necessary.

Based on the above analysis, expense water should be reduced by \$876 (\$198 + \$678) and for wastewater should be reduced by \$3,362 (\$760 + \$2,602).

**Affiliate Audit Finding No. 2**

Audit staff reviewed the descriptions of employee duties and responsibilities and identified five employees who appeared to work only in South Carolina or Texas. The total salaries and benefits for the employees that work in South Carolina or Texas utilities according to their job descriptions was \$459,461 (\$382,799 for salaries and \$76,662 for benefits). In addition, 5 percent of another employee's salary was allocated to due diligence, which was disallowed in the utility's last rate case.<sup>7</sup> In total, audit staff believed that corporate salaries and benefits were overstated by \$40,349.

The utility did not specifically disagree with the adjustment related to due diligence, but objected to the removal of salaries and benefits for two of the five employees identified in audit staff's adjustments. In regard to those two employees, Ni Florida argued the following:

Both of these employees perform corporate functions and effectively do tasks for all utilities. These employees' payroll and benefits should remain as an allocable expense.<sup>8</sup>

The job descriptions for the contested positions at issue are included in Table 3-1, below:

**Table 3-1  
Title and Duties of Contested Positions**

<b>Title</b>	<b>Duties</b>
Senior Analyst	Responsible for handling general accounting for the South Carolina utilities owned by Ni America, prepares each of the utilities' monthly financial statements in accordance with U.S. GAAP. Also responsible for determining and reevaluating Equivalent Residential Customers (ERCs) for each of the South Carolina utilities owned by Ni America.
Office Manager	Responsible for managing the South Carolina office for employees of Ni America. Orders supplies, coordinates mailroom activities, assists with making bank deposits from the personnel posting payments, and assists other employees as needed.

Source: Audit workbook 44-3.3

Staff believes that both positions should be removed. The Senior Auditor position should be removed because the job duties provided above clearly reflect work activity performed for Ni America's South Carolina utilities alone. Similarly, the Office Manager's duties also reflect ties

<sup>7</sup>Order No. PSC-13-0611-PAA-WS, pp.13-14

<sup>8</sup>Document No. 07734-16, filed September 22, 2016.

to Ni America's South Carolina operations and provide no clear indication of how the position benefits Florida customers. Staff acknowledges that some of the office manager's duties may also overlap with services being provided through the management services contract with utility Group of Florida, LLC. Additionally, staff believes that the utility's removal of salaries and benefits from overhead for a similar position in Texas is a compelling reason to remove the salaries and benefits associated with the South Carolina Office Manager here.<sup>9</sup>

In its audit response, Ni Florida indicated that it identified one additional employee whose salary and benefits should be part of the reduction since their duties are limited to South Carolina. Staff agrees that it is appropriate to remove salaries and benefits for this employee as well. Because this adjustment is specific to one employee and the salary information is confidential, staff will not disclose salary and benefit information here. Staff included the employee's salary and benefits in the reduction below.

In total, staff believes that allocated corporate salaries and benefits were overstated by \$63,297. Staff removed \$13,086 from water and \$50,211 from wastewater.

### **Affiliate Audit Finding No. 3**

The affiliated audit recommended that depreciation expense not be allocated to Ni Florida in the amount of \$1,575 because the fixed assets are not allocated to Ni Florida. The utility argued that this is likely the result of a misunderstanding in the response given by Ni Florida when asked about these assets. According to the utility, these assets are not allocated to Ni Florida, because they reside on the books of Ni America. The utility added, and staff agrees, that the assets in question support the corporate employees of Ni America; therefore, the depreciation expense of these assets should be allocated to Ni Florida, the same as is done with the payroll and benefits of these employees. As such, staff does not believe the audit adjustment should be included.

### **Audit Finding No. 1**

The utility began a construction project to provide utility service to an outreach center (Rhodes Road Project) in 2015. In March of the same year, the utility calculated the wastewater CIAC for this center using a residential service tariff to calculate the CIAC amount because they do not have an authorized general service tariff. Using this, the utility calculated a CIAC requirement of \$77,760, which the utility booked in March 2015 and reflected in their MFRs. The project was still in construction work in progress (CWIP) at the end of 2015. The utility has not included CWIP in rate base. As such, audit staff recommended removing this amount from CIAC and the fall out amounts charged to Accumulated Amortization of CIAC and CIAC expense pending completion of the project. Ni Florida did not agree with the audit finding that the CIAC should be removed. The utility explained that in its rate filing, Ni Florida included the Rhodes Road Project CWIP as a pro forma addition to plant in service. As discussed in Issue 4, this project is currently in service. Because the utility included the project in pro forma plant and the project is now complete, staff believes that CIAC should remain in rate base as reflected in the utility's MFRs. As such, the audit adjustment is not required.

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<sup>9</sup>Audit workpaper 44-3.3 identified a Texas employee with the title of Office Manager whose job duties were very similar to the Office Manager position listed above. This employee was one of several employees whose salaries and benefits were excluded from overhead. The Texas office manager's duties follow: Ms. Rotermund is responsible for managing the Houston office for corporate employees of Ni America. She orders supplies, coordinates mailroom activities, assists with preparing expense reports, and assists other employees as needed.

### **Audit Finding No. 7**

Audit staff determined that O&M expenses should be \$240,935 and \$1,524,366 for water and wastewater, respectively, representing net increases of \$2,425 for water and \$8,853 for wastewater. As part of the adjustment, auditors removed out of period expenses and pollution insurance, added the current cost of a general liability insurance policy, and made several reclassification adjustments. The utility only references the removal of the pollution insurance in its audit response. Staff notes that the auditors recommended the removal of the pollution insurance because Ni Florida was not included when the policy was renewed. In its response, the utility explained that it was inadvertently left off of the Ni Pacolet Milliken Utilities policy, but has since been added. The utility provided support documentation, including premium information, in response to Staff's 4th Data Request, Question No. 5.<sup>10</sup> The \$6,000 premium associated with adding Ni Florida to the pollution insurance policy should be allocated to water and wastewater and included in O&M. This results in an increase of \$574 to Account 659 for water and \$2,106 to Account 759 for wastewater. Staff believes that the following audit adjustments are also appropriate:

1. Increase insurance-general liability by \$3,111 and \$12,001 for water and wastewater respectively, to reflect current renewal policy premiums.
2. Remove \$126 from wastewater materials and supplies for out of period costs.
3. Remove \$150 from contractual services-testing for out of period costs.

As such, staff increased water and wastewater O&M by \$3,685 (\$574 + \$3,111) and \$13,831 (\$2,106 + 12,001 - \$126 - \$150), respectively, for Audit Finding 7.

### **Audit Finding No. 8**

Staff's audit report reduced water related Regulatory Assessment Fees (RAF) by \$835, and increased wastewater RAF fees by \$582. Real estate and property taxes were also reduced by \$1,572 for wastewater and an additional reduction of \$388 was made to remove late fees. The only portion of the audit finding that the utility appears to disagree, is with the portion related to the Pasco County property tax discount for early payment. The utility indicated that the bill was paid two months in advance and that Ni Florida received a 2 percent discount. It is longstanding Commission practice to recognize the maximum discount, whether the utility receives the discount or not. As such, staff agrees with the auditors that the property tax expense should reflect the maximum discount available. The maximum discount available was on November 30, 2015 and property taxes should be reduced by \$1,572. The utility did not specifically address the RAF adjustment or the removal of the late fees. As such, staff reduced RAFs for water by \$835 and reduced the amount for wastewater by \$1,378 (\$582 - \$1,572 - \$388).

Based on the audit adjustments discussed above, staff recommends that the adjustments set forth in Table 3-2 be made.

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<sup>10</sup>Document No. 07638-16, filed September 19, 2016.



**Table 3-2**  
**Recommended Contested Audit Adjustments**

<b>Audit Finding</b>	<b>Water</b>	<b>Wastewater</b>
Affiliate Audit Finding No. 1	(\$876)	(\$3,362)
Affiliate Audit Finding No. 2	(13,086)	(50,211)
Affiliate Audit Finding No. 3	0	0
Audit Finding No. 1	0	0
Audit Finding No. 7	3,685	13,831
<b>Total O&amp;M</b>	<u>(\$10,277)</u>	<u>(\$39,742)</u>
Audit Finding No. 8	(\$835)	(\$1,378)
<b>Total TOTI</b>	<u>(\$835)</u>	<u>(\$1,378)</u>

Additional O&M adjustments are addressed in Issue 12.

**Issue 4:** Should any adjustments be made to the utility's pro forma plant additions and associated expenses?

**Recommendation:** Yes. The appropriate amount of pro forma plant additions net of retirements is \$299,194 for wastewater. Ni Florida's wastewater pro forma plant should be increased by \$32,306, accumulated depreciation reduced by \$44,844, depreciation expense reduced by \$735, and property taxes increased by \$10,037. In addition, accumulated deferred income taxes (ADITs) should be reduced by \$596. (Hill, Brown)

**Staff Analysis:** In its MFRs, Ni Florida reflected two pro forma wastewater additions totaling \$266,889, net of retirements. The following table provides a breakdown of each pro forma plant addition.

**Table 4-1  
 Ni Florida's Pro Forma Projects**

<b>Pro Forma Projects</b>	<b>Wastewater</b>
Tower Dr. Collection System Replacement Project	\$729,262
Retirement for Tower Dr. Replacement Project	(545,254)
ROPES – Rhodes Rd. Project (New Service)	<u>82,880</u>
Net Addition	<u>\$266,888</u>

Source: MFR Schedule No. A-3

**Tower Drive Project**

Ni Florida's MFRs included \$729,262 for the replacement of wastewater collection lines to address inflow and infiltration along Tower Drive. There is a corresponding \$545,254 retirement associated with this work, so the net impact on plant in service for this project is \$184,008. On April 20, 2015, DEP authorized the construction and installation of the discussed components. Ni Florida received final clearance from DEP on June 15, 2016, and placed the project into service on September 30, 2016.

The utility provided staff with four bids, ranging from approximately \$646,000 to \$1,174,000, for the Tower Drive project. Bid information is provided below:

**Table 4-2  
 Tower Drive Bids**

<b>Bid Provider</b>	<b>Amount</b>
Flave A. Williams III Dozer Service, Inc.	\$645,937 <sup>11</sup>
Utility Group of Florida, LLC	\$710,872
JMJ Site Development Inc.	\$1,159,091
Environmental Equipment Sales, Inc.	\$1,173,430

Source: Response to Staff's Second Data Request

Ni Florida selected the bid provided by Utility Group of Florida. While not the lowest bid, the Utility Group of Florida bid did not contain the exclusions that the lowest bid contained.

<sup>11</sup>Bid contained numerous exclusions, including landscaping, fencing, fees & permits, and fencing.

The utility included \$729,262 in its MFRs for this pro forma plant, and staff's review of the actual expense totaled \$854,860. Since no original cost invoices were available, 75 percent of the cost of the replacement was used as the retirement value by the utility and staff. This is consistent with Commission practice.<sup>12</sup> The utility calculated retirements at \$545,254. Based on the actual cost of the project, staff calculated retirements at \$639,159. Staff has reviewed the bids as well as recent invoices and recommends that the Commission approve \$854,860 for this project.

### **ROPES-Rhodes Road Project**

Ni Florida's MFRs included \$82,880 for a project to connect a new general service customer at 7839 Rhodes Road. The utility has since submitted an invoice of \$613 for DEP certification and final testing, which brings the total for this project to \$83,493. The project was completed on April 26, 2016, has been approved by DEP, and has been placed into service.

The utility provided a feasibility report for the Rhodes Road project prepared by a professional engineer which estimated costs for this project at \$75,000. As mentioned previously, the utility included \$82,880 in its MFRs for the this pro forma project, and staff's review of the actual expense totaled \$83,493. Staff believes that the difference between the estimated cost and the actual cost of the project is likely a result of the report being prepared in 2011. Staff notes that the final cost for the Rhodes Road project included \$6,500 for contingencies. It appears that these costs were part of the billing for a fixed-amount, lump-sum project, which was intended to be billed at 100 percent of the accepted bid. There were no retirements associated with this project because it was new construction. Staff recommends that the Commission approve \$83,493 for this project.

### **Conclusion**

Staff made adjustments to reflect the difference between actual costs and estimated pro forma plant. Staff's adjustments to plant resulted in corresponding flow-through adjustments to accumulated depreciation, depreciation expense, property taxes, and accumulated deferred income taxes (ADITs). Staff's recommended adjustments, excluding ADITs, are shown in the following tables.

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<sup>12</sup>Order Nos. PSC-13-0187-PAA-WS, issued May 2, 2013, in Docket No. 120152-WS, *In re: Application for increase in water and wastewater rates in Orange County by Pluris Wedgefield, Inc.*; PSC-11-0587-PAA-SU, issued December 21, 2011, in Docket No. 110153-SU, *In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge*; PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, *In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida*; PSC-09-0632-PAA-WU, issued September 17, 2009, in Docket No. 080353-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*; and PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, *In re: Application for rate increase in Martin County by Indiantown Company, Inc.*

**Table 4-3  
 Plant Adjustments**

<b>Pro Forma Projects</b>	<b>MFR Plant</b>	<b>Staff Plant</b>	<b>Plant Adj.</b>
Tower Dr. Collection System Replacement Project	\$729,262	\$854,860	\$125,598
Retirement for Tower Dr. Replacement Project	(545,254)	(639,159)	(93,905)
ROPES – Rhodes Rd. Project (New Service)	<u>82,880</u>	<u>83,493</u>	<u>613</u>
<b>Total</b>	<b><u>\$266,888</u></b>	<b><u>\$299,194</u></b>	<b><u>\$32,306</u></b>

Source: MFRs and responses to staff data requests

**Table 4-4  
 Additional Adjustments**

<b>Adjustment</b>	<b>MFR</b>	<b>Staff</b>	<b>Adj.</b>
Accumulated Depreciation	\$545,254	\$590,098	\$44,844
Depreciation Expense	14,287	13,552	(\$735)
Property Tax	\$4,564	\$14,601	\$10,037

Source: MFRs and responses to staff data requests

Based on the information above, staff recommends that the appropriate pro forma plant addition net of retirements is \$299,194 for wastewater. This results in an incremental decrease of \$32,306 from the amounts requested in the utility MFRs. Using the depreciable lives pursuant to Rule 25-30.140, F.A.C., corresponding adjustments should be made to reduce accumulated depreciation by \$44,844 for wastewater. Depreciation expense should be reduced by \$735 for wastewater. In addition, pro forma property taxes should be increased by \$10,037 for wastewater. Based on the additional pro forma plant and changes in depreciation recommended above, an ADIT debit of \$596 is created. Staff has removed this amount in the capital structure shown in Schedule No. 2.

**Issue 5:** What are the used and useful (U&U) percentages for Ni Florida's water and wastewater systems?

**Recommendation:** Ni Florida's water distribution system should be considered 100 percent U&U and its wastewater collection system should be considered 100 percent U&U. Staff recommends that wastewater purchased power and purchased wastewater expenses should be reduced by 1.81 percent for excessive I&I. No adjustment is recommended for excessive unaccounted for water (EUW). (Hill)

**Staff Analysis:** Both Ni Florida's water distribution and wastewater collection systems were deemed 100 percent U&U during its previous rate case. Since the utility's last rate case, there has been no change in circumstances. Therefore, consistent with the Commission's prior decision, staff recommends that Ni Florida's water distribution and wastewater collection systems should be considered 100 percent U&U.

### **Infiltration and Inflow (I&I)**

Typically, infiltration 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. By convention, the allowance for infiltration is 500 gpd per inch diameter pipe per mile, and an additional 10 percent of residential water billed is allowed for inflow. Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider I&I. Additionally, adjustments to operating expenses such as chemical and electrical costs are also considered necessary.

All wastewater collection systems experience I&I. The conventions noted above provide guidance for determining whether the I&I experienced at a wastewater treatment plant (WWTP) is excessive. Staff calculates the allowable infiltration based on system parameters and allowable inflow based on water sold to customers. The sum of these amounts is the allowable I&I. Staff next calculates the estimated amount of wastewater returned to the WWTP from customers. The estimated return is determined by summing 80 percent of the water sold to residential customers with 90 percent of the water sold to non-residential customers. Adding the estimated return to the allowable I&I yields the maximum amount of wastewater that should be treated by a WWTP without incurring adjustments to operating expenses. If this amount exceeds the actual amount treated, no adjustment is made. If it is less than the gallons treated, then the difference is the excessive amount of I&I.

The utility has 133,669 feet of 8-inch collecting mains, 440 feet of 3-inch force mains, 21,043 feet of 4-inch force mains, 38,303 feet of 6-inch force mains, 4,000 feet of 8-inch force mains, and 3,810 feet of 12-inch force mains. Given these parameters and performing the necessary conversions to express the result in gallons per year (gpy), the allowance for infiltration is 50,546,347 gpy.

The utility's records indicated that it billed for 96,230,000 gallons of wastewater based on estimated return rates of water usage during the test year. Thus, the allowance for inflow is 10 percent of that amount, or 9,623,000 gpy. Therefore, the total allowance for inflow and infiltration is 60,169,347 gpy.

The utility reported the wastewater customers had water usage during the test year of 149,727,000 gallons (80,153,000 residential, 37,605,000 multi-family, 31,969,000 non-residential). Estimating the residential return at 80 percent and the non-residential return at 90 percent, the total estimated return to the WWTP is 96,230,000 gallons. Thus, the estimated maximum amount of wastewater that the WWTP should treat, the estimated return plus the allowable I&I, is 156,399,347 gpy. Any amount treated in excess of this amount is considered excessive I&I.

According to the staff audit, the utility purchased 159,287,000 gallons of wastewater treatment during the test year. This is greater than the estimated maximum amount allowable. Therefore, the excessive I&I is 2,887,652 gpy. Expressed as a percentage of wastewater treated, it is 1.81 percent. Thus, a 1.81 percent adjustment to wastewater purchased power and purchased wastewater expenses should be made for excessive I&I.

### **Excessive Unaccounted for Water (EUW)**

Pursuant to Rule 25-30.4325, F.A.C., the calculation of U&U for a water treatment plant must consider EUW. Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. When establishing the Rule, the Commission recognized that some uses of water are readily measurable and others are not.<sup>13</sup> Unaccounted for water is all water that is produced that is not sold, metered, or accounted for in the records of the utility. The unaccounted for water is calculated by subtracting both the gallons used for other purposes, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year. The Rule additionally provides that to determine whether adjustments to plant and operating expenses, such as purchased electrical power and chemicals cost, are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible.

According to the MFRs, the utility purchased 21,460,000 gallons of water and used 1,500,000 gallons of water for other uses during the test year. According to the staff audit report, the utility sold 18,083,140 gallons of water for the test year. Based on the values above, unaccounted for water is 8.75 percent. Therefore, staff recommends no adjustment be made to operating expenses for chemicals and purchase power due to EUW.

### **Summary**

Based on the analysis above, staff recommends Ni Florida's water distribution system should be considered 100 percent U&U and its wastewater collection system should be considered 100 percent U&U. Staff recommends that wastewater purchased power and purchased wastewater expenses should be reduced by 1.81 percent for excessive I&I. No adjustment is recommended for EUW.

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<sup>13</sup>Order No. PSC-93-0455-NOR-WS, issued on March 24, 1993, in Docket No. 911082-WS, *In re: Proposed revisions to Rules 25-22.0406, 25-30.020, 25-30.025, 25-30.030, 25-30.032 through 25-30.037, 25-30.060, 25-30.110, 25-30.111, 25-30.135, 25-30.255, 25-30.320, 25-30.335, 25-30.360, 25-30.430, 25-30.436, 25-30.437, 25-30.443, 25-30.455, 25-30.515, 25-30.565; adoption of Rules 25-22.0407, 25-22.0408, 25-22.0371, 25-30.038, 25-30.039, 25-30.090, 25-30.117, 25-30.432 through 25-30.435, 25-30.4385, 25-30.4415, 25-30.456, 25-30.460, 25-30.465, 25-30.470, 25-30.475; and repeal of Rule 25-30.441, F.A.C., pertaining to water and wastewater regulation*, at p. 102

**Issue 6:** What is the appropriate working capital allowance?

**Recommendation:** The appropriate working capital allowance is \$77,050 for water and \$217,123 for wastewater. As such, the working capital allowance should be decreased by \$4,534 for water and \$65,795 for wastewater. (Brown)

**Staff Analysis:** Rule 25-30.433(2), F.A.C., requires Class A utilities to use the balance sheet approach to calculate the working capital allowance. According to its filing, Ni Florida utilized the balance sheet approach and calculated a total company working capital allowance of \$364,502, which was allocated to each of Ni Florida's systems based on ERCs as of December 31, 2015. The balance sheet approach is essentially current assets less current liabilities. As discussed in Issue 2, the utility agreed to audit adjustments to decrease wastewater working capital by \$50,119. Based on further review, staff believes additional adjustments are necessary to address the appropriate amounts for deferred rate case expense (DRCE) and current rate case expense.

The utility included \$60,448 in its working capital calculation for DRCE. It is Commission practice to include one-half of the approved amount of rate case expense from prior cases that have not been fully amortized, as well as half of the approved amount in the instant docket in working capital under the balance sheet method.<sup>14</sup> In the utility's last rate case, the Commission approved total rate case expense of \$149,321 to be amortized over four years.<sup>15</sup> Staff believes that one-half of the prior Commission-approved rate case expense, or \$74,661, is the appropriate amount of DRCE to be included in working capital. As such, DRCE should be increased by \$14,213 (\$74,661 - \$60,448), \$2,738 for water and \$11,475 for wastewater.

As addressed in a subsequent issue, staff is recommending total rate case expense of \$95,082. Consistent with Commission practice, the allocation of one-half of the recommended rate case expense for the instant case results in \$9,984 for water and \$37,557 for wastewater. This is a reduction of \$7,272 and \$27,151 for water and wastewater respectively over the amount of current rate case expense included in the MFRs.

Based on the adjustments above, staff recommends a working capital allowance of \$77,050 for water and \$217,123 for wastewater. This reflects decreases of \$4,534 for water and \$65,795 for wastewater. These adjustments are illustrated in the Table 6-1 below.

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<sup>14</sup>Order Nos. PSC-09-0057-FOF-SU, issued January 27, 2009, in Docket No. 070293-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*; PSC-04-0369-AS-EI, issued April 6, 2004, in Docket No. 030438-EI, *In re: Petition for rate increase by Florida Public Utilities Company*; and PSC-010326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, *In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.*

<sup>15</sup>Order No. PSC-13-0611-P AA-WS, p.20.

**Table 6-1**  
**Working Capital Adjustments**

<b>Description</b>	<b>Water</b>	<b>Wastewater</b>
MFR Amount	\$81,584	\$282,918
Agreed Upon Audit Adjustments	0	(50,119)
DRCE Adjustments	2,738	11,475
Current RCE Adjustment	<u>(7,272)</u>	<u>(27,151)</u>
Staff Calculated WCA	<u>\$77,050</u>	<u>\$217,123</u>
Staff Working Capital Adjustment	<u>(\$4,534)</u>	<u>(\$65,795)</u>

Source: MFRs, Audit Report for Ni Florida, LLC



**Issue 7:** What is the appropriate rate base for the test year ending December 31, 2015?

**Recommendation:** Consistent with staff's other recommended adjustments, the appropriate rate base for the test year ended December 31, 2015, is \$340,468 for water and \$3,964,854 for wastewater. (Brown)

**Staff Analysis:** In its MFRs, the utility requested rate base of \$345,002 for water and \$3,943,297 for wastewater. Based on staff's recommended adjustments, the appropriate rate base for the test year ended December 31, 2015, is \$340,468 for water and \$3,964,854 for wastewater. Staff adjustments as recommended in the preceding issues result in a \$4,534 reduction to water rate base and a \$21,557 increase to wastewater rate base. Staff's recommended water and wastewater rate bases are shown on Schedule Nos. 1-A and 1-B, respectively. The adjustments are shown on Schedule No. 1-C.

**Issue 8:** What is the appropriate return on equity?

**Recommendation:** Based on the Commission leverage formula currently in effect, the appropriate return on equity (ROE) is 9.56 percent with an allowed range of plus or minus 100 basis points. (Brown)

**Staff Analysis:** The utility requested an ROE of 9.27 percent. Based on the current leverage formula in effect and an equity ratio of 76.92 percent, the appropriate ROE is 9.56 percent.<sup>16</sup> Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

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<sup>16</sup>Order No. PSC-16-0254-PAA-WS, issued June 29, 2016, in Docket No. 160006-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), Florida Statutes.*

**Issue 9:** What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure?

**Recommendation:** The appropriate weighted average cost of capital for the test year ended December 31, 2015 is 8.11 percent. (Brown)

**Staff Analysis:** In its filing, Ni Florida requested an overall cost of capital of 8.15 percent. Staff recommends several adjustments to the utility's capital components included in its capital structure.

First, the utility included a cost rate of 6.00 percent for customer deposits. Pursuant to Rule 25-30.311, F.A.C., Customer Deposits, the minimum interest rate for residential customer deposits is 2.00 percent per annum. Going forward, staff recommends that 2.00 percent is the appropriate cost rate for customer deposits.

Second, the utility has requested to include pro forma plant additions in the instant docket. Due to tax timing differences between the Internal Revenue Service and state regulatory depreciation, the additional plant investment caused changes to the balance of accumulated deferred income taxes (ADITs). Ni Florida included in its filing an adjustment to its capital structure to reflect the proper amount of deferred income taxes on its pro forma plant additions. The amount of ADITs included in Ni Florida's capital structure was reduced by \$596 based on staff's pro forma calculations.

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2015, including the aforementioned adjustments, staff recommends a weighted average cost of capital of 8.11 percent. Schedule No. 2 details staff's recommended overall cost of capital.

**Issue 10:** Should any further adjustments be made to test year revenues?

**Recommendation:** Yes. Test year revenues for the Ni Florida's water system and wastewater systems should be increased by \$159 and \$10,075, respectively. (Bruce)

**Staff Analysis:** In its MFRs, Ni Florida's adjusted test year revenues were \$243,169 for water and \$1,929,738 for wastewater. The water revenues include \$236,812 of service revenues and \$6,357 of miscellaneous revenues. The wastewater revenues include \$1,875,982 of service revenues and \$53,756 of miscellaneous revenues. In review of the utility's adjusted test year billing data for water, staff found that the utility understated the number of residential bills. Based on the audit, staff made the adjustments to reflect the appropriate number of billing determinants. Furthermore, the utility had a four year rate reduction that became effective on November 20, 2015. Staff annualized test year revenues by applying the rates in effect at the end of the test year to the adjusted billing determinants. Therefore, the test year service revenues for water should be \$218,090, which results in a decrease of \$18,721 (\$236,812 - \$218,090). For wastewater, staff found that the utility overstated the number of residential bills during the test year. The utility also did not provide any billing determinants for wastewater general service 5/8" x 3/4" meter size. Staff made the necessary adjustments to reflect the appropriate billing determinants, which results in an increase of \$12,664. The test year service revenues for wastewater should be \$1,888,646 (\$1,875,982 + \$12,664).

Staff also made adjustments to miscellaneous revenues for water and wastewater. Staff found that the utility understated the number of occurrences for late payments during the test year. Therefore, staff increased miscellaneous revenues for water and wastewater revenues by \$159 and \$123, respectively. Staff also increased wastewater miscellaneous revenues to reflect the appropriate number of premises visits, which resulted in an increase of \$125. For wastewater, the utility did not record an initial connection charge, which resulted in \$27 increase. Furthermore, as discussed in Issue 16, staff is recommending approval violation reconnection charge based on a joint agreement with Pasco County. Therefore, staff imputed revenues of \$9,800 [ $(\$125 - \$27) \times 100$ ] to reflect the additional miscellaneous revenues. For the reasons outlined above, the miscellaneous revenues for water should be \$6,516 ( $\$6,357 + 159$ ) and \$54,031 ( $53,756 + \$123 + \$125 + \$27 + 9,800$ ) for wastewater. Based on the above, the appropriate test year revenues for Ni Florida's water and wastewater systems, including miscellaneous service revenues are \$224,606 and \$1,952,477. Table 10-1, represents a summary of staff's adjustments for test year revenues.

**Table 10-1  
 Test Year Revenues**

	<b>Water</b>	<b>Wastewater</b>
<b>Service Revenues</b>		
Utility Recorded Service Revenues	\$236,812	\$1,875,982
Staff's Adjustment	<u>(\$18,721)</u>	<u>\$12,664</u>
<b>Total Service Revenues</b>	\$218,090	\$1,888,646
<b>Miscellaneous Revenues</b>		
Utility Recorded Miscellaneous Revenues	\$6,357	\$53,756
Staff's Miscellaneous Revenue Adjustments	<u>\$159</u>	<u>\$10,075</u>
<b>Total Miscellaneous Revenues</b>	\$6,516	\$63,831
<b>Total Test Year Revenues</b>	\$ 224,606	\$1,952,477

Source: Utility's general ledger and staff's calculations

**Issue 11:** What is the appropriate amount of current rate case expense?

**Recommendation:** The appropriate amount of rate case expense for the instant case is \$95,082. This expense should be recovered over four years for an annual expense of \$4,992 for water and \$18,779 for wastewater. Thus, Ni Florida’s requested annual rate case expense should be reduced by \$3,636 for water and \$13,575 for wastewater from the respective levels of expense included in the MFRs. (Brown)

**Staff Analysis:** The utility included in its MFRs an estimate of \$163,928 for current rate case expense. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On September 1, 2016, the utility submitted a revised estimate of rate case expense through completion of the PAA process of \$107,517 with \$82,166 already incurred.<sup>17</sup> The components of the estimated rate case expense are presented in the table below:

**Table 11-1  
 Estimated Rate Case Expense**

	<b>MFR Estimated</b>	<b>Actual</b>	<b>Additional Estimated</b>	<b>Total</b>
Legal Fees	\$62,500	\$41,599	\$14,875	\$56,474
Accounting Fees	70,000	35,000	0	35,000
Filing Fee	0	5,500	0	5,500
Customer Notices/FedEx	<u>31,428</u>	<u>67</u>	<u>10,476</u>	<u>10,543</u>
<b>Total</b>	<b><u>\$163,928</u></b>	<b><u>\$82,166</u></b>	<b><u>\$25,351</u></b>	<b><u>\$107,517</u></b>

Source: MFR Schedule B-10 and responses to staff data requests

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case.

**Legal Fees (Sundstrom & Mindlin, LLP)**

The utility included in its MFRs \$62,500 in legal fees to complete the rate case. The utility provided invoices through July 31, 2016, showing legal expenses associated with the rate case totaling \$41,599 plus an additional \$14,875 to complete this PAA rate case for a total of \$56,474 in legal fees.

According to the invoices provided, the law firm of Sundstrom & Mindlin, LLP (Sundstrom) billed the utility approximately \$2,900 related to the correction of MFR deficiencies. Sundstrom believes that it should be allowed to recover the expense associated with deficiency correction because it is part of the “normal process,” and that “few rate filings are accepted without

<sup>17</sup>Document No. 07251-16, filed on September 1, 2016.

revisions to correct for deficiencies.”<sup>18</sup> Staff disagrees, noting that the Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.<sup>19</sup> Accordingly, staff believes that \$2,891 (8.26 hours x \$350/hour) should be removed as duplicative and unreasonable rate case expense.

Based on its response to Staff’s Second Data Request, Question 10, the utility appears to have spent approximately \$74,000 in its preparation and filing of the rate proceeding in Docket No. 150170-WS, and believes that a portion of that expense should be included in the current docket. In support, Sundstrom argues the following:

While the great majority of the costs related to this proceeding are not relevant to the current rate case proceeding, most of the costs related to legal services incurred during the three months prior rate case filing are directly related to the information necessary in order to file the current rate proceeding in Docket 160030-WS. The costs for drafting of pleadings, organization of tariffs and exhibits which were the focus of the three legal bills just prior to the filing were substantially similar to those filed in the instant rate proceeding. As such, the utility believes that a significant portion of the rate case expenses incurred for legal services in those three months directly benefit the current rate proceeding. In an attempt to estimate conservatively, the utility has allocated 50% of the cost of those services as costs related to the current rate proceeding.<sup>20</sup>

Sundstrom included \$8,203 of legal expense related to Docket No. 150170-WS in the current docket. The utility withdrew its application for an increase in rates in that docket on January 21, 2016 citing, in part, the following factors: (1) the deficiencies noted by the Commission Staff to the Application as originally filed; (2) recognition of the changes that have occurred as a result of a change in ownership of the utility in 2015; and (3) changes in status of capital improvements to the utility system.<sup>21</sup> Staff adds that the utility’s decision to withdraw its 2015 rate case was on its own motion, not at the Commission’s urging. As such, staff does not believe that any expense related to Docket No. 150170-WS should be included in the current docket. Accordingly, staff believes that \$8,203 should be removed from current rate case expense.

An adjustment to actual rate case expense should also be made to remove a portion of travel expenses related to the customer meeting in July. Support documentation provided by Sundstrom included approximately \$218 for a meal attended by the attorney and five utility employees. Staff believes that is inappropriate to include the cost of the meal as it relates to the five utility employees, but the attorney’s portion of the meal should be allowed. It is likely that the utility employees’ other travel related expenses were submitted to the utility for reimbursement. If paid for individually, staff believes that the meal expense would have also been submitted to the utility for reimbursement, and not included in rate case expense. As such, staff believes that 1/6<sup>th</sup>

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<sup>18</sup>Document No. 07475-16, filed September 13, 2016.

<sup>19</sup>Order Nos. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, *In re: Application for rate increase in Martin County by Indiantown Company, Inc.*; and PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, *In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.*

<sup>20</sup>Document No. 07475-16.

<sup>21</sup>Document No. 00366-16, filed on January 21, 2016.

of the cost, or \$36, should be included in rate case expense. The remaining \$181 should be removed from legal rate case expense.

Sundstrom's estimate to complete the rate case includes fees of \$13,825 for responding to various commission documents and preparing for and attending the agenda conference. The estimate to complete also included costs of \$1,050 for photocopies, postage, and other expenses. Since the estimate to complete was submitted on September 1, 2016, staff sent two additional data requests and the utility also responded to OPC's issues and concerns. As such, staff believes the full amount of the estimate to complete, \$14,875 (\$13,825 + \$1,050), is reasonable.

Based on the above, staff believes that the appropriate amount of legal fees is \$45,199 (\$56,474 - \$11,275).

### **Accounting Fees (Tangibil)**

Ni Florida included \$70,000 in its MFRs for accounting costs. The utility's updated rate case expense reflected actual fees of \$35,000 with no additional costs for the estimate to complete. In response to Staff's First Data Request, the utility attached an invoice from Tangibil for \$35,000. Based on the supporting documentation, Tangibil's work is based on a lump sum quote for preparation of the rate case MFRs and assistance in responding to data requests and analyses. No additional invoices were received by staff addressing work related to deficiency corrections or responding to additional staff data requests. Staff notes that in the utility's last rate case, Ni Florida was allowed to recover \$81,000 for accounting fees.<sup>22</sup> As such, staff believes that the lump sum of \$35,000 for preparation of the MFRs and responding to staff's data requests appears reasonable.

### **Filing Fee**

The utility did not include a filing fee in its MFR Schedule B-10, but did include the \$5,500 filing fee as part of its updated rate case expense. Staff verified that the amount was not already included in the legal fees to avoid double recovery of this fee. Since the filing fee was not included in legal fees, there is no double recovery of this fee, and should be included in rate case expense.

### **Customer Notices, Printing, Shipping, and FedEx**

In its MFRs, Ni Florida included estimated costs of \$31,428 for printing and shipping. The utility provided a revised total for final noticing which totaled \$10,476 and \$67 for FedEx expense. Ni Florida is responsible for sending four notices: the interim notice, the initial notice, customer meeting notice, and notice of the final rate increase. The initial notice and the initial notice were combined in this docket. The Commission has historically approved recovery of noticing and postage, despite the lack of support documentation, based on a standard methodology to estimate the total expense using the number of customers and the estimated per unit cost of envelopes, copies, and postage.<sup>23</sup> In the calculations that follow, staff used the actual number of pages of the interim notice (two) and the combined initial and customer meeting notice (four), and estimated that the final notice would be four pages.

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<sup>22</sup>Order No. PSC-13-0611-PAA-WS, p.19.

<sup>23</sup>Order No. PSC-14-0025-PAA-WS issued January 10, 2014, in Docket No. 120209-WS, *In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.*



Staff estimates the postage cost for the notices to be approximately \$4,938 (3,502 customers x \$0.47 x 3 notices).<sup>24</sup> Staff estimates envelope costs to be \$525 (3,502 customers x \$0.05 per envelope x 3 notices) and copying costs to be \$3,852 (\$0.10 per copy x 38,522 pages).<sup>25</sup> The utility also included \$67 in FedEx expense which staff believes is reasonable. Based on these components, the total cost for customer notices and postage is \$9,382 (\$4,938 + \$525 + \$3,852 + \$67). In the utility's last rate case, Ni Florida was allowed to recover \$9,009 for customer notices and postage.<sup>26</sup> Staff believes that its calculated expense is reflective of the actual conditions in the instant docket while remaining comparable to the expense in the 2013 rate case. As such, staff recommends that rate case expense be decreased by \$1,161 (\$9,382 - \$10,543) for customer mailings.

**Conclusion**

In summary, we find that the utility's revised rate case expense should be decreased by \$12,436. The appropriate total rate case expense is \$95,082. A breakdown of rate case expense is as follows:

**Table 11-2  
 Staff Recommended Rate Case Expense**

	<b>MFR Estimated</b>	<b>Utility Revised Actual &amp; Est.</b>	<b>Staff Adjustment</b>	<b>Recom. Total</b>
Legal Fees	\$62,500	\$56,474	(\$11,275)	\$45,199
Accounting Fees	70,000	35,000	0	35,000
Filing Fee	0	5,500	0	5,500
Customer Notices/FedEx	<u>31,428</u>	<u>10,543</u>	<u>(1,161)</u>	<u>9,382</u>
Total Rate Case Expense	<u>\$163,928</u>	<u>\$107,517</u>	<u>(\$12,436)</u>	<u>\$95,082</u>
Annual Amortization	<u>\$40,982</u>	<u>\$26,879</u>	<u>(\$3,109)</u>	<u>\$23,770</u>

Source: MFR Schedule B-10 and responses to staff data requests.

The recommended total rate case expense should be amortized over four years, pursuant to Section 367.0816, F.S. Based on the data provided by Ni Florida and the recommended adjustments discussed above, staff recommends the appropriate amount of rate case expense is \$95,082. This expense should be recovered over four years for an annual expense of \$23,770.

The utility also included in its MFRs prior rate case expense of \$144,179. However, in the utility's last rate case, the Commission approved total rate case expense of \$149,321 to be amortized over four years.<sup>27</sup> As such, staff used the Commission-approved amount for prior rate

<sup>24</sup>First class postage rate of \$0.47, effective January 17, 2016.

<sup>25</sup>Staff anticipates that the final notice will be four pages.

<sup>26</sup>Order No. PSC-13-0611-PAA-WS, p.19.

<sup>27</sup>Order No. PSC-13-0611-P AA-WS, p.20.

case expense here. When amortized over four years, total prior unamortized rate case expense represents an annual expense of \$37,330. Staff's recommended total current rate case expense and prior rate case expense total \$244,403 (\$95,082 + \$149,321), or \$61,101 on an annual basis. As a result, annual rate case expense should be decreased by \$3,636 for water and \$13,575 for wastewater from the respective levels of expense included in the MFRs.

**Issue 12:** Should additional adjustments be made to test year O&M expenses?

**Recommendation:** Yes. Based on adjustments set forth above, staff recommends decreasing O&M expense by \$20,724 for water and \$136,054 for wastewater. Adjustments to O&M expense are shown on Schedule No. 3-C. (Brown)

**Staff Analysis:** Staff has reviewed the test year O&M expenses and examined invoices, canceled checks, and other supporting documentation. As a result, staff is recommending several adjustments to the utility's operating expenses, as summarized below.

Staff notes that in regard to purchased water and wastewater contractual services-engineering, no adjustments were identified by staff. There were also no audit findings pertaining to these issues. Several other accounts had adjustments made as a result of an audit finding or due to I&I, and are addressed in other issues. As such, they are identified in the table below, but are not discussed within this issue.

**Table 12-1  
 O&M Accounts Not Discussed in Issue**

Water		Wastewater	
Acct. No.	Name	Acct. No.	Name
610	Purchased Water	710	Purchased Sewer Treatment
657	Insurance – General Liability	715	Purchased Power
659	Insurance – Other	720	Materials and Supplies
		731	Contractual Services - Engineering
		735	Contractual Services – Testing
		757	Insurance – General Liability
		759	Insurance – Other

**Contractual Services – Legal (633/733)**

In its MFRs, Ni Florida reflected an expense of \$4,420 for contractual services-legal in the wastewater test year. No legal expense was allocated to water in the MFRs. In its response to Staff's First Data Request, the utility provided support documentation for the expense which indicated some costs were legitimately wastewater, additional costs that should be shared between water and wastewater, and still others that appear to relate only to water. Staff notes that \$3,165 related to various activities surrounding a four-year rate reduction in Docket No. 100149-WU,<sup>28</sup> a docket that only addressed water rates in Lee County, were included in wastewater's legal expense. Staff believes that another \$180 should be allocated to water because the legal services were of a general utility nature, and not system specific. As such staff believes that \$3,345 (\$3,165 + \$180) should be removed from contractual services-legal expense for wastewater. Staff believes that the \$3,165 related to the four-year rate reduction should be amortized over four years, or \$791 (\$3,165/4 years) per year. The resulting adjustment to contractual services-legal expense for water is an increase of \$971 (\$180 + \$791). Based on the

<sup>28</sup>Order No. PSC-11-0199-PAA-WU, issued April 22, 2011, Docket No. 100149-WU, *In re: Application for increase in water rates in Lee County by Ni Florida, LLC.*

discussion above, staff believes the appropriate contractual services-legal expense for the test year should be \$971 for water and \$1,075 (\$4,420 - \$3,345) for wastewater.

### **Contractual Services – Management Fees (634/734)**

The utility included contractual services management expense of \$37,368 for water and \$169,266 for wastewater. The utility provided a copy of the most recent professional services contract with Utility Group of Florida, LLC (UGF), as well as related invoices.<sup>29</sup> This contract provides for the general management of Ni Florida's facilities and additions, which include, but are not limited to, all supervision, labor, transportation, tools, equipment and operational consultants to operate and maintain the facilities. In addition, UGF performs billing and collection services per the utility's tariff and policies, maintains a customer service office, reads meters once each month, and performs certain bookkeeping services among other things.

In its response, the utility also included an addendum to the original contract which amended the monthly amount from \$3,000 to \$3,300 per month. This amendment was executed in July 2010. The utility did not provide a written amendment to the contract related to wastewater, but stated in response to Staff's First Data Request that "The contract in more recent years is verbal and the amount has changed to \$14,000/month." This change took place on January 1, 2013 according to the utility.

The utility provided invoices for water which indicated a monthly professional services fee of \$3,114, not \$3,330 per month as the addendum states. As such, staff believes that the amount included in the test year, \$37,368 (\$3,114 x 12 months), is accurate and no adjustments are necessary. Invoices supporting the \$14,000 monthly wastewater management fee, which total \$168,000, were also provided. The documentation included an invoice for \$1,266 for meter reading which staff believes should be removed. This amount does not need to be reallocated as staff believes that meter reading is included in the professional services contract. This will be addressed in additional detail in Contractual Services – Other, below. As such, \$1,266 should be removed from wastewater contractual services - management fees.

### **Contractual Services – Testing (635)**

The utility included \$8,193 for water testing. Accounting and engineering staff reviewed the support documentation provided by the utility in response to Staff's First Data Request and believes the testing to be appropriate. The only adjustment staff identified was the removal of \$100 for the annual operating license which staff believes should be reclassified to Miscellaneous Expense (675).

### **Contractual Services – Other (636/736)**

In its MFRs, Ni Florida reflected water and wastewater expense of \$9,123 and \$206,030, respectively, for contractual services-other in the test year. In response to Staff's First Data Request, the utility provided support documentation for water. Within those documents, staff identified \$1,085 related to the preparation and mailing of four-year rate reduction notices. Staff believes this portion of the expense is appropriate since it is not typically included within a docket's rate case expense. As such, the expense should be amortized over four years, or \$271

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<sup>29</sup>Document Nos. 03579-16 (Response to Staff's First Data Request), filed June 16, 2016 and 07475-16 (Response to OPC Issues and Concerns), filed September 13, 2016.

per year. This is consistent with staff's adjustments to other four-year reduction items contained in this recommendation. As a result, contractual services-other for water should be reduced by \$814 (\$1,085 - \$271). Staff believes that no additional adjustments to contractual services-other for water are necessary.

Support documentation was also provided for wastewater contractual services-other which included \$31,616 for billing and customer service, \$19,236 for contract labor, \$728 for customer work orders, \$24,924 for Mission Unit monitoring, and \$129,437 for other. Staff made no adjustments to customer work orders. Staff will discuss each of the remaining categories in more detail below.

### ***Billing/Customer Service***

The utility included \$31,616 in wastewater contractual services-other for billing and customer service. In response to Staff's Fourth Data Request, the utility requested that \$4,014 had been included for "annual software maintenance and updates" be removed since the expense was related to Ni America Texas, LLC. Staff made the requested adjustment. Staff also believes that additional adjustments related to postage, forms, and imaging are necessary. According to support documentation, the utility incurred costs of \$12,105 for postage and \$13,472 related to the imaging and mailing of monthly bills. Staff believes that all of the costs related to monthly billing \$25,577 (\$12,105 + \$13,472) should be removed since the professional services contract with UGF appears to already include them. In support, staff has included the applicable portions of the professional services contract, which state, in part:

**2.02 METER READING AND BILLING AND COLLECTIONS** - FUGH shall perform billing and collection services per the UTILITY's tariff and policies for the UTILITY's water and wastewater services. FUGH shall bill each customer of the UTILITY monthly in accordance with the UTILITY's approved rate structure.

and

**3.11 POSTAGE** - FUGH will pay for all billing postage. The compensation cited in EXHIBIT "B" includes a Reserve Account to cover the cost of postage expenditures.

Based on the sections of the professional services contract provided above, staff believes that the monthly management fee includes the very expenses that Ni Florida is seeking to recover here. When asked whether the contract included this activity, the utility gave the following response:

At times the operations contractor, Utility Group of Florida, LLC, provides invoices for work done that Ni Florida personnel determine are included in the contract. Alternatively, sometimes the operations contractor provides invoices for work done that Ni Florida personnel determine is not included in the contract. After careful review of these costs by both the utility and the contractor it was

determined that these costs were not covered by the contract and as such were billed separately.<sup>30</sup>

The utility added that “The process is more substance over form and based on each party's interpretation of the contract.”<sup>31</sup>

Staff believes that the contract is explicit in regard to billing, postage, and meter reading (discussed in the following section). Furthermore, if the contract has outlived its useful life and no longer reflects the parties current relationship, then the parties should renegotiate the contract so that it is reflective of the current situation. That has not happened in this instance. Instead, staff must rely on the contract that was entered into between the parties and executed in 2008. Other than the change to amount charged for the monthly management fee, there are no other revisions to the contract. Ni Florida stated in response to Staff's Fourth Data Request that this is the contract that the parties are still operating under.

As such, staff believes that the contract provides for the creation of monthly bills as well as postage and that the monthly contractual services management fee adequately compensates UGF for its services. If the Commission approves the contractual services management fee for wastewater and the expense requested for billing here, staff believes the utility would essentially be allowed to recover those costs twice. Accordingly, staff recommends the removal of \$12,105 for postage and \$13,472 related to imaging and mailing. Accordingly, staff recommends a reduction of \$29,591 (\$4,014 - \$12,105 - \$13,472) to billing and customer service.

### ***Contract Labor***

The utility included contract labor costs of \$19,236 and provided support documentation for the same. Staff believes that an adjustment is necessary to remove \$17,450 associated with meter reading since the professional services contract with UGF already includes meter reading. Section 2.02(B) of the professional services contract states:

B. Meter Reading - FUGH shall read meters served by the UTILITY once each month in compliance with UTILITY's rate order/tariff and billing schedules.

Based on the meter reading section of the professional services contract, and the discussion in billing and customer service above, staff believes that the monthly management fee includes the meter reading expense that Ni Florida is seeking to recover here. Staff believes that the contract includes meter reading and that the monthly management fee adequately compensates UGF. If the Commission approves the contractual services management fee for wastewater and the expense requested for billing here, staff believes the utility would essentially be allowed to recover those costs twice. Accordingly staff recommends the removal of \$17,450 for meter reading from wastewater.

### ***Mission Unit Monitoring***

The utility included \$24,924 for Mission Unit monitoring and provided support documentation which included annual renewal invoices and the customer service agreement.<sup>32</sup> These costs relate

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<sup>30</sup>Document No. 07514-16, filed September 14, 2016, Utility Response to Staff's Third Data Request, Question 5.

<sup>31</sup>Document No. 07514-16.

<sup>32</sup>Document No. 07551-16, filed September 15, 2016.

to the monitoring of 42 lift stations in Pasco County. In response to Staff's Third Data Request, the utility requested pro forma consideration of \$3,380 related to monitoring services for 6 additional lift stations that are being added in conjunction with the utility's pro forma plant projects.<sup>33</sup> Based on the support documentation provided, there is no duplication of costs since the Rhodes Road project is for new service and the Tower Drive project had no monitoring prior to the pro forma project. As such, staff believes it is appropriate to add \$3,880 to Mission Unit monitoring.

### **Other**

The utility included \$129,437 for other test year O&M expenses. Most of the items included appear to be related to various wastewater system repairs. The utility provided support documentation, from which staff identified additional adjustment that it believes should be made.

Staff identified two charges, which total \$5,341, to write off amounts from a prior year. The invoices for these are for charges incurred outside the test year and should not be included in test year expense. Four charges which total \$557 that were related to use tax on Aquafix purchases made in 2014 should also be removed from test year expense. As such, staff believes it is appropriate to remove \$5,898 (\$5,341 + \$557) from test year expense.

Staff also identified \$28,341 related to storm repair. The utility said that the expense was due to severe weather in the wastewater service territory over a two-week period. During this time, there was flooding, power surges, and wind which caused damage and power outages in the area. This in turn caused sanitary sewer overflows at several of the utility's lift stations and emergency situations. Ni Florida used vacuum trucks to haul sewer flow to another location to avoid spill and used temporary pumps to pump sewer flow around the lift station. According to the utility, the amount also included spill cleanup work and disassembly of pumps and hoses. While severe weather is expected in Florida, staff believes that these events were extraordinary. As such, staff believes that these storms related costs should be amortized over five years, or \$5,668 (\$28,341/5 years) per year. As a result, staff is recommending a reduction of \$22,672 (\$28,341 - \$5,668).

The utility included \$17,851 for an audit of its collection system. In response to OPC's concerns, the utility stated that the amount spent on the audit could be considered for amortization over a three-year period, especially since Ni Florida's plan is to conduct the a similar audit every three years. As such, staff recommends amortizing this expense over three years, or \$5,950 (\$17,851/3 years) per year. As a result, staff is recommending a reduction of \$11,901 (\$17,851 - \$5,950).

In addition, staff found additional meter reading charges of \$1,681 that should be removed. Staff does not believe that the argument provided earlier in this recommendation regarding meter reading needs to be repeated here. As such, staff recommends removing \$1,681 for meter reading that is included in the cost of the professional services contract. Accordingly, staff recommends a reduction of \$42,152 (\$5,898 + \$22,672 + \$11,901 + \$1,681).

Based on the adjustments discussed above, the total reduction to wastewater contractual services-other is \$85,813 (\$3,880 - \$29,591 - \$17,450 - \$42,152).

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<sup>33</sup>Document No. 07514-16.

**Bad Debt Expense (670/770)**

On MFR Schedules B-5 and B-6, the utility recorded test year bad debt expense of \$1,110 for water and (\$1,518) for wastewater. Ni Florida adjusted its test year bad debt expense to \$1,176 and \$25,187 for water and wastewater, respectively, to reflect bad debts at the three-year average. The utility requested further bad debt expense increases of \$421 for water and \$6,574 for wastewater in order to reflect the requested revenue increase at an amount equal to 0.48 percent and 1.38 percent, respectively. This represents total requested bad debt expense of \$1,597 for water and \$31,761 for wastewater.

It is Commission practice to set bad debt expense using the three-year average based on the premise that a 3-year average fairly represented the expected bad debt expense. Overall, the basis for determining bad debt expense has been whether the amount is representative of the bad debt expense to be incurred by the utility. Using the utility's annual reports, staff calculated three-year average bad debt expense of \$1,176 for water and \$25,189 for wastewater. Based on the calculations above, staff recommends that the utility's requested bad debt expense for water be reduced by \$421 and wastewater be reduced by \$6,572.

**Miscellaneous Expense (675/775)**

The Utility included miscellaneous expense of \$90,377 for water and \$323,700 for wastewater. It is comprised of the following amounts:

**Table 12-2  
 Summary of Miscellaneous Expenses**

<b>Summary</b>	<b>Water</b>	<b>Wastewater</b>
Allocated Corporate Overhead Costs	\$75,932	\$291,406
Direct Assignment:		
Specifically Assigned Corp. Overhead - Legal	390	3,900
Specifically Assigned Corp. Overhead - Travel	0	9,296
Ni Florida, LLC Allocated Costs	435	1,669
Billing/Customer Service Expenses	10,668	0
Bank Fees	2,952	10,321
Telephone Expenses	0	7,107
<b>Total</b>	<b><u>\$90,377</u></b>	<b><u>\$323,700</u></b>

Source: MFRs and responses to staff data requests

The utility recorded test year direct assignment expense of \$14,445 for water and \$32,294 for wastewater. Staff believes that adjustments to travel and billing/customer service are necessary. In the audit workpapers, staff found several airline charges related to cabin upgrades and change fees, which totaled \$1,502. Staff does not believe the utility's customers should be responsible for these charges and they should be removed from wastewater's direct assignment expenses. Staff also believes that \$10,668 included in direct assignment expenses for water billing should be removed. As addressed elsewhere in this issue, staff believes that postage, imaging, and mailing of monthly bills is included in the professional service contract. As such, \$10,668 should be removed from water direct assignments expenses. All other direct assignment costs identified in Table 12-2 above, appear appropriate based on the support documentation provided by the utility.



The largest portion of miscellaneous expense for both water and wastewater is allocated corporate overhead costs. The utility recorded test year allocated parent overhead of \$75,932 for water and \$291,406 for wastewater. The allocated overhead was recorded in the utility's miscellaneous expense account based on equivalent residential connections (ERC). In the utility's last rate case, the Commission ordered the removal of due diligence costs as well as the equity sponsor fee paid to Metalmark Capital, LLC, and non-utility costs related to a possible sale of the utility.<sup>34</sup> Staff notes that due diligence costs were removed in an audit adjustment in an earlier issue. The equity sponsor fee and non-utility costs were excluded from overhead allocation in the utility's filing.

As discussed previously, in response to staff's first data request, the utility provided a contract for the management services of UGF. The contract provides that the operator "shall perform billing and collection services per the utility's tariff and policies for the utility's water and wastewater services." It further states that the operator "shall bill each customer of the utility monthly in accordance with the utility's approved rate structure." Additionally, the contract provides that the operator will provide a customer service office where customers may pay their bills, apply for service, obtain information, register complaints, and generally receive normal and customary billing and collecting services. OPC questioned why Ni America is allocating overhead costs that include these functions when the professional services contract indicates that UGF is providing these services. OPC identified five positions<sup>35</sup> included in the allocation that appear to duplicate functions included in the professional services contract. OPC argued that these salaries and the related benefits should be removed from the test year expenses. OPC's total of salaries and bonuses related to these positions is \$311,801, or \$5,546 for water and \$21,284 for wastewater on an allocated basis.

The utility argued that the professional services contract lists some tasks to be performed under the contract, but the situation is more substance over form. According to the utility, Ni Florida and UGF have developed a working relationship of who should perform what tasks. This working relationship has changed over the years, but remains a workable situation. The employees in the South Carolina billing and customer service office perform tasks related to all utilities, including Ni Florida, and should therefore remain allocable to all utilities. The utility added that these employees handle new customer applications, post all customer payments received by mail or electronically, take customer service calls (shared with the Florida office), initiate customer refund checks, balance and audit customer accounts at month-end, and perform monthly billing of customers. The utility believes these tasks are done for all utilities and the costs should remain allocable to all utilities, including Ni Florida.

Based on the contract for professional services and the position descriptions provided during the course of this docket, staff believes many of the duties included as part of the allocated overhead costs are duplicative of services performed by UGF. Absent additional information to the contrary, staff believes the removal of all salaries and benefits related to the five corporate positions is appropriate. Staff has already recommended the removal of duplicative costs for meter reading and customer billing based on the professional services contract. The removal of

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<sup>34</sup>Order No. PSC-13-0611-PAA-WS, pp.13-14, 16.

<sup>35</sup>Billing Supervisor, Customer Service Department Manager, Customer Service Representative – In Charge, Billing, Customer Service Representative – Part-Time.

duplicative salaries and benefits here is in keeping with those previous adjustments. As a result, staff believes that it is appropriate to remove all of the expense related to the five positions in order to address the overlap of duties between the allocated positions and those provided in the professional services contract with UGF. After allocation, staff calculated that \$5,678 for water and \$21,786 for wastewater should be removed for salaries and benefits.<sup>36</sup>

Staff also identified one additional position, Vice President of Capital Improvements, that should be removed. Staff notes that the utility excluded the salaries and benefits for one of the Vice President of Capital Improvements in its MFRs, but left a portion of the salary for the second position. Staff believes that the portion related to the second position should be removed as well. This results in reductions of \$341 for water and \$1,309 for wastewater.

During the course of this rate case, the utility provided general ledgers which indicated that Ni America paid \$209,460 for consulting services related to an ERC Project. According to the utility, the ERC Project was set up to reconcile customers in South Carolina. In response to OPC's concerns and a staff data request, the utility agreed that the cost should not be allocated to Ni Florida. Staff has removed the expense from the corporate overhead allocation, which results in the reduction of \$3,728 for water and \$14,306 for wastewater on an allocated basis.

Staff also made an adjustment to correct an error made in calculating the allocable portion of miscellaneous expense in MFR Schedule B-12. The utility calculated that Ni Florida's portion of allocable miscellaneous expenses was \$367,338. Staff calculated Ni Florida's portion of allocable miscellaneous expenses to be \$367,138. Staff reduced allocable miscellaneous expense by \$200, which resulted in a \$45 reduction to water and a \$155 reduction to wastewater.

Finally, in the contractual services – testing recommendation, staff reclassified \$100 related to the annual operating license which should be reclassified to miscellaneous expense. This reclassification does not impact the overall adjustment to operations and maintenance expense, just the individual balances for contractual services – testing and miscellaneous expense. As such, it is not reflected in the adjustment calculation below. Accordingly, staff recommends that miscellaneous expense be reduced by \$20,460 ( $\$10,668 + \$5,678 + \$341 + \$3,728 + \$45$ ) for water and \$39,058 ( $\$1,502 + \$21,786 + \$1,309 + \$14,306 + \$155$ ) for wastewater.

### **Summary**

Based on adjustments set forth above, staff recommends decreasing O&M expense by \$20,724 for water and \$136,054 for wastewater as depicted below. Adjustments to O&M expense are shown on Schedule No. 3-C.

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<sup>36</sup>This amount differs slightly from OPC's recommended adjustment of \$5,546 for water and \$21,284 for wastewater. Staff based its calculation on information provided in Confidential Document No. 06556-16.

**Table 12-3**  
**Summary of Staff O&M Adjustments**

<b>Account</b>	<b>Staff Adj. to Water</b>	<b>Staff Adj. to Wastewater</b>
Contractual Services – Legal (633/733)	\$971	(\$3,345)
Contractual Services – Management Fees (634/734)	0	(1,266)
Contractual Services – Other (636/736)	(814)	(85,813)
Bad Debt Expenses (670/770)	(421)	(6,572)
Miscellaneous Expense (675/775)	<u>(20,460)</u>	<u>(39,058)</u>
<b>Total</b>	<b><u>(\$20,724)</u></b>	<b><u>(\$136,054)</u></b>

**Issue 13:** What is the appropriate revenue requirement for the test year ended in December 31, 2015?

**Recommendation:** Staff recommends the following revenue requirement be approved.

	Test Year Revenue	\$ Increase/ (Decrease)	Revenue Requirement	% Increase/ (Decrease)
Water	\$224,606	\$65,265	\$289,872	29.06%
Wastewater	\$1,952,477	\$311,050	\$2,263,527	15.93%

(Brown)

**Staff Analysis:** In its filing, Ni Florida requested revenue requirements to generate annual revenue of \$322,091 for water and \$2,404,738 for wastewater. These requested revenue requirements represent revenue increases of \$87,150, or approximately 39 percent, for water, and \$475,000, or approximately 24.60 percent, for wastewater.

Consistent with staff's recommendations concerning rate base, cost of capital, and operating income issues, staff recommends approval of rates designed to generate a water revenue requirement of \$289,872, and a wastewater revenue requirement of \$2,263,527. Staff's recommended water revenue requirement exceeds staff's adjusted test year revenue by \$65,265, or 29.06 percent. Staff's recommended wastewater revenue requirement exceeds staff's adjusted test year revenue by \$311,050, or 15.93 percent. These recommended pre-repression revenue requirements will allow the utility the opportunity to recover its expenses and earn a 8.11 percent return on its investment in water and wastewater rate base.

**Issue 14:** What are the appropriate rate structures and rates for Ni Florida's water and wastewater systems?

**Recommendation:** The recommended rate structures and monthly water and wastewater rates are shown on 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. (Bruce)

**Staff Analysis:**

**Water Rates**

Ni Florida's water system is located in Lee County within the South Florida Water Management District. The utility buys bulk water from Lee County and resells the water to a mobile home and RV park. Approximately 30 percent of the residential customer bills during the test year had zero gallons during the test year, indicating a seasonal customer base. The average residential water demand was 1,442 gallons per month. The average water demand excluding zero gallon bills is 2,056 per month. The utility's current rate structure consists of a base facility charge (BFC) and three-tier inclining block rate structure. The rate blocks are (1) 0-3,000 gallons; (2) 3,001-6,000 gallons; and (3) all usage in excess of 6,000 gallons per month. The RV park's rate structure consists of a BFC based on 104.76 equivalent residential connections (ERC), which was approved in a settlement in Docket No. 050819-WU.<sup>37</sup> All other general service customers are billed based on a BFC and gallonage charge. In addition, the utility has a per incident charge for private fire protection.

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.

The utility's proposed BFC allocation is 59.31 percent. Typically, the Commission allocates no greater than 40 percent of the water revenue to the BFC. However, when the utility's customer base is seasonal, it has been the Commission's practice to allocate greater than 40 percent of the revenue requirement to the BFC to address revenue stability. Due to the low monthly average consumption and seasonal customer base, staff believes that it is appropriate to allocate 55 percent of the water revenue to the BFC for revenue stability purposes.

The average persons per household served by the water system is two; therefore, based on the number of person per household, 50 gallons per day per persons, and the number of days per month, the non-discretionary usage threshold should be 3,000 gallons per month. Staff

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<sup>37</sup>Order No. PSC-06-0338-AS-WU, issued April 24, 2006, in Docket No. 050819-WU, *In re: Request to establish new class of service for RV park in Lee County, by Tamiami Village Water Company, Inc.*

recommends a traditional BFC and gallonage charge rate structure with separate gallonage charges for discretionary and non-discretionary usage for residential water customers.

Furthermore, staff evaluated whether the BFC for the RV park should be based on the existing water demand the RV park places on the water system or the 104.76 ERCs approved in a settlement. The RV park has a three-inch meter; the BFC for a general service three-inch meter is typically 16 times the 5/8" x 3/4" meter size BFC. During the test year, the RV park used 1,537,000 gallons of water. Compared with the average residential water demand of 1,442 gallons per month, the RV park demand represents approximately 89 ERCs (1,537,000/1,442/12). Therefore, staff recommends a BFC based on 89 ERCs for the RV park and a uniform gallonage charge. All other general service customers should be billed a BFC based on a meter size and uniform gallonage charge. The private fire protection charge is obsolete and there are no customers. Therefore, the private fire protection charge should be discontinued. Table 14-1, contains staff's recommended rate structure and rates and alternative rate structure, which includes varying BFC allocations and rate blocks.

On the following page, although provided as alternatives, staff is not in support of alternative one because of the very seasonal customer base coupled with a very low average consumption, the percentage increase in price at average consumption and below puts the utility at a risk of a revenue shortfall. For alternative two, staff is not opposed to this alternative because the BFC allocation provides revenue stability in regards to the very seasonal customer base.

**Table 14-1  
 Staff's Recommended and Alternative Water Rate Structures and Rates**

	<b>Rates at Time of Filing</b>	<b>Staff Recommended Rates (55% BFC)</b>	<b>Alternative I (50% BFC)</b>	<b>Alternative II (59% BFC)</b>
<b><u>Residential</u></b>				
5/8" x 3/4" Meter Size	\$12.64	\$15.10	\$13.72	\$16.20
Charge per 1,000 gallons – Residential				
0-3,000 gallons	\$4.47			
3,001-6,000 gallons	\$5.66			
Over 6,000 gallons	\$7.88			
0-3,000 gallons		\$7.05	\$7.83	\$6.42
Over 3,000 gallons		\$7.88	\$8.95	\$7.06
Charge Per 1,000 gallons- General Service	\$4.81	\$7.15	\$7.96	\$6.62
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>				
2,000 Gallons	\$21.58	\$29.20	\$37.21	\$29.04
6,000 Gallons	\$43.03	\$59.89	\$64.06	\$56.64
8,000 Gallons	\$58.79	\$75.65	\$81.96	\$70.76

Source: Current tariff and staff's calculations

### **Wastewater Rates**

Ni Florida's wastewater system is located in Pasco County. The utility purchases bulk wastewater treatment from Pasco County. Ni Florida provides service to residential and general service customers. The general service customers include a mobile home park classified as a bulk customer, which is provided service via a four-inch meter. Approximately 27 percent of the residential customers' bills during the test year had zero gallons, which indicates a seasonal customer base. The average water demand for wastewater customers was 2,812 gallons per month. The average wastewater demand excluding zero gallon bills is 3,841 per month. The utility's wastewater system rate structure consists of a uniform BFC for all meter sizes and a gallonage charge with a 8,000 gallon cap for residential customers. General service customers are billed a BFC by meter size 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.

The utility's proposed BFC allocation is 39.81 percent. Typically, the Commission's practice is to set the BFC allocation to at least 50 percent due to the capital intensive nature of wastewater plants. As mentioned earlier, the customer base is seasonal; therefore, 50 percent of the

wastewater revenue should be allocated to the BFC. Based on staff's review of the billing analysis, 84 percent of the residential gallons are captured at the 6,000 gallon consumption level. Approximately 95 percent of the residential water gallons are included at the 8,000 gallons consumption level. 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. Therefore, staff recommends a residential gallonage cap of 6,000 gallons per month.

Furthermore, staff evaluated whether a BFC for the mobile home park should be based on a four-inch meter (25 ERCs). The mobile home park consists of 475 manufactured homes, a clubhouse, and a pool. During the test year, the water demand for the mobile home park was 37,605,000. The average water demand for the bulk customer is 6,597 gallons. Compared with the average residential water demand of 2,812 gallons per month, the mobile home park demand represents approximately 1,114 ERCs ( $37,605,000/2,812/12$ ). However, the average water demand also includes the clubhouse, pool and irrigation of common areas. Staff recognizes that not all water demand will return to the wastewater system. As result, staff believes it is appropriate to assign an ERC of .8 to each of the manufactured homes behind the meter pursuant to Rule 25-30.055 (1)(a) which states that a mobile home should be .8 ERC. Therefore, staff recommends that the rate structure for the mobile home be based on 380 ERCs ( $475 \times .8$  ERC) for the BFC and the residential gallonage charge with a 6,000 gallon cap per ERC.

In addition, staff evaluated whether a BFC for the condominiums, a gated vacation community, should be based on a six-inch meter (50 ERCs). The condominiums consist of 333 units, a clubhouse, and pools. The water demand for the condominium was 6,796,000. The average water demand is 1,701 gallons. Compared with the average residential water demand 2,812 gallons per month, the condominiums demand represents approximately 201 ERCs ( $6,796,000/2,812/12$ ). Therefore, staff recommends a BFC based on 201 ERCs for the condominiums and a uniform gallonage charge. All other general service customers should be billed a BFC based on a meter size and uniform gallonage charge. Staff also recommends that general service gallonage charge be 1.2 times greater than the residential gallonage charge which is consistent with Commission practice.

On the following page, although staff provided alternatives, staff is not in support of alternative one because of the highly seasonal customer base coupled with a very low average consumption. For alternative two, staff is not opposed to this alternative because the BFC allocation provides revenue stability in regards to the very seasonal customer base.



**Table 14-2  
 Staff's Recommended and Alternative Wastewater Rate Structures and Rates**

	<b>Rates at Time of Filing</b>	<b>Staff Recommended Rates (50% BFC)</b>	<b>Alternative I (45% BFC)</b>	<b>Alternative II (55% BFC)</b>
<b><u>Residential</u></b>				
Base Facility Charge	\$20.95	\$26.03	\$23.43	\$28.64
Charge per 1,000 gallons				
8,000 gallon cap	\$6.87	N/A	N/A	N/A
6,000 gallon cap	N/A	\$6.90	\$7.59	\$6.21
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>				
2,000 Gallons	\$34.69	\$39.83	\$38.61	\$41.06
6,000 Gallons	\$62.17	\$67.43	\$68.97	\$65.90
8,000 Gallons	\$75.91	\$67.43	\$68.97	\$65.90

**Summary**

The recommended rate structure and 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 15:** What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Sections 367.0816,<sup>38</sup> Florida Statutes?

**Recommendation:** The water and wastewater 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 four-year rate case expense recovery period, pursuant to Section 367.0816, F.S., Ni Florida should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Brown, Bruce)

**Staff Analysis:** Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. This results in a reduction of \$6,075 for water and \$22,853 for wastewater.

The water and wastewater 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 four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Ni Florida should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

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<sup>38</sup>Section 367.0816, F.S., was repealed by Laws 2016, c. 2016-216, § 5, effective July 1, 2016. However, the statute was implemented in this case because it was effective at the time the application was filed.

**Issue 16:** Should the Commission approve Ni Florida's proposed rates for reconnection and meter re-reads based on a contract with Pasco County?

**Recommendation:** Yes. Staff recommends that Ni Florida's proposed violation reconnection charge of \$125.00 and \$187.50 during normal business hours and after hours, respectively, and a \$20.00 meter re-read based on a contract with Pasco County should be approved. (Bruce)

**Staff Analysis:** Ni Florida provides wastewater-only service for its customers in Pasco County. The water service is provided by two utilities: Hudson Water Works and Pasco County. In the past, the utility experienced a high level of bad debt expense due to uncollectable accounts. Ni Florida does not have the ability to disconnect water service when a customer is delinquent in paying for wastewater service. In the last rate case, the Commission approved pro forma additions for the installation of elder valves, which are lockable, disconnection, cleanout devices consisting of a special tee and plunger that is used to stop all flow from the customer's property to the wastewater system. As in the past, the Ni Florida currently has customers with large outstanding balances.

Ni Florida believes that customer service and billing issues can be better addressed through a joint agreement. Such agreement will eliminate the need for Ni Florida to install elder valves to shut off a customer's service for non-payment and will provide meter reading and violation reconnection services for their wastewater-only customers within the Pasco County service area. Pursuant to Pasco County's Contract (agreement), Sections 3.1-3.2 state that Pasco County will disconnect water service for a delinquent account within five days of a written notice from Ni Florida. Pasco County will assess Ni Florida its current prevailing charge of \$125.00 (normal hours) and \$187.50 (after-hours) for shut-off and restoration services, which is a violation reconnection charge pursuant to Rule 25-30.460, F.A.C. As result, Ni Florida requested to increase its normal reconnection and violation reconnection charges to \$125.00 and \$187.50 for normal hours and after-hours, respectively. The agreement addresses reconnections only in terms of reconnecting service after a disconnection. Therefore, staff does not believe it is appropriate to increase the normal reconnection charge.

In addition, Pasco County provides meter reading for Ni Florida's wastewater billing. Pursuant to Section 2.2 of the agreement, Pasco County will perform a meter re-read, at the request of Ni Florida, if there is a discrepancy in the billing. The cost of meter re-read is \$20 if the meter reading is correct and no charge if the initial reading is determined to be incorrect. Therefore, Ni Florida requested to implement a meter re-read at \$20. Staff believes this agreement is reasonable remedy for handling delinquent accounts and meter re-reads on going-forward basis.

Based on the above, staff recommends that Ni Florida's proposed violation reconnection charge of \$125.00 and \$187.50 during normal business hours and after hours, respectively, and a \$20.00 meter re-read based on a contract with Pasco County should be approved.

**Issue 17:** What are the appropriate customer deposits for Ni Florida's water and wastewater systems?

**Recommendation:** The appropriate initial customer deposits should be \$51 and \$91 for the residential 5/8 inch x 3/4 inch meter size for water and wastewater, respectively. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding. (Bruce)

**Staff Analysis:** Rule 25-30.311, F.A.C., provides the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the utility and, ultimately, the general body of ratepayers. An initial customer deposit ensures that the cost of providing service is recovered from the cost causer. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.<sup>39</sup> Currently, the utility's initial deposits for residential and general service are \$40 for 5/8 x 3/4 inch meter size, \$50 for 1 inch meter size, and \$60 for 1 1/2 inch meter size for water. For wastewater, the current initial customer deposit for the 5/8 x 3/4 inch meter size is \$72 and two times the average estimated bill for the general service meter sizes. Based on the staff recommended water rates and post repression average residential demand, the appropriate initial customer deposit should be \$51 to reflect an average residential customer bill for two months. The appropriate initial customer deposit for wastewater should be \$91 to reflect an average residential customer bill for two months.

Staff recommends the appropriate initial customer deposits should be \$51 and \$91 for the residential 5/8 inch x 3/4 inch meter size for water and wastewater, respectively. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved initial customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding.

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<sup>39</sup>Order No. PSC-15-0142-PAA-SU, issued March 26, 2015, in Docket No. 130178-SU, *In re: Application for staff-assisted rate case in Polk County by Crooked Lake Park Sewerage Company.*

**Issue 18:** Should Ni Florida's existing service availability charges be revised, and if so, what are the appropriate charges?

**Recommendation:** Yes. Ni Florida's existing wastewater service availability charges should be revised. For the wastewater system, a main extension charge of \$1,405 per ERC and a plant capacity charge of \$2,500 per ERC should be approved. The recommended service availability charges should be based on an estimated 173 gallons per day per ERC of treated wastewater demand. For water, the utility should continue to not have service availability charges. The approved service availability charges should be effective for service rendered on or after the stamped approval date of the tariff pursuant to Rule 25-30.475, F.A.C. (Bruce)

**Staff Analysis:** In its filing, the utility did not propose to change its service availability charges. The utility does not currently have any service availability charges for its water system. In Docket No. 830558-WS, the Commission determined that no service availability charges were appropriate because the CIAC level was appropriate and the utility's service area was nearly built out.<sup>40</sup> The current service availability charges for wastewater were last approved in Docket No. 020254-SU,<sup>41</sup> which consists of a system capacity charge of \$2,400.

A system capacity charge is a single service availability charge that includes the cost of both plant and lines. For a utility that receives donated lines from a developer, an individual customer connecting to those lines should only be responsible for a service availability charge that reflects plant costs. Therefore, separate charges are typically developed to reflect the customer's share of plant costs (plant capacity charges) and the cost of lines in lieu of donated lines (main extension charges). Rule 25-30.580, F.A.C., establishes guidelines for designing service availability charges. Pursuant to the rule, the maximum amount of contributions-in-aid-of construction (CIAC), net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of the Utility's facilities and plant when the facilities and plant are at their designed capacity. The minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution system and sewage collection systems.

The current contribution levels are zero percent and 30.51 percent for water and wastewater, respectively. Current policy for water requires developers to donate or contribute the lines and facilities necessary to serve customers in service territory that the utility does not have facilities. In Docket No. 830558-WS, the Commission imputed CIAC for the cost of the lines. Ni Florida's CIAC for water is fully amortized. Therefore, staff believes a main extension charge is not appropriate for the water system. In addition, for the water system, the service territory is approximately 97 percent built out and historically, customers have not paid service availability charges. As result, staff does not believe it is appropriate to impose a charge on the remaining three percent. As result, staff recommends that the water system continues with no service availability charges and its existing policy that requires the developers to donate or contribute the lines and facilities necessary to serve customers in service territory that the utility does not have

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<sup>40</sup>Order No. 13796, issued October 22, 1984, in Docket No. 830558-WS, In Re: *Application of Tamiami Utility Company for increased water and sewer rates and charges to customers in Lee County, Florida.*

<sup>41</sup>Order No. PSC-02-1626-PAA-SU, issued November 25, 2002, in Docket No. 020254-SU, In Re: *Application for increase in service availability charges in Pasco County by Hudson Utilities, Inc.*

facilities. Below is the discussion in regards to the appropriate wastewater service availability charges.

### **Main Extension Charge**

Ni Florida's current service availability policy for wastewater requires that the utility installs all of the facilities necessary to provide sewer service to a property. The customers must pay their pro rata share of the cost of the wastewater collection system which is installed by the utility. The cost of the sewage collection system is \$5,339,566 and the lines have a design capacity of 3,800 ERCs. Based on the historical cost of the existing sewage collection systems, staff recommends a charge of \$1,405 per ERC for the wastewater system.

Staff's recommended main extension charges for wastewater, is consistent with the guidelines in Rule 25-30.580, F.A.C., which require that, at a minimum, the cost of the utility's lines should be contributed. Staff's recommended main extension charge wastewater will allow the utility to recover a portion of its investment wastewater collection system from future connections consistent with Rule 25-30.580 (2), F.A.C. In addition, the service availability policy for wastewater service should be revised to allow either donated lines or a main extension charge from new connections.

### **Plant Capacity Charge**

Staff reviewed the contribution level of the wastewater system and found that the contribution level is less than the 75 percent maximum guideline provided in Rule 25-30.580, F.A.C. The minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by wastewater collection systems. Based on staff's review, increasing the contribution level to 75 percent, for wastewater, creates a relatively high plant capacity charge. For wastewater, the minimum contribution level is 56.42 percent and the current contribution level is 30.51 percent. As a result, staff recommends a plant capacity charge of \$2,500, which would allow the utility to be at a 57 percent contribution level at build out.

Based on the above, Ni Florida's existing wastewater service availability charges should be revised. For the wastewater system, a main extension charge of \$1,405 per ERC and a plant capacity charge of \$2,500 per ERC should be approved. The recommended service availability charges should be based on an estimated 173 gallons per day per ERC of treated wastewater demand. For water, the utility should continue to not have service availability charges. The approved service availability charges should be effective for service rendered on or after the stamped approval date of the tariff pursuant to Rule 25-30.475, F.A.C.

**Table 18-1**  
**Current and Recommended Service Availability Charges**

	Wastewater	
	Current Charge	Recommended Charge
Main Extension Charge	\$0	\$1,405
Plant Capacity Charge	\$0	\$2,500
System Capacity Charge	\$2,400	\$0

**Issue 19:** In determining whether any portion of the interim water and wastewater revenue increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any

**Recommendation:** The appropriate refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. The revised revenue requirements for the interim collection period should be compared to the amount of interim revenues granted. This results in a refund of 8.44 percent for water and 0.92 percent for wastewater. The refund should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as Contributions in Aid of Construction (CIAC) pursuant to Rule 25-30.360(8), F.A.C. Further, the letter of credit should be released upon staff's verification that the required refunds have been made. (Brown)

**Staff Analysis:** By Order No. PSC-16-0249-PCO-WS, issued June 29, 2016, the Commission approved an interim revenue requirement of \$310,891 for water and \$2,264,770 for wastewater, subject to refund. The approved interim revenue requirements represented an increase of 38.98 percent for water and 17.21 percent for wastewater.

According to Section 367.082, F.S., any refund should be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates in effect should be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the 12-month period, which ended December 31, 2015. Ni Florida's approved interim rates did not include any provisions for pro forma operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the lower limit of the last authorized range of return on equity. To establish the proper refund amount, staff calculated revised interim revenue requirements utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, staff calculated an adjusted interim revenue requirements of \$284,644 for water and \$2,243,863 for wastewater. The adjusted water interim revenue requirement of \$284,644 is lower than the interim revenue requirement of \$310,891, resulting in a refund of 8.44 percent. The adjusted wastewater interim revenue requirement of \$2,243,863 is lower than the interim revenue requirement of \$2,264,770, resulting in a refund of 0.92 percent. As such, the letter of credit for Ni Florida's funds should be released upon staff's verification that the required refunds have been made.



**Issue 20:** Should the utility be required to notify, 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 (USOA) associated with the Commission approved adjustments?

**Recommendation:** Yes. The utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Ni Florida should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the utility's books and records. In the event the utility needs additional time to complete the adjustments, notice should be provided within seven days prior to deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Brown)

**Staff Analysis:** The utility should be required to notify the Commission, in writing that it has adjusted its books in accordance with the Commission's decision. Ni Florida should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the utility's books and records. In the event the utility needs additional time to complete the adjustments, notice should be provided within seven days prior to deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

**Issue 21:** Should this docket be closed?

**Recommendation:** No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the outstanding Phase I pro forma items have been completed, the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and the utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. (Mapp)

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

Ni Florida, LLC Schedule of Water Rate Base Test Year Ended 12/31/15			Schedule No. 1-A Docket No. 160030-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$568,878	\$0	\$568,878	\$0	\$568,878
2 Accumulated Depreciation	(303,287)	0	(303,287)	0	(303,287)
3 CIAC	(110,779)	0	(110,779)	0	(110,779)
4 Amortization of CIAC	110,779	0	110,779	0	110,779
5 Acquisition Adjustments	1,047,160	(1,047,160)	0	0	0
6 Accumulated Deferred Income Taxes	0	(2,173)	(2,173)	0	(2,173)
7 Working Capital Allowance	<u>64,328</u>	<u>17,256</u>	<u>81,584</u>	<u>(4,534)</u>	<u>77,050</u>
8 Rate Base	<u>\$1,377,079</u>	<u>(\$1,032,077)</u>	<u>\$345,002</u>	<u>(\$4,534)</u>	<u>\$340,468</u>

<b>Ni Florida, LLC Schedule of Wastewater Rate Base Test Year Ended 12/31/15</b>		<b>Schedule No. 1-B Docket No. 160030-WS</b>			
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>
1 Plant in Service	\$9,155,410	\$266,889	\$9,422,299	\$32,306	\$9,454,605
2 Land and Land Rights	9,513	0	9,513	0	9,513
3 Accumulated Depreciation	(4,520,375)	545,254	(3,975,121)	44,844	(3,930,277)
4 CIAC	(3,638,516)	0	(3,638,516)	0	(3,638,516)
5 Amortization of CIAC	1,946,580	0	1,946,580	6,568	1,953,148
6 Construction Work in Progress	479,348	(479,348)	0	0	0
7 Acquisition Adjustments	5,726,865	(5,726,865)	0	0	0
8 Accumulated Deferred Income Taxes	(3,634)	(100,742)	(104,376)	3,634	(100,742)
9 Working Capital Allowance	<u>218,210</u>	<u>64,708</u>	<u>282,918</u>	<u>(65,795)</u>	<u>217,123</u>
10 Rate Base	<u>\$9,373,401</u>	<u>(\$5,430,104)</u>	<u>\$3,943,297</u>	<u>\$21,557</u>	<u>\$3,964,854</u>

Ni Florida, LLC Adjustments to Rate Base Test Year Ended 12/31/15		Schedule No. 1-C Docket No. 160030-WS	
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
Reflect appropriate pro forma plant adjustments. (Issue 4)	<u>\$0</u>	<u>\$32,306</u>	
<u>Accumulated Depreciation</u>			
Reflect appropriate pro forma plant adjustments. (Issue 4)	<u>\$0</u>	<u>\$44,844</u>	
<u>Amortization of CIAC</u>			
Reflect agreed upon audit adjustments. (Issue 3)	<u>\$0</u>	<u>\$6,568</u>	
<u>Accumulated Deferred Income Taxes</u>			
Reflect agreed upon audit adjustments. (Issue 3)	<u>\$0</u>	<u>\$3,634</u>	
<u>Working Capital</u>			
1 Reflect appropriate deferred rate case expense. (Issue 6)	(\$4,534)	(\$15,676)	
2 Reflect agreed upon audit adjustments. (Issue 3)	<u>0</u>	<u>(50,119)</u>	
Total	<u>(\$4,534)</u>	<u>(\$65,795)</u>	

Ni Florida, LLC Capital Structure – 13-Month Average Test Year Ended 12/31/15							Schedule No. 2 Docket No. 160030-WS		
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Prorata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
<b>Per Utility</b>									
1 Long-term Debt - Fixed Rate	48,567	0	48,567	0	48,567	1.13%	8.50%	0.10%	
2 Long-term Debt - Variable Rate	896,661	0	896,661	0	896,661	20.92%	4.50%	0.94%	
3 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
4 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
5 Common Equity	3,149,915	0	3,149,915	0	3,149,915	73.48%	9.27%	6.81%	
6 Customer Deposits	85,202	0	85,202	0	85,202	1.99%	6.00%	0.12%	
7 Deferred Income Taxes	<u>3,634</u>	<u>102,915</u>	<u>106,549</u>	<u>0</u>	<u>106,549</u>	<u>2.49%</u>	0.00%	<u>0.00%</u>	
8 <b>Total Capital</b>	<b><u>\$4,183,979</u></b>	<b><u>\$102,915</u></b>	<b><u>\$4,286,894</u></b>	<b><u>\$0</u></b>	<b><u>\$4,286,894</u></b>	<b><u>100.00%</u></b>		<b><u>7.97%</u></b>	
<b>Per Staff</b>									
9 Long-term Debt- Fixed Rate	48,567	0	48,567	226	48,793	1.13%	8.50%	0.10%	
10 Long-term Debt - Variable Rate	896,661	0	896,661	4,165	900,826	20.92%	4.50%	0.94%	
11 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
12 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
13 Common Equity	3,149,915	0	3,149,915	14,633	3,164,548	73.50%	9.56%	7.03%	
14 Customer Deposits	85,202	0	85,202	0	85,202	1.98%	2.00%	0.04%	
15 Deferred Income Taxes	<u>3,038</u>	<u>102,915</u>	<u>105,953</u>	<u>0</u>	<u>105,953</u>	<u>2.46%</u>	0.00%	<u>0.00%</u>	
16 <b>Total Capital</b>	<b><u>\$4,183,383</u></b>	<b><u>\$102,915</u></b>	<b><u>\$4,286,298</u></b>	<b><u>\$19,024</u></b>	<b><u>\$4,305,322</u></b>	<b><u>100.00%</u></b>		<b><u>8.11%</u></b>	
						<b><u>LOW</u></b>	<b><u>HIGH</u></b>		
RETURN ON EQUITY						<b><u>8.56%</u></b>	<b><u>10.56%</u></b>		
OVERALL RATE OF RETURN						<b><u>7.37%</u></b>	<b><u>8.84%</u></b>		

Ni Florida, LLC Statement of Water Operations Test Year Ended 12/31/15		Schedule No. 3-A Docket No. 160030-WS					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$243,169</u>	<u>\$78,922</u>	<u>\$322,091</u>	<u>(\$97,485)</u>	<u>\$224,606</u>	<u>\$65,265</u> 29.06%	<u>\$289,872</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$238,510	\$9,115	\$247,625	(\$34,637)	\$212,988	\$0	\$212,988
3 Depreciation	19,513	817	20,330	0	20,330	0	20,330
4 Amortization	0	0	0	0	0	0	0
5 Taxes Other Than Income	10,943	3,922	14,865	(5,222)	9,643	2,937	12,580
6 Income Taxes	<u>0</u>	<u>12,882</u>	<u>12,882</u>	<u>(19,963)</u>	<u>(7,081)</u>	<u>23,454</u>	<u>16,373</u>
7 <b>Total Operating Expense</b>	<u>268,966</u>	<u>26,736</u>	<u>295,702</u>	<u>(59,822)</u>	<u>235,880</u>	<u>26,391</u>	<u>262,271</u>
8 <b>Operating Income</b>	<u>(\$25,797)</u>	<u>\$52,186</u>	<u>\$26,389</u>	<u>(\$37,663)</u>	<u>(\$11,274)</u>	<u>\$38,874</u>	<u>\$27,600</u>
9 <b>Rate Base</b>	<u>\$1,377,079</u>		<u>\$345,002</u>		<u>\$340,468</u>		<u>\$340,468</u>
10 <b>Rate of Return</b>	<u>-1.87%</u>		<u>7.65%</u>		<u>-3.31%</u>		<u>8.11%</u>

Ni Florida, LLC Statement of Wastewater Operations Test Year Ended 12/31/15		Schedule No. 3-B Docket No. 160030-WS					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$1,929,738</u>	<u>\$475,000</u>	<u>\$2,404,738</u>	<u>(\$452,261)</u>	<u>\$1,952,477</u>	<u>\$311,050</u> 15.93%	<u>\$2,263,527</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	1,515,833	65,633	1,581,466	(203,345)	1,378,121	0	1,378,121
3 Depreciation	166,265	18,132	184,397	(735)	183,622	0	183,662
4 Amortization	0	0	0	(2,845)	(2,845)	0	(2,845)
5 Taxes Other Than Income	164,261	25,939	190,200	(11,693)	178,507	13,997	192,504
6 Income Taxes	<u>47,244</u>	<u>99,746</u>	<u>146,990</u>	<u>(68,101)</u>	<u>78,889</u>	<u>111,781</u>	<u>190,670</u>
7 <b>Total Operating Expense</b>	<u>\$1,893,603</u>	<u>\$209,450</u>	<u>\$2,103,053</u>	<u>(\$286,719)</u>	<u>\$1,816,334</u>	<u>\$125,778</u>	<u>\$1,942,112</u>
8 <b>Operating Income</b>	<u>\$36,135</u>	<u>\$265,550</u>	<u>\$301,685</u>	<u>(\$165,542)</u>	<u>\$136,143</u>	<u>\$185,272</u>	<u>\$321,415</u>
9 <b>Rate Base</b>	<u>\$9,373,401</u>		<u>\$3,943,297</u>		<u>\$3,964,854</u>		<u>\$3,964,854</u>
10 <b>Rate of Return</b>	<u>0.39%</u>		<u>7.65%</u>		<u>3.43%</u>		<u>8.11%</u>



<b>Ni Florida, LLC</b>		<b>Schedule 3-C</b>	
<b>Adjustment to Operating Income</b>		<b>Docket No. 160030-WS</b>	
<b>Test Year Ended 12/31/15</b>			
<b>Explanation</b>	<b>Water</b>	<b>Wastewater</b>	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase.	(\$87,150)	(\$475,000)	
2 Reflect the appropriate amount of test year revenues. (Issue 10)	<u>(10,335)</u>	<u>22,739</u>	
Total	<u>(\$97,485)</u>	<u>(\$452,261)</u>	
<u>Operation and Maintenance Expense</u>			
1 Reflect contested audit adjustments. (Issue 3)	(\$10,277)	(\$39,742)	
2 To adjust purchased wastewater for excess I & I. (Issue 5)	0	(13,478)	
3 To adjust purchased power for excess I & I. (Issue 5)	0	(496)	
4 Reflect appropriate rate case expense amortization. (Issue 11)	(3,636)	(\$13,575)	
5 Reflect further adjustments to O&M expense. (Issue 12)	<u>(20,724)</u>	<u>(136,054)</u>	
Total	<u>(\$34,637)</u>	<u>(\$203,345)</u>	
<u>Depreciation Expense - Net</u>			
Reflect appropriate pro forma plant adjustments. (Issue 4)	<u>\$0</u>	<u>(\$735)</u>	
<u>Amortization Expense</u>			
Reflect agreed upon audit adjustments. (Issue 2)	<u>\$0</u>	<u>(\$2,845)</u>	
<u>Taxes Other Than Income</u>			
1 Remove RAFs on revenue adjustments above.	(\$4,387)	(\$20,352)	
2 Reflect contested audit adjustments. (Issue 3)	(835)	(1,378)	
3 Reflect appropriate pro forma plant adjustments. (Issue 4)	<u>0</u>	<u>10,037</u>	
Total	<u>(\$5,222)</u>	<u>(\$11,693)</u>	

<b>NI FLORIDA, LLC.</b>		<b>SCHEDULE NO. 4-A</b>			
<b>TEST YEAR ENDED 12/31/15</b>		<b>DOCKET NO. 160030-WS</b>			
<b>MONTHLY WATER RATES</b>					
	<b>RATES AT TIME OF FILING</b>	<b>COMMISSION APPROVED INTERIM</b>	<b>UTILITY REQUESTED RATES</b>	<b>STAFF RECOMMENDED RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential and General Service</u></b>					
<b>Base Facility Charge by Meter Size</b>					
5/8" x 3/4"	\$12.64	\$17.70	\$18.34	\$15.10	\$0.32
3/4"	\$18.96	\$26.54	\$27.52	\$22.65	\$0.49
1"	\$31.60	\$44.24	\$45.86	\$37.75	\$0.81
1-1/2"	\$63.21	\$88.49	\$91.73	\$75.50	\$1.62
2"	\$101.13	\$141.57	\$146.76	\$120.80	\$2.59
3"	\$202.27	\$312.69	\$293.54	\$241.60	\$5.18
4"	\$316.04	\$442.43	\$458.65	\$377.50	\$8.09
6"	\$632.08	\$884.86	\$917.29	\$755.00	\$16.19
8"	\$1,011.20	\$1,415.60	\$1,467.48	\$1,208.80	\$25.90
RV Park	\$1,324.36	\$1,854.00	\$1,921.95	\$1,343.90	\$28.81
<b>Charge per 1,000 Gallons - Residential</b>					
0-3,000 gallons	\$4.47	\$6.26	\$6.49		
3,001-6,000 gallons	\$5.66	\$7.92	\$8.21		
Over 6,000 gallons	\$7.88	\$11.03	\$11.44		
0-3,000 gallons				\$7.05	\$0.15
Over 3,000 gallons				\$7.88	\$0.17
Charge per 1,000 Gallons - General Service	\$4.81	\$6.73	\$6.98	\$7.28	\$0.15
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>					
2,000 Gallons	\$21.58	\$30.22	\$31.32	\$15.10	
6,000 Gallons	\$43.03	\$60.24	\$62.44	\$59.89	
8,000 Gallons	\$58.79	\$82.30	\$85.32	\$75.65	

NI FLORIDA, LLC. TEST YEAR ENDED 12/31/15 MONTHLY WASTEWATER RATES					SCHEDULE NO. 4-B DOCKET NO. 160030-WS	
	RATES AT TIME OF FILING	COMMISSION APPROVED INTERIM	UTILITY REQUESTED RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION	
<b><u>Residential</u></b>						
Base Facility Charge - All Meter Sizes						
Charge Per 1,000 gallons	\$20.95	\$24.66	\$26.12	\$26.03	\$0.27	
6,000 gallon cap				\$6.90	\$0.07	
8,000 gallon cap	\$6.87	\$8.09	\$8.56			
<b><u>General Service</u></b>						
Base Facility Charge by Meter Size						
5/8" x 3/4"	\$20.95	\$24.66	\$26.12	\$26.03	\$0.27	
3/4"	\$31.43	\$36.99	\$39.18	\$39.05	\$0.41	
1"	\$52.38	\$61.65	\$65.30	\$65.08	\$0.68	
1-1/2"	\$105.46	\$123.30	\$130.60	\$130.15	\$1.35	
2"	\$167.64	\$197.28	\$208.96	\$208.24	\$2.16	
3"	\$335.27	\$394.56	\$391.80	\$416.48	\$4.33	
4"	\$523.86	\$616.50	\$653.00	\$650.75	\$6.76	
6"	\$1,047.73	\$1,233.00	\$1,306.00	\$1,301.50	\$13.52	
8"	\$1,676.37	\$1,972.80	\$2,089.60	\$2,082.40	\$21.63	
10"	\$2,409.78	\$2,835.90	\$3,003.80	\$2,993.45	\$31.10	
Mobile Home Park	\$523.86	\$616.50	\$653.00	\$9,891.40	\$102.76	
Condominiums	\$1,047.73	\$1,233.00	\$1,306.00	\$5,232.03	\$54.36	
Charge per 1,000 Gallons - General Service	\$8.24	\$9.70	\$10.27	\$8.28	\$0.09	
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>						
2,000 Gallons	\$34.69	\$40.84	\$43.23	\$39.83		
6,000 Gallons	\$62.17	\$73.20	\$77.47	\$67.43		
8,000 Gallons	\$62.17	\$73.20	\$77.47	\$68.90		