

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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COMMISSION CLERK  
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**DATE:** May 26, 2016

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

**FROM:** Division of Economics (Bruce, Hudson)  
Division of Accounting and Finance (T. Brown, D. Buys)  
Division of Engineering (Hill)  
Office of the General Counsel (Mapp)

**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:** 06/09/16 – Regular Agenda – Decision on Suspension of Rates and Interim Rates – Participation is at the Discretion of the Commission

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Graham

**CRITICAL DATES:** (60-Day Suspension and Interim Date waived until 06/09/16)

**SPECIAL INSTRUCTIONS:** None

### Case Background

Ni Florida, LLC (Ni Florida or utility) is a Class A utility serving approximately 743 water connections in Lee County and 2,749 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 for the rate increase at issue in the instant docket.

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

<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.*

staff determined that the MFRs are 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 interim and final rates is based on a 13 month average for the period ended December 31, 2015. Ni Florida requested interim revenue increases of \$75,950 (32.3 percent) for water and \$432,000 (22.4 percent) for wastewater. The utility requested final revenue increases of \$87,150 (37.1 percent) for water and \$475,000 (24.6 percent) for wastewater.

The 60-day statutory deadline for the Commission to suspend the utility's requested final rates and approve interim rates is June 4, 2016. However, by letter dated April 11, 2016, the utility agreed to extend the time by which the Commission is required to suspend the proposed rates and authorize interim rates through the June 9, 2016 Commission Conference. This recommendation addresses the suspension of Ni Florida's requested final rates and its requested interim rates. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

### Discussion of Issues

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

**Recommendation:** Yes. Ni Florida's proposed final water and wastewater rates should be suspended. (Bruce)

**Staff Analysis:** Section 367.081(6), F.S., provides that the Commission may, for good cause, withhold consent to the implementation of requested rates within 60 days after the date the rate request is filed. Further, Section 367.081(8), F.S., permits the proposed rates to go into effect (secured and subject to refund) at the expiration of five months from the official date of filing if: (1) the Commission has not acted upon the requested rate increase; or (2) if the Commission's PAA action is protested by a party other than the utility.

Staff reviewed the filing and considered the information filed in support of the rate application and the proposed final rates. Staff believes that further investigation of this information, including on-site inspections, is needed. Staff initiated an audit of Ni Florida's books and records, as well as an audit of the utility's proposed allocation of parent company investment and operating expenses. Both of these audits are tentatively due on July 29, 2016. In addition, staff sent its first data request to the utility on May 26, 2016. The utility's response to the data request is due on June 14, 2016. Based on the foregoing, staff recommends Ni Florida's proposed final water and wastewater rates be suspended.

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

**Recommendation:** Yes, Ni Florida should be authorized to collect annual water and wastewater revenues as indicated below:

|            | <u>Adjusted Test<br/>Year Revenues</u> | <u>\$ Increase</u> | <u>Revenue<br/>Requirement</u> | <u>% Increase</u> |
|------------|--|--------------------|--------------------------------|-------------------|
| Water      | \$223,689                              | \$87,202           | \$310,891                      | 38.98%            |
| Wastewater | \$1,932,151                            | \$332,619          | \$2,264,770                    | 17.21%            |

(T. Brown, Hill)

**Staff Analysis:** On April 4, 2016, Ni Florida filed its rate base, cost of capital, and operating statements to support its requested interim increase in water and wastewater rates. Pursuant to Section 367.082(1), F.S., 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. Based on the utility's filing and the recommended adjustments below, staff believes that the utility has demonstrated a prima facie entitlement in accordance with Section 367.082(1), F.S.

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 annualizing any rate changes. Staff has reviewed Ni Florida's interim request, as well as Order No. PSC-13-0611-PAA-WS, in which the Commission last established rate base.<sup>2</sup> Staff's recommended adjustments are discussed below. Staff has attached accounting schedules to illustrate staff's recommended rate base, capital structure, and test year operating income amounts. Rate base schedules are labeled as Schedule Nos. 1-A and 1-B, with the adjustments shown on Schedule No. 1-C. Capital structure is labeled as Schedule No. 2. Operating income schedules for water and wastewater, respectively, are labeled as Schedule Nos. 3-A and 3-B, with the adjustments shown on Schedule No. 3-C.

**Rate Base**

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. Based on staff's review, there are several adjustments necessary for interim purposes.

Based on staff's review, adjustments are necessary to remove amounts from the wastewater plant in service balance associated with the utility's pro forma plant projects of \$812,142 (\$82,880 + \$729,262) and plant retirements of \$545,254. Those adjustments net to a \$266,889 (\$812,142 – \$545,254) reduction for wastewater only. No pro forma plant projects were included for water. A

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<sup>2</sup>Id.

corresponding adjustment is necessary to increase accumulated depreciation for wastewater by \$545,254.

Ni Florida also included pro forma deferred income taxes of \$2,173 and \$100,742 for water and wastewater respectively. Staff removed the utility's pro forma deferred income tax adjustments in totality.

In its filing, the utility used the balance sheet approach to calculate interim working capital, which is appropriate for a Class A utility. The calculated total company working capital was \$282,538, and it was allocated to each of Ni Florida's systems based on Equivalent Residential Connections (ERCs) as of December 31, 2015.

The utility included \$60,448 in its working capital calculation for deferred rate case expense. In Ni Florida's last rate case, the Commission approved total rate case expense of \$149,321.<sup>3</sup> Consistent with the Utility's last rate case and Commission practice, one-half of the total rate case expense shall be included in working capital. Staff believes that one-half of the prior Commission-approved rate case expense, or \$74,661, is the appropriate amount of deferred rate case expense to be included in working capital for interim purposes. As such, deferred rate case expense should be increased by \$14,213 (\$74,661 - \$60,448). Staff increased working capital by \$2,738 for water and \$11,475 for wastewater. The increase results in a working capital allowance of \$296,751.

Pursuant to Section 367.082, F.S., the method used to calculate Used and Useful (U&U) in Ni Florida's last rate case must be used for interim purposes. By Order No. PSC-13-0611-PAA-WS, the Commission found that Ni Florida's water and wastewater systems were 100 percent U&U. Therefore, no U&U adjustments are necessary for interim purposes.

Based on the above, staff recommends that Ni Florida's interim water rate base should be \$332,657 and wastewater rate base should be \$3,178,663.

### **Cost of Capital**

Based on an analysis of the MFRs and staff's review of Order No. PSC-13-0611-PAA-WS from the utility's last rate proceeding, staff believes adjustments are necessary to the utility's capital structure. In its interim request, the utility used a return on equity (ROE) of 9.27 percent. However, the minimum of the range of its last authorized ROE was 8.42 percent. The utility also included \$102,915 of deferred income taxes in its capital structure. This amount is consistent with the amount of pro forma deferred income taxes the utility included in its requested interim rate base. Consistent with the removal of pro forma deferred income taxes discussed previously, staff believes deferred income taxes should be removed from the utility's interim cost of capital. With these adjustments, staff recommends an interim weighted average cost of capital for Ni Florida of 7.52 percent.

### **Net Operating Income**

In order to attain the appropriate amount of interim test year operating revenues, staff removed the utility's requested interim revenue increase of \$75,950 for water and \$432,000 for

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<sup>3</sup>Order No. PSC-13-0611-PAA-WS, p.20.

wastewater. Based on staff's annualized revenue calculations, water revenues should be reduced by \$11,252 and wastewater revenues increased by \$2,413.

Based on staff's review, several adjustments to operation and maintenance (O&M) expenses are necessary for interim purposes. Pursuant to Section 367.082(5)(b)1., F.S., the only adjustments that should be made to the interim test year are those consistent with the most recent individual rate proceeding or adjustments to annualize rate changes occurring during the interim test year. As such, staff believes that the utility's adjustments to bad debt expense based on a percentage of the proposed revenue increase are pro forma in nature and should be removed. Staff reduced bad debt expense by \$367 for water and \$5,978 for wastewater.

Staff 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.

In the last rate case, the Commission also made adjustments to the utility's director and officer liability (DOL) insurance, due diligence costs, and equity sponsor fee. According to the utility, due diligence costs and the equity sponsor fee were excluded from allocable expenses during the preparation of the rate filing. As such, no adjustments are necessary for due diligence or the equity sponsor fee. However, the utility's parent company recorded DOL insurance expense of \$47,862 for the test year. Consistent with the methodology used in the last rate case,<sup>4</sup> DOL insurance costs prior to any allocation should be reduced by \$23,931 (\$47,862 divided by 2). Based on the above, Ni Florida's allocated expenses should be \$2,058 (\$23,931 multiplied by Ni Florida's 8.60 percent allocation factor), or \$425 for water and \$1,633 for wastewater. The utility included \$851 for water and \$3,267 for wastewater in the current test year. Based on staff's calculations, DOL insurance should be reduced by \$426 (\$425 - \$851) and \$1,634 (\$1,633 - \$3,267) for water and wastewater, respectively.

Staff also removed the utility's depreciation expense adjustments related to year-end plant in service and changes in depreciation due to wastewater plant replacements. The resulting adjustments totaled \$817 and \$18,132 for water and wastewater, respectively.

Finally, staff made adjustments to taxes other than income (TOTI) to reflect the revenue and O&M expense adjustments cited above. Staff reduced regulatory assessment fees (RAFs) by \$3,924 for water and \$19,331 for wastewater to reflect the removal of the utility's requested revenue increase. Staff also removed the utility's wastewater property tax adjustment of \$4,564 for pro forma plant projects.

Based on the above, staff recommends that the appropriate test year operating income, before any revenue increase, is a \$27,366 loss for water and income of \$40,818 for wastewater.

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<sup>4</sup>Order No. PSC-13-0611-PAA-WS, p.17.

### **Revenue Requirement**

Based on the above adjustments, allowing the utility to earn a 7.52 percent return on its water rate base would result in a revenue requirement of \$311,615. The utility has requested an interim revenue requirement of \$310,891. In such circumstances, it has been Commission practice to limit the revenue requirement to the level requested by the utility. Consistent with Commission practice,<sup>5</sup> staff recommends a revenue requirement of \$310,891 for water. This represents an interim increase in annual revenues of \$87,202 (or 38.98 percent). This will allow the utility the opportunity to recover its water operating expenses and earn a 7.39 percent return on its water rate base.

Staff recommends a wastewater revenue requirement of \$2,264,770. This represents an increase in annual revenues of \$332,619 (or 17.21 percent) for wastewater. The increase will allow the utility the opportunity to recover its wastewater operating expenses and earn a 7.52 percent return on its wastewater rate base.

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<sup>5</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 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.*

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

**Recommendation:** The recommended interim rate increase of 40.12 percent for water and 17.71 percent for wastewater should be applied as an across-the-board increase to the existing service rates. 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)

**Staff Analysis:** Staff recommends that interim service rates for Ni Florida be designed to allow the utility the opportunity to generate annual operating revenues of \$310,891 and \$2,264,770 for water and wastewater, respectively. Before removal of miscellaneous revenues, this would result in an increase of \$87,202 (38.98 percent) for water and \$332,619 (17.21 percent) for wastewater. To determine the appropriate increase to apply to the service rates, miscellaneous revenues should be removed from the test year revenues. The calculation is as follows:

**Table 3  
 Percentage Service Rate Increase**

|  | <u>Water</u>    | <u>Wastewater</u> |
|--|-----------------|-------------------|
| 1 Total Test Year Revenues                         | \$223,689       | \$1,932,151       |
| 2 Less: Miscellaneous Revenues                     | <u>\$6,357</u>  | <u>\$53,756</u>   |
| 3 Test Year Revenues from Service Rates            | \$217,332       | \$1,878,395       |
| 4 Revenue Increase                                 | <u>\$87,202</u> | <u>\$332,619</u>  |
| 5 Percentage Service Rate Increase (Line 4/Line 3) | 40.12%          | 17.71%            |

Source: Staff's Recommended Revenue Requirement and MFRs

Staff recommends that the interim rate increases of 40.12 percent for water and 17.71 percent for wastewater should be applied as an across-the-board increase to the existing service rates. 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:** The utility should be required to secure a letter of credit, or alternately an escrow account or surety bond, to guarantee any potential refund of revenues collected under interim conditions. If the security provided is a letter of credit or surety bond, it should be in the amount of \$245,203. Otherwise, the utility should deposit \$34,985 into the escrow account each month. 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. (D. Buys, T. Brown)

**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 \$419,821. 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 \$245,203. This amount is based on an estimated seven months of revenue being collected from staff's recommended interim rates over the utility's current authorized rates shown on Schedule Nos. 4-A and 4-B.

The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. The utility has indicated to staff that it intends to utilize a letter of credit as security for any potential refund of interim rates granted. As such, staff did not perform an analysis regarding the utility's financial capability to support a corporate undertaking. Staff recommends Ni Florida be required to secure a letter of credit, or alternately an escrow account or surety bond, to guarantee any potential refund of water and wastewater revenues. The requirements associated with each are discussed below.

If the security provided is a surety bond or a letter of credit, said instrument should be in the amount of \$245,203. If the utility chooses a surety bond as security, the surety bond should state that it will be released or terminated only upon subsequent order of the Commission. If the utility chooses to provide a letter of credit as security, the letter of credit should state that it is irrevocable for the period it is in effect and that it will be in effect until a final Commission order is rendered releasing the funds to the utility or requiring a refund.

If the security provided is an escrow account, said account should be established between the utility and an independent financial institution or the Division of Treasury for the Florida Department of Financial Services pursuant to a written escrow agreement. The Commission should be a party to the written escrow agreement and a signatory to the escrow account. The written escrow agreement should state the following: the account is established at the direction of the Commission for the purpose set forth above; no withdrawals of funds shall occur without the prior approval of the Commission through the Commission Clerk, Office of Commission Clerk; the account shall be interest bearing; information concerning that escrow account shall be available from the institution to the Commission or its representative at all times; the amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt; and, pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla 3d DCA 1972), escrow accounts are not subject to garnishments.

If the security provided is an escrow account, the utility should deposit \$34,985 into the escrow account each month. The escrow agreement should also state that “if a refund to the customers is required, all interest earned on the escrow account shall be distributed to the customers, and if a refund to the customers is not required, the interest earned on the escrow account shall revert to the utility.”

Regardless of the type of security provided, the utility should keep an accurate and detailed account of all monies it receives. 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 this docket be closed?

**Recommendation:** The docket should remain open pending the Commission's PAA decision on the utility's requested rate increase. (Mapp)

**Staff Analysis:** The docket should remain open pending the Commission's PAA decision on the utility's requested rate increase.

| Ni Florida, LLC<br>Schedule of Water Rate Base<br>Test Year Ended 12/31/15 |                             |                             | Schedule No. 1-A<br>Docket No. 160030-WS |                           |                                |
|--|-----------------------------|-----------------------------|--|---------------------------|--------------------------------|
| Description  | Test Year<br>Per<br>Utility | Utility<br>Adjust-<br>Ments | Adjusted<br>Test Year<br>Per Utility     | Staff<br>Adjust-<br>ments | Staff<br>Adjusted<br>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)                                  | 2,173                     | 0                              |
| 7 Working Capital Allowance  | <u>64,328</u>               | <u>0</u>                    | <u>64,328</u>                            | <u>2,738</u>              | <u>67,066</u>                  |
| 8 Rate Base  | <u>\$1,377,079</u>          | <u>(\$1,049,333)</u>        | <u>\$327,746</u>                         | <u>\$4,911</u>            | <u>\$332,657</u>               |

| Ni Florida, LLC<br>Schedule of Wastewater Rate Base<br>Test Year Ended 12/31/15 |                             |                             | Schedule No. 1-B<br>Docket No. 160030-WS |                           |                                |
|---|-----------------------------|-----------------------------|--|---------------------------|--------------------------------|
| Description   | Test Year<br>Per<br>Utility | Utility<br>Adjust-<br>ments | Adjusted<br>Test Year<br>Per Utility     | Staff<br>Adjust-<br>ments | Staff<br>Adjusted<br>Test Year |
| 1 Plant in Service  | \$9,155,410                 | \$266,889                   | \$9,422,299                              | (\$266,889)               | \$9,155,410                    |
| 2 Land and Land Rights  | 9,513                       | 0                           | 9,513                                    | 0                         | 9,513                          |
| 3 Accumulated Depreciation  | (4,520,375)                 | 545,254                     | (3,975,121)                              | (545,254)                 | (4,520,375)                    |
| 4 CIAC  | (3,638,516)                 | 0                           | (3,638,516)                              | 0                         | (3,638,516)                    |
| 5 Amortization of CIAC  | 1,946,580                   | 0                           | 1,946,580                                | 0                         | 1,946,580                      |
| 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)                                | 100,742                   | (3,634)                        |
| 9 Working Capital Allowance   | <u>218,210</u>              | <u>0</u>                    | <u>218,210</u>                           | <u>11,475</u>             | <u>229,685</u>                 |
| 10 Rate Base  | <u>\$9,373,401</u>          | <u>(\$5,494,812)</u>        | <u>\$3,878,589</u>                       | <u>(\$699,926)</u>        | <u>\$3,178,663</u>             |

| Ni Florida, LLC<br>Adjustments to Rate Base<br>Test Year Ended 12/31/15 |         | Schedule No. 1-C<br>Docket No. 160030-WS |  |
|---|---------|--|--|
| Explanation   | Water   | Wastewater                               |  |
| <u>Plant In Service</u>   |         |  |  |
| Remove pro forma plant and retirement adjustments. (Issue 2)            | \$0     | (\$266,889)                              |  |
| <u>Accumulated Depreciation</u>   |         |  |  |
| Remove pro forma plant and retirement adjustments. (Issue 2)            | \$0     | (\$545,254)                              |  |
| <u>Accumulated Deferred Income Taxes</u>                                |         |  |  |
| Remove adjustment for pro forma deferred income taxes. (Issue 2)        | \$2,173 | \$100,742                                |  |
| <u>Working Capital</u>  |         |  |  |
| Reflect appropriate Deferred rate case expense. (Issue 2)               | \$2,738 | \$11,475                                 |  |

| Ni Florida, LLC                  |                                | Schedule No. 2            |                           |                           |                                 |                           |                       |               |                     |
|----------------------------------|--------------------------------|---------------------------|---------------------------|---------------------------|---------------------------------|---------------------------|-----------------------|---------------|---------------------|
| Capital Structure-Simple Average |                                | Docket No. 160030-WS      |                           |                           |                                 |                           |                       |               |                     |
| Test Year Ended 12/31/15         |                                |                           |                           |                           |                                 |                           |                       |               |                     |
| 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 - Fixed Rate    | 47,595                    | 0                         | 47,595                    | 0                               | 47,595                    | 1.13%                 | 8.50%         | 0.10%               |
| 2                                | Long-term Debt - Variable Rate | 878,720                   | 0                         | 878,720                   | 0                               | 878,720                   | 20.90%                | 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                  | 3,086,892                 | 0                         | 3,086,892                 | 0                               | 3,086,892                 | 73.41%                | 9.27%         | 6.81%               |
| 6                                | Customer Deposits              | 85,202                    | 0                         | 85,202                    | 0                               | 85,202                    | 2.03%                 | 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>2.53%</u>          | 0.00%         | <u>0.00%</u>        |
| 8                                | <b>Total Capital</b>           | <b><u>\$4,102,043</u></b> | <b><u>\$102,915</u></b>   | <b><u>\$4,204,958</u></b> | <b><u>\$0</u></b>               | <b><u>\$4,204,958</u></b> | <b><u>100.00%</u></b> |               | <b><u>7.97%</u></b> |
| <b>Per Staff</b>                 |                                |                           |                           |                           |                                 |                           |                       |               |                     |
| 9                                | Long-term Debt - Fixed Rate    | 47,595                    | 0                         | 47,595                    | (7,006)                         | 40,589                    | 1.16%                 | 8.50%         | 0.10%               |
| 10                               | Long-term Debt - Variable Rate | 878,720                   | 0                         | 878,720                   | (129,343)                       | 749,377                   | 21.34%                | 4.50%         | 0.96%               |
| 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                  | 3,086,892                 | 0                         | 3,086,892                 | (454,374)                       | 2,632,518                 | 74.97%                | 8.42%         | 6.31%               |
| 14                               | Customer Deposits              | 85,202                    | 0                         | 85,202                    | 0                               | 85,202                    | 2.43%                 | 6.00%         | 0.15%               |
| 15                               | Deferred Income Taxes          | <u>3,634</u>              | <u>0</u>                  | <u>3,634</u>              | <u>0</u>                        | <u>3,634</u>              | <u>0.10%</u>          | 0.00%         | <u>0.00%</u>        |
| 16                               | <b>Total Capital</b>           | <b><u>\$4,102,043</u></b> | <b><u>\$0</u></b>         | <b><u>\$4,102,043</u></b> | <b><u>(\$590,723)</u></b>       | <b><u>\$3,511,320</u></b> | <b><u>100.00%</u></b> |               | <b><u>7.52%</u></b> |
|                                  |                                |                           |                           |                           |                                 | <b><u>LOW</u></b>         | <b><u>HIGH</u></b>    |               |                     |
| RETURN ON EQUITY                 |                                |                           |                           |                           |                                 | <b><u>8.42%</u></b>       | <b><u>10.42%</u></b>  |               |                     |
| OVERALL RATE OF RETURN           |                                |                           |                           |                           |                                 | <b><u>7.52%</u></b>       | <b><u>9.02%</u></b>   |               |                     |

| Ni Florida, LLC<br>Statement of Water Operations<br>Test Year Ended 12/31/15 |                             |                             |                                      |                           |                                | Schedule No. 3-A<br>Docket No. 160030-WS |                        |
|--|-----------------------------|-----------------------------|--------------------------------------|---------------------------|--------------------------------|--|------------------------|
| Description  | Test Year<br>Per<br>Utility | Utility<br>Adjust-<br>ments | Adjusted<br>Test Year<br>Per Utility | Staff<br>Adjust-<br>ments | Staff<br>Adjusted<br>Test Year | Revenue<br>Increase                      | Revenue<br>Requirement |
| 1 <b>Operating Revenues:</b>   | <u>\$243,169</u>            | <u>\$67,722</u>             | <u>\$310,891</u>                     | <u>(\$87,202)</u>         | <u>\$223,689</u>               | <u>\$87,202</u><br>38.98%                | <u>\$310,891</u>       |
| <b>Operating Expenses</b>  |                             |                             |                                      |                           |                                |  |                        |
| 2 Operation & Maintenance  | \$238,510                   | \$433                       | \$238,943                            | (\$837)                   | \$238,106                      | \$0                                      | \$238,106              |
| 3 Depreciation   | 19,513                      | 817                         | 20,330                               | (817)                     | 19,513                         | 0  | 19,513                 |
| 4 Amortization   | 0                           | 0                           | 0                                    | 0                         | 0                              | 0  | 0                      |
| 5 Taxes Other Than Income  | 10,943                      | 3,418                       | 14,361                               | (3,924)                   | 10,437                         | 3,924                                    | 14,361                 |
| 6 Income Taxes   | 0                           | 12,220                      | 12,220                               | (29,220)                  | (17,000)                       | 31,337                                   | 14,337                 |
| 7 <b>Total Operating Expense</b>   | <u>\$268,966</u>            | <u>\$16,888</u>             | <u>\$285,854</u>                     | <u>(\$34,799)</u>         | <u>\$251,055</u>               | <u>\$35,262</u>                          | <u>\$286,317</u>       |
| 8 <b>Operating Income</b>  | <u>(\$25,797)</u>           | <u>\$50,834</u>             | <u>\$25,037</u>                      | <u>(\$52,403)</u>         | <u>(\$27,366)</u>              | <u>\$51,940</u>                          | <u>\$24,574</u>        |
| 9 <b>Rate Base</b>   | <u>\$1,377,079</u>          |                             | <u>\$327,746</u>                     |                           | <u>\$332,657</u>               |  | <u>\$332,657</u>       |
| 10 <b>Rate of Return</b>   | <u>-1.87%</u>               |                             | <u>7.64%</u>                         |                           | <u>-8.23%</u>                  |  | <u>7.39%</u>           |

| Ni Florida, LLC<br>Statement of Wastewater Operations<br>Test Year Ended 12/31/15 |                             |                             |                                      |                           |                                | Schedule No. 3-B<br>Docket No. 160030-WS |                        |
|---|-----------------------------|-----------------------------|--------------------------------------|---------------------------|--------------------------------|--|------------------------|
| Description   | Test Year<br>Per<br>Utility | Utility<br>Adjust-<br>ments | Adjusted<br>Test Year<br>Per Utility | Staff<br>Adjust-<br>ments | Staff<br>Adjusted<br>Test Year | Revenue<br>Increase                      | Revenue<br>Requirement |
| 1 <b>Operating Revenues:</b>  | <u>\$1,929,738</u>          | <u>\$432,000</u>            | <u>\$2,361,738</u>                   | <u>(\$429,587)</u>        | <u>\$1,932,151</u>             | <u>\$332,619</u><br>17.21%               | <u>\$2,264,770</u>     |
| <b>Operating Expenses</b>   |                             |                             |                                      |                           |                                |  |                        |
| 2 Operation & Maintenance   | 1,515,833                   | 32,683                      | 1,548,516                            | (7,768)                   | 1,540,748                      | 0  | 1,540,748              |
| 3 Depreciation  | 166,265                     | 18,132                      | 184,397                              | (18,132)                  | 166,265                        | 0  | 166,265                |
| 4 Amortization  | 0                           | 0                           | 0                                    | 0                         | 0                              | 0  | 0                      |
| 5 Taxes Other Than Income   | 164,261                     | 24,004                      | 188,265                              | (23,895)                  | 164,370                        | 14,968                                   | 179,337                |
| 6 Income Taxes  | <u>47,244</u>               | <u>97,048</u>               | <u>144,292</u>                       | <u>(124,342)</u>          | <u>19,950</u>                  | <u>119,532</u>                           | <u>139,482</u>         |
| 7 <b>Total Operating Expense</b>  | <u>\$1,893,603</u>          | <u>\$171,867</u>            | <u>\$2,065,470</u>                   | <u>(\$174,137)</u>        | <u>\$1,891,333</u>             | <u>\$134,500</u>                         | <u>\$2,025,833</u>     |
| 8 <b>Operating Income</b>   | <u>\$36,135</u>             | <u>\$260,133</u>            | <u>\$296,268</u>                     | <u>(\$255,450)</u>        | <u>\$40,818</u>                | <u>\$198,119</u>                         | <u>\$238,937</u>       |
| 9 <b>Rate Base</b>  | <u>\$9,373,401</u>          |                             | <u>\$3,878,589</u>                   |                           | <u>\$3,178,663</u>             |  | <u>\$3,178,663</u>     |
| 10 <b>Rate of Return</b>  | <u>0.39%</u>                |                             | <u>7.64%</u>                         |                           | <u>1.28%</u>                   |  | <u>7.52%</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 interim revenue increase. (Issue 2)                   | (\$75,950)        | (\$432,000)                 |  |
| 2 Reflect the appropriate amount of test year revenues. (Issue 2)        | <u>(11,252)</u>   | <u>2,413</u>                |  |
| Total  | <u>(\$87,202)</u> | <u>(\$429,587)</u>          |  |
| <u>Operation and Maintenance Expense</u>                                 |                   |                             |  |
| 1 Remove utility's pro forma bad debt expense adjustments. (Issue 2)     | (\$367)           | (\$5,978)                   |  |
| 2 Correction to allocable portion of miscellaneous expenses. (Issue 2)   | (45)              | (155)                       |  |
| 3 Reflect appropriate amount of miscellaneous expense. (Issue 2)         | <u>(426)</u>      | <u>(1,634)</u>              |  |
| Total  | <u>(\$837)</u>    | <u>(\$7,768)</u>            |  |
| <u>Depreciation Expense – Net</u>  |                   |                             |  |
| Remove adjustments for change in depreciation. (Issue 2)                 | <u>(\$817)</u>    | <u>(\$18,132)</u>           |  |
| <u>Taxes Other Than Income</u>   |                   |                             |  |
| 1 RAFs on revenue adjustments above. (Issue 2)                           | (\$3,924)         | (\$19,331)                  |  |
| 2 Remove property tax adjustment for pro forma plant projects. (Issue 2) | <u>0</u>          | <u>(4,564)</u>              |  |
| Total  | <u>(\$3,924)</u>  | <u>(\$23,895)</u>           |  |

| <b>Ni Florida, LLC.</b>   |                      | <b>Schedule No. 4-A</b>          |                                |                                  |
|---|----------------------|----------------------------------|--------------------------------|----------------------------------|
| <b>Test Year Ended 12/31/2015</b>                                   |                      | <b>Docket No. 160030-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</u></b>                       |                      |                                  |                                |                                  |
| <b>Base Facility Charge by Meter Size</b>                           |                      |                                  |                                |                                  |
| 5/8 x 3/4"  | \$12.64              | \$17.70                          | \$18.34                        | \$17.71                          |
| 3/4"  | \$18.96              | \$26.54                          | \$27.52                        | \$26.57                          |
| 1"  | \$31.60              | \$44.24                          | \$45.86                        | \$44.28                          |
| 1-1/2"  | \$63.21              | \$88.49                          | \$91.73                        | \$88.55                          |
| 2"  | \$101.13             | \$141.57                         | \$146.76                       | \$141.68                         |
| 3"  | \$202.27             | \$312.69                         | \$324.15                       | \$283.36                         |
| 4"  | \$316.04             | \$442.43                         | \$458.65                       | \$442.75                         |
| 6"  | \$632.08             | \$884.86                         | \$917.29                       | \$885.50                         |
| 8"  | \$1,011.20           | \$1,415.60                       | \$1,467.48                     | \$1,416.80                       |
| RV Park   | \$1,324.36           | \$1,854.00                       | \$1,921.95                     | \$1,855.69                       |
| <b>Charge per 1,000 Gallons - Residential Service</b>               |                      |                                  |                                |                                  |
| 0-3,000 gallons   | \$4.47               | \$6.26                           | \$6.49                         | \$6.26                           |
| 3,001-6,000 gallons   | \$5.66               | \$7.92                           | \$8.21                         | \$7.93                           |
| Over 6,000 gallons  | \$7.88               | \$11.03                          | \$11.44                        | \$11.04                          |
| Charge per 1,000 Gallons - General Service                          | \$4.81               | \$6.73                           | \$6.98                         | \$6.74                           |
| <b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b> |                      |                                  |                                |                                  |
| 3,000 Gallons   | \$26.05              | \$36.48                          | \$37.81                        | \$36.49                          |
| 6,000 Gallons   | \$43.03              | \$60.24                          | \$62.44                        | \$60.28                          |
| 8,000 Gallons   | \$58.79              | \$82.30                          | \$85.32                        | \$82.36                          |

| <b>Ni Florida, LLC.</b>   |                      | <b>Schedule No. 4-B</b>          |                                |                                  |
|---|----------------------|----------------------------------|--------------------------------|----------------------------------|
| <b>Test Year Ended 12/31/2015</b>                                   |                      | <b>Docket No. 160030-WS</b>      |                                |                                  |
| <b>Monthly Wastewater Rates</b>                                     |                      |                                  |                                |                                  |
|   | <b>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                              | \$20.95              | \$25.63                          | \$26.11                        | \$24.66                          |
| Charge per 1,000 Gallons- Residential<br>8,000 gallon cap           | \$6.87               | \$8.40                           | \$8.56                         | \$8.09                           |
| <b><u>General Service</u></b>                                       |                      |                                  |                                |                                  |
| <b>Base Facility Charge by Meter Size</b>                           |                      |                                  |                                |                                  |
| 5/8 x 3/4"  | \$20.95              | \$25.63                          | \$26.11                        | \$24.66                          |
| 3/4"  | \$31.43              | \$38.45                          | \$39.17                        | \$36.99                          |
| 1"  | \$52.38              | \$64.08                          | \$65.28                        | \$61.65                          |
| 1-1/2"  | \$105.46             | \$129.01                         | \$131.43                       | \$123.30                         |
| 2"  | \$167.64             | \$205.08                         | \$208.92                       | \$197.28                         |
| 3"  | \$335.27             | \$410.14                         | \$417.82                       | \$394.56                         |
| 4"  | \$523.86             | \$640.85                         | \$652.84                       | \$616.50                         |
| 6"  | \$1,047.73           | \$1,281.71                       | \$1,305.70                     | \$1,233.00                       |
| 8"  | \$1,676.37           | \$2,050.74                       | \$2,089.12                     | \$1,972.80                       |
| 10"   | \$2,409.78           | \$2,947.94                       | \$3,003.10                     | \$2,835.90                       |
| Bulk Service  | \$523.86             | \$640.85                         | \$652.84                       | \$616.50                         |
| Charge per 1,000 Gallons - General Service                          | \$8.24               | \$10.08                          | \$10.27                        | \$9.70                           |
| <b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b> |                      |                                  |                                |                                  |
| 3,000 Gallons   | \$41.56              | \$50.83                          | \$51.79                        | \$48.93                          |
| 6,000 Gallons   | \$62.17              | \$76.03                          | \$77.47                        | \$73.20                          |
| 8,000 Gallons   | \$75.91              | \$92.83                          | \$94.59                        | \$89.38                          |