

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: June 23, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (M. Watts) *MWA*
Division of Accounting and Finance (T. Brown) *TB*
Division of Economics (Hudson) *SH*
Office of the General Counsel (Murphy) *EM*

RE: Docket No. 150236-WU – Application for staff-assisted rate case in Lake County, by Lake Idlewild Utility Company.

AGENDA: 07/07/16 – Proposed Agency Action – Except for Issue Nos. 9, 11, and 12 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Patronis

CRITICAL DATES: 03/23/2017 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

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Case Background

Lake Idlewild Utility Company (Lake Idlewild or Utility) is a Class C utility providing water service to approximately 77 residential customers in Lake County. Certificate No. 531-W was initially granted to W.B.B. Utilities, Inc. (WBB) in 1991.¹ WBB had been in operation since 1983, serving 21 lots, but had not been subject to Commission jurisdiction because of its size. Rates were last established for this Utility in 1994.² The Utility was transferred to Lake Idlewild in 2015.³

On December 23, 2015, Lake Idlewild officially filed its application for a staff-assisted rate case (SARC). According to Lake Idlewild's 2015 Annual Report, total gross revenues were \$33,764 and total operating expenses were \$36,917, resulting in a net loss of \$3,153.

A customer meeting was held on May 12, 2016, at the Town of Lady Lake, Town Commission Chambers, 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.).

¹Order No. 24007, issued January 22, 1991, in Docket No. 900826-WU, *In re: Application for a water certificate in Lake County by W.B.B. Utilities, Inc.*

²Order No. PSC-94-0236-FOF-WU, issued March 3, 1994, in Docket No. 930656-WU, *In re: Application for a staff-assisted rate case in Lake County by W.B.B. Utilities, Inc.*

³Order No. PSC-15-0140-PAA-WU, issued March 23, 2015, in Docket No. 140170-WU, *In re: Application for approval of transfer of Certificate No. 531-W from W.B.B. Utilities, Inc. to Lake Idlewild Utility Company in Lake County.*

Discussion of Issues

Issue 1: Should the quality of service provided by Lake Idlewild be considered satisfactory?

Recommendation: Yes. The overall quality of service provided by Lake Idlewild should be considered satisfactory. (M. Watts)

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 the quality of the utility's product, the operational conditions of the utility's plant and facilities, and 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.

Lake Idlewild's service territory is located in Lake County within the St. John's River Water Management District (SJRWMD), with a consumptive use permit expiring in August 2020. Lake Idlewild serves residential customers in one subdivision from water it produces and treats with its own water system.

Quality of Utility's Product

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

Staff reviewed the chemical analysis with samples dated April 23, 2015. All of the primary and secondary contaminants were below the Maximum Contaminant Level established by DEP. Staff's review of complaints filed with the Commission, did not reveal any issues or concerns regarding the quality of Lake Idlewild's product.

On June 14, 2016, staff requested complaints against the system filed with DEP for the test year and four years prior. DEP reported that it did not receive any complaints regarding secondary water standards during that period, but had received one complaint against the system in 2011, which is discussed in a later section of this issue.

Based on staff's review, giving consideration to the Utility's current compliance with DEP standards, as well as the lack of customer complaints, the quality of Lake Idlewild's product should be considered satisfactory.

Operating Condition of the Utility's Plant and Facilities

Staff's evaluation of Lake Idlewild's facilities included a review of the Utility's compliance standards of operation as well as a site visit. Staff reviewed the latest DEP sanitary survey report, dated July 23, 2014, which was conducted when the prior owners, WBB, operated the system. No deficiencies were found, and DEP determined that the system was in compliance with its rules and regulations. Staff did not identify any issues or concerns during its May 12, 2016, site visit. Therefore, the operating condition of Lake Idlewild's water treatment plant and facilities should be considered satisfactory.

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. Staff assesses this by reviewing the Utility's response to comments provided as a result of a customer meeting, both written and oral, and to complaints filed by its customers.

Customer Meeting/Written Comments

As part of staff's evaluation of customer satisfaction, staff held a customer meeting (May 12, 2016) to receive customer comments concerning Lake Idlewild's quality of service. Seven customers attended the meeting, and five of them provided comments. As of the filing date of this recommendation, the Commission has received correspondence from two customers.

Four of the customers who spoke at the customer meeting objected to the magnitude of the proposed rate increase. Two of those customers were specifically concerned that the Utility's decision to change from quarterly to monthly billing would further increase rates. Two customers reported problems with water pressure when their neighbor is irrigating his/her lawn. One customer reported that the water smelled like rotten eggs.

Both of the customers who provided written comments to the Commission subsequent to the customer meeting objected to the magnitude of the rate increase. Additionally, one of the customers expressed concerns with the switch from quarterly to monthly billing, as well as pressure problems experienced when a neighbor is irrigating the lawn.

On June 10, 2016, Lake Idlewild provided a written response to the oral and written concerns regarding the water pressure and monthly billing. For each customer who expressed a concern with the water pressure, the Utility sent a technician to each residence to test the water flow delivered at the meter. The water delivered at one customer's meter was 21.7 gallons per minute (gpm), and the flow delivered at the other customer's meter was 19.6 gpm. As stated in its June 10, 2016 letter, the Utility believes its test demonstrated it delivered adequate water flow at the customers' meters. The Utility also tested the chlorine residual at each residence and found that each reading was within the range required by DEP for safe drinking water.

To further test whether the water pressure was adequate, the Utility placed water pressure data loggers at these customers' residences (on an outside water faucet) to record a week-long sample of data. The data loggers show that for one resident, the water pressure never dropped below 30 pounds per square inch (psi) (20 psi is the DEP minimum requirement). The other resident's water pressure remained above 20 psi with one exception, when it dropped just below 10 psi.

Finally, the Utility installed water pressure data loggers within the distribution system at two fire hydrants to test the overall system pressure. The data loggers recorded the water pressure at the two points in the system for a period of one week. One data logger recorded pressures during the test period of 42 psi to 62 psi. The other data logger recorded pressures from 50 psi to 71 psi. These readings are above the minimum system pressure required by DEP of 20 psi. Thus, it appears that the pressure delivered by the Utility is sufficient overall.

The Utility noted that its tests show that it does not have system-wide pressure problems, and it delivers sufficient pressure at the customers' meters. The Utility stated that the configuration of the service lines, with one line from the main used to supply two adjacent houses, is common in Florida, but it can lead to the pressure problems some residents experience when their neighbor is irrigating. The Utility also noted that many residents use an unusually high volume of water for irrigation. Given these conditions, it appears that a viable solution would be to install additional dedicated service lines to these customers, the cost of which would be borne by the customer requesting a dedicated tap from the main.

On June 20, 2016, the Utility provided a supplemental written response that addressed one of the comments made at the customer meeting, and provided more information on some of the complaints filed with the Utility during the test year. The Utility's response indicated that, after the customer meeting, Utility representatives spoke with the customer who reported his water smelling like rotten eggs. The Utility reported that the customer indicated that it happened in the past, that it was a one-time event, and has not happened since.

In addressing the issue of changing from quarterly to monthly billing, the Utility quoted the Commission's order approving the requested change:⁴

We agree with the Utility that monthly billing is beneficial to both the customers and the Utility. Monthly billing encourages water conservation because customers will get more timely information of their water usage patterns. Also, monthly billing allows the Utility to match revenues as closely as possible to expenses.

The Utility also asserts that the customers' high level of irrigation, which leads to the water pressure problems reported, is partly a result of rates that were set by this Commission in 1994 and are much lower than they should be. Consistent with the Commission's order, the Utility asserts that monthly billing will help encourage water conservation by providing timely information on consumption patterns.

Complaints

Staff requested copies of complaints filed with the Utility during the test year and four years prior. The Utility did not have customer complaint records from the previous owner, but reported a total of 22 customer contacts associated with 17 different accounts during the test year. This

⁴Order PSC-14-0681-TRF-WU, issued December 9, 2014, in Docket No. 140171-WU, *In re: Request for approval of water rate tariff for a revision in customer billing from quarterly billing to monthly billing by W.B.B. Utilities, Inc. in Lake County.*

includes eight billing inquiries, eight interruptions of service, two reconnections, two general inquiries, and two water quality issues. Lake Idlewild addressed the complaints as shown in Table 1-1 below.

**Table 1-1
Lake Idlewild Complaints**

Complaint	Resolution
Billing	Adjusted bill, checked for leaks, or provided bill clarification, as appropriate.
Service Interruption	Repaired water main breaks; issued precautionary boil water notices.
Reconnection	Reconnected customers when payment received.
General Inquiry	1) Provided bill when asked why customer had not received one. 2) Tenant requested to be billed directly. Utility requested copy of lease for tenancy verification, but tenant moved out without providing it.
Water quality	1) Strong chlorine smell – checked chlorine residual. It was within the maximum-minimum limits set by DEP. 2) Bad smell and discolored after a water outage. It had cleared up when technician arrived, and chlorine residual tested within the limits set by DEP.

Source: Document Nos. 00104-16 and 03838-16

As stated previously, staff requested complaints against the system filed with DEP for the test year and four years prior. DEP provided information regarding a complaint concerning system water pressure filed in 2011, when the Utility was owned by WBB. The customer stated that the water pressure in the community would drop considerably when the pump for WBB's larger well failed. He asked what the DEP's requirement was for minimum water pressure. DEP replied that its minimum system water pressure was 20 psi, below which the water service provider would be required to issue precautionary boil water notices. DEP stated in its 2011 response to the customer that there had been two such events since 2009.

Finally, staff reviewed the Commission's complaint records and found no complaints filed against either of the utilities that had ownership of the water system for the period September 30, 2011, through June 1, 2016. Based on the Utility's response to customers' written and oral concerns expressed in connection with the customer meeting, the lack of complaints filed with the Commission, the scarcity and age of those filed with DEP, as well as its response to complaints filed directly with the Utility, staff recommends the Utility's attempt to address customer satisfaction should be considered satisfactory.

Conclusion

Based on the foregoing, the overall quality of service provided by Lake Idlewild should be considered satisfactory.

Issue 2: What is the Used and Useful percentage (U&U) of Lake Idlewild's water treatment and distribution system?

Recommendation: The Utility's water treatment and distribution systems should be considered 100 percent U&U, and no adjustments should be made for excessive unaccounted for water (EUW). (M. Watts)

Staff Analysis: Lake Idlewild's water system is served by two wells, 6-inch and 8-inch in diameter, capable of producing 50 and 750 gpm, respectively. The raw water is treated by hypochlorination prior to entering the water distribution system. The Water Treatment Plant (WTP) recently reduced its permitted capacity to 252,000 gallons per day (gpd). The Utility is permitted to withdraw an average of 60,000 gpd on an annual basis through August 2020 and is currently in compliance with its permit.

The distribution system is a network of approximately 5,025 linear feet of 4-inch PVC pipe and 942 linear feet of 2-inch PVC pipe. The distribution system seems to be properly sized and engineered to meet pressure and supply demands.

Water Treatment System Used & Useful

Rule 25-30.4325, F.A.C., describes the calculation of U&U for WTP as the sum of the maximum peak demand, plus fire flow demand, plus a growth allowance minus EUW, all divided by the water system's firm reliable capacity. As the system does not have significant storage capacity, this calculation is based on its flow rate in gpm. The Commission previously calculated a 100 percent U&U for the WTP based on a single well.⁵ As the system has expanded since the last SARC to include a second well, staff has recalculated the U&U based upon the current water treatment system.

The firm reliable capacity is defined for systems with more than one well as the pumping capacity of all wells combined minus the largest individual well. For Lake Idlewild, this yields a value of 50 gpm. DEP rates the treatment facilities at a capacity of 252,000 gpd, or 175 gpm. Therefore the well-based capacity is not constrained by treatment capacity.

Based on the Monthly Operating Reports (MORs) provided by the Utility, it experienced a peak day on August 10, 2015, with a daily flow of 106,000 gallons. Utility records indicate a line break occurred that day, which disqualifies it from consideration. The second highest peak day during the test year was May 8, 2015, with a daily flow of 80,000 gallons, with regular operating conditions. Converting this value to a gpm basis results in a maximum peak demand of 55.6 gpm. As noted in Lake Idlewild's application, Lake County requires a fire flow of 750 gpm. Lastly, as discussed below, no growth allowance or EUW have been identified for this system.

The final calculation of U&U ($[(\text{Peak Demand} + \text{Fire Flow} + \text{Growth} - \text{EUW}) / \text{Capacity}]$) exceeds 100 percent. Based on this, the WTP should be considered 100 percent U&U.

⁵Order No. PSC-94-0236-FOF-WU, issued March 3, 1994, in Docket No. 930656-WU, *In re: Application for a staff-assisted rate case in Lake County by W.B.B. Utilities, Inc.*

Excessive Unaccounted for Water

Rule 25-30.4325(1)(e), 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 chemical costs, are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether the 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. Review of the MORs that the Utility files with the DEP and the Utility's water sales indicates an unaccounted for water value of less than 10 percent. Therefore, there appears to be no EUW to be considered, and at this time staff is recommending that no adjustment be made to operating expenses for chemicals and purchase power due to EUW.

Water Distribution System Used & Useful

Pursuant to Rule 25-30.431, F.A.C., the U&U calculation for the distribution system is based on the average customers during the test year plus a growth allowance, divided by the distribution system capacity. In the last rate case, the Commission found the system to be 90.91 percent U&U based upon a total of 30 customers, including a growth allowance, and a system capacity of 33 customers.⁶ During the current test year, approximately 77 customers were present, with a system capacity of 80 due to expansion of the water distribution system since the last SARC. Analysis of the system indicates there has been no growth of the system in the past five years. During staff's site visit, only one vacant lot was identified, therefore, staff recommends it is reasonable to consider the water distribution system 100 percent U&U.

Summary

The Utility's water treatment and distribution systems should be considered 100 percent U&U, and no adjustments should be made for EUW.

⁶Order No. PSC-94-0236-FOF-WU, issued March 3, 1994, in Docket No. 930656-WU, *In re: Application for a staff-assisted rate case in Lake County by W.B.B. Utilities, Inc.*

Issue 3: What is the appropriate average test year rate base for Lake Idlewild?

Recommendation: The appropriate average test year rate base for Lake Idlewild is \$52,512. (T. Brown)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service, land, contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. Lake Idlewild's net book value was last determined by Order No. PSC-15-0140-PAA-WU in a 2014 certificate transfer docket.⁷ Rate base was last established in the Utility's last SARC in 1994.⁸ Staff selected the test year ended September 30, 2015, for the instant case. Commission audit staff determined that the Utility's books and records are in compliance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). A summary of each component of rate base and the recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

The Commission approved a UPIS balance of \$192,336 in the Utility's 2014 transfer docket. In the current docket, the Utility recorded \$192,336 in UPIS. No exceptions to the Utility's UPIS balances were noted in the Lake Idlewild audit. No averaging adjustment is necessary for ratemaking; therefore, staff recommends a UPIS balance of \$192,336.

Land and Land Rights

The Commission approved a land balance of \$1,905 in the Utility's 2014 transfer docket. Audit staff determined that there has been no activity related to land since this case, therefore, no adjustments are necessary. Staff recommends a land and land rights balance of \$1,905.

Non-Used and Useful Plant

As discussed in Issue 2, Lake Idlewild's water treatment plant and distribution system are considered 100 percent U&U. Therefore, a U&U adjustment is not necessary.

Contribution in Aid of Construction (CIAC)

The Utility recorded CIAC balances of \$91,720 for water. Commission audit staff found no additions in the test year, and determined that no adjustments are necessary. As such, staff recommends a CIAC balance of \$91,720.

Accumulated Depreciation

Lake Idlewild recorded a test year accumulated depreciation balance of \$99,717. Staff calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff decreased total accumulated depreciation by \$3,091 to reflect an averaging adjustment. As such, staff recommends an accumulated depreciation balance of \$96,626.

⁷Order No. PSC-15-0140-PAA-WU, issued March 23, 2015, in Docket No. 140170-WU, *In re: Application for approval of transfer of Certificate No. 351-W from W.B.B. Utilities, Inc. to Lake Idlewild Utility Company in Lake County.*

⁸Order No. PSC-94-0236-FOF-WU, issued March 3, 1994, in Docket No. 930656-WU, *In re: Application for staff-assisted rate case in Lake County by W.B.B. Utilities, Inc.*

Accumulated Amortization of CIAC

Lake Idlewild recorded an amortization of CIAC balance of \$44,231. Staff calculated amortization of CIAC using composite depreciation rates, and determined that no adjustments are necessary. Staff decreased this account by \$1,470 to reflect an averaging adjustment. Staff recommends an accumulated amortization of CIAC balance of \$42,761.

Working Capital Allowance

Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses of the Utility. 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 \$3,856 (based on O&M expense of \$30,848/8).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$52,512. 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 Lake Idlewild?

Recommendation: The appropriate return on equity (ROE) is 8.74 percent with a range of 7.74 percent to 9.74 percent. The appropriate overall rate of return is 8.74 percent. (T. Brown)

Staff Analysis: The Utility's capital structure has been reconciled with staff's recommended rate base. Audit staff verified that the Utility has no debt. In addition, audit staff verified that the Utility has not collected customer deposits.

The appropriate ROE is 8.74 percent based upon the Commission-approved leverage formula currently in effect.⁹ Staff recommends an ROE of 8.74 percent, with a range of 7.74 percent to 9.74 percent, and an overall rate of return of 8.74 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁹Order No. PSC-15-0259-PAA-WS, issued July 2, 2015, in Docket No. 150006-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 the Lake Idlewild's water system?

Recommendation: The appropriate test year revenues for Lake Idlewild's water system are \$32,466. (Hudson)

Staff Analysis: Lake Idlewild recorded total test year revenues of \$32,262. The water revenues included \$31,844 of service revenues and \$418 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 \$32,090. This results in an increase of \$246 ($\$32,090 - \$31,844$) to service revenues for water.

During the test year, the Utility charged incorrect initial and normal connection charges and unauthorized late payment and Non-Sufficient Funds (NSF) charges. The Utility has provided refunds via credits to customer's accounts to reflect the appropriate connection charges and reimbursements for unauthorized late payment and NSF charges. Since refunds were made, staff recommends no enforcement actions are warranted at this time. Subsequent to the test year, the Commission approved late payment and NSF charges for the Utility.¹⁰ Therefore, staff recommends it is appropriate to include the number of occurrences during the test year for late payments and returned checks. Based on staff's review of the number of miscellaneous service occurrences during the test year and the Utility's approved miscellaneous service charges, staff determined miscellaneous revenues should be \$376. This results in a decrease of \$42 ($\$418 - \376) to miscellaneous revenues for water. Based on the above, the appropriate test year revenues for Lake Idlewild's water system are \$32,466 ($\$32,090 + \376).

¹⁰Order Nos. PSC-16-0084-TRF-WS, issued February 22, 2016, in Docket No. 150260-WS, *In re: Request for approval of late payment charges and return check (NSF) charge and request for approval of amendment to tariff sheets for miscellaneous service charges in Lake County by Brendenwood Waterworks, Inc., Harbor Waterworks, Inc., Lake Idlewild Waterworks, Inc., and Raintree Waterworks, Inc., and in Highlands County by Country Walk Utilities, Inc.*

Issue 6: What is the appropriate amount of total operating expense?

Recommendation: The appropriate amount of operating expense for the Utility is \$38,167. (T. Brown)

Staff Analysis: Lake Idlewild recorded operating expense of \$40,393 for the test year ended September 30, 2015. 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 (O&M) Expenses

Salaries and Wages - Officers (603)

The Utility recorded \$4,000 in this account for the test year to reflect the president's monthly salary of \$333. According to the Utility's 2015 Annual Report, Lake Idlewild's officers also include a vice-president and administrator who do not receive a salary. In addition, the Utility indicated in audit work papers that the president only receives compensation through distribution of retained earnings if there are any net operating profits from operations that are not used for continuing operations or capital improvements. As such, staff recommends salaries and wages – officers expense for the test year of \$4,000.

Purchased Power (615)

The Utility recorded purchased power expense of \$3,199. Lake Idlewild's actual test year purchased power was \$3,199, therefore, no adjustments are necessary. Staff recommends purchased power expense for the test year of \$3,199.

Chemicals (618)

The Utility recorded chemicals expense of \$936. Lake Idlewild's actual test year chemicals was \$936, therefore, no adjustments are necessary. Staff recommends chemicals expense for the test year of \$936.

Contractual Services - Accounting (632)

The Utility recorded \$1,000 for test year contractual services – accounting expense, for preparation of the Utility's tax return. Lake Idlewild's actual test year accounting expense was \$1,000, therefore, no adjustments are necessary. Staff recommends contractual services – accounting expense for the test year of \$1,000.

Contractual Services - Legal (633)

The Utility recorded \$590 for test year contractual services – legal expense. Lake Idlewild's actual test year legal expense was \$590, therefore, no adjustments are necessary. Staff recommends contractual services – legal expense for the test year of \$590.

Contractual Services - Other (636)

The Utility recorded \$19,073 in this account. Lake Idlewild receives all of its operational and administrative services under a contract with an affiliated company, U.S. Water Services Corporation (USWSC). The Commission previously reviewed and approved expenses related to

the USWSC management services contracts for six of Lake Idlewild's sister utilities.¹¹ In the four most recent related dockets, the Commission found USWSC's costing and allocation model to be reasonable with the exception of some allocated expenses related to salary overtime, fuel, and vehicle maintenance which were adjusted in those dockets.¹²

USWCS did not include adjustments to Lake Idlewild's USWSC contract to remove salary overtime or fuel and vehicle maintenance expenses. USWSC subsequently determined that Lake Idlewild's actual test year overtime, fuel, and vehicle maintenance expenses were \$357 less than the amount allocated in the test year contract.¹³ As such, staff decreased this account by \$357 to reflect Lake Idlewild's actual test year overtime, fuel, and vehicle maintenance expenses. The adjusted annual contract fee of \$18,716 (\$19,073 - \$357) equals an average of \$243 per equivalent residential connection (ERC), which is comparable to the amounts approved by the Commission for Lake Idlewild's sister utilities.

The Utility confirmed that USWSC's current cost model continues to include 1,000 additional projected ERCs.¹⁴ Inclusion of 1,000 potential future ERCs that are expected to be added through growth or acquisitions serves to spread the costs over a larger base and lowers the cost per ERC. Making the adjustments above and including the additional ERCs, Lake Idlewild receives an annual subsidy of approximately \$900 from USWSC. In addition to the cost subsidy resulting from USWSC's cost model, staff believes Lake Idlewild is experiencing additional cost savings related to expenses such as chemicals, testing, and miscellaneous expenses that are attributable to economies of scale achieved through operations provided under the USWSC contract.

USWSC and its managers bring considerable management and operator experience and expertise at a comparably reasonable cost. By spreading costs over multiple systems, and adding ERCs to recognize potential future growth, Lake Idlewild's customers are realizing operational and cost benefits that would not be available if the Utility operated on a stand-alone basis. Staff believes the adjusted cost of the USWSC management services contract is reasonable. Therefore, staff recommends contractual services – other expense for the test year of \$18,716.

¹¹Order No. PSC-14-0413-PAA-WS, issued August 14, 2014, in Docket No. 130153-WS, *In re: Application for staff-assisted rate case in Highlands County, by L.P. Utilities Corporation c/o LP Waterworks, Inc.*; Order No. PSC-15-0013-PAA-WS, issued January 2, 2015, in Docket No. 130194-WS, *In re: Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.*; Order No. PSC-15-0282-PAA-WS, issued July 8, 2015, in Docket No. 140158-WS, *In re: Application for increase in water/wastewater rates in Highlands County by HC Waterworks, Inc.*; Order No. PSC-15-0329-PAA-WU, issued August 14, 2015, in Docket No. 140186-WU, *In re: Application for staff-assisted rate case in Brevard County by Brevard Waterworks, Inc.*; Order No. 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*. In addition, the Commission approved similar expenses in a vote on June 9, 2016, in Docket No. 150199-WU, *In re: Application for staff-assisted rate case in Lake County by Raintree Waterworks, Inc.* At the time of filing, a PAA Order had not been issued in that docket.

¹²Order Nos. PSC-15-0282-PAA-WS, PSC-15-0329-PAA-WU, and PSC-15-0335-PAA-WS. The Commission again found USWSC's costing and allocation model to be reasonable, with the exception of some allocated expenses related to fuel and vehicle maintenance, in a vote on June 9, 2016, in Docket No. 150199-WU, *In re: Application for staff-assisted rate case in Lake County by Raintree Waterworks, Inc.* At the time of filing, a PAA Order had not been issued in that docket.

¹³Document No. 02798-16, filed on May 6, 2016, in Docket No. 150236-WU.

¹⁴Document No. 02798-16.

Insurance Expense (655)

The Utility recorded \$1,341 in this account for test year insurance expense. Lake Idlewild's actual test year accounting expense was \$1,341, therefore, no adjustments are necessary. The Utility provided a copy of the general liability policy as support documentation for this amount. Staff recommends insurance expense for the test year of \$1,341.

Regulatory Commission Expense (665)

The Utility recorded \$214 in this account. Regarding the instant case, the Utility is required by Rule 25-22.0407, F.A.C., to provide notices of the customer meeting and notices of final rates in this case to its customers. For noticing, staff estimated \$75 for postage expense, \$46 for printing expense, and \$8 for envelopes. This results in \$129 for the noticing requirement. The Utility paid a \$200 rate case filing fee. The Utility also requested additional rate case expense of \$500 to cover travel expenses for two Utility representatives to attend both the customer meeting and Commission Conference (\$250 each trip).¹⁵ On June 10, 2016, the Utility filed updated rate case expense for one employee to attend each event.¹⁶ The Utility provided a hotel receipt for \$149 to attend the customer meeting and a reservation confirmation showing estimated charges of \$110 to attend the Commission Conference. Based on staff's review, the updated travel expense of \$259 (\$149 + \$110) appears reasonable. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period. Based on the above, staff recommends total rate case expense of \$588 (\$129 + \$200 + \$259), which amortized over four years is \$147. Based on the above, staff's total adjustment to this account is a decrease of \$67 (\$214 - \$147). Therefore, staff recommends regulatory commission expense of \$147.

Bad Debt Expense (670)

The Utility recorded \$283 in this account for test year bad debt expense, which equals 0.87 percent of the test year revenues or 0.66 percent of staff's recommended revenue requirement. Staff notes that the previous owners did not report any bad debt expense in the annual reports filed with the Commission. While current Commission practice is to calculate bad debt expense using a three-year average, three years of records are not yet available for the current owners. As such, staff believes the Utility's recorded bad debt expense is reasonable and representative of the Utility's expected bad debt expense going forward. Therefore, staff recommends bad debt expense for the test year of \$283.

Miscellaneous Expense (675)

The Utility recorded \$572 for miscellaneous expense. Audit staff determined that the actual balance on September 30, 2015, was \$711. According to the Lake Idlewild audit report, this amount was overstated by \$75. As such, staff recommends miscellaneous expense of \$636 (\$711 - \$75) for the test year.

¹⁵The Commission previously approved rate case related travel expenses ranging from \$450 to \$1,570 in the four most recent dockets for Lake Idlewild's sister utilities. See Docket Nos. 140158-WS, 140147-WS, 140186-WU, and 150199-WU.

¹⁶Document No. 03513-16, filed on June 10, 2016, in Docket No. 150236-WU.

Operation and Maintenance Expense (O&M Summary)

Based on the adjustments above, O&M expense should be reduced by \$499, resulting in total O&M expense of \$30,848. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A, 3-B, and 3-C.

Depreciation Expense (Net of Amortization of CIAC)

The Utility's records reflect test year depreciation of \$6,182 and CIAC amortization of \$2,940, for a net depreciation expense of \$3,242 ($\$6,182 - \$2,940 = \$3,242$). Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and calculated CIAC amortization based on composite rates. Staff believes that no adjustments are necessary. Therefore, staff recommends net depreciation expense of \$3,242.

Taxes Other Than Income (TOTI)

Lake Idlewild recorded taxes other than income (TOTI) of \$5,804 for the test year. The Utility recorded \$1,569 for regulatory assessment fees (RAFs). Based on staff's recommended test year revenues of \$32,466 the Utility's RAFs should be \$1,461. Therefore, staff decreased this account by \$108 to reflect the appropriate RAFs. Also, the Utility recorded property tax accruals of \$4,235 during the test year. Audit staff determined that the Utility's actual property taxes for the 2014 tax year were \$2,389. However, subsequent to the audit, the 2015 property tax records became available, indicating that Lake Idlewild paid lower property taxes of \$2,153 for the 2015 tax year. Based on the 2015 property taxes, staff decreased this account by \$2,082 to reflect the appropriate property taxes going forward ($\$4,235 - \$2,153 = \$2,082$). Staff's total adjustment to test year TOTI is a decrease of \$2,190 ($\$108 + \$2,082 = \$2,190$).

In addition, as discussed in Issue 7, revenues have been increased by \$10,291 to reflect the change in revenue required to cover expenses and allow the recommended rate of return. As a result, TOTI should be increased by \$463 to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$4,077.

Operating Expenses Summary

The application of staff's recommended adjustments to Lake Idlewild's test year operating expenses result in operating expenses of \$38,167. Operating expenses are shown on Schedule No. 3-A. The adjustments are shown on Schedule No. 3-B.

Issue 7: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$42,757, resulting in an annual increase of \$10,291 (31.70 percent). (T. Brown)

Staff Analysis: Lake Idlewild should be allowed an annual increase of \$10,291 (31.70 percent). This will allow the Utility the opportunity to recover its expenses and earn an 8.74 percent return on its investment. The calculations are shown below in Table 7-1.

**Table 7-1
Water Revenue Requirement**

Adjusted Rate Base	\$52,512
Rate of Return	x 8.74%
Return on Rate Base	\$4,590
Adjusted O&M Expense	30,848
Depreciation Expense (Net)	3,242
Taxes Other Than Income	4,077
Income Taxes	0
Revenue Requirement	\$42,757
Less Adjusted Test Year Revenues	32,466
Annual Increase	\$10,291
Percent Increase	31.70%

Issue 8: What are the appropriate rate structures and rates for Lake Idlewild'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. (Hudson)

Staff Analysis: Lake Idlewild is located in Lake County within the St. John's River Water Management District (SJRWMD). The Utility provides water service to approximately 77 residential customers. The Utility has no general service customers. Approximately 4 percent of the residential customer bills during the test year had zero gallons indicating a non-seasonal customer base. The average residential water demand is 16,854 gallons per month. The Utility's current water system rate structure for residential customers consists of a Base Facility Charge (BFC) and a uniform gallonage charge. There is no current rate structure for general service customers.

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.

Due to the average residential water demand of 16,854 gallons, staff recommends 31.50 percent of the revenue requirement should be recovered through the BFC in order to design gallonage charges that send the appropriate pricing signals for conservation and maintain revenue stability. In addition, the average people per household served by the water system is two; 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 3,000 gallons per month. Staff recommends a traditional BFC and gallonage charge rate structure with separate gallonage charges for discretionary and non-discretionary usage for residential water customers. Although the Utility does not have customers for general service, irrigation service, and private fire protection, the Utility would like to establish and maintain rates for those customer classes. Staff recommends a BFC and uniform gallonage charge rate structure for general and irrigation services. The private fire protection rate should be one-twelfth of the approved BFC pursuant to Rule 25-30.465, F.A.C.

Further, based on the recommended revenue increase of approximately 32 percent, the residential consumption can be expected to decline by 1,924,000 gallons resulting in anticipated average residential demand of 14,533 gallons per month. Staff recommends a 13.8 percent reduction in total test year residential gallons for rate setting purposes and corresponding reductions of \$441 for purchased power, \$129 for chemical expense, and \$27 for RAFs to reflect the anticipated repression. These adjustments result in a post repression revenue requirement of \$41,785. Table

Date: June 23, 2016

8-1 below, contains staff's recommended rate structure and two alternative rate structures at other BFC allocations.

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

	RATES AT TIME OF FILING	STAFF RECOMMENDED RATES (31.50% BFC)	ALTERNATIVE I (25% BFC)	ALTERNATIVE II (40% BFC)
Residential				
5/8" x 3/4" Meter Size	\$12.08	\$15.88	\$12.59	\$20.19
Charge per 1,000 gallons				
All gallons	\$1.58			
0-3,000 gallons		\$2.08	\$2.27	\$1.82
Over 3,000 gallons		\$2.44	\$2.72	\$2.10
Typical Residential 5/8" x 3/4" Meter Bill Comparison				
3,000 Gallons	\$16.82	\$22.12	\$19.40	\$25.65
10,000 Gallons	\$27.88	\$39.20	\$38.44	\$40.35
16,000 Gallons	\$37.36	\$53.84	\$54.76	\$52.95

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?

Recommendation: The water rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility 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 Lake Idlewild 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. (Hudson, T. Brown)

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 the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return on working capital, and the gross-up for RAFs which is \$156. Using the Utility's current revenues, expenses, and customer base, the reduction in revenues will result in the rate decrease shown on Schedule No. 4.

Lake Idlewild should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction. If Lake Idlewild 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: What are the appropriate initial customer deposits for Lake Idlewild's water service?

Recommendation: The appropriate water initial customer deposit should be \$101 for the residential 5/8 inch x 3/4 inch meter size. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water 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. (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.¹⁷ Currently, the Utility does not have initial customer deposits. Based on the staff recommended water rates and the post repression average residential demand, the appropriate initial customer deposit should be \$101 for water to reflect an average residential customer bill for two months.

Staff recommends that the appropriate water initial customer deposit should be \$101 for the residential 5/8 inch x 3/4 inch meter size. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water 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.

¹⁷Order 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.*

Issue 11: Should the recommended rates be approved for Lake Idlewild on a temporary basis, subject to refund, 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, in the event of a protest filed by a party other than the Utility. 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 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 Office of Commission Clerk no later than the 20th of every month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (T. Brown)

Staff Analysis: This recommendation proposes an increase in rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, staff recommends that the recommended rates be approved as temporary rates. 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 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 \$6,860. 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 bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Office of Commission Clerk no later than the 20th of every month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

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

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. Lake Idlewild should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts as shown on Schedule No. 5 have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (T. 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. Schedule No. 5 reflects the accumulated plant, depreciation, CIAC, and amortization of CIAC balances as of September 30, 2015. Lake Idlewild should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts, as shown on Schedule No. 5, have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Issue 13: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively. (Murphy)

Staff Analysis: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively.

LAKE IDLEWILD UTILITY COMPANY		SCHEDULE NO. 1-A	
TEST YEAR ENDED 09/30/15		DOCKET NO. 150236-WU	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$192,336	\$0	\$192,336
LAND & LAND RIGHTS	1,905	0	1,905
NON-USED AND USEFUL COMPONENTS	0	0	0
CIAC	(91,720)	0	(91,720)
ACCUMULATED DEPRECIATION	(99,717)	3,091	(96,626)
AMORTIZATION OF CIAC	44,231	(1,470)	42,761
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>3,856</u>	<u>3,856</u>
WATER RATE BASE	<u>\$47,035</u>	<u>\$5,477</u>	<u>\$52,512</u>

LAKE IDLEWILD UTILITY COMPANY		SCHEDULE NO. 1-B
TEST YEAR ENDED 09/30/15		DOCKET NO. 150236-WU
ADJUSTMENTS TO RATE BASE		
		<u>WATER</u>
<u>ACCUMULATED DEPRECIATION</u>		
To reflect an averaging adjustment.		<u>\$3,091</u>
<u>AMORTIZATION OF CIAC</u>		
To reflect an averaging adjustment.		<u>(\$1,470)</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
To reflect 1/8 of test year O & M expenses.		<u>\$3,856</u>

LAKE IDLEWILD UTILITY COMPANY			SCHEDULE NO. 2					
TEST YEAR ENDED 09/30/15			DOCKET NO. 150236-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	\$0	\$0	\$0					
2. RETAINED EARNINGS	0	0	0					
3. PAID IN CAPITAL	0	0	0					
4. OTHER COMMON EQUITY	<u>54,528</u>	<u>(1,990)</u>	<u>52,538</u>					
TOTAL COMMON EQUITY	\$54,528	(\$1,990)	\$52,538	(\$26)	\$52,512	100.00%	8.74%	8.74%
5. LONG TERM DEBT	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
6. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
7. PREFERRED STOCK	<u>0</u>	<u>0</u>	0	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%
TOTAL LONG TERM DEBT	\$0	\$0	\$0	\$0	\$0	0.00%		
8. CUSTOMER DEPOSITS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	2.00%	<u>0.00%</u>
9. TOTAL	<u>\$54,528</u>	<u>(\$1,990)</u>	<u>\$52,538</u>	<u>(\$26)</u>	<u>\$52,512</u>	<u>100.00%</u>		<u>8.74%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>7.74%</u>	<u>9.74%</u>	
OVERALL RATE OF RETURN						<u>7.74%</u>	<u>9.74%</u>	

LAKE IDLEWILD UTILITY COMPANY			SCHEDULE NO. 3-A		
TEST YEAR ENDED 09/30/15			DOCKET NO. 150236-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>\$32,262</u>	<u>\$204</u>	<u>\$32,466</u>	<u>\$10,291</u> 31.70%	<u>\$42,757</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$31,347	(\$499)	\$30,848	\$0	\$30,848
3. DEPRECIATION (NET)	6,182	0	6,182	0	6,182
4. AMORTIZATION	(2,940)	0	(2,940)	0	(2,940)
5. TAXES OTHER THAN INCOME	5,804	(2,190)	3,614	463	4,077
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$40,393</u>	<u>(\$2,689)</u>	<u>\$37,704</u>	<u>\$463</u>	<u>\$38,167</u>
8. OPERATING INCOME/(LOSS)	<u>(\$8,131)</u>		<u>(\$5,238)</u>		<u>\$4,590</u>
9. WATER RATE BASE	<u>\$47,035</u>		<u>\$52,512</u>		<u>\$52,512</u>
10. RATE OF RETURN	<u>-17.29%</u>		<u>-9.98%</u>		<u>8.74%</u>

LAKE IDLEWILD UTILITY COMPANY		SCHEDULE NO. 3-B
TEST YEAR ENDED 09/30/15		DOCKET NO. 150236-WU
ADJUSTMENTS TO OPERATING INCOME		
		<u>WATER</u>
OPERATING REVENUES		
1.	To reflect the appropriate test year services revenues.	\$246
2.	To reflect the appropriate test year miscellaneous service revenues.	<u>(42)</u>
	Subtotal	<u>\$204</u>
OPERATION AND MAINTENANCE EXPENSES		
1.	Contractual Services - Other (636) To reflect appropriate fuel and vehicle maintenance expense.	<u>(\$357)</u>
2.	Regulatory Commission Expense (665) To reflect 4-year amortization of rate case expense.	<u>(\$67)</u>
3.	Miscellaneous Expense (675) To reflect appropriate miscellaneous expense per audit.	<u>(\$75)</u>
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$499)</u>
TAXES OTHER THAN INCOME		
1.	To reflect appropriate test year RAFs.	(\$108)
2.	To reflect appropriate utility property taxes.	<u>(2,082)</u>
	Total	<u>(\$2,190)</u>

LAKE IDLEWILD UTILITY COMPANY		SCHEDULE NO. 3-C	
TEST YEAR ENDED 09/30/15		DOCKET NO. 150236-WU	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(603) SALARIES AND WAGES - OFFICERS	4,000	0	4,000
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	3,199	0	3,199
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	936	0	936
(620) MATERIALS AND SUPPLIES	0	0	0
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(632) CONTRACTUAL SERVICES - ACCT.	1,000	0	1,000
(633) CONTRACTUAL SERVICES - LEGAL	590	0	590
(636) CONTRACTUAL SERVICES - OTHER	19,073	(357)	18,716
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	1,341	0	1,341
(665) REGULATORY COMMISSION EXPENSE	214	(67)	147
(670) BAD DEBT EXPENSE	283	0	283
(675) MISCELLANEOUS EXPENSE	<u>711</u>	<u>(75)</u>	<u>636</u>
	<u>\$31,347</u>	<u>(\$499)</u>	<u>\$30,848</u>

LAKE IDLEWILD UTILITY COMPANY		SCHEDULE NO. 4	
TEST YEAR ENDED 09/30/2015		DOCKET NO. 150236-WU	
MONTHLY WATER RATES			
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential, General Service, and Irrigation*</u>			
Base Facility Charge by Meter Size			
5/8" X3/4"	\$12.08	\$15.88	\$0.06
3/4"	\$18.13	\$23.82	\$0.09
1"	\$30.21	\$39.70	\$0.15
1-1/2"	\$60.41	\$79.40	\$0.29
2"	\$96.66	\$127.04	\$0.47
3"	\$181.24	\$254.08	\$0.94
4"	\$302.07	\$397.00	\$1.47
6"	\$604.15	\$794.00	\$2.94
Charge per 1,000 gallons - Residential and Irrigation			
All gallons	\$1.58		
0 - 3,000 gallons		\$2.08	\$0.01
Over 3,000 gallons		\$2.44	\$0.01
Charge per 1,000 gallons - General Service			
	N/A	\$2.38	\$0.01
<u>Private Fire Protection</u>			
2"	N/A	\$10.59	\$0.04
3"	N/A	\$21.17	\$0.08
4"	N/A	\$33.08	\$0.12
6"	N/A	\$66.17	\$0.24
8"	N/A	\$105.87	\$0.39
10"	N/A	\$152.18	\$0.56
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$16.82	\$22.12	
10,000 Gallons	\$27.88	\$39.20	
16,000 Gallons	\$37.36	\$53.84	
*Currently, the utility does not have rates for general and irrigation services.			

LAKE IDLEWILD UTILITY COMPANY			SCHEDULE NO. 5	
TEST YEAR ENDED 9/30/2015			DOCKET NO. 150236-WU	
SCHEDULE OF WATER PLANT, DEPRECIATION, CIAC, & CIAC AMORTIZATION BALANCES				
ACCT. NO.	DEPR. RATE PER RULE 25-30.140	DESCRIPTION	UPIS 9/30/2015 (DEBIT)	ACCUM. DEPR. 9/30/2015 (CREDIT)
303	0.00%	LAND AND LAND RIGHTS (NON-DEPRECIBLE)	\$1,905	\$0
304	3.70%	STRUCTURES AND IMPROVEMENTS	5,642	857
307	3.70%	WELLS AND SPRINGS	19,011	12,301
309	3.13%	SUPPLY MAINS	15,793	5,883
310	5.88%	POWER GENERATION EQUIPMENT	3,038	3,378
311	5.88%	PUMPING EQUIPMENT	20,285	15,178
320	5.88%	WATER TREATMENT EQUIPMENT	20,337	14,874
330	3.03%	DISTRIBUTION RESERVOIRS AND STANDPIPES	32,468	969
331	2.63%	TRANSMISSION AND DISTRIBUTION MAINS	57,238	27,864
333	2.86%	SERVICES	44	40
334	5.88%	METERS AND METER INSTALLATIONS	9,020	10,376
335	2.50%	HYDRANTS	<u>9,460</u>	<u>4,906</u>
		TOTAL INCLUDING LAND	<u>\$194,241</u>	<u>\$96,626</u>
			CIAC AMORT. 9/30/2015 (DEBIT)	CIAC 9/30/2015 (CREDIT)
			\$42,761	\$91,720