

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: March 23, 2017

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Friedrich, Hudson)
Division of Accounting and Finance (Vogel)
Division of Engineering (Buys, Knoblauch)
Office of the General Counsel (Tan)

Handwritten initials and signatures: ST, MF, GS, PD, ALM, CRB, EK, PEB, TB, MC, and various scribbles.

RE: Docket No. 160143-WU – Application for staff-assisted rate case in Hardee County by Charlie Creek Utilities, LLC.

AGENDA: 04/04/17 – Proposed Agency Action- Except Issue Nos. 10, 11, and 18 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Graham

CRITICAL DATES: 11/01/17 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

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COMMISSION
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Case Background

Charlie Creek Utilities, LLC, (Charlie Creek or utility) is a Class C utility providing water service to approximately 144 residential and one general service customer in Hardee County. Rates were last established for this utility when its original certificate was granted on January 25, 2016.¹ The rates and charges Charlie Creek had in effect prior to the current owner acquiring the water system were approved simultaneously with the utility's original certificate. Charlie Creek is currently owned by Michael Smallridge and operated under Florida Utility Services 1, LLC (FUS1).

On June 3, 2016, Charlie Creek filed an application for a staff assisted rate case (SARC). Staff selected the test year ended December 31, 2015, for the instant case. According to Charlie Creek's 2015 annual report, total gross revenues were \$68,259 and total operating expenses were \$71,773. On February 14, 2017, a petition, with 20 signatures, opposing the rate increase was received by the Commission. The Commission has jurisdiction in this rate case pursuant to Sections 367.0812, 367.0814, 367.081(8) and 367.091, Florida Statutes (F.S.).

¹Order No. PSC-16-0043-PAA-WU, issued January 25, 2016, in Docket No. 150186-WU, *In re: Application for certificate to operate a water utility in Hardee County by Charlie Creek Utilities, LLC.*

Discussion of Issues

Issue 1: Is the quality of service provided by Charlie Creek Utilities, LLC satisfactory?

Recommendation: Yes. The overall quality of service provided by Charlie Creek Utilities, LLC should be considered satisfactory. (Knoblauch)

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. Overall quality of service is derived from an evaluation of three separate components of the utility operations. These components are: (1) the quality of the utility's product; (2) the operating conditions of the utility's plant and facilities; and (3) the utility's attempt to address customer satisfaction. The Rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Florida Department of Environmental Protection (FDEP) and the county health department over the preceding three-year period shall be considered. Furthermore, 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 FDEP.

Quality of Utility's Product

In evaluation of Charlie Creek's product quality, staff reviewed the utility's compliance with FDEP primary and secondary drinking water standards. Primary standards protect public health, while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water.

Staff reviewed chemical analyses of samples dated June 26, 2012, and July 27, 2015. All results were in compliance with the FDEP primary and secondary water quality standards. These chemical analyses are performed every three years. The next scheduled analysis should take place in 2018.

Staff additionally reviewed customer complaints regarding the quality of Charlie Creek's product. At the customer meeting held in Wauchula, FL on January 19, 2017, two customers discussed concerns regarding the quality of water, including low pressure, water outages, a sulfur odor, low chlorine levels, and a white substance in the pipes. As of the filing date of this recommendation, five customers provided written comments expressing similar concerns.

The utility has stated that there are ongoing efforts to complete the maintenance and repairs needed to update the system and address the calcium and odor concerns. To address the white substance customers had observed, the utility is engaging an engineer in efforts to manage calcification problems in the system. Staff believes the utility's efforts to address the calcification are reasonable considering the customer's complaints. Additionally, the utility stated that the buildup of calcium can also be attributed to the low pressure problems customers have experienced.

One customer at the customer meeting stated that they contacted the utility about a lack of chlorine in the water, and the utility responded that they had run out of chlorine. The customer

suggested that additional monitoring of the water quality should be completed on a monthly or bimonthly basis.

Addressing chlorine level concerns, the utility stated they had never run out of chlorine and this may have occurred under the previous owner. The utility disagreed that additional water quality monitoring is necessary as the water test results are in compliance with the FDEP requirements and additional testing would result in an added expenses for the customers.

Staff also requested copies of complaints filed with the utility during the test year and four years prior to the test year. The utility indicated that no formal complaints were filed during the test year, but the utility had received customer calls in relation to an odor from the water. In response, the utility installed two flushing valves in order to help with the hydrogen sulfide that was causing the odor.

In 2012, a customer complaint was filed with FDEP which related to a possible calcium buildup in the lines. Calcium is a secondary contaminant and is not considered an immediate health risk; however, the customer was advised to contact FDEP if there were any further concerns. No other product quality complaints were received. Based on staff's review, giving consideration to the utility's current compliance with FDEP standards, Charlie Creek's product should be considered satisfactory. Furthermore, it appears that the utility is addressing the product quality concerns raised by its customers.

Operating Condition of the Utility's Plant and Facilities

Charlie Creek's service area is located in Wauchula, Florida, in Hardee County, and is within the Southwest Florida Water Management District (SWFWMD). The water treatment system has two wells and the raw water is treated with liquid chlorine for disinfection purposes. The utility's water system has two storage tanks totaling 11,000 gallons and is pumped into a 6,000 gallon hydropneumatic tank before entering the distribution system.

On February 12, 2014, FDEP conducted a sanitary survey. One deficiency was identified, stemming from the utility not meeting minimum requirements for a community over 350 in population. To meet the minimum requirements, the utility was required to submit an Emergency Preparedness Plan, perform remediation measures to one well, and repair or replace its generator. The utility made the necessary improvements and the system was found to be in compliance on May 6, 2014. Staff did not identify any issues or concerns during its January 19, 2017, site visit. Based on the operating condition of Charlie Creek'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. A summary of all complaints and comments received during the test year and four years prior are shown in Table 1-1.

**Table 1-1
 Number of Complaints by Source**

Subject of Complaint	PSC's Records (CATS)	Utility's Records	FDEP	Docket Correspondence	Customer Meeting
Improper Billing/ Billing Related			1	3	
Quality of Water			1	3	2
Condition of Facilities				4	2
Improper Disconnect	2				
Outages	1			2	2
Total*	3	0	2	12	6

Source: Document Nos. 00915-17, 01687-17, 01810-17, and 0083-17

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

As part of staff's evaluation of customer satisfaction, staff held a customer meeting to receive customer comments concerning Charlie Creek's quality of service. The utility mailed the customer meeting notice to its customers on January 4, 2017, advising them of the time, place, and purpose of the meeting, as well as the procedures for filing comments with the Commission.

Four customers attended the customer meeting, two of which provided comments. As previously discussed in this issue, both customers reported problems associated with the water quality. The first customer additionally cited several instances when contacting the utility, their concerns were not properly addressed or they were provided with erroneous information. Moreover, the customer described an occurrence involving a water line break resulting in multiple day outages, and a customer provided personal equipment to assist the utility in repairing the line. The second customer echoed many of the same concerns, such as water outages. Additionally, both customers believed that more customers were not present at the customer meeting due to a misunderstanding of the rate increase and the impact it would have on customers' bills.

Charlie Creek provided a written response to the oral comments made at the customer meeting. In its response the utility indicated that, since the utility was acquired in 2014, it has made efforts to upgrade customer safety and convenience. The utility stated that it is holding annual meetings with customers to discuss utility related issues and has implemented an option to pay bills over the phone or online.

Regarding the water main break, the utility stated that Charlie Creek personnel initially repaired the water main following the break, but discovered that there was additional damage when the water pressure in the system remained low. A customer of Charlie Creek volunteered their equipment; however, due to the extent of the leak, a contractor was hired to complete the repairs. The utility asserted that customers were not out of water for several days; however, the pressure was low and a precautionary boil water notice was issued.

Other issues raised in the written comments received by the Commission included estimated water usage, lack of flushing, frequent breaks in water lines, difficulties in contacting the utility,

poor customer service, and a delayed response by the utility when repairing leaks. As previously discussed, the utility has started holding annual meetings with its customers to discuss utility related issues. Additionally, the utility explained that several customer meters have been replaced to improve billing accuracy.

Staff reviewed the Commission's complaint records from January 1, 2011, through March 3, 2017, and found three complaints. Two of the complaints have been closed. The remaining complaint involved an improper disconnection of service.

Examining FDEP records over a five year period including the test year and the four years prior, one complaint was received on February 22, 2012. The customer stated that particles were present in their water, there was a leak on the purveyor's side, and they believed meters were not being correctly read. FDEP personnel contacted the utility's operator and owner who addressed the customer's concerns and the complaint was closed on February 23, 2012.

Based on the utility's response to customers' oral concerns expressed in connection with the customer meeting, the small number of complaints filed with the Commission, as well as the lack of those filed with FDEP, staff recommends the utility's attempt to address customer satisfaction should be considered satisfactory.

Conclusion

Based on the summation of staff's analysis and review described above, the overall quality of service provided by Charlie Creek should be considered satisfactory.

Issue 2: What are the used and useful percentages (U&U) of Charlie Creek Utilities, LLC's water treatment plant (WTP) and distribution system?

Recommendation: Charlie Creek's WTP should be considered 50 percent U&U. The water distribution system should be considered 55 percent U&U. There appears to be no excessive unaccounted for water (EUW); therefore, staff is not recommending an adjustment be made to operating expenses for chemicals and purchased power. (Knoblauch)

Staff Analysis: Charlie Creek's water system is served by two 4-inch wells rated at 125 gallons per minute (gpm) and 350 gpm, and the WTP permitted capacity is 133,000 gallons per day (gpd). The raw water is treated by chlorination prior to entering the water distribution system. The WTP has two useable storage tanks totaling 11,000 gallons in capacity. There is an existing fire flow stand pipe, but no fire hydrants are present. The distribution system is composed of varying sizes of galvanized and PVC pipes. Staff notes that there have been no prior rate cases for this utility before the Commission; therefore, the U&U percentages for the WTP, storage facilities, and the distribution system have not been previously established.

Water Treatment Plant Used and Useful

Pursuant to Rule 25-30.4325, F.A.C., the U&U calculations are defined for a water treatment system and storage facilities. For a water treatment plant with more than one well and storage capacity, the U&U is described by the following equation: $([\text{Peak Demand} + \text{Fire Flow} + \text{Growth} - \text{Excessive Unaccounted for Water}] / \text{Firm Reliable Capacity})$.

The peak demand is the single maximum day in the test year where there is no unusual occurrences and is measured in gallons per day (gpd). From the flow data provided on the utility's Monthly Operating Reports (MORs), the peak demand was found to be 60,000 gpd. There is no fire flow for the utility. Based on recent data growth in connections appears to be zero. As discussed below, no EUW has been identified for this system.

The firm reliable capacity is defined for systems with more than one well as the pumping capacity of all wells combined, excluding the largest individual well. For Charlie Creek, this yields a value of 125 gpm, or 120,000 gpd. Since DEP rates the treatment facilities at a capacity of 133,000 gpd, the well-based capacity is not constrained by treatment capacity. The final calculation of U&U for Charlie Creek is 50 percent $([60,000 + 0 + 0 - 0] / 120,000)$.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., defines EUW as unaccounted for water in excess of 10 percent of the amount produced. Unaccounted for water is all water produced that is not sold, metered, or accounted for in the records of the utility. In determining whether adjustments to plant and operating expenses are necessary in accordance with Rule 25-30.4325(10), F.A.C., staff considers several factors. These factors include the causes of EUW, any corrective action taken, and the economical feasibility of a proposed solution. EUW is calculated by subtracting both the gallons sold to customers and the gallons used for other services, such as flushing, from the total gallons pumped for the test year.

Based on the MORs filed by the utility, Charlie Creek produced 14,534,000 gallons of water from January 1, 2015 to December 31, 2015. However, in response to staff's data request, the

utility found tabulation errors in their MORs and provided the corrected pumped water data. The total gallons pumped using the corrected data for 2015 was found to be 8,099,000 gallons.

Based on the audit report completed by staff, the utility sold 8,294,049 gallons of water to customers. Additionally, the utility documented 233,000 gallons of water that were expended for other uses as recorded in the 2015 Annual Report. The resulting unaccounted for water is -5.3 percent $([8,099,000 - 8,294,049 - 233,000] / 8,099,000)$.

The utility believes the reason more water was sold than pumped was due to several factors. During the first several months of operation in 2015, the utility identified and replaced forty-three faulty water meters, representing approximately 30 percent of its customer base. At the end of 2016, a total of ninety-two meters had been replaced. When determining the amount of water sold to customers with faulty meters, the utility estimated usages and utilized past usages from their billing system.

Charlie Creek also found inaccuracies with the master meters at both wells. On February 17, 2017, the Florida Rural Water Association (FRWA) tested both well's master meters and found one meter to be outside the acceptable range of accuracy. The primary well's master meter was found to be running 8.3 percent slower than the test meter, but it was within accuracy tolerance. The second well's master meter was found to be running 11.1 percent faster than the test meter and was not within acceptable accuracy tolerance. However, the second well had undergone repairs in 2015 following the transfer of the system and was not operational until November 2016, thus it did not contribute to the amount of water pumped. Considering the results from the FRWA and the age of each meter, the utility plans to replace both master meters for improved accuracy in the amount of water pumped. Staff believes the replacement of the master meters is prudent.

Staff considered an additional analysis of the unaccounted for water by taking into account the inaccuracy of the primary well's master meter. Using the FRWA's findings of the primary well's master meter, the amount of water pumped was adjusted accordingly and the unaccounted for water was found to be less than 10 percent. Therefore, considering all of these factors, staff recommends that no adjustment be made to operating expenses for chemicals and purchased power due to the EUW.

Storage Used and Useful

The utility has two useable storage tanks with a capacity of 11,000 gallons. According to Rule 25-30.4325(8), F.A.C., usable storage capacity less than or equal to the peak day demand shall be considered 100 percent used and useful. As discussed above, the peak day demand was found to be 60,000 gallons per day, thus, the storage should be considered 100 percent U&U.

Water Distribution System Used and Useful

The equation for calculating U&U for the water distribution system is given by: $([\text{Number of Test Year Connections} + \text{Growth}] / \text{Capacity of the System})$. Based on customer bills, the audit report identified 144 residential connections and 1 general service connection during the test year. The capacity of the system is 266 lots; therefore, the water distribution system is 55 percent U&U $([145 + 0] / 266)$.

Summary

Based on staff's analysis, Charlie Creek's water treatment plant should be considered 50 percent U&U, storage U&U should be considered 100 percent, and the water distribution system should be considered 55 percent U&U. There appears to be no EUW; therefore, staff is not recommending an adjustment be made to operating expenses for chemicals and purchased power.

Issue 3: What is the appropriate average test year rate base for Charlie Creek Utilities, LLC?

Recommendation: The appropriate average test year water rate base for Charlie Creek is \$26,617. (Vogel)

Staff Analysis: Charlie Creek's net book value has never been established by the Commission, due in part to the lack of original documentation from the previous owner, during the original certificate audit.

Charlie Creek's current ownership manages and owns other utilities in Florida and, as of January 1, 2015, has been recording common costs on FUS1 books. These costs, which include salaries, transportation, and office supplies, have been allocated among all of the utilities receiving services from FUS1. Staff used allocations based on customer count and all utilities owned and managed by FUS1 at the time of the audit. All new allocation adjustments are based on ERC count and the current utilities owned or managed by FUS1 as of September 26, 2016. The new allocation for Charlie Creek from FUS1 is 7.29 percent. The test year ended December 31, 2015, was used for the instant case. A summary of each water rate base component and recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

The UPIS balance to begin the test year was \$0 as the utility's prior owner's records were destroyed. For the test year, the utility recorded water UPIS of \$3,044. Staff capitalized major repairs at the plant originally expensed to Accounts 620 and 636. These repairs include two pump repairs, one for \$504 and the second for \$640. The utility originally booked these costs as expenses, but staff believes these repairs will not be recurring and did extend the useful life of the assets; therefore, the costs should be capitalized. The utility's improvements being capitalized also include replacing a control box, refurbishing well #2 pumping equipment, installing a flush point, and installing a starter on well #1. The utility also installed meters, but did not book the labor and installation costs for these meters. Therefore, staff has increased UPIS by \$360. Staff also increased this account by \$1,070 to include the purchase of a lawn mower.

As discussed in Issue 2, the utility also included the purchase and installation of two master meters. The utility also purchased and installed two gate valves along with the necessary sampling expenses. These additions totaled \$1,472 and \$2,223 (1,833 + 390), respectively. Staff has also included an averaging adjustment of negative \$7,393. Staff's adjustments to UPIS result in a net increase of \$4,349. Therefore, staff recommends that the appropriate UPIS balance is \$7,393. These recommended adjustments to UPIS are detailed in Table 3-1.

**Table 3-1
 Adjustments made to UPIS**

	Adjustment Description	Water
1.	To capitalize the purchase of a 30 gpd pump.	\$590
2.	To capitalize the replacement of a control box.	508
3.	To capitalize the refurbishment of well pumping equipment.	2,156
4.	To capitalize the installation of a 2-inch flush point.	1,800
5.	To capitalize the installation of a starter for a well.	418
6.	To capitalize non-recurring pump repairs and new impeller.	1,144
7.	To include the installation cost of replaced meters.	360
8.	To include the purchase of a new lawn mower.	1,070
9.	To include pro forma replacement of two gate valves and sampling.	2,223
10.	To include pro forma purchase and installation of two master meters.	<u>1,472</u>
	Subtotal	\$11,741
	Averaging Adjustment	<u>(7,393)</u>
	Net Increase to UPIS	\$4,349
	Existing UPIS	<u>3,044</u>
	Test Year UPIS	<u>\$7,393</u>

UPIS - Allocated

The utility did not record a balance in UPIS – Allocated. Due to the utility’s relationship with FUS1, staff has included allocated common plant from FUS1. Staff’s audit included total FUS1 balances for Office Furniture & Equipment, Transportation Equipment, and Tools, Shop, and Garage Equipment of \$21,770. After applying Charlie Creek’s 7.29 percent allocation, staff increased UPIS – Allocated by \$1,588. Staff also included an averaging adjustment of negative \$69. Therefore, staff recommends that the appropriate UPIS - Allocated balance is \$1,518.

Land & Land Rights

The utility recorded a test year land balance of \$12,050. No adjustments are necessary; therefore, staff recommends that the Land & Land Rights balance remain \$12,050

Non-Used and Useful (non-U&U) Plant

The utility did not record a test year non-U&U plant balance for water. As discussed in Issue 2, staff determined the WTP to be 50 percent U&U and the water distribution system to be 55 percent U&U.

Staff has applied the U&U percentage to WTP average plant balances and to the associated average accumulated depreciation balances. Staff has increased non-U&U WTP by \$1,120 for average plant and decreased the associated average depreciation by \$75. Staff has applied the U&U percentage to the water distribution average plant balances and to the associated average

accumulated depreciation balances. Staff has increased non-U&U water distribution system by \$905 for average plant and decreased the associated average depreciation by \$38. Staff's adjustments to non-U&U plant are an increase of \$2,025 and staff's adjustments to associated average depreciation are a decrease of \$112. Therefore, staff recommends non-U&U plant of \$1,912.

Contributions in Aid of Construction (CIAC)

The utility did not record CIAC balances. Due to the lack of original cost for transmission and distribution plant, staff cannot determine an amount for CIAC. Commission audit staff found no additions in the test year and determined that no adjustments are necessary. Staff recommends CIAC of zero.

Accumulated Depreciation

Charlie Creek recorded a test year accumulated depreciation balance of \$179. Staff recalculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and depreciation associated with plant additions and retirements and has increased water by \$98. Staff has decreased this account by \$215 for water to reflect the simple average. As discussed in Issue 2, the utility requested pro forma items. Staff has included \$152 for the average accumulated depreciation associated with the pro forma items. Staff's total adjustments to this account are a decrease of \$36. Staff's adjustments to this account results in an Accumulated Depreciation balance of \$215.

Accumulated Depreciation- Allocated

The utility did not record a test year balance for Accumulated Depreciation – Allocated. Staff has included in this account accumulated depreciation for plant associated with FUS1's common plant that has been allocated to Charlie Creek. Staff has included \$58 to Accumulated Depreciation - Allocated. Staff has also included an averaging adjustment of \$21 for each account. Therefore, staff's adjustments to this account results in an Accumulated Depreciation – Allocated balance of \$37.

Accumulated Amortization of CIAC

As stated above, staff recommends a CIAC balance of zero; therefore, the balance of Accumulated Amortization of CIAC should also be zero.

Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(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 \$7,820 (based on O&M expense of \$62,557 /8).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base for Charlie Creek is \$26,617. 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 Charlie Creek Utilities, LLC?

Recommendation: The appropriate return on equity (ROE) is 11.16 percent with a range of 10.16 percent to 12.16 percent. The appropriate overall rate of return is 6.28 percent. (Vogel)

Staff Analysis: According to staff's audit, Charlie Creek's test year capital structure reflected common equity of \$15,931, long term debt of \$8,660 and customer deposits of \$2,555.

Staff has decreased common equity by \$15,931 to remove revenue earned from the previous owner and to reflect an adjustment made by the utility based on the transfer audit performed in Docket 150186-WU. Staff decreased the customer deposits balance by \$599, to reflect the utility's customer deposit log. The utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE for the utility is 11.16 percent based upon the Commission-approved leverage formula currently in effect.² Staff recommends an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 6.28 percent. The ROE and overall rate of return are shown on Schedule No. 2.

²Order No. PSC-16-0254-PAA-WS, issued June 29, 2016, in Docket No. 160006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

Issue 5: What are the appropriate test year revenues for Charlie Creek Utilities, LLC?

Recommendation: The appropriate test year revenues for Charlie Creek's water system are \$65,621. (Friedrich)

Staff Analysis: Charlie Creek recorded total test year revenues of \$68,259. The water revenues included \$63,582 of service revenues and \$4,677 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 \$59,656. This results in a decrease of \$3,926 (\$63,582-\$59,656) to service revenues. In addition, staff made adjustments to miscellaneous revenues. Based on staff's review of the number of miscellaneous service occurrences during the test year and the utility's tariff approved miscellaneous service charges, staff determined miscellaneous revenues should be \$5,965. This results in an increase of \$1,288 (\$5,965-\$4,677). Based on the above, the appropriate test year revenues for Charlie Creek's water system are \$65,621.

Issue 6: What is the appropriate amount of operating expense for Charlie Creek Utilities, LLC?

Recommendation: The appropriate amount of operating expense for Charlie Creek is \$69,063. (Vogel)

Staff Analysis: Charlie Creek recorded operating expense of \$71,632 for the test year ended December 31, 2015. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has also included an allocated portion of FUS1’s operating expenses for the test year ended December 31, 2015. Staff used allocations based on customer count and all utilities owned and managed by FUS1 at the time of the audit. All incremental allocation increases are based on ERC count as of September 26, 2016. The new allocation for Charlie Creek from FUS1 is 7.29 percent. Staff has made several adjustments to the utility's operating expenses as summarized below.

Salaries and Wages- Employees (601)

Charlie Creek recorded salaries and wages – employees expense of \$12,876. Staff received a compensation survey completed by OCBOA Consulting, LLC (OCBOA) regarding the salaries of FUS1 employees. The utility requested an increase in salaries based on the survey. Staff analyzed the results of the compensation survey and properly allocated the salary adjustments for Charlie Creek. Staff’s adjustments and analysis of the compensation study are consistent with those approved in East Marion Utilities, LLC (East Marion), a sister utility, by the Commission at the February 7, 2017 Commission Conference.³ Staff continues to believe that the amounts approved are appropriate at this time. Staff’s allocation of salaries is detailed in Table 6-1.

**Table 6-1
 Adjustments made to Salaries and Wages – Employees based on the OCBOA
 Compensation Survey**

Title	Requested	Current Salary	Allocation %	Allocated Salary
Chief Financial Off.	\$55,500	\$54,366	7.29	\$3,964
Operation Supervisor	39,000	39,000	7.29	2,844
Office Manager	39,500	39,500	7.29	2,880
Cust. Serv. Rep.	34,000	34,000	7.29	2,479
Part-time Billing	10,400	10,400	7.29	758
Total				<u>\$12,927</u>

Source: Utility’s request based on Compensation Survey from OCBOA

Staff has increased this expense by \$51 to account for the increase in salaries and to properly allocate the salary expense. Staff’s total adjustments result in an increase of \$51. Therefore, staff is recommending salaries and wages – employees expense of \$12,927.

Salaries and Wages- Officers (603)

Charlie Creek recorded salaries and wages – officers expense of \$5,700. Based on the adjustments approved at the February 7, 2017 Commission Conference, staff has decreased this

³Docket No. 150257-WS, *In re: Application for staff-assisted rate case in Marion County, by East Marion Utilities, LLC.*

expense by \$398. This represents a recommended total President salary of \$72,704 to be allocated over all FUS1 utilities, as previously approved. The utility has not provided any additional information regarding this account and staff does not believe any additional increases are appropriate at this time. Therefore, staff is recommending salaries and wages – officers expense of \$5,302

Employee Pensions and Benefits (604)

Charlie Creek recorded employee pensions and benefits expense of \$1,838. Staff has decreased this expense by \$260 to include the appropriate amount of benefits expense for the test year. Staff has increased this account by \$122 to reflect the incremental allocation increase. Staff's adjustments result in a decrease of \$138. Therefore, staff is recommending employee pensions and benefits expense of \$1,700.

Purchased Power (615)

The utility recorded purchased power expense of \$3,790. Staff has decreased this expense by \$18 to remove an out of period expense. Staff increased this expense by \$392 to include a previously unrecorded invoice. Staff's net adjustments are an increase of \$374. Therefore, staff recommends purchased power expense of \$4,164.

Fuel for Power Production (616)

The utility recorded fuel for power production expense of \$496. Staff has reclassified this expense to Account 650. Therefore, staff's adjustments result in a decrease of \$496. Therefore, staff recommends fuel for power production expense of \$0.

Chemicals (618)

Charlie Creek recorded chemicals expense of \$1,994. Staff has decreased this account by \$165, to remove a double entry. Staff's total adjustments result in a decrease of \$165. Therefore, staff recommends chemicals expense of \$1,829.

Materials & Supplies (620)

The utility recorded materials & supplies expense of \$2,926. Staff has decreased this account by \$1,144 to remove capitalized expenses relating to pump repairs during the test year. The utility, in its audit response, requested inclusion of these expenses in O&M. Staff believes these expenses should be capitalized as they are non-recurring. Staff has increased this account by \$369 to include an allocated invoice not previously included. Staff also increased this account by \$155 to reflect the incremental allocation increase. Staff's total adjustments result in a decrease of \$620. Therefore, staff recommends materials & supplies expense of \$2,306.

Contractual Services- Other (636)

Charlie Creek recorded Contractual Services – Other expense of \$16,705. As discussed in Issue 1, calcification of the water distribution system has caused quality of service issues associated with water color and water pressure. The utility has engaged an engineering consultant to address the calcification issue which has also caused water meters and appurtenances to fail. Based on information provided by Charlie Creek, correcting the calcification issue will likely improve the utility's quality of service. Charlie Creek provided an invoice of \$4,197 for the scope of services to be completed by the engineering consultant. The utility attempted to obtain multiple bids, but

due to the rural location of the utility, no other engineering firm was able to provide a bid. Staff believes the engineering analysis and its costs are prudent and reasonable. Staff recommends the following adjustments to Contractual Services – Other.

Table 6-2
Adjustments made to Contractual Services - Other

	Adjustment Description	Water
1.	To capitalize the purchase of a 30 gpd pump.	(\$590)
2.	To capitalize the replacement of a control box.	(508)
3.	To capitalize the refurbishment of well pumping equipment.	(2,156)
4.	To capitalize the installation of a 2-inch flush point.	(1,800)
5.	To capitalize the installation of a starter for a well.	(418)
6.	To remove a duplicate invoice.	(528)
7.	To include an allocated invoice not previously included.	33
8.	To reflect the incremental allocation increase.	76
9.	To reflect an increase in water operations expense of \$25/month.	300
10.	To include pro forma replacement of two check valves.	86
11.	To include pro forma sampling expense for a main repair.	390
12.	To include pro forma main repair.	400
13.	To include pro forma piping supplies.	216
14.	To include pro forma calcification analysis, amortized over five years.	839
	Total	<u>(\$3,660)</u>

Source: Audit Control No. 16-182-4-1, Audit Response, and Responses to Staff’s Data Requests

Based on the adjustments shown above, staff’s net adjustment is a decrease of \$3,660. Staff recommends Contractual Services – Other expense of \$13,045.

Rent Expense (640)

Charlie Creek recorded rent expense of \$1,258. Staff has decreased this account by \$104 to reflect the annualized lease agreement with FUS1. Staff has increased this account by \$89 to reflect the incremental allocation increase based on ERCs. Staff’s adjustments result in a net decrease of \$15. Therefore, staff recommends rent expense of \$1,243.

Transportation Expense (650)

Charlie Creek recorded transportation expense of \$1,309. Staff has increased this account by \$295 to reflect the appropriate allocated expenses for transportation. Staff has decreased this account by \$122 to remove a truck loan from expenses. Staff has decreased this account by \$27 to remove unsupported expenses. Staff has reclassified an account balance from Account 616 for \$496, increasing this account balance by \$496. Finally, staff increased this expense by \$151 to reflect the incremental allocation increase. Staff’s total adjustments result in an increase of \$793. Staff recommends transportation expense of \$2,102.

Insurance Expense (655)

Charlie Creek recorded insurance expense of \$1,935 for the test year. Staff has decreased this expense by \$301 to remove the health insurance premiums duplicated in Account 604. Staff recommends insurance expense for the test year of \$1,634.

Regulatory Commission Expense (665)

Charlie Creek did not record regulatory commission expense for the test year. Staff has determined the filing fees, noticing fees, and postage for the instant case to be \$1,259. Staff has also included \$887 to reflect amortized filing and legal fees from the transfer, not previously included. Staff has amortized these amounts over four years. Therefore, staff recommends regulatory commission expense of \$536.

Bad Debt Expense (670)

Charlie Creek recorded a bad debt expense estimation of \$350 for the test year. Staff has increased this account by \$1,615 to reflect the actual bad debt expense per an Aging Account Report. The utility did not have three years of records to compare. However, the Aging Account Report included approximately 6 months of 2016 data totaling \$883. Staff believes approximately 18 months of data is a valid representation of bad debt expense for this utility. Therefore, staff recommends bad debt expense of \$1,965.

Miscellaneous Expense

Charlie Creek recorded miscellaneous expense of \$7,159. Staff recommends the following adjustments to miscellaneous expense:

**Table 6-3
 Adjustments made to Miscellaneous Expense**

	Adjustment Description	Water
1.	To remove bank fees for non-sufficient funds and closing costs.	(\$105)
2.	To remove transfer filing fees and amortize into Acct. 665.	(750)
3.	To remove a portion of the purchase fee for the utility.	(100)
4.	To include customer convenience fees.	758
5.	To remove interest payments for a loan.	(407)
6.	To move expenses relating to original certification to Acct. 665.	(137)
7.	To include expenses relating to an annual customer meeting.	199
8.	To remove unsupported expenses.	(123)
9.	To reflect the test year allocation of expenses from FUS1.	17
10.	To remove equipment expenses included in Acct. 640.	(179)
11.	To reflect the appropriate amount of utility expenses from FUS1.	(170)
12.	To include amortized closing costs of a loan, amortized over 5 years.	20
13.	To reflect the incremental allocation increase.	279
14.	To include pro forma roof repair, amortized over five years.	219
	Total	<u>(\$479)</u>

Source: Audit Control No. 16-182-4-1, Audit Response, and Invoices provided by utility

Staff's total adjustments decrease this account by \$479. Therefore, staff recommends miscellaneous expense of \$6,680.

Operation and Maintenance Expenses Summary

Based on the above adjustments, staff recommends that the O&M expense balance is \$62,557. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A through 3-C.

Depreciation Expense (Net of Amortization of CIAC)

Charlie Creek recorded depreciation expense of \$179 during the test year. Staff recalculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff increased depreciation expense by \$98 to reflect the appropriate depreciation expense. Staff increased depreciation expense by \$249 to include the appropriate depreciation of allocated plant. Staff increased depreciation expense by \$152 to include depreciation expense for pro forma plant. Staff decreased depreciation expense by \$112 to reflect the U&U adjustment to plant. The appropriate amount of amortization of CIAC is \$0. Staff's total adjustment is an increase of \$387, resulting in a net depreciation expense of \$566.

Taxes Other Than Income (TOTI)

Charlie Creek recorded a TOTI balance of \$5,993 for the test year. Staff has recalculated the utility's property taxes using the updated 2015 rates and has decreased this account \$4,278. The

utility had included the 2013 and 2014 property tax payment in this account. Staff increased this account to include payroll taxes of \$1,251. Staff has increased this account by \$2,953, to reflect the appropriate test year Regulatory Assessment Fees (RAFs) based on adjusted test year revenues. Staff increased TOTI by \$74 to reflect the pro forma plant addition. Staff also decreased TOTI by \$490 to remove property taxes associated with non-U&U property. Staff's adjustments to TOTI result in a net decrease of \$490.

In addition, as discussed in Issue 8, revenues have been increased by \$9,697 to reflect the change in revenue required to cover expenses and allow the recommended operating margin. As a result, TOTI should be increased by \$436 to reflect RAFs of 4.5 percent on the change in revenues. This adjustment results in a net decrease of \$54. Staff recommends TOTI of \$5,939

Operating Expense Summary

The application of staff's recommended adjustments to Charlie Creek's test year operating expenses results in operating expenses of \$69,063. Operating expenses are shown on Schedule Nos. 3-A. The related adjustments are shown on Schedule Nos. 3-B and 3-C.

Issue 7: Should the Commission utilize the operating ratio methodology as an alternative method of calculating the water revenue requirement for Charlie Creek Utilities, LLC? If so, what is the appropriate margin?

Recommendation: Yes, the Commission should utilize the operating ratio methodology for calculating the water revenue requirement for Charlie Creek. The margin should be 10 percent of O&M expense. (Vogel)

Staff Analysis: Section 367.0814(9), F.S., provides that the Commission may, by rule, establish standards and procedures for setting rates and charges of small utilities using criteria other than those set forth in Sections 367.081(1), (2)(a), and (3), F.S. Rule 25-30.456, F.A.C., provides an alternative to a staff-assisted rate case as described in Rule 25-30.455, F.A.C. As an alternative, utilities with total gross annual operating revenue of less than \$275,000 per system may petition the Commission for staff assistance using alternative rate setting.

Charlie Creek did not petition the Commission for alternative rate setting under the aforementioned rule, but staff believes the Commission should employ the operating ratio methodology to set rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the utility's rate base, the revenue requirement is based Charlie Creek's O&M expenses plus a margin. This methodology has been applied in cases in which the traditional calculation of the revenue requirement would not provide sufficient revenue to protect against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU,⁴ the Commission, for the first time, utilized the operating ratio methodology as an alternative means for setting rates. This order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expense. This criterion was applied again in Order No. PSC-97-0130-FOF-SU.⁵ Most recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-16-0126-PAA-WU.⁶

By Order No. PSC-96-0357-FOF-WU, the Commission established criteria to determine whether to utilize the operating ratio methodology for those utilities with low or non-existent rate base. The qualifying criteria established by Order No. PSC-96-0357-FOF-WU and how they apply to the utility are discussed below:

1) Whether the utility's O&M expense exceeds rate base. The operating ratio method substitutes O&M expense for rate base in calculating the amount of return. A utility generally would not benefit from the operating ratio method if rate base exceeds O&M expense. In the instant case, rate base is less than the level of O&M expense. The utility's primary risk resides with covering

⁴Issued March 13, 1996, in Docket No. 950641-WU, *In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.*

⁵Issued February 10, 1997, in Docket No. 960561-SU, *In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.*

⁶Issued March 28, 2016, in Docket No. 140220-WU, *In re: Application for staff-assisted rate case in Polk County by Sunrise Utilities, LLC.*

its operating expense. Based on the staff's recommendation, the adjusted rate base for the test year is \$26,617, while adjusted O&M expenses are \$62,557.

2) Whether the utility is expected to become a Class B utility in the foreseeable future. Pursuant to Section 367.0814(9), F.S., the alternative form of regulation being considered in this case only applies to small utilities with gross annual revenue of \$275,000 or less. Charlie Creek is a Class C utility and the recommended revenue requirement of \$75,318 is substantially below the threshold level. The utility's service area has not had any significant growth in the last five years. Therefore, it appears the utility will not become a Class B utility in the foreseeable future.

3) Quality of service and condition of plant. As discussed in Issue 1, the overall quality of service provided by Charlie Creek Utilities, LLC should be considered satisfactory.

4) Whether the utility is developer-owned. The current utility owner is not a developer.

5) Whether the utility operates treatment facilities or is simply a distribution and/or collection system. The issue is whether or not purchased water and/or wastewater costs should be excluded in the computation of the operating margin. Charlie Creek operates a water treatment plant.

Based on staff's review of the utility's situation relative to the above criteria, staff recommends that Charlie Creek is a viable candidate for the operating ratio methodology.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, the Commission determined that a margin of 10 percent shall be used unless unique circumstances justify the use of a greater or lesser margin. The important question is not what the return percentage should be, but what level of operating margin will allow the utility to provide safe and reliable service and remain a viable entity. The answer to this question requires a great deal of judgment based upon the particular circumstances of the utility.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenue for the utility to cover its interest expense. Staff believes the margin will sufficiently cover the interest expense for Charlie Creek.

Second, the operating ratio method recognizes that a major issue for small utilities is cash flow; therefore, the operating ratio method focuses more on cash flow than on investment. In the instant case, the utility's primary risk resides with covering its operating expense. A traditional calculation of the revenue requirement may not provide sufficient revenue to protect against potential variances in revenues and expenses. Under the rate base methodology, the return to Charlie Creek would be \$1,597. With the large number of necessary repairs and improvements made to the system in its first year under this owner and the potential need for additional repairs, staff does not believe the \$1,597 would provide the financial cushion necessary to successfully operate this utility.

Third, if the return on rate base method was applied, a normal return would generate such a small level of revenue that in the event revenues or expenses vary from staff's estimates, Charlie Creek could be left with insufficient funds to cover operating expenses. Therefore, the margin should

provide adequate revenue to protect against potential variability in revenues and expenses. If the utility's operating expenses increase or revenues decrease, Charlie Creek may not have the funds required for day-to-day operations. Staff determined that a 10 percent margin would be sufficient in this case.

In conclusion, staff believes the above factors show that the utility needs a higher margin of revenue over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide Charlie Creek with adequate cash flow to provide some assurance of safe and reliable service, staff recommends application of the operating ratio methodology at a margin of 10 percent of O&M expense for determining the revenue requirements.

Issue 8: What is the appropriate revenue requirement for Charlie Creek Utilities, LLC?

Recommendation: The appropriate revenue requirement is \$75,318, resulting in an annual increase of \$9,697 (14.78 percent). (Vogel)

Staff Analysis: Charlie Creek should be allowed an annual increase of \$9,697 (14.78 percent). This will allow the utility the opportunity to recover its expenses as well as a 10 percent margin on O&M expenses for its water systems. The calculations are shown in Tables 8:

**Table 8-1
Water Revenue Requirement**

Adjusted O&M Expense	\$62,557
Operating Margin (%)	<u>10.00%</u>
Operating Margin (\$)	\$6,256
Adjusted O&M Expense	62,557
Depreciation Expense (Net)	566
Taxes Other Than Income	5,503
Test Year RAFs	<u>436</u>
Revenue Requirement	\$75,318
Less Adjusted Test Year Revenues	<u>65,621</u>
Annual Increase	<u>\$9,697</u>
Percent Increase	<u>14.78%</u>

Issue 9: What are the appropriate rate structure and rates for Charlie Creek Utilities, LLC?

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. (Friedrich)

Staff Analysis: Charlie Creek is located in Hardee County within the SWFWMD and provides water service to approximately 145 residential and one general service customer. Approximately 10.49 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 4,788 gallons per month. The utility's current water system rate structure for residential and general service customers consists of a base facility charge (BFC) based on meter size and a two-tier inclining block rate structure. The rate blocks are: (1) 0-3,000 gallons and (2) all usage in excess of 3,000 gallons per month.

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

In order to design gallonage charges that will send the appropriate pricing signals to target non-discretionary usage, staff believes 40 percent of the revenue requirement should be recovered through the BFC. At the 40 percent BFC allocation, the percentage increase in price increases as consumption increases, which is one of the rate design goals. In addition, the average number of people per household served by the water system is two and one half; 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 4,000 gallons per month instead of 3,000 gallons. Staff recommends a BFC and a two-tier gallonage charge rate structure for residential customers. The rate tiers should be: (1) 0-4,000 gallons and (2) all usage in excess of 4,000 gallons per month. Staff recommends a BFC and uniform gallonage charge rate structure for general service customers.

Further, based on the recommended revenue increase of approximately 16.3 percent excluding miscellaneous revenues, the residential consumption can be expected to decline by 292,000 gallons, resulting in anticipated average residential demand of 4,619 gallons per month. Staff recommends a 3.5 percent reduction in total test year residential gallons for rate setting purposes and corresponding reductions of \$13 for purchased power, \$6 for chemical expense, and \$1 for RAFs to reflect the anticipated repression. These adjustments result in a post repression revenue requirement of \$69,333. The recommended rate structure and monthly water rates are shown on Schedule No. 4. Additionally, staff evaluated alternative rate structures with varying BFC

allocations and found that the alternatives were not in accordance with the rate design parameters.

Based on the above, 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 10: What is the appropriate amount by which rates should be reduced in four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.081(8), F.S.?

Recommendation: The water rates should be reduced as shown on Schedule Nos. 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 367.081(8), F.S. Charlie Creek should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Vogel, Friedrich)

Staff Analysis: Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. The total reduction is \$617.

Based on the above, the water rates should be reduced as shown on Schedule Nos. 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 367.081(8), F.S. Charlie Creek should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 11: Should the recommended rates be approved for Charlie Creek Utilities, LLC on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the utility?

Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the utility. Charlie Creek should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Vogel)

Staff Analysis: This recommendation proposes an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. Charlie Creek 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.

Charlie Creek 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 \$6,586. 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 express approval of the Commission;
- 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; and
- 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.

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

Issue 12: Should the miscellaneous service charges of Charlie Creek Utilities, LLC be revised?

Recommendation: Yes. Charlie Creek’s miscellaneous service charges should be revised. The charges should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice. (Friedrich)

Staff Analysis: Section 367.091, F.S., authorizes the Commission to approve and change miscellaneous service charges. The utility requested that staff evaluate its existing miscellaneous service charges. The staff recommended salaries have been utilized in order to determine the administrative and field labor component of miscellaneous services. Staff has also utilized the mileage provided by the utility and the IRS mileage rate to calculate the transportation costs associated with administering the miscellaneous services. In addition, the utility has requested that miscellaneous service charges be grossed up to reflect the appropriate RAFs. The Commission has previously approved miscellaneous service charges that are grossed up to reflect the appropriate RAFs.⁷ Below in Table 12-5 are the utility’s current and staff’s recommended miscellaneous service charges rounded up to the nearest tenth.

Initial Connection

The initial connection charge is levied for service initiation at a location where service did not exist previously. A Charlie Creek representative makes one trip when performing the service of an initial connection. Based on labor and transportation to and from the service territory, staff recommends initial connection charges of \$56.50 for normal hours and \$60.10 for after hours. Staff’s calculation is shown below in Table 12-1.

**Table 12-1
 Initial Connection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$18.00/hr x 1/4hr)	\$4.50	Labor (Administrative) (\$18.00/hr x 1/4hr)	\$4.50
Labor (Field) (\$20.31/hr x 1/3 hr)	\$6.77	Labor (Field) (\$30.47/hr x 1/3 hr)	\$10.16
Transportation (\$0.535/mile x 80 miles-to/from)	\$42.80	Transportation (\$0.535/mile x 80 miles-to/from)	\$42.80
Mark up for RAFs (4.5%)	\$2.43	Mark up for RAFs (4.5%)	\$2.59
Total	\$56.50	Total	\$60.05

Source: Utility’s cost justification documentation.

⁷Order Nos. PSC-99-2378-TRF-WU, in Docket No. 990763-WU, dated December 6, 1999, *In re: Tariff filing by Floralino Properties, Inc. requesting approval of premises visit charge for visits requested by customers in Pasco County* and PSC-17-0092-PAA-WU, in Docket No. 160144-WU, dated March 13, 2017, *In re: Application for transfer of Certificate No. 288-W in Pasco County from Orangeland Water Supply to Orange Land Utilities, LLC*

Normal Reconnection Charge

A normal reconnection charge is levied for the transfer of service to a new customer account at a previously served location, or reconnection of service subsequent to a customer requested disconnection. A normal reconnection requires two trips, which includes one to turn service on and the other to turn service off.

Based on labor and transportation to and from the service territory, staff recommends that the normal reconnection charge should be \$104.80 for normal hours and \$110.30 for after hours. Staff's calculations are shown below in Table 12-2.

**Table 12-2
 Normal Reconnection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$18.00/hr x 1/4hr)	\$4.50	Labor (Administrative) (\$18.00/hr x 1/4hr)	\$4.50
Labor (Field) (\$20.31/hr x 1/4 hr x 2)	\$10.16	Labor (Field) (\$30.74/hr x 1/4hr x 2)	\$15.37
Transportation (\$0.535/mile x 80 miles-to/from x 2)	\$85.60	Transportation (\$0.535/mile x 80 miles-to/from x 2)	\$85.60
Mark up for RAFs (4.5%)	\$4.51	Mark up for RAFs (4.5%)	\$4.75
Total	\$104.77	Total	\$110.22

Source: Utility's cost justification documentation

Violation Reconnection Charge

The violation reconnection charge is levied prior to reconnection of an existing customer after discontinuance of service for cause. The service performed for violation reconnection requires two trips, which includes one trip to turn off service and a subsequent trip to turn on service once the violation has been remedied. Based on labor and transportation to and from the service territory, staff recommends violation reconnection charges of \$104.80 for normal hours and \$110.30 for after hours. Staff's calculations are shown below in Table 12-3.

**Table 12-3
 Violation Reconnection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$18.00/hr x 1/4hr)	\$4.50	Labor (Administrative) (\$18.00/hr x 1/4hr)	\$4.50
Labor (Field) (\$20.31/hr x 1/4 hr x 2)	\$10.16	Labor (Field) (\$30.74/hr x 1/4 hr x 2)	\$15.37
Transportation (\$0.535/mile x 80 miles-to/from) x 2	\$85.60	Transportation (\$0.535/mile x 80 miles-to/from) x 2	\$85.60
Mark up for RAFs (4.5%)	\$4.51	Mark up for RAFs (4.5%)	\$4.75
Total	\$104.77	Total	\$110.22

Source: Utility’s cost justification documentation.

Premises Visit

The premises visit charge is levied when a service representative visits premises at the customer’s request for complaint resolution and the problem is found to be the customer’s responsibility. In addition, the premises visit can be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill, and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. A premises visit requires one trip.

Based on labor and transportation to and from the service territory, staff recommends a premises visit charges of \$56.50 for normal hours and \$60.10 for after hours. Staff’s calculations are shown below in Table 12-4.

**Table 12-4
 Premises Visit Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$18.00/hr x 1/4hr)	\$4.50	Labor (Administrative) (\$18.00/hr x 1/4hr)	\$4.50
Labor (Field) (\$20.31/hr x 1/3 hr)	\$6.77	Labor (Field) (\$30.74/hr x 1/3 hr)	\$10.16
Transportation (\$0.535/mile x 80 miles-to/from)	\$42.80	Transportation (\$0.535/mile x 80 miles-to/from)	\$42.80
Mark up for RAFs (4.5%)	\$2.43	Mark up for RAFs (4.5%)	\$2.59
Total	\$56.50	Total	\$60.05

Source: Utility’s cost justification documentation.

Below, in Table 12-5, are the Utility’s requested and staff’s recommended miscellaneous service charges.

**Table 12-5
 Miscellaneous Service Charges**

	Current		Staff Recommended	
	Normal Hours	After Hours	Normal Hours	After Hours
Initial Connection Charge	\$20.00	\$40.00	\$56.50	\$60.10
Normal Reconnection Charge	\$10.00	\$20.00	\$104.80	\$110.30
Violation Reconnection Charge	\$20.00	\$20.00	\$104.80	\$110.30
Premises Visit Charge (in lieu of Disconnection)	\$10.00	\$20.00	\$56.50	\$60.10

Conclusion

Charlie Creek's miscellaneous service charges should be revised. The charges should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 13: Should the request of Charlie Creek Utilities, LLC to implement a late payment charge be approved?

Recommendation: Yes. Charlie Creek’s request to implement a \$5.25 late payment charge should be approved. The utility should be required to file a proposed customer notice and tariff to reflect the Commission-approved charge. The approved charge should be effective on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Friedrich)

Staff Analysis: The utility is requesting a \$5.25 late payment charge to recover the cost of supplies and labor associated with processing late payment notices. The utility’s request for a late payment charge was accompanied by its reason for requesting the charge, as well as the cost justification required by Section 367.091, F.S. In its cost justification, Charlie Creek’s total cost for a late payment charge is \$5.28, but Charlie Creek is requesting this charge to be rounded down to \$5.25. Since the 1990s, the Commission has approved late payment charges ranging from \$2.00 to \$7.00.⁸ The purpose of this charge is to provide an incentive for customers to make timely payments and to place the cost burden of processing delinquent accounts solely upon those who are cost causers. Staff believes Charlie Creek’s requested late payment charge of \$5.25 is appropriate. Charlie Creek’s labor cost of \$4.75 accounts for the office personnel time to search, determine, and process delinquent accounts. The provided justification by Charlie Creek also includes costs for supplies and postage for printing and sending out late payment notices. Charlie Creek’s cost basis for the late payment charge is shown below in Table 8-1.

**Table 13-1
Late Payment Charge Cost Justification**

Activity	Cost
Labor	\$4.75
Supplies	\$0.06
Postage	\$0.47
Total Cost	\$5.28

Source: Utility’s cost justification documentation

⁸Order Nos. PSC-01-2101-TRF-WS, in Docket No. 011122-WS, issued October 22, 2001, *In re: Tariff filing to establish a late payment charge in Highlands County by Damon Utilities, Inc.*; PSC-08-0255-PAA-WS, in Docket No. 070391-WS, issued April 24, 2008, *In re: Application for certificates to provide water and wastewater service in Sumter County by Orange Blossom Utilities, Inc.*; PSC-09-0752-PAA-WU, in Docket No. 090185-WU, issued November 16, 2009, *In re: Application for grandfather certificate to operate water utility in St. Johns County by Camanchee Island Company, Inc. d/b/a Camachee Cove Yacht Harbor Utility.*; PSC-10-0257-TRF-WU, in Docket No. 090429-WU, issued April 26, 2010, *In re: Request for approval of imposition of miscellaneous service charges, delinquent payment charge and meter tampering charge in Lake County, by Pine Harbour Water Utilities, LLC.*; and PSC-11-0204-TRF-SU, in Docket No. 100413-SU, issued April 25, 2011, *In re: Request for approval of tariff amendment to include a late fee of \$14.00 in Polk County by West Lakeland Wastewater.* PSC-14-0105-TRF-WS, in Docket No. 130288-WS, issued February 20, 2014, *In re: Request for approval of late payment charge in Brevard County by Aquarina Utilities, Inc.*

Based on the above, Charlie Creek's request to implement a \$5.25 late payment charge should be approved. The utility should be required to file a proposed customer notice and tariff to reflect the Commission-approved charge. The approved charge should be effective on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

Issue 14: Should the Commission approve Charlie Creek Utilities, LLC’s request to implement a convenience charge of \$3.43?

Recommendation: Yes. Charlie Creek’s request for approval of a convenience charge of \$3.43 for customers who opt to pay their bill by debit or credit card should be approved. The convenience charge should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice. (Friedrich)

Staff Analysis: Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. The utility is requesting a \$3.43 convenience charge and provided cost justification as required by Section 367.091, F.S. The utility’s cost analysis breakdown for its requested charge is shown below in Table 7-1.

**Table 14-1
Convenience Charge Cost Justification**

Activity	Cost
Labor	\$0.54
Ink and Paper per Transaction	\$0.06
Credit Card Machines	<u>\$2.83</u>
Total	\$3.43

Source: Utility’s cost justification documentation

The charge is designed to recover the cost of supplies, administrative labor, and equipment. Staff believes that the utility’s requested charge of a \$3.43 convenience charge is reasonable for customers who opt to pay their water bill by debit or credit card. The utility’s requested charge benefits the customers by allowing them to expand their payment options. Furthermore, this fee will insure the utility’s remaining customers do not subsidize those customers who choose to pay using this option. A convenience charge of \$3.43 for Orange Land Utilities, LLC, a sister utility of Charlie Creek, was approved recently by the Commission.⁹

Based on the above, staff recommends that Charlie Creek’s request for approval of a convenience charge of \$3.43 for customers who opt to pay their bill by debit or credit card should be approved. The convenience charge should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice.

⁹Order No. PSC-17-0092-PAA-WU, in Docket No. 160144-WU, dated March 13, 2017, In re: *Application for transfer of Certificate No. 288-W in Pasco County from Orangeland Water Supply to Orange Land Utilities, LLC.*

Issue 15: Should Charlie Creek Utilities, LLC's request for a \$50 meter tampering charge be approved?

Recommendation: Yes. Charlie Creek's request to implement a \$50 meter tampering charge should be approved. The charge should be effective for services rendered on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. Charlie Creek should provide proof of the date notice was given within 10 days of the date of the notice. (Friedrich)

Staff Analysis: The utility requested a \$50 charge to recover the cost of changes in piping on equipment necessary as a result of meter tampering. Rule 25-30.320(2)(i), F.A.C., provides that a customer's service may be discontinued without notice in the event of tampering with the meter or other facilities furnished or owned by the utility. In addition, Rule 25-30.320(2)(j), F.A.C., provides that a customer's service may be discontinued in the event of an unauthorized or fraudulent use of service. The rule allows the utility to require the customer to reimburse the utility an amount reasonably estimated as the deficiency in revenue resulting from the customer's fraudulent use before restoring service.

Pursuant to Rule 25-30.345, F.A.C., a utility may charge a reasonable fee to defray the cost of restoring service that was discontinued for proper cause as specified in Rule 25-30.320, F.A.C. The Commission has previously approved a meter tampering charge of \$50 for sister utilities of Charlie Creek. The utility provided the appropriate cost justification pursuant to Section 367.091, F.S. Staff believes this is reasonable and consistent with prior Commission decisions and should be approved. However, the charge is appropriate only where an investigation reveals evidence of meter tampering.

Based on the above, staff recommends that Charlie Creek's request to implement a \$50 meter tampering charge should be approved. The charge should be effective for services rendered on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 16: What are the appropriate initial customer deposits for Charlie Creek Utilities, LLC?

Recommendation: The appropriate water initial customer deposit should be \$76 for the residential 5/8" x 3/4" 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. (Friedrich)

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. Currently, the utility has an initial customer deposit of \$65 for the residential 5/8" x 3/4" meter size and two times the average customer bill for all other meter sizes. Based on the staff recommended water rates and post repression average residential demand, the appropriate initial customer deposit should be \$76 for water to reflect an average residential customer bill for two months

Staff recommends that the appropriate water initial customer deposit should be \$76 for the residential 5/8" x 3/4" 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.

Issue 17: Should the existing plant capacity charge of Charlie Creek Utilities, LLC, be discontinued?

Recommendation: Yes. Charlie Creek's existing plant capacity charge should be discontinued. The utility's existing plant capacity charge should be discontinued. (Friedrich)

Staff Analysis: The current service availability charges for Charlie Creek were approved in Docket No. 150186-WU with the utility's original certificate.¹⁰ The utility's service availability charges consist of meter installation charges based on meter size and a plant capacity charge of \$750. Rule 25-30.580, F.A.C., establishes guidelines for designing service availability charges. Pursuant to the rule, the maximum amount of contributions-in-aid-of construction (CIAC), net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of the Utility's facilities and plant when the facilities and plant are at their designed capacity. The minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution system.

Staff's recommended rate base consists of plant improvements and additions by the current owner. The recommended rate base does not include values for the distribution system or CIAC. Therefore, based on staff's recommended rate base the utility's current contribution level is zero percent.

If the utility continues to collect the current plant capacity charge of \$750 per equivalent residential connection (ERC), the contribution level would exceed the utility's plant in service balance. Due to the relatively small amount of rate base and the number ERCs that can be served by the utility, staff recommends that the plant capacity charge be discontinued. This would allow the utility to maintain a minimum level of investment on which to earn a return in a future rate proceeding. Based on the above, Charlie Creek's existing plant capacity charge should be discontinued.

¹⁰Order No. PSC-16-0043-PAA-WU, issued January 25, 2016, in Docket No. 150186-WU, In Re: *Application for certificate to operate a water utility in Hardee County by Charlie Creek Utilities, LLC*

Issue 18: Should the utility be required to notify the Commission in writing that it has adjusted its books in accordance with the Commission's decision?

Recommendation: Yes. Charlie Creek should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Charlie Creek should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all applicable NARUC USOA primary accounts have been made to the utility's books and records. In the event the utility needs additional time to complete the adjustments, 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. (Vogel)

Staff Analysis: Charlie Creek should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Charlie Creek 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 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 19: Should this docket be closed?

Recommendation: No. Except for the granting of temporary rates in the event of protest, the four year rate reduction, and proof of adjustments of books and records, which are final actions if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and the utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once the above actions are completed this docket will be closed administratively. (Tan)

Staff Analysis: Except for the granting of temporary rates in the event of protest, the four year rate reduction, and proof of adjustments of books and records, which are final actions if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will be issued if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and the utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once the above actions are completed this docket will be closed administratively.

CHARLIE CREEK UTILITIES, LLC
TEST YEAR ENDED 12/31/15
SCHEDULE OF WATER RATE BASE

DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$3,044	\$4,349	\$7,393
UTILITY PLANT IN SERVICE- ALLOCATED	0	1,518	1,518
LAND & LAND RIGHTS	12,050	0	12,050
NON-USED AND USEFUL COMPONENTS	0	(1,912)	(1,912)
CIAC	0	0	0
ACCUMULATED DEPRECIATION	(179)	(36)	(215)
ACCUMULATED DEPRECIATION- ALLOCATED	0	(37)	(37)
AMORTIZATION OF CIAC	0	0	0
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>7,820</u>	<u>7,820</u>
WATER RATE BASE	<u>\$14,915</u>	<u>\$11,702</u>	<u>\$26,617</u>

CHARLIE CREEK UTILITIES, LLC	SCHEDULE NO. 1-B
TEST YEAR ENDED 12/31/15	DOCKET NO. 160143-WU
ADJUSTMENTS TO RATE BASE	
	<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
1. To reflect the correct records of plant in service.	\$6,976
2. To include pro forma plant additions.	4,765
3. Averaging adjustment.	<u>(7,393)</u>
Total	<u>\$4,349</u>
<u>UTILITY PLANT IN SERVICE – ALLOCATED</u>	
1. To allocated common plant from FUS1.	\$1,588
2. Averaging adjustment.	<u>(69)</u>
Total	<u>\$1,518</u>
<u>NON-USED AND USEFUL PLANT</u>	
1. To reflect non-used and useful plant.	(\$2,025)
2. To reflect non-used and useful Accumulated Depreciation.	<u>112</u>
Total	<u>(\$1,912)</u>
<u>ACCUMULATED DEPRECIATION</u>	
1. Depreciation adjustment per Rule 25-30.140 F.A.C.	(\$98)
2. To reflect pro forma plant replacements depreciation.	(152)
3. Averaging adjustment.	<u>215</u>
Total	<u>(\$36)</u>
<u>ACCUMULATED DEPRECIATION – ALLOCATED</u>	
1. To reflect the appropriate Accumulated Depreciation – Allocated.	(\$58)
2. Averaging adjustment.	<u>21</u>
Total	<u>(\$37)</u>
<u>WORKING CAPITAL ALLOWANCE</u>	
To reflect 1/8 of test year O&M expenses.	<u>\$7,820</u>

CHARLIE CREEK UTILITIES, LLC							SCHEDULE NO. 2		
TEST YEAR ENDED 12/31/15							DOCKET NO. 160143-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 EQUITY	\$15,931	(\$15,931)	\$0	\$0	\$0	0.00%	11.16%	0.00%	
2. RETAINED EARNINGS	0	0	0	0	0	0.00%	0.00%	0.00%	
3. LONG-TERM DEBT	8,660	0	8,660	16,001	24,661	92.65%	6.62%	6.13%	
4. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%	
5. PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%	
6. CUSTOMER DEPOSITS	2,555	(599)	1,956	0	1,956	7.35%	2.00%	0.15%	
7. TOTAL	<u>\$27,146</u>	<u>(\$16,530)</u>	<u>\$10,616</u>	<u>\$14,867</u>	<u>\$26,617</u>	<u>100.00%</u>		<u>6.28%</u>	
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>		
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>		
OVERALL RATE OF RETURN						<u>6.28%</u>	<u>6.28%</u>		

CHARLIE CREEK UTILITIES, LLC			SCHEDULE NO. 3-A		
TEST YEAR ENDED 12/31/15			DOCKET NO. 160143-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>\$68,259</u>	<u>(\$2,638)</u>	<u>\$65,621</u>	<u>\$9,697</u> 14.78%	<u>\$75,318</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$65,460	(\$2,903)	\$62,557	\$0	\$62,557
3. DEPRECIATION (NET)	179	387	566	0	566
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	5,993	(490)	5,503	436	5,939
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$71,632</u>	<u>(\$3,006)</u>	<u>\$68,626</u>	<u>\$436</u>	<u>\$69,063</u>
8. OPERATING INCOME/(LOSS)	<u>(\$3,373)</u>		<u>(\$3,005)</u>		<u>\$6,256</u>
9. WATER O&M EXPENSES	<u>\$65,460</u>		<u>\$62,557</u>		<u>\$62,557</u>
10. OPERATING MARGIN					<u>10.00%</u>

CHARLIE CREEK UTILITIES, LLC TEST YEAR ENDED 12/31/15 ADJUSTMENTS TO OPERATING INCOME	SCHEDULE NO. 3-B DOCKET NO. 160143-WU Page 1 of 3
	<u>WATER</u>
OPERATING REVENUES	
1. To reflect the appropriate test year revenues.	(\$3,926)
2. To adjust miscellaneous revenues for test year.	<u>1,288</u>
Subtotal	<u>(\$2,638)</u>
OPERATION AND MAINTENANCE EXPENSES	
1. Salaries and Wages – Employees (601)	
a. To include the new salary adjustment with proper allocation.	<u>\$51</u>
2. Salaries and Wages – Officers (603)	
b. To include the new salary adjustment with proper allocation.	<u>(\$398)</u>
3. Employee Pension & Benefits (604)	
a. To reflect appropriate amount of benefit expense.	(\$260)
b. To reflect new allocations.	<u>122</u>
Subtotal	<u>(\$138)</u>
4. Purchased Power (615)	
a. To remove an out of period expense.	(\$18)
b. To include a previously unrecorded expense.	392
Subtotal	<u>\$374</u>
5. Fuel for Purchased Power (616)	
To remove undocumented expenses.	<u>(\$496)</u>
6. Chemicals (618)	
a. To remove a duplicate expense.	<u>(\$165)</u>
7. Materials & Supplies (620)	
a. To remove capitalized expenses relating to pump repairs.	(\$1,144)
b. To include an invoice not previously included.	369
c. To reflect new allocations.	<u>155</u>
Subtotal	<u>(\$620)</u>

CHARLIE CREEK UTILITIES, LLC TEST YEAR ENDED 12/31/15 ADJUSTMENTS TO OPERATING INCOME		SCHEDULE NO. 3-B DOCKET NO. 160143-WU Page 2 of 3
		<u>WATER</u>
8.	Contractual Services - Other (636)	
	a. To remove capitalized expenses discussed in Table 6-2.	(\$590)
	b. To capitalize the replacement of a control box.	(508)
	c. To capitalize the refurbishment of well pumping equipment.	(2,156)
	d. To capitalize the installation of a 2-inch flush point.	(1,800)
	e. To capitalize the installation of a starter for a well.	(418)
	f. To remove an invoice duplicated in two months.	(528)
	g. To include an allocated invoice not previously included.	33
	h. To reflect the new allocations.	76
	i. To reflect an increase in water operations expense of \$25/month.	300
	j. To include pro forma replacement of two check valves.	86
	k. To include pro forma sampling expense after main repair.	390
	l. To include pro forma main repair.	400
	m. To include pro forma piping supplies for main repair.	216
	n. To include pro forma engineering analysis for calcification.	<u>839</u>
	Subtotal	<u>(\$3,660)</u>
9.	Rent Expense (640)	
	a. To reflect the appropriate allocated expenses from FUS1.	(\$104)
	b. To reflect the new allocations.	<u>89</u>
	Subtotal	<u>(\$15)</u>
10.	Transportation Expense (650)	
	a. To reflect the appropriate expenses for the test year.	\$295
	b. To remove a truck loan.	(122)
	c. To remove unsupported allocated expenses from FUS1.	(27)
	d. To reclassify fuel expenses from Account 619.	496
	e. To reflect the new allocations.	<u>151</u>
	Subtotal	<u>\$793</u>
11.	Insurance Expense (655)	
	To remove health insurance premiums included in Account 604.	<u>(301)</u>
12.	Regulatory Commission Expense (665)	
	a. To include rate case expense.	\$315
	b. To include amortized filing and legal fees from the transfer.	<u>222</u>
	Subtotal	<u>\$536</u>
13.	Bad Debt Expense (670)	
	To reflect the appropriate bad debt expense for the test year.	<u>\$1,615</u>

CHARLIE CREEK UTILITIES, LLC		SCHEDULE NO. 3-B
TEST YEAR ENDED 12/31/15		DOCKET NO. 160143-WU
ADJUSTMENTS TO OPERATING INCOME		Page 3 of 3
		<u>WATER</u>
14.	Miscellaneous Expense (675)	
	a. To remove bank fees.	(\$105)
	b. To reallocate filing fees to Acct. 665.	(750)
	c. To remove purchase fee for the utility.	(100)
	d. To include fees for customer's convenience fees.	758
	e. To remove interest payments for a loan.	(407)
	f. To reallocate expenses relating to original certification to Acct. 665.	(137)
	g. To include expenses relating to an annual customer meeting.	199
	h. To remove unsupported expenses.	(123)
	i. To reflect the appropriate allocation of expenses.	17
	j. To remove equipment expenses included in Acct. 640.	(179)
	k. To reflect the appropriate amount of utility expenses from FUS1.	(170)
	l. To include amortized closing cost of a loan, amortized over five years.	20
	m. To reflect the new allocations.	279
	n. To include pro forma roof repair.	<u>219</u>
	Subtotal	<u>(\$479)</u>
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$2,903)</u>
	DEPRECIATION EXPENSE	
1.	To reflect test year depreciation calculated per Rule 25-30.140, F.A.C.	\$98
2.	To reflect appropriate depreciation expense from allocated plant.	249
3.	To include depreciation expense for pro forma plant.	152
4.	To reflect used and useful depreciation expense.	<u>(112)</u>
	Total	<u>\$387</u>
	TAXES OTHER THAN INCOME	
1.	To correct property tax expense.	(\$4,278)
2.	To reflect payroll taxes.	1,251
3.	To reflect the appropriate test year RAFs.	2,953
4.	To reflect the property tax for pro forma plant and test year additions.	74
5.	To reflect non-used and useful property tax.	<u>(490)</u>
	Total	<u>(\$490)</u>

CHARLIE CREEK UTILITIES, LLC		SCHEDULE NO. 3-C	
TEST YEAR ENDED 12/31/15		DOCKET NO. 160143-WU	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENTS	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$12,876	\$51	\$12,927
(603) SALARIES AND WAGES - OFFICERS	5,700	(398)	5,302
(604) EMPLOYEE PENSIONS AND BENEFITS	1,838	(138)	1,700
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	3,790	374	4,164
(616) FUEL FOR POWER PRODUCTION	496	(496)	0
(618) CHEMICALS	1,994	(165)	1,829
(620) MATERIALS AND SUPPLIES	2,926	(620)	2,306
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	1,592	0	1,592
(633) CONTRACTUAL SERVICES - TESTING	5,532	0	5,532
(636) CONTRACTUAL SERVICES - OTHER	16,705	(3,660)	13,045
(640) RENTS	1,258	(15)	1,243
(650) TRANSPORTATION EXPENSE	1,309	793	2,102
(655) INSURANCE EXPENSE	1,935	(301)	1,634
(665) REGULATORY COMMISSION EXPENSE	0	536	536
(670) BAD DEBT EXPENSE	350	1,615	1,965
(675) MISCELLANEOUS EXPENSE	<u>7,159</u>	<u>(479)</u>	<u>6,680</u>
	<u>\$65,460</u>	<u>(\$2,903)</u>	<u>\$62,557</u>

CHARLIE CREEK UTILITIES, LLC.		SCHEDULE NO. 4	
TEST YEAR ENDED 12/31/15		DOCKET NO. 160143-WU	
MONTHLY WATER RATES			
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8"X3/4"	\$15.00	\$15.89	\$0.14
3/4"	\$22.50	\$23.84	\$0.21
1"	\$37.50	\$39.73	\$0.35
1-1/2"	\$75.00	\$79.45	\$0.71
2"	\$120.00	\$127.12	\$1.13
3"	\$240.00	\$254.24	\$2.26
4"	\$375.00	\$397.25	\$3.54
6"	\$750.00	\$794.50	\$7.07
Charge per 1,000 gallons - Residential			
0 - 3,000 gallons	\$3.50	N/A	N/A
Over 3,000 gallons	\$4.50	N/A	N/A
0 - 4,000 gallons	N/A	\$4.72	\$0.04
Over 4,000 gallons	N/A	\$5.90	\$0.05
Charge per 1,000 gallons - General Service			
0 - 3,000 gallons	\$3.50	N/A	\$0.05
Over 3,000 gallons	\$4.50	N/A	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
4,000 Gallons	\$30.00	\$34.77	
6,000 Gallons	\$39.00	\$46.57	
8,000 Gallons	\$48.00	\$58.57	