

STATE OF FLORIDA

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KEITH C. HETRICK
GENERAL COUNSEL
(850) 413-6199

Public Service Commission

June 9, 2017

Mr. Brian Altman
Four Lakes Golf Club, Ltd.
500 S. Florida Ave., Suite 700
Lakeland, Florida 33801
baltman@centurycompanies.net

VIA EMAIL & US MAIL

Re: Docket No. 160176-WS, Application for staff-assisted rate case in Polk County by Four Lakes Golf Club, Ltd.

Dear Mr. Altman:

This letter will confirm that Commission staff will hold a customer meeting on Thursday, June 29, 2017. If at all possible, we ask that you or another knowledgeable representative of the Utility attend the meeting in order to answer customer questions. The location of the general meeting will be as follows:

Thursday, June 29, 2017
6:00 p.m.
Chain O' Lakes Complex
210 Cypress Gardens Blvd.
Winter Haven, Florida 33880

RECEIVED-FPSC
2017 JUN 12 PM 4:29
COMMISSION
CLERK

As required by Rule 25-22.0407(9)(b), Florida Administrative Code (F.A.C.), the Utility shall provide, in writing, a customer meeting notice to all customers within its service area no less than 14 days and no more than 30 days prior to the date of a customer meeting. A draft customer meeting notice is enclosed. Please note the date has been left blank so you can fill in the date that the notice is sent to the customers. Please furnish me with a copy of the notice that is distributed to your customers, together with a cover letter indicating the exact date(s) the notice was mailed or otherwise delivered to the customers.

In addition, we have enclosed two copies of the staff report. Please ensure that a copy of the completed Application for Staff Assistance and the staff report are available for review, pursuant to Rule 25-22.0407(9)(a), F.A.C., by all interested persons at the following location:

Four Lakes Golf Club
990 LaQuinta Blvd.
Winter Haven FL, 33881

Mr. Brian Altman

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June 9, 2017

For your convenience, I have also enclosed a copy of Rule 25-22.0407(a), F.A.C. Should you have any questions about the matters contained herein, please do not hesitate to contact me at (850) 413-6220. In addition, you may contact Kordell Wilson at (850) 413-6447 or Martha Golden at (850) 413-7015 with any questions.

Sincerely,



Stephanie A. Cuello
Attorney

Enclosures

SC/kw

cc: Office of Commission Clerk (Docket No. 160176-WS)

Rule 25-22.0407(9), Florida Administrative Code

(9) When a utility applies for a staff-assisted rate case in accordance with Section 367.0814, Florida Statutes, and Rule 25-30.455, F.A.C., and staff-assistance is granted, the requirements of subsections (2), (3), (4), and (5) of this rule shall not apply.

(a) Upon receipt of the staff reports, the utility shall place two copies of its application for staff-assistance and the staff reports at any business offices it has in its service area. Such copies shall be available for public inspection during the utility's regular business hours. If the utility does not have a business office in its service area, the utility shall place two copies of its application and the staff reports at the main county library, the local community center or other appropriate location that is within or most convenient to the service area and that is willing to accept and provide public access to the copies.

(b) No less than 14 days and no more than 30 days prior to the date of a customer meeting conducted by the Commission staff, the utility shall provide, in writing, a customer meeting notice to all customers within its service area and to all persons in the same service areas who have filed a written request for service or who have been provided a written estimate for service within the 12 calendar months prior to the month the petition is filed.

(c) The customer meeting notice shall be approved by the Commission staff prior to distribution and shall include the following:

1. The date the notice was issued;
2. The time, date, location, and purpose of the customer meeting;
3. A statement that the utility has applied for a staff-assisted rate case and the general reasons for doing so;
4. A statement of the location where copies of the application and the staff reports are available for public inspection and the times during which inspection may be made;
5. A comparison of current rates and charges and the proposed new rates and charges;
6. The utility's address, telephone number, and business hours;
7. A statement that written comments regarding utility service or the proposed rates and charges should be addressed to the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0870, and that such comments should identify the docket number assigned to the proceeding;
8. A statement that complaints regarding service may be made to the Commission's Division of Consumer Affairs at the following toll-free number: 1(800)342-3552.
9. A statement that the Commission will be reviewing the utility's service availability charges in the pending case and that the Commission may adjust those charges.
10. The docket number assigned by the Commission's Division of the Commission Clerk and Administrative Services.

(d) The customer meeting notice shall be mailed to the out-of-town address of all customers who have provided the utility with an out-of-town address.

(e) If the proposed agency action order issued in the case is protested and any hearings are subsequently held, the utility shall give notice in accordance with subsections (6) and (7) above.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
NOTICE OF CUSTOMER MEETING
TO THE CUSTOMERS OF FOUR LAKES GOLF CLUB, LTD.
AND
ALL OTHER INTERESTED PERSONS
DOCKET NO. 160176-WS
APPLICATION OF FOUR LAKES GOLF CLUB, LTD.
FOR A STAFF-ASSISTED RATE CASE IN
POLK COUNTY

Issued: _____

Notice is hereby given that the staff of the Florida Public Service Commission (Commission or PSC) will conduct a customer meeting to discuss the application of Four Lakes Golf Club, Ltd. (Four Lakes or Utility) for a staff-assisted rate case (SARC) in Polk County. The meeting will be held at the following time and place:

Thursday, June 29, 2017
6:00 p.m.
Chain O' Lakes Complex
210 Cypress Gardens Blvd
Winter Haven, Florida 33880

All persons who wish to comment are urged to be present at the beginning of the meeting, since the meeting may be adjourned early if no customers are present. One or more of the Commissioners of the Commission may attend and participate in this meeting. The meeting will begin as scheduled and will continue until all the customers have been heard.

If a named storm or other disaster requires cancellation of the meeting, Commission staff will attempt to give timely direct notice to the parties. Notice of the cancellation of the meeting will also be provided on the Commission's website (<http://www.psc.state.fl.us/>) under the Hot Topics link found on the home page. Cancellation can also be confirmed by calling the Commission's Office of the General Counsel at (850) 413-6199.

Any person requiring some accommodation at the customer meeting because of a physical impairment should call the Office of Commission Clerk at (850) 413-6770 at least five calendar days prior to the meeting. Any person who is hearing or speech impaired should contact the Commission by using the Florida Relay Service, which can be reached at 1-800-955-8771 (TDD).

PURPOSE

The purpose of this meeting is to give customers and other interested persons an opportunity to offer comments to Commission staff regarding the quality of service the Utility provides, the proposed rate increase, and to ask questions and comment on staff's preliminary rates included in this notice as well as other issues. Staff members will summarize Four Lakes' proposed filing, the preliminary work accomplished, and answer questions to the extent possible. A representative from the Utility has also been invited to respond to questions.

At the beginning of the meeting, procedures will be established for the order of comments. Commission staff will have sign-up sheets, and customers will be called to speak in the order that they sign up. Staff will be available to coordinate customers' comments and to assist members of the public.

Any person who wishes to comment or provide information to staff may do so at the meetings, orally or in writing. Written comments may also be sent to the Commission at the address given at the end of this notice. Your letter will be placed in the correspondence file of this docket. You may also submit comments through the Commission's toll-free facsimile line at 1-800-511-0809.

BACKGROUND

Four Lakes is a Class C water and wastewater utility serving approximately 826 water and 819 wastewater customers in Polk County. The Utility serves the Four Lakes Golf Club manufactured home community and golf course. Four Lakes' service territory is located in the Southwest Florida Water Management District, where water use restrictions apply. According to Four Lakes' annual report, the Utility had the following gross operating revenues, operating expenses, and net operating losses:

Revenues, Expenses and Net Operating Income

	Water	Wastewater
Operating Revenues	\$144,201	\$142,860
Operating Expenses	\$149,473	\$199,517
Net Operating Loss	(\$5,272)	(\$56,657)

Four Lakes has been in existence since 1995. Four Lakes was originally under the jurisdiction of Polk County, but was not franchised by the County because the Polk County Board of County Commissioners (PCBCC) considered the systems' operations to be governed by Chapter 723, Florida Statutes (F.S.), which provides regulatory guidelines for mobile home parks with rented or leased lots. Effective May 14, 1996, the PCBCC transferred jurisdiction to the Commission. It was subsequently determined that Four Lakes did not qualify for a non-jurisdictional finding or exemption from Commission regulation. The Utility was granted grandfather Certificate Nos. 608-W and 524-S in 1999. The Utility's current rates have been in effect since November 30, 1998.

On July 27, 2016, Four Lakes filed an application for a staff-assisted rate case (SARC). Staff selected the 12-month period ending August 31, 2016, as the test year for the instant case. Rate base has never been established for this Utility.

CURRENT AND PRELIMINARY RATES AND CHARGES

Staff has compiled the following rates and charges for the purpose of discussion at the customer meeting. These rates are preliminary and subject to change based on information gathered at the customer meeting, further staff review, and the final decision by the Commission. The Utility's current, and staff's preliminary rates and charges, are as follows:

FOUR LAKES GOLF CLUB, LTD.		DOCKET NO. 160176-WS	
TEST YEAR ENDED AUGUST 31, 2016			
MONTHLY WATER RATES			
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential, General, and Irrigation Service</u>			
Base Facility Charge by Meter Size			
5/8"X3/4"	\$13.09	\$8.04	\$0.07
3/4"		\$12.06	\$0.11
1"		\$20.10	\$0.18
1-1/2"		\$40.20	\$0.35
2"		\$64.32	\$0.56
3"		\$128.64	\$1.12
4"		\$201.00	\$1.75
6"		\$402.00	\$3.50
Charge per 1,000 gallons – Residential			
0 - 5,000 gallons	\$0.00	N/A	N/A
Over 5,000 gallons	\$1.05	N/A	N/A
0 - 3,000 gallons	N/A	\$1.86	\$0.02
Over 3,000 gallons	N/A	\$2.26	\$0.02
Charge per 1,000 gallons – General Service			
0 - 5,000 gallons	\$0.00	N/A	N/A
Over 5,000 gallons	\$1.05	N/A	N/A
Charge per 1,000 gallons – Irrigation			
0 – 5,000 gallons	\$0.00	N/A	N/A
Over 5,000 gallons	\$0.53	N/A	N/A
<u>Typical Residential 5/8" x 3/4" Meter Bill</u>			
<u>Comparison</u>			
3,000 Gallons	\$13.09	\$13.62	
5,000 Gallons	\$13.09	\$18.14	
8,000 Gallons	\$16.24	\$24.92	
* Existing rates include 5,000 gallons in the base facility charge for water and wastewater.			

FOUR LAKES GOLF CLUB, LTD.
TEST YEAR ENDED AUGUST 31, 2016
MONTHLY WASTEWATER RATES

DOCKET NO. 160176-WS

	UTILITY CURRENT RATES*	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential Service</u>			
All Meter Sizes	\$13.09	\$10.94	\$0.09
Charge per 1,000 gallons - Residential 8,000 gallon cap	N/A	\$1.93	\$0.02
0-5,000 gallons	\$0.00	N/A	N/A
Over 5,000 Gallons	\$1.05	N/A	N/A
<u>General Service</u>			
Base Facility Charge by Meter Size			
All Meter Sizes	\$13.09	N/A	N/A
5/8" x 3/4"	N/A	\$10.94	\$0.09
1"	N/A	\$27.35	\$0.23
1-1/2"	N/A	\$54.70	\$0.45
2"	N/A	\$87.52	\$0.72
3"	N/A	\$175.04	\$1.44
4"	N/A	\$273.50	\$2.25
6"	N/A	\$547.00	\$4.50
Charge per 1,000 gallons - General Service	N/A	\$2.31	\$0.02
0-5,000 gallons	\$0.00	N/A	N/A
Over 5,000 gallons	\$1.05	N/A	N/A
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$13.09	\$16.73	
5,000 Gallons	\$13.09	\$20.59	
8,000 Gallons	\$16.24	\$26.38	
* Existing rates include 5,000 gallons in the base facility charge for water and wastewater.			

STAFF REPORTS AND UTILITY APPLICATION

The results of staff's preliminary investigation are contained in a staff report dated June 9, 2017. Copies of the report may be examined by interested members of the public at the following location:

Four Lakes Golf Club
990 LaQuinta Blvd.
Winter Haven FL, 33881

PROCEDURES AFTER CUSTOMER MEETING

After the customer meeting, Commission staff will prepare a recommendation which is scheduled to be submitted to the Commission on August 24, 2017. The Commission will then vote on staff's recommendation at its September 7, 2017 Commission Conference. The Commission will thereafter issue a proposed agency action (PAA) order containing rates which may be different from those contained in staff's final recommendation. Substantially affected persons have 21 days from the date that the PAA order is issued to protest the Commission's PAA order. Five to ten customers or persons who attend the meeting, and who wish to receive a copy of the recommendation and the order should so indicate at the meeting. Those individuals are expected to distribute the information in the recommendation and the order to other customers. Anyone who is unable to attend and who wishes to obtain a copy of the recommendation or the order may do so in writing to the Commission at the address at the end of this notice.

HOW TO CONTACT THE COMMISSION

Written comments regarding the Utility and the proposed rates, and requests to be placed on the mailing list for this case, may be directed to this address:

Director, Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

All correspondence should refer to "Docket No. 160176-WS, Four Lakes Golf Club, Ltd." If you wish to contact the Commission regarding complaints about service, you may call the Commission's Office of Consumer Assistance and Outreach at the following toll-free number: 1-800-342-3552. This notice was prepared by Commission staff for distribution by the Utility to its customers.

State of Florida



Public Service Commission

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

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

DATE: June 9, 2017

TO: Mark A. Cicchetti, Chief of Finance, Tax & Cost Recovery, Division of Accounting & Finance

FROM: Division of Accounting and Finance (Golden, Wilson) *ms KW*
Division of Economics (Johnson) *CAS SA*
Division of Engineering (Thompson, Wooten) *BE ow TT*
Office of the General Counsel (Cuello) *SC*

RE: Docket No. 160176-WS – Application for staff-assisted rate case in Polk County by Four Lakes Golf Club, Ltd.

--STAFF REPORT--

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting.

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Case Background

Four Lakes Golf Club, Ltd. (Four Lakes or Utility) is a Class C water and wastewater utility serving approximately 826 water and 819 wastewater customers in Polk County. The Utility serves the Four Lakes Golf Club manufactured home community and golf course. Four Lakes' service territory is located in the Southwest Florida Water Management District, where water use restrictions apply. The Utility's 2016 Annual Report shows total gross revenues of \$144,201 for water and \$142,860 for wastewater, with net operating losses of \$5,272 and \$56,657 for water and wastewater, respectively.

Four Lakes has been in existence since 1995. Four Lakes was originally under the jurisdiction of Polk County, but was not franchised by the County because the Polk County Board of County Commissioners (PCBCC) considered the systems' operations to be governed by Chapter 723, Florida Statutes (F.S.), which provides regulatory guidelines for mobile home parks with rented or leased lots. Effective May 14, 1996, the PCBCC transferred jurisdiction to the Florida Public Service Commission (Commission or PSC). It was subsequently determined that Four Lakes did not qualify for a non-jurisdictional finding or exemption from Commission regulation. The Utility was granted grandfather Certificate Nos. 608-W and 524-S in 1999.¹ The Utility's current rates have been in effect since November 30, 1998.

On July 27, 2016, Four Lakes filed an application for a staff-assisted rate case (SARC). Staff selected the 12-month period ended August 31, 2016, as the test year for the instant case. Rate base has never been established for this Utility.

This staff report is a **preliminary** analysis of the Utility prepared by Commission staff to give the Utility's customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed August 24, 2017, for the September 7, 2017 Commission Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting which will held on June 29, 2016. The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.0814, 367.101, and 367.121, Florida Statutes (F.S.).

¹Order No. PSC-99-1236-PAA-WS, issued June 22, 1999, in Docket No. 981340-WS, *In re: Application for grandfather certificates to operate water and wastewater utility in Polk County by Four Lakes Golf Club, Ltd.*

Discussion of Issues

Issue 1: Is the quality of service provided by Four Lakes satisfactory?

Preliminary Recommendation: Staff's recommendation regarding quality of service will not be finalized until after the June 29, 2017 Customer Meeting. (Wooten, Thompson)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water rate cases, the Commission shall determine the overall quality of service provided by the Utility. This is derived from an evaluation of three separate components of the Utility 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 (DEP) and the county health department over the preceding three-year period shall be considered. In addition, input from the DEP and health department officials and customer comments or complaints over the preceding five-year period shall be considered pursuant to Section 367.0812(1)(c), F.S.

The Utility is located in the water use caution area of the Southwest Florida Water Management District.

Quality of Utility's Product

In evaluation of Four Lakes water product quality, staff reviewed the Utility's compliance with DEP 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 the most recent chemical analysis of samples dated July 8, 2015. All of the contaminants were below the maximum contaminant level set by DEP.

DEP's comprehensive evaluation of a wastewater facility's overall compliance status is based on review of past monitoring data and results from inspections such as its Compliance Evaluation Inspection (CEI). On April 5, 2016, DEP conducted a CEI designed to verify the Utility's compliance with applicable requirements and compliance schedules for chemical and biological self-monitoring programs. During the inspection DEP noted groundwater quality deficiencies, such as nitrates and pH, which were resolved to DEP satisfaction.

Operating Condition of the Utility's Plant and Facilities

Four Lakes' water system has one well rated at 750 gallons per minute (gpm). The Utility's water system has one hydropneumatic water tank totaling 15,000 gallons in capacity. There are 27 fire hydrants present throughout the service area and the distribution system is comprised of varying sizes of PVC pipes.

The wastewater system is an extended aeration domestic wastewater treatment facility with a permitted plant capacity of 98,500 gallons per day (gpd) based on a Three-Month Rolling Average Daily Flow (3MRADF). This facility is operated to provide secondary treatment with basic disinfection.

Staff reviewed the Utility's last DEP Sanitary Survey, dated September 9, 2014, and the facility was determined to be in compliance with the Department's rules and regulations.

The Utility's Attempt to Address Customer Satisfaction

The Commission's Consumer Activity Tracking System recorded one complaint during the past five years, related to improper billing which was resolved in a timely manner. There were no other complaints received to either the Commission or DEP.

Conclusion

Quality of service will be determined at a later date, pending review of comments made at the Customer Meeting on June 29, 2017.

Issue 2: What are the used and useful percentages (U&U) of Four Lakes' water treatment plant (WTP), wastewater treatment plant (WWTP) and distribution and collection systems?

Preliminary Recommendation: Four Lakes' WTP, water distribution system, WWTP, and wastewater collection system should all be considered 100 percent U&U. There is no excessive infiltration and inflow (I&I). Staff recommends a 7.9 percent adjustment to purchased power and chemicals should be made for excessive unaccounted for water. (Wooten, Thompson)

Staff Analysis: Four Lakes' WTP has one well rated at 750 gpm. There are 27 fire hydrants present throughout the service area. The distribution system is comprised of varying sizes of PVC pipes. Four Lakes' WWTP is permitted by the DEP as a 98,500 gpd facility. According to the Utility, its wastewater collection system is comprised of 28,127 feet of 8 inch PVC collecting mains and 2,933 feet of force mains. There are 127 manholes present throughout the service area.

Excessive Unaccounted For Water

Rule 25-30.4325, F.A.C., defines Excessive Unaccounted for Water (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 include the causes of EUW, any corrective action taken, or 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.

The Monthly Operating Reports that the Utility files with DEP indicates that the Utility treated 84,633,999 gallons during the test year. In response to a staff data request, the Utility indicated that it purchased no water and used 855,000 gallons for other uses during the test year. According to the staff audit report, the Utility sold 68,658,866 gallons of water for the test year. When both the gallons sold and water used for other uses is subtracted from the total gallons pumped, 15,119,000 gallons are unaccounted for. The formula for unaccounted for water is given by gallons of unaccounted for water / (total gallons pumped + gallons purchased). The resulting unaccounted for water is 17.9 percent and the excessive unaccounted for water is 7.9 percent. Accordingly, staff recommends a corresponding adjustment to purchased power and chemicals due to EUW.

Infiltration and Inflow

Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider I&I. Excessive I&I is a calculation that is based on a comparison of the allowable wastewater treated to the actual amount of wastewater treated. Allowable treated water was calculated as 55,043,600 gallons and the actual amount of wastewater treated was 24,779,000 gallons. The actual amount does not exceed the allowable amount, therefore there is no excessive I&I.

Used and Useful Percentages

Water Treatment Plant

Four Lakes' water service territory covers approximately 670 acres. This is the Utility's first staff-assisted rate case since receiving its grandfather certificates in 1999. The WTP is a closed system with one well rated at 750 gpm and permitted capacity at 1,304,000 gpd. There are 27 fire hydrants located throughout the service area which must meet a minimum of 500 gpm for a four-hour period of time. Since there is only one well, the system is considered 100 percent U&U per Rule 25-30.4325(4), F.A.C.

Water Distribution

The water distribution system is evaluated based on equivalent residential connections (ERCs) consisting of customer demand, growth and system capacity. The customer demand is 813 connections for the test year, with a system capacity of 855 connections, resulting in a U&U percentage of 96.8 for the distribution system. Due to customers leaving the territory over time, the Utility has dropped from serving 850 customers to 813 customers out of a total of 855 lots during its operation. As such, the system is considered built out and staff has allocated a U&U amount of 100 percent for the distribution system.

Wastewater Treatment Plant

The formula for calculating U&U for the WWTP is given by (actual flows + growth – excessive I&I) / permitted plant capacity. The average daily flow for Four Lakes is 87,690 gpd. There is no excessive I&I and no growth. The permitted capacity of the plant is 98,500 gpd. The resulting U&U for the WWTP is 89 percent. As the Utility is built out, staff has allocated a U&U amount of 100 percent for the WWTP.

Wastewater Collection

As there has been no customer growth and the system is built out, staff recommends the wastewater collection system should be considered 100 percent U&U.

Conclusion

Four Lakes' WTP, WWTP, water distribution system and wastewater collection system should all be considered 100 percent U&U. There is no excessive infiltration and inflow. Staff recommends a 7.9 percent adjustment to purchased power and chemicals should be made for excessive unaccounted for water.

Issue 3: What is the appropriate average test year rate base for Four Lakes?

Preliminary Recommendation: The appropriate average test year rate base for Four Lakes is \$346,551 for water and \$167,048 for wastewater. (Golden, Wilson, Wooten, Thompson)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service, land, contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. Rate base has never been established for this Utility. Staff selected the 12-month period ended August 31, 2016, as the test year for the instant case. Commission audit staff determined that the Utility's books and records are in compliance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). A summary of each component of rate base and the recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

The Utility recorded UPIS of \$704,613 for water and \$1,373,940 for wastewater. Based on audit staff's review of the Utility's existing documentation, UPIS should be decreased by net adjustments of \$147,257 for water and \$366,532 for wastewater to reflect the supported UPIS test year balances. A preliminary review indicated that the adjustments would result in a negative wastewater rate base and require consideration of the operating ratio methodology rather than the traditional rate of return methodology for the wastewater system. Because Four Lakes has never had a rate case and rate base has never been established, staff believes additional review is warranted prior to making such significant decreases to the Utility's rate base. Therefore, staff is deferring making these adjustments at this time to allow the Utility additional time to research its original cost documentation and for staff to evaluate the feasibility of conducting an original cost study.

However, staff is recommending several adjustments related to pro forma plant additions. Staff increased water UPIS by \$1,200 to reflect a pro forma addition to Account No. 320 – Water Treatment Equipment that occurred after the test year. In addition, Four Lakes requested consideration of two pro forma projects in this rate case to replace a hydropneumatic water tank and all of the Utility's water meters.

Four Lakes plans to replace a hydropneumatic water tank during the summer of 2017. The Polk County Health Department (PCHD) acting on behalf of DEP requires the Utility to have the tank inspected every five years. Four Lakes was advised after the most recent tank inspection in late 2016 that the tank should be rehabilitated or replaced within about eight months of the inspection. The tank is the original tank that was placed into service in 1994 when the Utility was constructed. The Utility approached several vendors about the tank replacement project but only received one quote. The estimated cost including the tank, saddles, and installation is \$62,484. Staff included this project in the preliminary rate base calculation, but notes that additional information is necessary to fully evaluate the need for the project and the estimated costs. A final determination on the prudence of this pro forma item will be evaluated in the recommendation.

In addition, engineering staff reviewed the requested pro forma addition of a meter replacement project, and it was considered appropriate and prudent. According to the Utility, the current meters are of various ages and many meters are not working or capturing all of the water usage.

The Utility plans to replace 827 meters in 2017. The new meters will be remote read meters, allowing automatic direct readings of the meters. These meters are currently in use at one of the Utility owners' other properties; therefore, it already possesses the necessary meter reading equipment. Due to this, the Utility only obtained one bid from the company that provided the meter reading equipment to ensure compatibility with the new meters. The Utility estimates a replacement cost of \$210.54 per residential meter with a higher replacement cost for larger general service meters. The Utility also plans to replace the meter boxes on an as needed basis, but estimates replacing 100 meter boxes at a cost of \$25.00 per meter box.

As shown in Table 3-1 below, the net increase to water UPIS to reflect the pro forma hydropneumatic tank replacement and meter replacement projects is \$181,904, which includes the associated retirements estimated by staff based on the available records.

**Table 3-1
 Pro Forma Plant Items**

Project	Acct. No.	Description	Amount
Hydropneumatic Tank Project	330	Replace hydropneumatic water tank	\$ 62,484
	330	Retire replaced tank	(8,778)
Meter Replacement Project	334	Install new water meters & meter boxes	193,499
	334	Retire replaced meters & boxes	(65,301)
Net Increase			<u>\$181,904</u>

Source: Responses to staff data requests

Finally, staff decreased UPIS by \$10,543 for water and \$1,994 for wastewater to reflect an averaging adjustment for additions made during the test year. Consistent with Commission practice, no averaging adjustments are applied to pro forma additions. Staff's adjustments to UPIS are a net increase of \$172,561 to water and a decrease of \$1,994 to wastewater. Therefore, staff recommends a UPIS balance of \$877,174 for water and \$1,371,946 for wastewater.

Land and Land Rights

The Utility recorded land of \$38,979 for water and \$70,004 for wastewater. Audit staff noted that the utility land includes a large parcel of 331 acres that appears to be excessive for strictly plant use. However, audit staff accepted the Utility's general ledger land value because audit staff's estimated land value based on the documentary stamp tax on the warranty deeds for the water and wastewater plant sites would be considerably larger than the Utility's recorded value. Therefore, staff recommends that no adjustments are necessary at this time pending additional review of the acreage associated with the water and wastewater systems. Staff recommends a land and land rights balance of \$38,979 for water and \$70,004 for wastewater.

Non-Used and Useful Plant

As discussed in Issue 2, Four Lakes' WTP, water distribution system, WWTP, and wastewater collection system are considered 100 percent U&U. Therefore, no U&U adjustments are necessary.

Contribution in Aid of Construction (CIAC)

The Utility recorded test year CIAC of \$507,425 for water and \$985,153 for wastewater. The Utility does not have the original supporting documents for the CIAC collections. However, pursuant to Order No. PSC-99-1236-PAA-WS that granted grandfather certificates to Four Lakes, the Commission authorized the Utility to continue collecting its existing combined water and wastewater plant capacity charge of \$1,818 per mobile home connection.² According to the Utility's annual reports, the last CIAC was collected in 2002. Further, the total CIAC reported is consistent with the Utility's approved tariff and customer base. Therefore, staff recommends that no adjustments are necessary. Further, because no activity occurred during the test year, no averaging adjustments are necessary for ratemaking purposes. Staff recommends CIAC balances of \$507,425 for water and \$985,153 for wastewater.

Accumulated Depreciation

The Utility recorded test year accumulated depreciation balances of \$445,837 for water and \$920,248 for wastewater as of December 31, 2015. In order to reflect the appropriate test year balances as of August 31, 2016, staff calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff increased accumulated depreciation by \$7,013 for water and decreased accumulated depreciation by \$4,776 for wastewater to reflect the appropriate test year balances. Also, staff increased the water account by \$71 to reflect the pro forma plant addition to Account No. 320 discussed above. In addition, staff increased the water account by \$1,627 and \$11,382 to reflect the pro forma replacements of the hydro pneumatic tank and water meters, respectively. Further, staff decreased the water account by \$8,778 and \$65,301 to reflect the retirements associated with the tank and meter replacement projects. Finally, staff decreased accumulated depreciation by \$7,657 for water and \$13,173 for wastewater to reflect to reflect a test year averaging adjustment. Staff's net adjustments are decreases of \$61,642 and \$17,949 to water and wastewater, respectively. Therefore, staff recommends accumulated depreciation balances of \$384,195 for water and \$902,299 for wastewater.

Accumulated Amortization of CIAC

Four Lakes recorded amortization of CIAC balances of \$300,427 for water and \$583,996 for wastewater as of December 31, 2015. In order to reflect the appropriate test year balances as of August 31, 2016, staff increased water amortization of CIAC by \$12,077 and increased wastewater amortization of CIAC by \$23,447. In addition, staff decreased these accounts by \$9,058 for water and \$17,585 for wastewater to reflect an averaging adjustment, resulting in net increases of \$3,019 and \$5,862 to water and wastewater, respectively. Therefore, staff recommends accumulated amortization of CIAC balances of \$303,446 for water and \$589,858 for wastewater for the test year.

Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses of the Utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the

²Issued June 22, 1999, in Docket No. 981340-WS, *In re: Application for grandfather certificates to operate water and wastewater utility in Polk County by Four Lakes Golf Club, Ltd.*

working capital allowance. Applying this formula, staff recommends a working capital allowance of \$18,572 (based on O&M expense of \$148,577/8) for water and \$22,692 (based on O&M expense of \$181,539/8) for wastewater.

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$346,551 for water and \$167,048 for wastewater. Rate base is shown on Schedules No. 1-A and 1-B. The related adjustments are shown on Schedule No. 1-C.

Issue 4: What is the appropriate rate of return on equity and overall rate of return for Four Lakes?

Preliminary 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 8.32 percent. (Golden, Wilson)

Staff Analysis: Four Lakes' average test year capital structure consists of \$4,325 in short-term debt. Audit staff noted that the Utility also has long-term debt of \$45,883,196 on its books. The loan was taken out in 2009, more than 10 years after the construction of the water and wastewater facilities. The loan covers both the park operations and the utility plants. Neither the lender nor Four Lakes' owners have broken down the loan or interest expense to allocate a specific portion to the utility plants. Further, the park operation revenues, expenses, and total loan interest expense are reflected on the Utility's annual reports as nonutility income and expenses. Audit staff was unable to determine whether any portion of the loan was used for the water and wastewater operations, and therefore, did not include the loan in Four Lakes' capital structure calculation. In addition, the Utility recorded negative equity of \$11,037,497, but audit staff was unable to verify the equity balance. Based on the audit staff's findings, staff's preliminary capital structure only includes the short-term debt that was verified. However, staff believes additional review is necessary to determine if a portion of the combined loan should be included in Four Lakes' capital structure going forward, and whether any additional sources of funds will be used to finance the requested pro forma projects discussed in Issue 3.

The Utility's capital structure has been reconciled with staff's recommended rate base. Although the Utility's capital structure does not include any equity at this time, staff believes an ROE should be established for this Utility consistent with Commission practice. The appropriate ROE is 11.16 percent based upon the Commission-approved leverage formula currently in effect.³ 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 8.32 percent. The ROE and overall rate of return are shown on Schedule No. 2.

³Order No. PSC-16-0254-PAA-WS, issued July 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 Four Lakes?

Preliminary Recommendation: The appropriate test year revenues for Four Lakes' water and wastewater systems are \$143,020 for water and \$142,313 for wastewater. (Johnson)

Staff Analysis: Four Lakes recorded \$142,995 of service revenues for water and \$142,371 for wastewater. The Utility did not have any miscellaneous revenues because there are no approved miscellaneous service charges. The Utility's current tariff reflects a monthly base facility charge (BFC) of \$26.18 for both water and wastewater service, which includes an allotted 5,000 gallons a month. Customer usage above 5,000 gallons is billed at \$1.05 per thousand gallons. The Utility bills the BFC monthly, but usage in excess of 5,000 gallons per month is billed quarterly in arrears.

Based on staff's review of the Utility's billing determinants and the rates that were in effect during the test year, staff recommends the Utility test year water service revenues be increased by \$25 and wastewater service revenues be decreased by \$58 to reflect the appropriate test year revenues. Based on the above, staff recommends that the appropriate test year revenues for water and wastewater are \$143,020 ($\$142,995 + \25) and \$142,313 ($\$142,371 - \58), respectively.

Issue 6: What is the appropriate amount of operating expenses?

Recommendation: The appropriate amount of operating expense for the Utility is \$184,627 for water and \$210,847 for wastewater. (Golden, Wilson)

Preliminary Staff Analysis: Four Lakes recorded operating expense of \$164,667 for water and \$205,264 for wastewater for the test year ended August 31, 2016. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made several adjustments to the Utility's operating expenses as summarized below.

Operation and Maintenance (O&M) Expenses Salaries and Wages – Employees (601/701)

Four Lakes recorded salaries and wages – employees expense of \$74,356 for water and \$83,921 for wastewater for the test year. Four Lakes' is managed by Century Companies (Century), which manages approximately 16 residential communities, including four other water and wastewater utilities that are regulated by the Commission; Anglers Cove West, Ltd. (ACW), CHC VII, Ltd. (CHC), Hidden Cove, Ltd. (HC), and S.V. Utilities, Ltd. (SV). Century allocates any shared expenses between the applicable communities and/or utilities based on the number of lots in each community. In the most recent rate cases for Four Lakes' sister utilities, CHC and SV, the Commission found that allocating the costs based on lots properly allocates costs to all businesses and is reasonable.⁴ Staff notes that it has also been Commission practice to allocate common costs based on ERCs. Therefore, staff compared the lot allocation and ERC allocation percentages for each of the five related utilities to determine if the lot allocation method still produces an equitable result. Because the communities served by the five utilities have a similar customer base and few general service customers, both methods produce similar results. Also, because a portion of the shared expenses are allocated to the communities, for which an ERC calculation is not possible, staff believes the lot allocation method ensures that the costs are allocated properly between the utility and non-utility businesses.

Four Lakes' test year employee salaries and wages expense includes salary allocations for 13 employees, including one officer, whose duties include work related to water and wastewater utility operations, maintenance, administration, or management. The 13 employees' time spent on water and wastewater duties versus community related work ranges from 100 percent to as little as eight percent. Audit staff initially recommended an adjustment to reflect each employees' percentage of time spent on water and wastewater utility duties. However, audit staff later advised technical staff that the recommended adjustment is not necessary because the Utility's test year employees salaries and wages expense already reflects the appropriate allocated portion of each employee's total salary or wages. Therefore, no further allocation adjustments are necessary. However, staff determined that decreases of \$33 for water and \$1,155 for wastewater are necessary to reflect the correct test year balances. Also, staff decreased this account by \$6,031 for water and \$6,031 for wastewater to reclassify the vice-president's water and wastewater salary allocation to Accounts No. 603 and 703 – Salaries and Wages – Officers

⁴Order No. PSC-14-0196-PAA-WS, issued May 1, 2014, in Docket No. 130210-WS, *In re: Application for staff-assisted rate case in Polk County by CHC VII, Ltd.*, and Order No. PSC-14-0195-PAA-WS, issued May 1, 2014, in Docket No. 130211-WS, *In re: Application for staff-assisted rate case in Polk County by S.V. Utilities, Ltd.*

expense. Staff notes that in addition to the employees discussed above, the Utility also receives recurring professional engineering services on a contractual basis that are reflected in Accounts No. 631 and 731 – Contractual Services – Professional shown below.

Century did not allocate any corporate administrative and general (A&G) expenses to Four Lakes during the test year. However, Century plans to begin allocating a portion of its annual A&G expenses to the five water and wastewater utilities going forward, and has requested consideration of those expenses as a pro forma adjustment in the instant case. The allocation is limited to the corporate expenses that have some association with the water and wastewater utilities, and will result in approximately 2.57 percent of the total A&G expenses being allocated to Four Lakes if approved. Based on staff's initial review, it appears that the requested pro forma A&G expenses are not duplicative of Four Lakes' test year expenses and may be appropriate for inclusion in Four Lakes' revenue requirement. However, staff believes additional review is necessary to determine if all of the requested pro forma A&G expenses should be included.

The requested pro forma A&G expenses include salaries and wages for 10 additional corporate employees who perform accounting, finance, tax, payroll, and receptionist work that was not previously included in the test year expenses. The majority of the 10 employees only spend 5 or 10 percent of their time on water and wastewater related work, with the exception of the accounts payable and tax specialist positions that are estimated to spend 50 and 25 percent of their time, respectively, on work related to the water and wastewater utilities. Based on the above, staff increased this account by \$12,851 for water and \$12,426 to reflect Four Lakes' pro forma allocated share of corporate payroll pending additional review. Consequently, staff's net adjustments to this account are increases of \$6,786 for water and \$5,241 for wastewater. Therefore, staff recommends salaries and wages – employees expense of \$81,142 for water and \$89,162 for wastewater.

Salaries and Wages - Officers (603/703)

The Utility did not record any salaries and wages – officers expense during the test year. As noted above, the Utility's test year salaries and wages – employees expense included officer's salary for the vice-president, therefore, staff increased this account by \$6,031 for water and \$6,031 for wastewater to reflect the appropriate test year officer's salary. Staff recommends salaries and wages – officers expense of \$6,031 for water and \$6,031 for wastewater.

Purchased Power (615/715)

Four Lakes recorded purchased power expense of \$31,953 for water and \$15,669 for wastewater for the test year. Staff determined that the purchased power expense was understated. Therefore, staff increased this account by \$3,577 for water and \$1,137 for wastewater to reflect the annualized balances. Also, staff decreased this account by \$686 for water and \$476 for wastewater to remove late fees and out-of-period expenses from the test year balances. In addition, staff decreased this account by \$23,282 for water and \$633 for wastewater to remove purchased power expense associated with the Four Lakes' golf course and unsupported expenses. As discussed in Issue 2, staff is recommending an EUW adjustment of 7.9 percent. Therefore, staff decreased the adjusted water account balance by \$913 ($\$11,562 \times .079 = \913) to reflect a 7.9 percent EUW adjustment. Staff's net adjustment is a decrease of \$21,304 to water and an

increase of \$29 to wastewater. Therefore, staff recommends purchased power expense of \$10,649 for water and \$15,698 for wastewater.

Chemicals (618/718)

Four Lakes recorded chemicals expense of \$4,942 for water and \$15,626 for wastewater for the test year. Staff decreased this account by \$279 for water and \$268 for wastewater to reflect the correct test year balances. As discussed in Issue 2, staff is recommending an EUW adjustment of 7.9 percent. Therefore, staff decreased the adjusted water account balance by \$368 ($\$4,663 \times .079 = \368) to reflect a 7.9 percent EUW adjustment. Staff's total adjustments are decreases of \$647 to water and \$268 to wastewater. Staff recommends chemicals expense of \$4,295 for water and \$15,358 for wastewater.

Materials and Supplies (620/720)

The Utility recorded materials and supplies expense of \$9,673 for water and \$4,288 for wastewater for the test year. Staff decreased the water account by \$947 to remove unsupported and out-of-period expenses. In addition, staff increased the wastewater account by \$1,829 to reflect the test year balance supported by existing invoices. Accordingly, staff recommends materials and supplies expense of \$8,726 for water and \$6,117 for wastewater.

Contractual Services - Billing (630/730)

Four Lakes did not record any contractual services – billing expense for the test year because Century incurred the billing expense but did not allocate those costs to the Utility. As discussed above, Century plans to begin allocating the utility-related corporate A&G expenses to its water and wastewater utilities going forward, and has requested consideration of those expenses in the instant case. Staff believes it would be appropriate to include an allowance for billing expense, and believes the proposed corporate billing expense allocation is reasonable. Therefore, staff increased this account by \$1,483 for water and \$1,434 for wastewater to reflect the pro forma allocation of corporate billing expense. Although the total expense is allocated based on the percentage of lots, staff has allocated Four Lakes' total share of the billing expense between the water and wastewater systems based on ERCs to recognize the slight difference in the number of general service customers between the two systems. The Utility's requested corporate billing expense allocation equates to only \$3.55 per year for customers who receive both water and wastewater service, and only \$1.80 per year for the few customers who only receive water service. Based on the above, staff recommends contractual services – billing expense of \$1,483 for water and \$1,434 for wastewater.

Contractual Services - Professional (631/731)

Four Lakes recorded balances of \$4,962 for water and \$10,250 for wastewater in this account. This account includes expenses related to recurring professional engineering services and permitting. Audit staff determined that no adjustments are necessary to the water account, but a decrease of \$5,930 is necessary to remove unsupported expenses from the wastewater account. Therefore, staff decreased the wastewater account by \$5,930 to reflect the appropriate test year balance, and recommends contractual services – professional expense of \$4,962 for water and \$4,320 for wastewater for the test year.

Contractual Services - Testing (635/735)

The Utility recorded testing expense of \$2,806 for water and \$6,651 for wastewater in this account. Staff decreased this account by \$2,488 for water and \$250 for wastewater to reclassify contractual equipment testing services to Accounts No. 636 and 736 – Contractual Services – Other. In addition, the Utility’s water testing expenses were understated, therefore, staff increased the water account by \$219 to annualize the water testing expenses. Further, staff decreased the wastewater account by \$1,346 to reflect the appropriate test year wastewater testing expense based on existing invoices. For informational purposes, staff notes that the Utility’s wastewater testing expense includes Four Lakes’ portion of a groundwater monitoring project that the Utility is currently amortizing over a four-year period. Based on the above, staff recommends contractual services – testing expense for the test year of \$538 for water and \$5,055 for wastewater.

Contractual Services - Other (636/736)

The Utility recorded contractual services – other expense of \$10,288 for water and \$4,229 for wastewater. Staff increased the water account by \$275 and decreased the wastewater account by \$2,389 to reflect the appropriate test balances based on existing invoices. As noted above, staff increased this account by \$2,488 for water and \$250 for wastewater to reclassify contractual equipment testing services from Accounts No. 635 and 735 – Contractual Services – Testing. Finally, staff increased the wastewater account by \$1,620 to reclassify contractual percolation pond maintenance expenses from Account No. 775 – Miscellaneous Expense. Staff’s total adjustment to water contractual services – other expense is an increase of \$2,763, and staff’s net adjustment to wastewater contractual services – other expense is a decrease of \$519. Therefore, staff recommends contractual services – other expense for the test year of \$13,051 for water and \$3,710 for wastewater.

Rent Expense (640/740)

Four Lakes did not record any test year rent expense. Century has requested consideration of a pro forma allocation of corporate A&G rent expense. As noted previously, the corporate allocation results in approximately 2.57 percent of each utility related A&G expense being allocated to Four Lakes. Therefore, staff increased this account by \$3,335 for water and \$3,224 for wastewater to reflect the pro forma allocation of corporate rent expense. In addition, staff increased this account by \$64 for water and \$62 for wastewater to reflect the pro forma allocation of corporate equipment rental expense. Staff allocated Four Lakes’ total share of the rent expense between the water and wastewater systems based on ERCs to recognize the slight difference in the number of general service customers between the two systems. Staff’s total adjustments to this account are increases of \$3,399 for water and \$3,287 for wastewater. Staff recommends rent expense of \$3,399 for water and \$3,287 for wastewater.

Transportation Expense (650/750)

The Utility recorded test year transportation expense of \$5,079 for water and \$6,800 for wastewater. Staff decreased this account by \$1,043 for water and \$3,713 for wastewater to reflect the appropriate test year balances. In addition, staff increased this account by \$610 and \$590 for water and wastewater, respectively, to reflect the pro forma allocation of corporate transportation expense. Staff’s net adjustments are decreases of \$433 and \$3,123 to water and

wastewater, respectively. Staff recommends transportation expense of \$4,646 for water and \$3,677 for wastewater.

Insurance Expense (655/755)

The Utility recorded test year insurance expense of \$2,144 for water and \$2,539 for wastewater. Staff increased water by \$665 and decreased wastewater by \$651 to reflect the appropriate test year insurance expense. Also, staff increased these accounts by \$231 and \$224 for water and wastewater, respectively, to reflect the pro forma allocation of corporate insurance expense. Staff's total adjustment to water is an increase of \$897 and staff's net adjustment to wastewater is a decrease of \$427. Staff recommends insurance expense of \$3,041 for water and \$2,112 for wastewater.

Regulatory Commission Expense (665/765)

The Utility recorded regulatory commission expense of \$540 for water and \$540 for wastewater for the test year to reflect the total \$1,080 in legal expenses incurred by the Utility while preparing the SARC application. Section 367.0814(3), F.S., states in part that, "...the commission may not award rate case expenses to recover attorney fees or fees of other outside consultants who are engaged for the purpose of preparing or filing the case if a utility receives staff assistance in changing rates and charges pursuant to this section, unless the Office of Public Counsel or interested parties have intervened." This statutory amendment became effective July 1, 2016. Because Four Lakes' SARC application was filed on July 27, 2016, after this statutory amendment took effect, these expenses are not eligible for recovery through rate case expense. Therefore, staff decreased this account by \$540 for water and \$540 for wastewater to remove the test year SARC-related legal fees.

The Utility is required by Rule 25-22.0407, F.A.C., to provide notices of the customer meeting and notices of final rates in this case to its customers. Staff is also recommending that the Utility be required to provide notice of the four-year rate reduction to its customers when the rates are reduced to remove the amortized rate case expense. For noticing, staff estimated \$1,214 for postage expense, \$826 for printing expense, and \$124 for envelopes. This results in \$2,164 for the noticing requirement. The Utility paid a total of \$2,000 in rate case filing fees (\$1,000 for water and \$1,000 for wastewater). Pursuant to Section 367.0814(3), F.S., "The commission may award rate case expenses for attorney fees or fees of other outside consultants if such fees are incurred for the purpose of providing consulting or legal services to the utility after the initial staff report is made available to customers and the utility." Accordingly, staff has included a \$10,000 preliminary estimate for post-staff report legal fees based on a comparison of the legal fees that were approved by the Commission in the most recent SARCs for Four Lakes' sister utilities, CHC and SV. Based on the above, staff recommends total rate case expense of \$14,164 (\$2,164 + \$2,000 + \$10,000), which amortized over four years is \$3,541. Staff has allocated the annual rate case expense to the water and wastewater systems based on ERCs, resulting in annual rate case expense of \$1,796 for water and \$1,745 for wastewater. Staff's net adjustments to this account are increases of \$1,256 for water and \$1,205 for wastewater. Therefore, staff recommends regulatory commission expense of \$1,796 for water and \$1,745 for wastewater.

Bad Debt Expense (670/770)

The Utility recorded test year bad debt expense of \$26 for water and \$26 for wastewater, resulting in total bad debt expense of \$52. A review of the Utility's prior annual reports indicates that Four Lakes' generally has very low bad debt expense with the exception of 2014, in which the Utility reported a total of \$264 in bad debt expense for water and wastewater combined. Using the historical average of either three or five years produces an average total bad debt expense between \$70 and \$214. Both averages are higher than Four Lakes' typical bad debt expense due to the effect of the higher than usual 2014 bad debt expense. Therefore, staff believes it would be more appropriate to use the test year expense in this case, and therefore, does not recommend any adjustments to bad debt expense. Staff recommends bad debt expense of \$26 for water and \$26 for wastewater for the test year.

Miscellaneous Expense (675/775)

Four Lakes recorded test year miscellaneous expense of \$3,956 for water and \$1,782 for wastewater. Staff decreased the water account by \$538 and increased the wastewater account by \$777 to reflect the appropriate test year expense based on existing invoices. Also, staff decreased the wastewater account by \$1,620 to reclassify contractual percolation pond maintenance expenses to Account No. 736 – Contractual Services – Other. In addition, staff increased this account by \$461 for water and \$446 for wastewater to reflect the pro forma allocation of corporate equipment expense. Finally, staff increased this account by \$914 for water and \$884 for wastewater to reflect the pro forma allocation of corporate miscellaneous expense. The corporate A&G miscellaneous expenses include bank fees, dues and subscriptions, filing fees, licenses and permits, telephone, travel, and training. Staff's net adjustments are increases of \$837 and \$487 to water and wastewater, respectively. Therefore, staff recommends miscellaneous expense of \$4,793 for water and \$2,269 for wastewater.

Operation and Maintenance Expense (O&M Summary)

Based on the above adjustments, O&M expense should be decreased by \$2,148 for water and increased by \$7,678 for wastewater, resulting in total O&M expense of \$148,577 for water and \$181,539 for wastewater. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A through 3-E.

Depreciation Expense (Net of Amortization of CIAC)

The Utility's records reflect test year water depreciation expense of \$19,472 and CIAC amortization expense of \$18,115, resulting in a net water depreciation expense of \$1,357 ($\$19,472 - \$18,115 = \$1,357$). Also, the Utility's records reflect test year wastewater depreciation expense of \$49,181 and CIAC amortization expense of \$35,170, resulting in a net wastewater depreciation expense of \$14,011 ($\$49,181 - \$35,170 = \$14,011$). Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and decreased water and wastewater depreciation expense by \$4,159 and \$17,429, respectively, to reflect the appropriate test year depreciation expense.

In addition, staff made several adjustments to water depreciation expense to reflect pro forma plant additions. Staff increased the water account by \$71 to reflect the pro forma depreciation expense associated with a pro forma plant addition to plant Account No. 320 – Water Treatment equipment that occurred after the end of the test year. Also, staff increased this account by

\$1,893 to reflect the increase in depreciation expense from the pro forma hydropneumatic tank replacement and also decreased this account by \$266 to remove the depreciation expense associated with the retired tank. Staff also increased this account by \$11,382 to reflect the increase in depreciation expense from the pro forma meter replacement project. The Utility's test year depreciation expense did not include any depreciation for meters because the existing meters became fully depreciated prior to the test year. Therefore, no additional depreciation expense adjustments are necessary to reflect the retirement of the replaced meters. Finally, staff's wastewater adjustment results in negative net depreciation expense of \$3,418. As in cases where negative rate base is adjusted to zero, the Commission has previously adjusted test year depreciation expense to zero.⁵ Therefore, staff increased wastewater depreciation expense by \$3,418 to set the resulting negative net depreciation expense to zero, pending additional review.

Based on the above, staff's net adjustment to water depreciation expense is an increase of \$8,922, resulting in water depreciation expense of \$28,394 ($\$19,472 + \$8,922 = \$28,394$). Further, staff's total adjustment to wastewater depreciation expense is a decrease of \$14,011, resulting in wastewater depreciation expense of \$35,170 ($\$49,181 - \$14,011 = \$35,170$). No adjustments are necessary to CIAC amortization expense. Consequently, the net depreciation expense for water is \$10,279 ($\$28,394 - \$18,115 = \$10,279$), and the net depreciation expense for wastewater is adjusted to zero ($\$35,170 - \$35,170 = \$0$). Therefore, staff recommends net depreciation expense of \$10,279 for water and zero for wastewater.

Taxes Other Than Income (TOTI)

Four Lakes recorded TOTI of \$12,585 for water and \$17,392 for wastewater for the test year. The Utility recorded RAFs of \$6,391 for water and \$6,269 for wastewater for the test year. Based on staff's recommended test year revenues of \$143,020 for water and \$142,313 for wastewater, the Utility's RAFs should be \$6,436 and \$6,404 for water and wastewater, respectively. Therefore, staff increased these accounts by \$45 for water and \$135 for wastewater to reflect the appropriate test year RAFs. Also, staff increased TOTI by \$6,538 for water and \$7,139 for wastewater to reflect the appropriate test year payroll taxes. In addition, staff increased TOTI by \$964 for water and \$932 for wastewater to reflect the additional payroll taxes associated with the pro forma corporate employee salary allocation discussed previously. Finally, staff increased water utility property taxes by \$2,470 to reflect the additional property taxes associated with the pro forma plant additions. Staff's total adjustments are increases of \$10,017 to water and \$8,207 to wastewater.

In addition, as discussed in Issue 7, revenues have been increased by \$70,440 for water and \$78,853 for wastewater to reflect the change in revenue required to cover expenses and allow the recommended rate of return. As a result, TOTI should be increased by \$3,170 for water and \$3,709 for wastewater to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$25,772 for water and \$29,308 for wastewater.

⁵Order No. PSC-07-0865-PAA-SU, issued October 29, 2007, in Docket No. 060285-SU, *In re: Application for increase in wastewater rates in Charlotte County by Utilities, Inc. of Sandalhaven.*

Date: June 9, 2017

Operating Expenses Summary

The application of staff's recommended adjustments to Four Lakes' test year operating expenses results in operating expenses of \$184,627 for water and \$210,847 for wastewater. Operating expenses are shown on Schedules No. 3-A and 3-B. The adjustments are shown on Schedule No. 3-C.

Issue 7: What is the appropriate revenue requirement?

Preliminary Recommendation: The appropriate revenue requirement is \$213,460 for water and \$224,745 for wastewater, resulting in an annual increase of \$70,440 for water (49.25 percent) and \$82,432 for wastewater (57.92 percent). (Golden, Wilson)

Staff Analysis: Four Lakes should be allowed an annual increase of \$70,440 for water (49.25 percent) and \$82,432 for wastewater (57.92 percent). This will allow the Utility the opportunity to recover its expenses and earn an 8.32 percent return on its investment. The calculations are shown below, in Tables 7-1 and 7-2 for water and wastewater, respectively:

**Table 7-1
Water Revenue Requirement**

Adjusted Rate Base	\$346,551
Rate of Return	x 8.32%
Return on Rate Base	\$28,833
Adjusted O&M Expense	148,577
Depreciation Expense (Net)	10,279
Amortization	0
Taxes Other Than Income	25,772
Income Taxes	0
Revenue Requirement	\$213,460
Less Adjusted Test Year Revenues	143,020
Annual Increase	\$70,440
Percent Increase	49.25%

Table 7-2
Wastewater Revenue Requirement

Adjusted Rate Base	\$167,048
Rate of Return	x 8.32%
Return on Rate Base	\$13,898
Adjusted O&M Expense	181,539
Depreciation Expense (Net)	0
Amortization	0
Taxes Other Than Income	29,308
Income Taxes	0
Revenue Requirement	\$224,745
Less Adjusted Test Year Revenues	142,313
Annual Increase	\$82,432
Percent Increase	57.92%

Issue 8: What are the appropriate rate structures and rates for Four Lakes' water and wastewater systems?

Preliminary Recommendation: The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered made on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility should provide proof of noticing within 10 days of rendering its approved notice. (Johnson)

Staff Analysis: Four Lakes provides water service to approximately 813 residential customers, five general service customers, and eight irrigation service customers. Four Lakes also provides wastewater service to approximately 813 residential customers and six general service customers. Approximately seven percent of the residential customer bills during the test year had zero gallons indicating a non-seasonal customer base. The average residential demand during the test year was 6,805 gallons per month. The average water demand, excluding zero gallon bills, was 7,360 gallons a month.

Currently, Four Lakes' rate structure consists of a single monthly base facility charge (BFC) of \$26.18 for both water and wastewater service, which includes an allotment of 5,000 gallons a month. Any water usage above 5,000 gallons is billed at \$1.05 per thousand gallons. If a customer is strictly a water or wastewater customer of the Utility, they would pay half the BFC (\$13.09). As previously discussed, the BFC is billed monthly, but usage in excess of 5,000 gallons per month is billed quarterly. The approved rate for irrigation service is a monthly BFC of \$13.09, which includes an allotment of 5,000 gallons. Any irrigation usage above 5,000 gallons is billed at \$0.53 per thousand gallons. These rates and rate structure have been in effect since the Utility was granted grandfather certificates in 1999, following Polk County turning over jurisdiction over privately owned water and wastewater utilities to the Commission.⁶

The current rate structure is not considered conservation oriented because the 5,000 gallon allotment does not encourage conservation and billing on a quarterly basis for usage does not give customers a timely pricing signal. Therefore, in order to send the appropriate pricing signals to promote conservation, the allotment should be eliminated and the Utility should bill the BFC and gallonage charge on a monthly basis. Additionally, staff believes the water and wastewater systems should have separate rates and rate structures to promote transparency for individual customers.

Water Rates

Staff performed an analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors 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

⁶Order No. PSC-99-1236-PAA-WS, issued June 22, 1999, in Docket No. 981340-WS, *In re: Application for grandfather certificates to operate water and wastewater utility in Polk County by Four Lakes Golf Club, Ltd.*

repression; and 4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

Staff recommends that 40 percent of the water revenues should be generated from the BFC. This will provide sufficient revenues to design a gallonage charge that will send a pricing signal to customers using above non-discretionary usage. The average persons per household served by the Utility is two; therefore, based on the number of persons per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 3,000 gallons per month. Staff recommends a traditional BFC and gallonage charge rate structure with an additional gallonage charge for non-discretionary usage for residential water customers. General service and irrigation customers should be billed a BFC based on meter size and a uniform gallonage charge.

Based on the customer billing data provided by the Utility, approximately 61 percent of total residential consumption is discretionary and subject to the effects of repression. Customers will typically reduce their discretionary consumption in response to price changes, while non-discretionary consumption remains relatively unresponsive. Based on the recommended revenue increase of 49.30 percent, the residential discretionary consumption can be expected to decline by 8,057,000 gallons resulting in anticipated average residential demand of 5,993 gallons per month. Staff recommends a 11.90 percent reduction in total residential consumption and corresponding reductions of \$1,243 for purchased power, \$502 for chemicals, and \$82 for RAFs to reflect the anticipated repression. This results in a post repression revenue requirement of \$211,633. Staff's recommended rate structure and resulting water rates are shown on Schedule No. 4-A.

Wastewater Rates

Staff performed an analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages and gallonage caps for the residential wastewater customers. The goal of the evaluation was to select the rate design parameters that: 1) produce the recommended revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; and 3) implement a gallonage cap that considers approximately the amount of water that may return to the wastewater system.

Typically, the Commission's practice is to allocate at least 50 percent of the wastewater revenue requirement to the BFC due to the capital intensive nature of wastewater plants. Therefore, staff recommends that 50 percent of the wastewater revenue requirement be generated from the BFC. It is Commission practice to set the residential wastewater cap at approximately 80 percent of residential water sold. Based on staff's review of the billing analysis, 83 percent of the gallons are captured at the 8,000 gallon consumption level. The wastewater gallonage cap recognizes that not all water used by the residential customers is returned to the wastewater system. For this reason, staff recommends a residential gallonage cap of 8,000 gallons per month.

In addition, based on the expected reduction in water demand described above, staff recommends that a repression adjustment also be made for wastewater. Because wastewater rates are calculated based on customers' water demand, if those customers' water demand is expected to decline, then the billing determinants used to calculate wastewater rates should also be adjusted. Based on the billing analysis for the wastewater system, staff recommends that a repression

adjustment of 3,559,000 gallons to reflect the anticipated reduction in water demand used to calculate wastewater rates. Staff recommends a 6.36 percent reduction in total residential consumption and corresponding reductions of \$977 for chemicals, \$999 for purchased power, \$1,370 for sludge removal expense, and \$151 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$221,249.

Staff recommends that 50 percent of the wastewater revenue requirement be generated from the BFC. For residential wastewater customers, staff recommends a uniform BFC for all meter sizes and a gallonage charge for gallons up to the recommended 8,000 gallon cap. General service customers should be billed a BFC based on meter size and a uniform gallonage charge, which is 1.2 times greater than the residential gallonage charge consistent with Commission practice. Staff's recommended rate structure and rates for the wastewater system are shown on Schedule No. 4-B

Conclusion

The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered made on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475, F.A.C. The Utility should provide proof of noticing within 10 days of rendering its approved notice.

Issue 9: What is the appropriate amount by which rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense?

Preliminary Recommendation: The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If Four Lakes files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Johnson, Golden, Wilson)

Staff Analysis: Four Lakes' water and wastewater rates should be reduced immediately following the expiration of the four-year rate case expense recovery period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs which is \$1,900 and \$1,846 for water and wastewater, respectively. Using the Utility's current revenues, expenses, and customer base, the reduction in revenues will result in the rate decrease shown on Schedule Nos. 4-A and 4-B.

Four Lakes should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction. If Four Lakes files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 10: Should the recommended rates be approved for Four Lakes on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility?

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

Staff Analysis: This recommendation proposes an increase in rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, staff recommends that the recommended rates be approved as temporary rates. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

The Utility should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$102,486. 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.
2. The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions should be part of the agreement:

1. The Commission Clerk, or his or her designee, must be a signatory to the escrow agreement.
2. No monies in the escrow account may be withdrawn by the Utility without the prior written authorization of the Commission Clerk, or his or her designee.
3. The escrow account shall be an interest bearing account.
4. If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
5. If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility.
6. All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
7. The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
8. This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to *Cosentino v. Elson*, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
9. The account must specify by whom and on whose behalf such monies were paid.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the Utility. Irrespective of the form of security chosen by the Utility, an account of all monies received as a result of the rate increase should be maintained by the Utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

The Utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission Clerk's office no later than the 20th of every month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 11: Should Four Lakes be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision?

Preliminary Recommendation: Yes. The Utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Four Lakes should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts, as shown on Schedules No. 5-A and 5-B, have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Golden, Wilson).

Staff Analysis: The Utility should be required to notify the Commission, in writing that it has adjusted its books in accordance with the Commission's decision. Schedules No. 5-A and 5-B reflects the accumulated plant, depreciation, CIAC, and amortization of CIAC balances as of August 31, 2016. Four Lakes should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts, as shown on Schedule No. 5-A and 5-B, have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Issue 12: Should this docket be closed?

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

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

FOUR LAKES GOLF CLUB, LTD.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 8/31/2016		DOCKET NO. 160176-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTILITY BALANCE	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$704,613	\$172,561	\$877,174
2. LAND & LAND RIGHTS	38,979	0	38,979
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(507,425)	0	(507,425)
5. ACCUMULATED DEPRECIATION	(445,837)	61,642	(384,195)
6. AMORTIZATION OF CIAC	300,427	3,019	303,446
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>18,572</u>	<u>18,572</u>
8. WATER RATE BASE	<u>\$90,757</u>	<u>\$255,794</u>	<u>\$346,551</u>

FOUR LAKES GOLF CLUB, LTD.		SCHEDULE NO. 1-B	
TEST YEAR ENDED 8/31/2016		DOCKET NO. 160176-WS	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTILITY BALANCE	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$1,373,940	(\$1,994)	\$1,371,946
2. LAND & LAND RIGHTS	70,004	0	70,004
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(985,153)	0	(985,153)
5. ACCUMULATED DEPRECIATION	(920,248)	17,949	(902,299)
6. AMORTIZATION OF CIAC	583,996	5,862	589,858
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>22,692</u>	<u>22,692</u>
8. WASTEWATER RATE BASE	<u>\$122,539</u>	<u>\$44,509</u>	<u>\$167,048</u>

FOUR LAKES GOLF CLUB, LTD.		SCHEDULE NO. 1-C	
TEST YEAR ENDED 8/31/2016		DOCKET NO. 160176-WS	
ADJUSTMENTS TO RATE BASE			
	<u>WATER</u>	<u>WASTEWATER</u>	
<u>UTILITY PLANT IN SERVICE</u>			
1. To reflect pro forma addition to Acct. No. 320 (no retirement)	\$1,200		
2. To reflect pro forma hydropneumatic tank replacement to Acct. No. 330.	62,484		
3. To reflect retirement of replaced hydro tank.	(8,778)		
4. To reflect pro forma meter replacements to Acct. No. 334.	193,499		
5. To reflect retirement of replaced meters.	(65,301)		
6. To reflect an averaging adjustment.	<u>(\$10,543)</u>	<u>(\$1,994)</u>	
Total	<u>\$172,561</u>	<u>(\$1,994)</u>	
<u>ACCUMULATED DEPRECIATION</u>			
1. To reflect accumulated depreciation per Rule 25-30.140, F.A.C.	(\$7,013)	\$4,776	
2. To reflect pro forma addition to Acct. No. 320 (no retirement)	(71)		
3. To reflect pro forma hydro tank replacement.	(1,627)		
4. To reflect retirement of replaced hydro tank.	8,778		
5. To reflect pro forma meter replacements.	(11,382)		
6. To reflect retirement of replaced meters.	65,301		
7. To reflect an averaging adjustment.	<u>7,657</u>	<u>13,173</u>	
Total	<u>\$61,642</u>	<u>\$17,949</u>	
<u>AMORTIZATION OF CIAC</u>			
1. To reflect appropriate amortization of CIAC	\$12,077	\$23,447	
2. To reflect an averaging adjustment.	<u>(9,058)</u>	<u>(17,585)</u>	
Total	<u>\$3,019</u>	<u>\$5,862</u>	
<u>WORKING CAPITAL ALLOWANCE</u>			
To reflect 1/8 of test year O&M expenses.	<u>\$18,572</u>	<u>\$22,692</u>	

FOUR LAKES GOLF CLUB, LTD. TEST YEAR ENDED 8/31/2016 SCHEDULE OF CAPITAL STRUCTURE							SCHEDULE NO. 2 DOCKET NO. 160176-WS		
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE RECONCILE TO RATE BASE	ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON STOCK	\$0	\$0	\$0						
2. RETAINED EARNINGS	0	0	0						
3. PAID IN CAPITAL	0	0	0						
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>						
TOTAL COMMON EQUITY	\$0	\$0	\$0	\$0	\$0	0.00%	11.16%	0.00%	
5. LONG TERM DEBT	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
6. SHORT-TERM DEBT	4,325	0	4,325	509,275	513,600	100.00%	8.32%	8.32%	
7. PREFERRED STOCK	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%	
TOTAL DEBT	\$4,325	\$0	\$4,325	\$509,275	\$513,600	100.00%			
8. CUSTOMER DEPOSITS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	2.00%	<u>0.00%</u>	
9. TOTAL	<u>\$4,325</u>	\$0	<u>\$4,325</u>	<u>\$509,275</u>	<u>\$513,600</u>	100.00%		<u>8.32%</u>	
RANGE OF REASONABLENESS						LOW	HIGH		
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>		
OVERALL RATE OF RETURN						<u>8.32%</u>	<u>8.32%</u>		

FOUR LAKES GOLF CLUB, LTD. TEST YEAR ENDED 8/31/2016 SCHEDULE OF WATER OPERATING INCOME						SCHEDULE NO. 3-A DOCKET NO. 160176-WS
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$142,995</u>	<u>\$25</u>	<u>\$143,020</u>	<u>\$70,440</u> 49.25%	<u>\$213,460</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$150,725	(\$2,148)	\$148,577	\$0	\$148,577	
3. DEPRECIATION (NET)	1,357	8,922	10,279	0	10,279	
4. AMORTIZATION	0	0	0	0	0	
5. TAXES OTHER THAN INCOME	12,585	10,017	22,602	3,170	25,772	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$164,667</u>	<u>\$16,790</u>	<u>\$181,457</u>	<u>\$3,170</u>	<u>\$184,627</u>	
8. OPERATING INCOME/(LOSS)	<u>(\$21,672)</u>		<u>(\$38,437)</u>		<u>\$28,833</u>	
9. WATER RATE BASE	<u>\$90,757</u>		<u>\$346,551</u>		<u>\$346,551</u>	
10. RATE OF RETURN	<u>(23.88%)</u>		<u>(11.09%)</u>		<u>8.32%</u>	

FOUR LAKES GOLF CLUB, LTD. TEST YEAR ENDED 8/31/2016 SCHEDULE OF WASTEWATER OPERATING INCOME						SCHEDULE NO. 3-B DOCKET NO. 160176-WS
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$142,371</u>	<u>(\$58)</u>	<u>\$142,313</u>	<u>\$82,432</u> 57.92%	<u>\$224,745</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$173,861	\$7,678	\$181,539	\$0	\$181,539	
3. DEPRECIATION (NET)	14,011	(14,011)	0	0	0	
4. AMORTIZATION	0	0	0	0	0	
5. TAXES OTHER THAN INCOME	17,392	8,207	25,599	3,709	29,308	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$205,264</u>	<u>\$1,873</u>	<u>\$207,137</u>	<u>\$3,709</u>	<u>\$210,847</u>	
8. OPERATING INCOME/(LOSS)	<u>(\$62,893)</u>		<u>(\$64,824)</u>		<u>\$13,898</u>	
9. WASTEWATER RATE BASE	<u>\$122,539</u>		<u>\$167,048</u>		<u>\$167,048</u>	
10. RATE OF RETURN	<u>(51.32%)</u>		<u>(38.81%)</u>		<u>8.32%</u>	

FOUR LAKES GOLF CLUB, LTD.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 8/31/2016		DOCKET NO. 160176-WS	
ADJUSTMENTS TO OPERATING INCOME		Page 1 of 2	
		<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES			
.	To reflect appropriate test year service revenues.	<u>\$25</u>	<u>(\$58)</u>
OPERATION AND MAINTENANCE EXPENSES			
1.	Salaries and Wages - Employees (601/701)		
	a. To reflect appropriate test year salaries and wages - employees.	(\$33)	(\$1,155)
	b. To reclassify officer's salary to Accts. No. 603 and 703.	(6,031)	(6,031)
	a. To reflect pro forma allocated share of corporate payroll.	<u>12,851</u>	<u>12,426</u>
	Subtotal	<u>\$6,786</u>	<u>\$5,241</u>
2.	Salaries and Wages - Officers (603/703)		
	a. To reclassify officer's salary from Accts. No. 601 and 701.	<u>\$6,031</u>	<u>\$6,031</u>
3.	Purchased Power (615/715)		
	a. To reflect annualized purchased power expense.	\$3,577	\$1,137
	b. To remove late fees and out-of-period expenses.	(686)	(476)
	c. To remove non-utility and unsupported expenses.	(23,282)	(633)
	d. To reflect excessive unaccounted for water.	<u>(913)</u>	<u>0</u>
	Subtotal	<u>(\$21,304)</u>	<u>\$29</u>
4.	Chemicals (618/718)		
	a. To reflect test year chemicals expense.	(\$279)	(\$268)
	b. To reflect excessive unaccounted for water.	<u>(368)</u>	<u>0</u>
	Subtotal	<u>(\$647)</u>	<u>(\$268)</u>
5.	Materials and Supplies (620/720)		
	a. To remove out-of-period and unsupported expenses.	(\$947)	\$0
	b. To reflect appropriate wastewater test year expense.	<u>0</u>	<u>1,829</u>
	Subtotal	<u>(\$947)</u>	<u>\$1,829</u>
6.	Contractual Services - Billing (630/730)		
	a. To reflect pro forma allocation of corporate billing expense.	<u>\$1,483</u>	<u>\$1,434</u>
7.	Contractual Services - Professional (631/731)		
	a. To reflect the appropriate test year expense.	\$0	<u>(\$5,930)</u>
8.	Contractual Services - Testing (635/735)		
	a. To reclassify equipment testing services to Accts. No. 636 & 736.	(\$2,488)	(\$250)
	b. To annualize monthly water testing expense.	219	0
	c. To reflect appropriate test year wastewater testing expense.	<u>0</u>	<u>(1,346)</u>
	Subtotal	<u>(\$2,268)</u>	<u>(\$1,596)</u>
9.	Contractual Services - Other (636/736)		
	a. To reflect appropriate test year contractual services - other expense.	\$275	(\$2,389)
	b. To reclassify equipment testing services from Accts. No. 635 & 735.	2,488	250
	c. To reclassify contractual services from Acct. No. 775.	<u>0</u>	<u>1,620</u>
	Subtotal	<u>\$2,763</u>	<u>(\$519)</u>

FOUR LAKES GOLF CLUB, LTD.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 8/31/2016		DOCKET NO. 160176-WS	
ADJUSTMENTS TO OPERATING INCOME		Page 2 of 2	
10.	Rents (640/740)		
	a. To reflect pro forma allocation of corporate rental expense.	\$3,335	\$3,224
	b. To reflect pro forma allocation of corporate equipment rental expense.	64	62
	Subtotal	<u>\$3,399</u>	<u>\$3,287</u>
11.	Transportation Expense (650/750)		
	a. To reflect appropriate test year transportation expense.	(\$1,043)	(\$3,713)
	b. To reflect pro forma allocation of corporate transportation expense.	610	590
	Subtotal	<u>(\$433)</u>	<u>(\$3,123)</u>
12.	Insurance Expense (655/755)		
	a. To reflect appropriate test year insurance expense.	\$665	(\$651)
	b. To reflect pro forma allocation of corporate insurance expense.	231	224
	Subtotal	<u>\$897</u>	<u>(\$427)</u>
13.	Regulatory Commission Expense (665/765)		
	a. To remove rate case expense per Section 367.0814(3), F.S.	(\$540)	(\$540)
	b. To reflect 4-year amortization of rate case expense (\$14,164 total, split \$7,184/4 for water and \$6,980/4 for wastewater).		
		1,796	1,745
	Subtotal	<u>\$1,256</u>	<u>\$1,205</u>
14.	Miscellaneous Expense (675/775)		
	a. To reflect appropriate test year miscellaneous expense.	(\$538)	\$777
	b. To reclassify contractual services to Acct. No. 736.	0	(1,620)
	c. To reflect pro forma allocation of corporate equipment expense.	461	446
	d. To reflect pro forma allocation of corporate miscellaneous expense.	914	884
	Subtotal	<u>\$837</u>	<u>\$487</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS		<u>(\$2,148)</u>	\$7,678
DEPRECIATION EXPENSE			
1.	To reflect test year depreciation calculated per Rule 25-30.140, F.A.C.	(\$4,159)	(\$17,429)
2.	To reflect pro forma addition to Acct. No. 320.	71	0
3.	To reflect pro forma hydro tank replacement.	1,893	0
4.	To reflect retirement of replaced hydro tank.	(266)	0
5.	To reflect pro forma meter replacements.	11,382	0
6.	To set a resulting negative net depreciation expense to zero.	0	3,418
	Total	<u>\$8,922</u>	<u>(\$14,011)</u>
TAXES OTHER THAN INCOME			
1.	To reflect the appropriate test year RAFs.	\$45	\$135
2.	To reflect appropriate test year payroll taxes.	6,538	7,139
3.	To reflect pro forma payroll taxes on corporate allocation of salaries.	964	932
4.	To reflect pro forma increase to utility property taxes.	2,470	0
	Total	<u>\$10,017</u>	<u>\$8,207</u>

FOUR LAKES GOLF CLUB, LTD.	SCHEDULE NO. 3-D		
TEST YEAR ENDED 8/31/2016	DOCKET NO. 160176-WS		
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENTS	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$74,356	\$6,786	\$81,142
(603) SALARIES AND WAGES - OFFICERS	0	6,031	6,031
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	31,953	(21,304)	10,649
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	4,942	(647)	4,295
(620) MATERIALS AND SUPPLIES	9,673	(947)	8,726
(630) CONTRACTUAL SERVICES - BILLING	0	1,483	1,483
(631) CONTRACTUAL SERVICES - PROFESSIONAL	4,962	0	4,962
(635) CONTRACTUAL SERVICES - TESTING	2,806	(2,268)	538
(636) CONTRACTUAL SERVICES - OTHER	10,288	2,763	13,051
(640) RENTS	0	3,399	3,399
(650) TRANSPORTATION EXPENSE	5,079	(433)	4,646
(655) INSURANCE EXPENSE	2,144	897	3,041
(665) REGULATORY COMMISSION EXPENSE	540	1,256	1,796
(670) BAD DEBT EXPENSE	26	0	26
(675) MISCELLANEOUS EXPENSE	<u>3,956</u>	<u>837</u>	<u>4,793</u>
	<u>\$150,725</u>	<u>(\$2,148)</u>	<u>\$148,577</u>

FOUR LAKES GOLF CLUB, LTD.	SCHEDULE NO. 3-E		
TEST YEAR ENDED 8/31/2016	DOCKET NO. 160176-WS		
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENTS	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$83,921	\$5,241	\$89,162
(703) SALARIES AND WAGES - OFFICERS	0	6,031	6,031
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	21,540	0	21,540
(715) PURCHASED POWER	15,669	29	15,698
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	15,626	(268)	15,358
(720) MATERIALS AND SUPPLIES	4,288	1,829	6,117
(730) CONTRACTUAL SERVICES - BILLING	0	1,434	1,434
(731) CONTRACTUAL SERVICES - PROFESSIONAL	10,250	(5,930)	4,320
(735) CONTRACTUAL SERVICES - TESTING	6,651	(1,596)	5,055
(736) CONTRACTUAL SERVICES - OTHER	4,229	(519)	3,710
(740) RENTS	0	3,287	3,287
(750) TRANSPORTATION EXPENSE	6,800	(3,123)	3,677
(755) INSURANCE EXPENSE	2,539	(427)	2,112
(765) REGULATORY COMMISSION EXPENSE	540	1,205	1,745
(770) BAD DEBT EXPENSE	26	0	26
(775) MISCELLANEOUS EXPENSE	<u>1,782</u>	<u>487</u>	<u>2,269</u>
	<u>\$173,861</u>	<u>\$7,678</u>	<u>\$181,539</u>

FOUR LAKES GOLF CLUB, LTD.		SCHEDULE NO. 4-A	
TEST YEAR ENDED AUGUST 31, 2016		DOCKET NO. 160176-WS	
MONTHLY WATER RATES			
	UTILITY CURRENT RATES*	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential, General, and Irrigation Service</u>			
Base Facility Charge by Meter Size			
5/8"X3/4"	\$13.09	\$8.04	\$0.07
3/4"		\$12.06	\$0.11
1"		\$20.10	\$0.18
1-1/2"		\$40.20	\$0.35
2"		\$64.32	\$0.56
3"		\$128.64	\$1.12
4"		\$201.00	\$1.75
6"		\$402.00	\$3.50
Charge per 1,000 gallons – Residential			
0 - 5,000 gallons	\$0.00	N/A	N/A
Over 5,000 gallons	\$1.05	N/A	N/A
0 - 3,000 gallons	N/A	\$1.86	\$0.02
Over 3,000 gallons	N/A	\$2.26	\$0.02
Charge per 1,000 gallons – General Service			
0 - 5,000 gallons	\$0.00	N/A	N/A
Over 5,000 gallons	\$1.05	N/A	N/A
Charge per 1,000 gallons – Irrigation			
0 – 5,000 gallons	\$0.00	N/A	N/A
Over 5,000 gallons	\$0.53	N/A	N/A
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$13.09	\$13.62	
5,000 Gallons	\$13.09	\$18.14	
8,000 Gallons	\$16.24	\$24.92	
* Existing rates include 5,000 gallons in the base facility charge for water and wastewater.			

FOUR LAKES GOLF CLUB, LTD.		SCHEDULE NO. 4-B	
TEST YEAR ENDED AUGUST 31, 2016		DOCKET NO. 160176-WS	
MONTHLY WASTEWATER RATES			
	UTILITY CURRENT RATES*	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential Service</u>			
All Meter Sizes	\$13.09	\$10.94	\$0.09
Charge per 1,000 gallons - Residential 8,000 gallon cap	N/A	\$1.93	\$0.02
0-5,000 gallons	\$0.00	N/A	N/A
Over 5,000 Gallons	\$1.05	N/A	N/A
<u>General Service</u>			
Base Facility Charge by Meter Size			
All Meter Sizes	\$13.09	N/A	N/A
5/8" x 3/4"	N/A	\$10.94	\$0.09
1"	N/A	\$27.35	\$0.23
1-1/2"	N/A	\$54.70	\$0.45
2"	N/A	\$87.52	\$0.72
3"	N/A	\$175.04	\$1.44
4"	N/A	\$273.50	\$2.25
6"	N/A	\$547.00	\$4.50
Charge per 1,000 gallons - General Service	N/A	\$2.31	\$0.02
0-5,000 gallons	\$0.00	N/A	N/A
Over 5,000 gallons	\$1.05	N/A	N/A
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$13.09	\$16.73	
5,000 Gallons	\$13.09	\$20.59	
8,000 Gallons	\$16.24	\$26.38	
* Existing rates include 5,000 gallons in the base facility charge for water and wastewater.			

FOUR LAKES GOLF CLUB, LTD.			SCHEDULE NO. 5-A	
TEST YEAR ENDED 8/31/2016			DOCKET NO. 160176-WS	
SCHEDULE OF WATER PLANT, DEPRECIATION, CIAC, & CIAC AMORTIZATION BALANCES				
ACCT NO.	DEPR. RATE PER RULE 25-30.140	DESCRIPTION	UPIS 8/31/2016 (DEBIT)	ACCUM. DEPR. 8/31/2016 (CREDIT)*
301	2.50%	Organization	\$500	\$352
302	2.50%	Franchises	1,800	1,268
303		Land and Land Rights (Non-Depreciable)	38,979	
304	3.57%	Structures and Improvements	14,906	10,992
307	3.70%	Wells and Springs	62,227	45,827
309	3.13%	Supply Mains	10,011	5,410
310	5.88%	Power Generation Equipment	68,158	68,158
311	5.88%	Pumping Equipment	48,052	27,586
320	5.88%	Water Treatment Equipment	10,987	10,987
330	3.03%	Distribution Reservoirs and Standpipes	13,683	8,778
331	2.63%	Transmission and Distribution Mains	337,408	173,846
333	2.86%	Services	26,340	13,821
334	5.88%	Meters and Meter Installations	65,301	65,301
335	2.50%	Hydrants	39,731	19,235
340	16.67%	Office Furniture and Equipment	1,457	648
345	5.00%	Power Operated Equipment	4,051	641
		Total Including Land	<u>\$743,591</u>	<u>\$452,850</u>
			CIAC AMORT. 8/31/2016 (DEBIT)*	CIAC 8/31/2016 (CREDIT)
			<u>\$312,504</u>	<u>\$507,425</u>

* The plant and accumulated depreciation balances exclude all pro forma plant additions. Also, all balances exclude the staff-recommended averaging adjustments that are only used for ratesetting purposes and should not be reflected on the utility's books.

FOUR LAKES GOLF CLUB, LTD.			SCHEDULE NO. 5-B	
TEST YEAR ENDED 8/31/2016			DOCKET NO. 160176-WS	
SCHEDULE OF WASTEWATER PLANT, DEPRECIATION, CIAC, & CIAC AMORT. BALANCES				
ACCT NO.	DEPR. RATE PER RULE 25-30.140	DESCRIPTION	UPIS 8/31/2016 (DEBIT)	ACCUM. DEPR. 8/31/2016 (CREDIT)*
351	2.50%	Organization	\$400	\$282
352	2.50%	Franchises	2,028	1,428
353		Land and Land Rights (Non-Depreciable)	70,004	
354	3.70%	Structures and Improvements	174,030	112,479
360	3.70%	Collection Sewers - Force	48,694	33,010
361	2.50%	Collection Sewers - Gravity	650,880	326,269
363	2.86%	Services to Customers	68,103	39,308
364	20.00%	Flow Measuring Devices	6,169	4,538
365	2.86%	Flow Measuring Installations	2,800	1,694
370	5.56%	Receiving Wells	17,555	17,555
371	5.56%	Pumping Equipment	62,296	44,405
380	5.56%	Treatment and Disposal Equipment	334,418	332,402
389	6.67%	Other Plant and Misc. Equipment	894	894
390	16.67%	Office Furniture and Equipment	1,457	567
395	5.00%	Power Operated Equipment	4,051	641
		Total Including Land	<u>\$1,443,779</u>	<u>\$915,472</u>
			CIAC AMORT. 8/31/2016 (DEBIT)*	CIAC 8/31/2016 (CREDIT)
			<u>\$607,443</u>	<u>\$985,153</u>

* All balances exclude the staff-recommended averaging adjustments that are only used for ratesetting purposes and should not be reflected on the utility's books.