

State of Florida



# Public Service Commission

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

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

**DATE:** October 26, 2017

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

**FROM:** Division of Accounting and Finance (Golden, Wilson)  
Division of Economics (Johnson)  
Division of Engineering (Thompson, Wooten)  
Office of the General Counsel (Cuello)

*Handwritten notes and signatures:*  
KW  
ALM  
ms  
W  
SAC  
TV  
CAS

**RE:** Docket No. 20160176-WS – Application for staff-assisted rate case in Polk County by Four Lakes Golf Club, Ltd.

**AGENDA:** 11/07/17 – Regular Agenda – Proposed Agency Action - Except for Issues 11, 12, and 13 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Polmann

**CRITICAL DATES:** 12/26/17 (15-Month Effective Date (SARC))

**SPECIAL INSTRUCTIONS:** None

## Table of Contents

Case Background .....	3
Issue 1 Quality of Service .....	4
Issue 2 Used & Useful .....	6
Issue 3 Rate Base .....	9
Issue 4 Rate of Return .....	14
Issue 5 Test Year Revenues .....	15
Issue 6 Operating Expenses .....	16
Issue 7 Operating Ratio Methodology .....	26
Issue 8 Revenue Requirement .....	30
Issue 9 Rate Structures and Rates .....	32
Issue 10 Service Availability Charges .....	36
Issue 11 Four Year Rate Reduction .....	37
Issue 12 Temporary Rates .....	38
Issue 13 Book Adjustments .....	40
Issue 14 Docket Closure .....	41
Schedule No. 1-A Water Rate Base .....	42
Schedule No. 1-B Wastewater Rate Base .....	43
Schedule No. 1-C Adjustments To Rate Base .....	44
Schedule No. 2 Capital Structure .....	45
Schedule No. 3-A Water Operating Income .....	46
Schedule No. 3-B Wastewater Operating Income .....	47
Schedule No. 3-C Adjustments to Operating Income .....	48
Schedule No. 3-D Water O&M Expense .....	51
Schedule No. 3-E Wastewater O&M Expense .....	52
Schedule No. 4-A Monthly Water Rates .....	53
Schedule No. 4-B Monthly Wastewater Rates .....	54
Schedule No. 5-A Water Plant, Depreciation, CIAC, & CIAC Amortization Balances .....	55
Schedule No. 5-B Wastewater Plant, Depreciation, CIAC, & CIAC Amortization Balances .....	56

## 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.<sup>1</sup> 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). The official filing date for this case is September 26, 2016. Staff selected the 12-month period ended August 31, 2016, as the test year for the instant case. On June 29, 2017, a customer meeting was held at the Chain O'Lakes Complex within Four Lakes' service territory to receive customer comments concerning quality of service. The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.081(8) and (9), 367.0814, 367.101, and 367.121, Florida Statutes (F.S.).

---

<sup>1</sup>Order No. PSC-99-1236-PAA-WS, issued June 22, 1999, in Docket No. 19981340-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 Golf Club, Ltd. satisfactory?

**Recommendation:** Yes. Staff recommends that the overall quality of service provided by the Utility be considered satisfactory. (Wooten, Thompson)

**Staff Analysis:** Pursuant to Section 367.081(2)(a)1, F.S., in water and wastewater rate cases, the Commission shall consider the overall quality of service provided by a utility. Rule 25-30.433(1), Florida Administrative Code (F.A.C.), provides for the evaluation of three separate components of the utility's operations. The components evaluated are: (1) the quality of the utility's product; (2) the operating conditions of the utility's plant and facilities; and (3) the utility's attempt to address customer satisfaction. The Rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered. Additionally, Section 367.0812(1)(c), F.S., requires the Commission to consider the extent to which the utility provides water service that meets secondary water quality standards as established by the DEP.

### Quality of Utility's Product

In evaluating Four Lakes' water quality, staff reviewed the Utility's compliance with the 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 the DEP.

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

The Utility is located in the water use caution area of the Southwest Florida Water Management District. Staff visited the facility and completed a site inspection on June 29, 2017. Four Lakes' water system has two wells, rated at 550 gallons per minute (gpm) and 460 gpm and 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 polyvinyl chloride (PVC) pipes. Staff reviewed the Utility's last DEP Sanitary Survey, dated September 14, 2016, and the facility was determined to be in compliance with the DEP's rules and regulations.

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. This facility is operated to provide secondary treatment with basic disinfection. The 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, the 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, the DEP noted groundwater quality deficiencies with Total Dissolved Solids (TDS), pH, and nitrate levels. Both the TDS and pH deficiencies were corrected and DEP stated that the Utility is currently in

compliance in regards to groundwater quality. The increased presence of nitrates in the groundwater testing was determined to be caused by an outside source beyond the Utility's control. In order to prevent any further contamination, the Utility abandoned and relocated the monitoring location and educated the residents on proper use of fertilizer, herbicides and pesticides.

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

On June 29, 2017, a customer meeting was held at the Chain O'Lakes Complex within Four Lakes' service territory to receive customer comments concerning quality of service. There were approximately 15 customers in attendance, one of whom made comments. The customer stated that he found the rate increase reasonable and had no complaints about the Utility.

Staff requested copies of complaints filed against Four Lakes with the DEP for the test year and the prior four years. The DEP stated that no complaints have been received in the five-year period. Staff also requested complaints from the Utility for the test year and the prior four years as well, and the Utility stated that none had been received during this time period. The Commission's Consumer Activity Tracking System recorded one complaint during the past five years, related to improper billing on October 30, 2014. This issue was resolved in a timely and adequate manner. There were no other complaints received by either the Commission or the DEP.

### **Conclusion**

The Utility has taken reasonable actions to comply with the DEP's regulations and to address customer concerns. Staff recommends that the quality of service provided by the Utility be considered satisfactory.

Date: October 26, 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?

**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. Staff recommends a 7.2 percent adjustment to purchased power and chemical expenses be made for excessive unaccounted for water. (Wooten, Thompson)

**Staff Analysis:** Four Lakes' WTP has two wells rated at a combined 1,010 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 (1) the causes of EUW, (2) any corrective action taken, or (3) 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 the DEP indicates that the Utility treated 83,994,001 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, 14,480,135 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 17.2 percent and the excessive unaccounted for water is 7.2 percent or approximately 6,080,735 gallons.

Accordingly, staff recommends a corresponding adjustment to purchased power and chemical expenses due to EUW. The Utility states that the current meters are of various ages and many meters are not working or capturing all of the water usage resulting in this EUW value. As discussed in Issue 3, the Utility plans to rectify the problem by replacing meters in its service territory.

### **Infiltration and Inflow**

Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider infiltration & inflow (I&I). Infiltration typically results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas inflow results from water entering a wastewater collection system through manholes or lift stations. The

Date: October 26, 2017

allowance for infiltration is 500 gpd per inch diameter pipe per mile, and an additional 10 percent of water sold is allowed for inflow. In addition, adjustments to operating expenses, such as chemical and electrical costs, are considered necessary if excessive. Excessive I&I is a calculation that is based on a comparison of the allowable wastewater treated to the actual amount of wastewater treated.

Using the pipe lengths of the Utility's collection system, the infiltration allowance is calculated to be 5,321,188 gallons per year. Ten percent of the total gallons sold to customers is allowed for inflow, which totals 6,865,886 gallons. The total I&I allowance is then calculated as 12,187,074 gallons per year.

The amount of wastewater expected to be returned from the system is calculated. This figure is determined by summing 80 percent of water sold to residential users with 90 percent of water sold to non-residential users. The amount calculated for expected return is 55,043,600 gallons per year. In order to find the total amount of wastewater allowed, the I&I allowance and the expected return are summed, yielding 67,230,633 gallons per year. Finally, this total is compared to the total wastewater actually treated during the test year, which in this case is 24,779,000 gallons. The actual amount does not exceed the allowable amount, therefore there is no excessive I&I.

### **Used and Useful Percentages**

This is the Utility's first staff assisted rate case since receiving its grandfather certificates in 1999.<sup>2</sup> Therefore, this is the first determination of used and useful percentages by the Commission.

#### ***Water Treatment Plant***

Four Lakes' water service territory covers approximately 670 acres. The WTP is a closed system with two wells rated at 550 and 460 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. The formula for calculating U&U for the WTP is given by  $[2 \times (\text{Maximum Day Peak Demand} - \text{EUW}) + \text{Fire Flow} + \text{Growth}] / \text{Firm Reliable Capacity}$ . Max Day Peak Demand is 269 gpm. As previously noted, there is EUW of 6,080,735 gallons which results in a value of 11.6 gpm. Fire Flow is 500 gpm according to Rule 25-30.4325(1)(c), F.A.C. Using the linear regression formula, there is no estimated growth over the statutory five-year growth period. Firm Reliable Capacity assumes loss of the largest capacity well (550 gpm) and is therefore 460 gpm. This calculation results in a U&U greater than 100 percent, as such, staff recommends the WTP be considered 100 percent U&U.

#### ***Water Distribution***

The water distribution system is evaluated based on equivalent residential connections (ERCs) consisting of growth, customer demand, and system capacity. As noted above, the system has no estimated growth. The customer demand is 863 ERCs (863 ERCs is the sum of the 813 residential customers and 13 general service customers which equal 50 ERCs) for the test year.

---

<sup>2</sup>Order No. PSC-99-1369-CO-WS, issued July 15, 1999, in Docket No. 19981340-WS, *In re: Application for grandfather certificates to operate water and wastewater utility in Polk County by Four Lakes Golf Club, Ltd.*

The system capacity is 873 ERCs, resulting in a U&U percentage of 99 percent for the distribution system. The system is considered built out and over 95 percent U&U therefore consistent with prior Commission practice, staff recommends it be considered 100 percent U&U.<sup>3</sup>

### ***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 based on a linear regression. The permitted capacity of the plant is 98,500 gpd. Based on staff's calculation, the resulting U&U for the WWTP is 89 percent. As the system is built out, staff recommends a U&U amount of 100 percent for the WWTP.

### ***Wastewater Collection***

The wastewater collection system is evaluated based on ERCs consisting of growth, customer demand, and system capacity. Based upon a linear regression formula there is no estimated customer growth over the statutory five-year growth period. The customer demand is 826 ERCs (826 ERCs is the sum of the 813 residential customers and 6 general service customers equal to 13 ERCs) for the test year, with a system capacity of 843 ERCs, resulting in a U&U percentage of 98 percent for the distribution system. As there has been no customer growth and the system is built out, staff recommends a U&U amount of 100 percent for the wastewater collection system.

### **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 and staff recommends a 7.2 percent adjustment to purchased power and chemical expenses should be made for excessive unaccounted for water.

---

<sup>3</sup>Order No. PSC-12-0357-PAA-WU, issued July 10, 2012, in Docket No. 20100048-WU, *In re: Application for increase in water rates in Marion County by Sunshine Utilities of Central Florida, Inc.*



Date: October 26, 2017

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

**Recommendation:** The appropriate average test year rate base for Four Lakes is \$331,883 for water and zero for wastewater. Four Lakes should complete the pro forma items within 12 months of the issuance of the consummating order. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing. Also, the Utility should be required to submit a copy of the final invoices and proof of payment for all pro forma plant items. (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. The Utility continued to research its records after the audit, and located an additional \$21,086 in supporting documentation for the well pump replacement for potable well #2 that occurred during the test year. Therefore, staff decreased UPIS by \$126,171 (\$147,257 - \$21,086) for water and \$366,532 for wastewater. In addition, staff decreased the water account by \$3,762 to reflect the retirement of the replaced well pump based upon a review of the available original cost documentation. Staff notes that the Utility has retained engineering services from the same professional engineer since the Utility's facilities were first constructed. Staff believes the Utility may be more successful in documenting the unsupported plant through an original cost study conducted by or in consultation with the professional engineer who is familiar with the facilities. In the event the Utility decides to conduct an original cost study, staff recommends that the Commission authorize Four Lakes to record any costs it incurs for conducting an original cost study in the future to Account 186 Miscellaneous Deferred Debits pending Commission review in a future rate proceeding.

Staff is also recommending several adjustments related to pro forma plant additions. Staff increased water UPIS by \$1,200 to reflect a pro forma chlorinator replacement that occurred after the test year. Staff also decreased the water account by \$161 to reflect the retirement of the replaced chlorinator based upon a review of the available original cost documentation. 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. Recently, the Utility also requested consideration of an emergency well repair for potable well #1.

Four Lakes plans to replace a hydropneumatic water tank by the end of 2017. The Polk County Health Department (PCHD), acting on behalf of the DEP, requires the Utility to have the tank

Date: October 26, 2017

inspected every five years. After the most recent tank inspection in late 2016, Four Lakes was advised by an independent contractor that the tank should be rehabilitated or replaced. The tank is the original tank that was placed into service in 1994 when the Utility was constructed. The Utility states that it approached several vendors about the tank replacement project but only received one quote.<sup>4</sup> The Utility also requested proposals from two more companies regarding rehabilitation of the tank but did not receive any quotes. The Utility was ultimately advised by a representative of the Florida Rural Water Association (FRWA) that due to the age and nature of the tank usage, the tank should be replaced rather than rehabilitated. Based on staff's review of the requested tank replacement, staff recommends it as appropriate and prudent.

According to the Utility, the current meters are the original meters and many meters are not working or capturing all of the water usage, which resulted in a recommended EUW adjustment of 7.2 percent. Therefore, the Utility plans to replace approximately 827 meters in 2017 in an effort to address unaccounted for water discussed in Issue 2. As of September 2017, the Utility has replaced approximately 700 meters and plans to have replaced all of its meters by the end of October.

The new meters are remote read meters, allowing automatic direct readings of the meters. These meters are currently in use at one of the Utility's other properties so it already possesses the necessary meter reading equipment. The replacement cost is \$210.54 per residential meter with a higher 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. The Utility obtained one bid from the company that provided the meter reading equipment to ensure compatibility with the new meters. Comparing the cost of the meter replacements to industry standards and another similarly sized water utility, staff recommends the requested meter installation charge is reasonable.<sup>5</sup> Staff therefore recommends the meter replacement project as appropriate and prudent.

On October 6, 2017, staff was informed that the 550 gpm rated well failed which required the replacement of the pump, shaft, and assembly. This well is run in tandem with the Utility's second well and is needed to run at full operational capacity. This failure required an emergency evaluation, therefore, the Utility requested the repair service from a vendor that has prior successful experience working on Four Lakes' wells. The replacement is expected to be completed by the end of October 2017. Based on staff's review of the requested replacement, staff recommends it as appropriate and prudent.

As shown in Table 3-1 below, the net increase to water UPIS to reflect the pro forma hydropneumatic tank replacement, meter replacement projects, and well pump replacement is \$279,800, which includes the associated retirements estimated by staff based on the available records. There are no retirements reflected for the hydropneumatic tank and well pump replacements because the original costs for those items were already removed in the unsupported plant adjustment discussed above. Also, the Utility's existing records only reflect one well pump,

---

<sup>4</sup>Document No. 05678-2017, filed on July 3, 2017, in Docket No. 20160176-WS.

<sup>5</sup>Order No. PSC-16-0537-PAA-WU, issued November 23, 2016, in Docket No. 20150181-WU, *In re: Application for staff-assisted rate case in Duval County by Neighborhood Utilities, Inc.*

Date: October 26, 2017

and staff is recommending that it be retired in association with the test year pump replacement for well #2 discussed above. Further, the retirement for meter replacements is limited to the balance remaining in Account 334 following the unsupported plant adjustment.

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

<b>Project</b>	<b>Acct. No.</b>	<b>Description</b>	<b>Amount</b>
Hydropneumatic Tank Project	330	Replace hydropneumatic water tank	\$ 72,864
Meter Replacement Project	334	Install new water meters & meter boxes	193,499
	334	Retire replaced meters & boxes	(6,740)
Well Pump Replacement	311	Replace well pump, shaft and assembly	20,177
Net Increase			<u>\$279,800</u>

Source: Responses to staff data requests

Staff notes that pro forma plant additions are often addressed using a phased approach. However, staff does not believe a phased approach is necessary in this case because it is anticipated that all of the projects will be completed by the end of this year, prior to the effective date of any rates that may be approved by the Commission in this docket. Further, the Utility has already begun work on each project and has made significant progress toward completing the projects. Four Lakes should complete the pro forma projects within 12 months of the issuance of the consummating order. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing. Also, the Utility should be required to submit a copy of the final invoices and proof of payment for all pro forma plant items.

Finally, staff decreased UPIS by \$27,113 for water and \$3,633 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 \$123,794 to water and a decrease of \$370,165 to wastewater. Therefore, staff recommends a UPIS balance of \$828,407 for water and \$1,003,775 for wastewater.

### **Land and Land Rights**

The Utility recorded land of \$38,979 for water and \$70,004 for wastewater. Staff determined that no adjustments are necessary. Therefore, 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,

Date: October 26, 2017

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.<sup>6</sup> 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 decreased accumulated depreciation by \$132,018 for water and \$242,997 for wastewater to reflect the appropriate test year balances following the removal of unsupported plant as discussed above. In addition, staff decreased the water account by \$3,762 to reflect the retirement of the well pump that was replaced during the test year. Staff increased the water account by \$61 to reflect the pro forma chlorinator replacement, and decreased the water account by \$161 to reflect the associated retirement. Staff also increased the water account by \$2,208 and \$10,986 to reflect the pro forma replacements of the hydropneumatic tank and water meters, respectively. In addition, staff decreased the water account by \$6,740 to reflect the retirement associated with the meter replacement project. Further, staff increased the water account by \$1,187 to reflect the pro forma replacement of the well pump, shaft and assembly. Finally, staff decreased accumulated depreciation by \$6,650 for water and \$12,597 for wastewater to reflect a test year averaging adjustment. Staff's adjustments are net decreases of \$134,889 and \$255,594 to water and wastewater, respectively. Therefore, staff recommends accumulated depreciation balances of \$310,948 for water and \$664,654 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. Staff calculated the accumulated amortization of CIAC using the composite rates calculated in accordance with Rule 25-30.140(9)(b) and (c), F.A.C. In order to reflect the appropriate test year balances as of August 31, 2016, staff decreased the amortization of CIAC by \$28,482 for water and \$24,698 for wastewater. In addition, staff decreased these accounts by \$7,406 for water and \$12,281 for wastewater to reflect an averaging adjustment, resulting in net decreases of \$35,888 and \$36,979 for water and wastewater, respectively. Therefore, staff recommends accumulated amortization of CIAC balances of \$264,539 for water and \$547,017 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-

---

<sup>6</sup>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.*

Date: October 26, 2017

eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Staff also removed the unamortized balance of rate case expense of \$1,371 for water and \$1,344 for wastewater pursuant to Section 367.081(9), F.S.<sup>7</sup> Applying this formula, staff recommends a working capital allowance of \$18,331 ( $\$146,651/8$ ) for water, based on the adjusted O&M expense of \$146,651 ( $\$148,022 - \$1,371 = \$146,651$ ). Further, staff recommends a working capital allowance of \$22,928 ( $\$183,420/8$ ) for wastewater, based on the adjusted O&M expense of \$183,420 ( $\$184,764 - \$1,344 = \$183,420$ ).

### **Rate Base Summary**

Applying all of the above adjustments results in a negative rate base of \$6,083 for wastewater. In accordance with Commission practice, staff has adjusted the rate base to zero for ratemaking purposes.<sup>8</sup> Based on the forgoing, staff recommends that the appropriate test year average rate base is \$331,883 for water and zero for wastewater. Further, the Utility should complete the pro forma items within 12 months of the issuance of the consummating order. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing. Also, the Utility should be required to submit a copy of the final invoices and proof of payment for all pro forma plant items. Rate base is shown on Schedules No. 1-A and 1-B. The related adjustments are shown on Schedule No. 1-C.

---

<sup>7</sup>Section 367.081(9), F.S., which became effective July 1, 2016, states, “A utility may not earn a return on the unamortized balance of the rate case expense. Any unamortized balance of rate case expense shall be excluded in calculating the utility’s rate base.” The Utility’s application was filed on July 27, 2016, after the statute became effective. Therefore, staff excluded rate case expense from the working capital calculations.

<sup>8</sup>Order No. PSC-97-0540-FOF-WS, issued May 12, 1997, in Docket No. 19960799-WS, *In re: Application for staff-assisted rate case in DeSoto County by Lake Suzy Utilities, Inc.*, and Order No. PSC-13-0327-PAA-SU, issued July 16, 2013, in Docket No. 20120170-SU, *In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC*.

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

**Recommendation:** The appropriate return on equity (ROE) is 9.96 percent with a range of 8.96 percent to 10.96 percent. The appropriate overall rate of return is 7.31 percent. (Golden, Wilson)

**Staff Analysis:** Four Lakes is owned by a partnership comprised of three individuals and one business (ATA Properties, Inc.), and 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, CHC VII, Hidden Cove, and S.V. Utilities. Four Lakes' average test year capital structure consists of \$4,325 in short-term debt. As discussed in Issue 3, staff is recommending approval of three pro forma projects to replace a hydropneumatic tank, all of the Utility's water meters, and a well pump, shaft, and assembly. The total cost for these projects is \$286,540. A representative of the Utility advised staff that all three projects are being paid for with existing funds, and that no loans will be obtained related to these projects. Therefore, staff increased common equity by \$286,540 to reflect the funding for the three pro forma projects. The only loan directly attributable to Four Lakes is the \$4,325 short-term debt related to the purchase of a mini excavator. In addition, the owners of the Four Lakes community have a loan that covers both the park operations and utility operations, but did not allocate a specific amount of the loan to the Utility. Therefore, staff increased long-term debt by \$213,296 to reflect the portion of the loan that corresponds to the Utility's test year rate base

The Utility's capital structure has been reconciled with staff's recommended rate base. As discussed in Issue 7, staff is recommending that the operating ratio methodology be used in this case for the wastewater system. Although the traditional rate of return does not apply to the wastewater system in this case due to the negative rate base, staff recommends that an ROE still be established for this Utility for both the water and wastewater systems. The appropriate ROE is 9.96 percent based upon the Commission-approved leverage formula currently in effect.<sup>9</sup> Staff recommends an ROE of 9.96 percent, with a range of 8.96 percent to 10.96 percent, and an overall rate of return of 7.31 percent. The ROE and overall rate of return are shown on Schedule No. 2.

---

<sup>9</sup>Order No. PSC-17-0249-PAA-WS, issued June 26, 2017, in Docket No. 20170006-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?

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

**Staff Analysis:** Four Lakes recorded \$142,371 of service revenues for water and \$142,994 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 and the gallonage charge for usage above 5,000 gallons quarterly, then allocates the revenues equally between water and wastewater service.

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 \$649 and wastewater service revenues be decreased by \$681 to reflect the appropriate test year revenues. Based on the above, staff recommends that the appropriate test year revenues are \$143,020 ( $\$142,371 + \$649$ ) for the water system and \$142,313 ( $\$142,994 - \$681$ ) for the wastewater system.

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

**Recommendation:** The appropriate amount of operating expense for the Utility is \$192,125 for water and \$215,815 for wastewater. (Golden, Wilson)

**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. In addition, the Utility filed a response to Commission staff's audit report and provided additional confidential information to clarify and support its test year salary allocations. Staff has made several adjustments to the Utility's operating expenses as summarized below.

### **Operational Information**

As noted previously in Issue 4, Four Lakes' is owned by a partnership comprised of three individuals and a business (ATA Properties, Inc.), and is managed by Century, which manages approximately 16 residential communities, including four other water and wastewater utilities that are regulated by the Commission; Anglers Cove West, CHC VII (CHC), Hidden Cove, and S.V. Utilities (SV). Four Lakes receives all of its direct operational, maintenance, administrative, and managerial services from Century. All of the work is performed by Century employees with the exception of the contractual water plant operator and professional engineering services. Century's technical employees' are responsible for: the wastewater plant operation; water and wastewater plant maintenance and repairs; water and wastewater line repairs; lift station maintenance and repairs; oversight of the cross-connection control plan required by the PCHD; meter reading; water meter testing and maintenance; and general facilities maintenance, such as painting, power washing, mowing, and landscaping.

Century's employees are also responsible for onsite customer relations activities within the Four Lakes community including collecting utility billing payments from customers and assisting with customer or community concerns, such as water leaks, lift station issues, and meter testing. In addition, Century's employees are responsible for all of the administrative and managerial functions related to Four Lakes' water and wastewater service including but not limited to: water and wastewater billing; updating customer billing records; assisting the community managers with payment collections and water shut-off notices; documenting the cross-connection control plan for all the utilities; assisting the technical staff and community managers with daily operational issues, including utility repairs and improvements, and any customer concerns. Century's employees are also responsible for all the accounting, finance, tax, and payroll work related to Four Lakes' water and wastewater operations.

The Commission previously reviewed and approved expenses related to Century's management services for CHC and SV. Century allocates any shared common expenses between the applicable communities and/or utilities based on the number of lots in each community. In the most recent rate cases for CHC and SV, the Commission found that allocating the costs based on lots properly allocates costs to all businesses and is reasonable.<sup>10</sup> Staff notes that it has also been

---

<sup>10</sup>Order 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.*



Date: October 26, 2017

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. Staff has applied this methodology in the adjustments recommended 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 to reflect Four Lakes' share of Century's allocated employee salaries and wages expense. Century's employees' time spent on water and wastewater duties versus community-related work for all 16 communities and five utilities ranges from 100 percent to as little as eight percent. The total water and/or wastewater portion of each employee's salary is then allocated to the related utilities depending upon which utilities that employee works on.

As noted above, the Utility filed a response to the audit report and provided additional confidential information to clarify its information provided during the audit and to further support Century's test year salary allocations.<sup>11</sup> Based on a review of the confidential salary information, staff determined that increases of \$15 for water and \$281 for wastewater are necessary to reflect the correct test year balances. Century's salary allocations reflect the combined total of gross wages, payroll taxes, and employee benefits. Due to the confidential classification of the additional salary information, staff is not specifying the exact split of the costs in this recommendation. However, staff believes it would be appropriate to reclassify the payroll tax portion of the allocation to the proper account. Therefore, staff decreased this account by \$6,848 for water and \$7,736 for wastewater to reclassify the test year payroll taxes that were included with these salary allocations to Taxes Other Than Income.

The test year salary allocations only included the direct salary allocations related to the operational, technical, administrative, and managerial functions. No salary allocations related to the indirect functions of accounting, finance, tax, and payroll work for Four Lakes' water and wastewater systems were included in the test year expenses. Century plans to begin allocating a portion of its annual administrative and general (A&G) expenses to the five water and wastewater utilities going forward, beginning in January 2018, 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. Century determined that approximately 9 percent of the total utility-related A&G expense of \$1,526,500 is attributable to the water and wastewater utilities, resulting in a total allocated A&G expense of \$137,385 to all the water and wastewater utilities. Applying the lot allocation methodology, this results in Four Lakes being allocated approximately 2.57 percent of the applicable A&G expenses. Based on staff's review, the requested pro forma A&G expenses are not duplicative of Four Lakes' test year expenses and are appropriate for inclusion in Four Lakes' revenue

---

<sup>11</sup>Document No. 04995-17, filed on May 24, 2017, in Docket No. 20160176-WS.

Date: October 26, 2017

requirement. Further, staff determined that the salary allocation for the accounting, finance, tax, and payroll work is not duplicative of any work performed by the employees who were already reflected in the test year salaries and wages expense. Based on the above, staff increased this account by \$11,744 for water and \$11,458 for wastewater to reflect Four Lakes' pro forma allocated share of indirect salaries expense. Staff's recommended adjustment excludes the estimated payroll taxes, which will be addressed in the Taxes Other Than Income section later in this issue.

As will be discussed further in Issue 9, staff is recommending a change in the billing frequency from quarterly to monthly. The increase in billing frequency is expected to require an additional 40 hours of work per month related to the increased billing, payment processing, and collection work. As discussed above, the Utility's test year salaries and wages expense includes two corporate employees who perform billing related duties. The Utility anticipates that it will be necessary to hire additional office staff to help meet the increased work demand at an estimated cost of \$728 per month or \$8,736 per year to cover the incremental increase in wages and payroll costs. Staff reviewed the Utility's current billing process and resulting changes, and agrees that it would be appropriate to recognize the incremental increase in salaries and wages expense in this case. Based on the current work assignments and necessary changes to convert to monthly billing, staff believes it is reasonable to expect that additional assistance with these duties will be necessary. Therefore, staff increased this account by \$3,954 for water and \$3,858 for wastewater to reflect the pro forma allocation of the additional employee salaries and wages expense resulting from the increased billing frequency. Again, staff's recommended adjustment excludes the estimated payroll taxes, which will be addressed in the Taxes Other Than Income section later in this issue.

Although the change from quarterly to monthly billing will increase the current meter reading workload, the new remote read meters are expected to reduce the amount of time that is currently necessary to read meters. Therefore, the Utility has estimated that it has a sufficient expense allocation in its test year expenses to cover the increased meter reading workload following installation of the new remote read meters, and is not requesting an increase in meter reading related salaries expense. Based on staff's review of the Utility's confidential salary information and work duties, staff believes the adjusted salaries are reasonable. Further, staff believes Four Lakes' customers benefit from the shared resources that allow the Utility to address any operational issues or customer concerns in a more timely and efficient manner than may otherwise be available for a utility that is operating on a stand-alone basis with a more limited workforce. Based on the above, staff's adjustments to this account are net increases of \$8,865 for water and \$7,861 for wastewater. Therefore, staff recommends salaries and wages – employees expense of \$83,221 for water and \$91,782 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 \$1,925 for water and \$2,934 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

Date: October 26, 2017

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 7.2 percent. Therefore, staff decreased the adjusted water account balance by \$714 ( $\$9,911 \times .072 = \$714$ ) to reflect a 7.2 percent EUW adjustment. Staff's net adjustment is a decrease of \$22,756 to water and an increase of \$1,826 to wastewater. Therefore, staff recommends purchased power expense of \$9,197 for water and \$17,495 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 7.2 percent. Therefore, staff decreased the adjusted water account balance by \$336 ( $\$4,663 \times .072 = \$336$ ) to reflect a 7.2 percent EUW adjustment. Staff's total adjustments are decreases of \$615 to water and \$268 to wastewater. Staff recommends chemicals expense of \$4,327 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)**

As discussed above, Four Lakes' test year salaries include an allocation for Century's employees' billing related work. However, Four Lakes did not record any other billing expense for the test year, such as postage and billing supplies, because Century incurred the billing expense but did not allocate those costs to the Utility. Staff believes it would be appropriate to include an allowance for billing expense, and believes the proposed billing expense allocation is reasonable. Therefore, staff increased this account by \$1,476 for water and \$1,440 for wastewater to reflect the pro forma allocation of corporate billing expense. As noted above, staff is recommending that the Utility's billing frequency be changed from quarterly to monthly. The additional billing will result in increases in various billing related costs, such as postage, card stock, printing costs, and office supplies. Therefore, staff also increased this account by \$2,618 for water and \$2,555 for wastewater to reflect the allocated pro forma increase in billing expense resulting from the change in billing frequency. 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. Based on the above, staff recommends contractual services – billing expense of \$4,095 for water and \$3,995 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

Date: October 26, 2017

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 Account Nos. 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. Staff’s adjustments are a net decrease of \$2,268 for water and a total decrease of \$1,596 for wastewater. 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. As discussed above, Four Lakes’ water plant is operated by a contractual plant operator. The test year contractual services – other expense for water primarily consists of the monthly contractual service fees for the water plant operation. In addition, the water account includes several plant repairs that required assistance from outside vendors, such as backflow preventer repairs, and assistance with preparation of regulatory reports, including the Annual Consumer Confidence Report and an Annual Public Safety Report. The test year contractual services – other expense for wastewater only includes expenses related to plant repairs or regulatory reports that required assistance from outside vendors. As discussed above, Century’s employees are responsible for the wastewater plant operation, therefore, no contractual service fees were incurred related to the regular operation of the wastewater plant. Further, staff has determined that there is no duplication of test year expenses between the salaries and wages expense and contractual services – other expense related to the operation of Four Lakes’ water and wastewater treatment plants.

Based on a review of the test year expenses, staff increased the water account by \$275 and decreased the wastewater account by \$2,389 to reflect the appropriate test year 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 Account Nos. 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 adjustment to wastewater contractual services – other expense is a net 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 \$3,320 for water and \$3,239 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 \$3,384 for water and \$3,302 for wastewater. Staff recommends rent expense of \$3,384 for water and \$3,302 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. Subsequent to the filing of the Staff Report, the Utility requested consideration of additional transportation expense allocations related to the recent purchase of a truck and tractor that are used exclusively for utility work for Four Lakes' and the four other related utilities. Staff reviewed the purchase documentation and proposed allocations, and believes it would be appropriate to include the incremental increases for these items in this case. Therefore, staff increased this account by \$1,359 each for water and wastewater to reflect Four Lakes' allocated share of the truck purchase. The truck was purchased to replace a 2002 utility truck. The Utility indicated that the test year transportation expense allocation includes sufficient fuel and maintenance costs for the new truck, therefore, no incremental increases are requested for that purpose. Staff also increased this account by \$1,295 each for water and wastewater to reflect Four Lakes' allocated share of the tractor purchase, fuel, and maintenance expense. Finally, staff increased this account by \$607 and \$592 for water and wastewater, respectively, to reflect the pro forma allocation of corporate transportation expense. Staff's net adjustments are an increase of \$2,219 for water and a decrease \$466 for wastewater, respectively. Staff recommends transportation expense of \$7,298 for water and \$6,334 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 \$230 and \$225 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 \$896 and staff's adjustment to wastewater is a net decrease of \$426. Staff recommends insurance expense of \$3,040 for water and \$2,113 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

Date: October 26, 2017

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.” The Utility provided documentation to support \$8,018 in additional legal fees incurred to date and estimated through end of the PAA process. Staff reviewed the documentation and believes the Utility’s requested legal fees are reasonable. However, \$1,413 was incurred prior to the issuance of the Staff Report, for legal services related to the Utility’s response to staff’s audit report and the associated request for confidential treatment of the Utility’s supplemental test year salary allocation information. Pursuant to Section 367.0814(3), F.S., staff excluded the \$1,413 from consideration, resulting in total allowed legal fees of \$6,695. Based on the above, staff recommends total rate case expense of \$10,859 (\$2,164 + \$2,000 + \$6,695), which amortized over four years is \$2,715. Staff has allocated the annual rate case expense to the water and wastewater systems based on ERCs, resulting in annual rate case expense of \$1,371 for water and \$1,344 for wastewater. Staff’s net adjustments to this account are increases of \$831 for water and \$804 for wastewater. Therefore, staff recommends regulatory commission expense of \$1,371 for water and \$1,344 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.

Date: October 26, 2017

**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 \$459 for water and \$448 for wastewater to reflect the pro forma allocation of corporate equipment expense. Finally, staff increased this account by \$910 for water and \$888 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 \$831 and \$493 to water and wastewater, respectively. Therefore, staff recommends miscellaneous expense of \$4,787 for water and \$2,275 for wastewater.

**Operation and Maintenance Expense Overview**

Based on staff’s recommended O&M expense adjustments above, Four Lakes’ total O&M expenses result in an annual per ERC cost of slightly less than \$172 for water and \$220 for wastewater. Staff compared the total operation and maintenance expenses per ERC for several small utilities that have had recent rate increases approved by the Commission, including utilities that operate with shared resources, as well as utilities that operate on a stand-alone basis. The compared total O&M expense per ERC ranged from \$264 to \$363 for water, and \$281 to \$430. Based on this comparison, staff believes that Four Lakes is experiencing operational and cost benefits attributable to economies of scale that are possible through Century’s management of multiple properties and utility systems. Also, the sharing of employee resources between the communities and utilities has allowed Century to hire and retain employees with the necessary utility expertise at a comparably reasonable price. The ability to retain qualified employees who are familiar with the Utility’s operations serves to provide consistent operation and maintenance of the facilities, as well as improved customer relations. Consequently, staff believes that Four Lakes’ customers benefit from Century’s management of the Utility using shared resources that would likely not be possible if Four Lakes were operated on a stand-alone basis.

**Operation and Maintenance Expense (O&M Summary)**

Based on the above adjustments, O&M expense should be decreased by \$2,703 for water and increased by \$10,903 for wastewater, resulting in total O&M expense of \$148,022 for water and \$184,764 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 \$2,655 and \$23,987, respectively, to

reflect the appropriate test year depreciation expense. Staff also decreased this account by \$110 to reflect the retirement of the test year pump replacement for well #2.

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 depreciation expense associated with a chlorinator replacement and retirement that occurred after the end of the test year, and decreased the water account by \$10 to reflect the associated retirement. Also, staff increased this account by \$2,208 to reflect the increase in depreciation expense from the pro forma hydropneumatic tank replacement. Staff also increased this account by \$11,382 to reflect the increase in depreciation expense from the pro forma meter replacement project and decreased this account by \$396 to remove the depreciation expense associated with the retired meters. Finally, staff increased the water account by \$1,187 to reflect the pro forma well pump, shaft and assembly replacement.

Based on the above, staff's adjustment to water depreciation expense is a net increase of \$11,677, resulting in water depreciation expense of \$31,149 ( $\$19,472 + \$11,677 = \$31,149$ ). Further, staff's total adjustment to wastewater depreciation expense is a decrease of \$23,987, resulting in wastewater depreciation expense of \$25,194 ( $\$49,181 - \$23,987 = \$25,194$ ). In addition, staff decreased CIAC amortization expense by \$2,896 for water and \$10,519 for wastewater to reflect the appropriate test year balances, which are \$15,219 for water ( $\$18,115 - \$2,896 = \$15,219$ ) and \$24,651 for wastewater ( $\$35,170 - \$10,519 = \$24,651$ ). Consequently, the net depreciation expense for water is \$15,930 ( $\$31,149 - \$15,219 = \$15,930$ ), and the net depreciation expense for wastewater is \$543 ( $\$25,194 - \$24,651 = \$543$ ). Therefore, staff recommends net depreciation expense of \$15,930 for water and \$543 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. As discussed above, the salary allocations included the associated payroll taxes. Staff increased this account by \$6,848 for water and \$7,736 for wastewater to reclassify the test year payroll taxes to TOTI. Similarly, staff increased this account by \$1,513 for water and \$1,487 for wastewater to reflect the payroll taxes associated with the pro forma salary allocations and additional billing salary expense. Finally, staff increased water utility property taxes by \$3,882 to reflect the additional property taxes associated with the pro forma plant additions. Staff's total adjustments are increases of \$12,287 to water and \$9,358 to wastewater.

In addition, as discussed in Issue 8, revenues have been increased by \$73,366 for water and \$83,502 for wastewater to reflect the change in revenue required to cover expenses and allow an opportunity to recover the recommended rate of return on water and recommended operating margin on wastewater. As a result, TOTI should be increased by \$3,301 for water and \$3,758 for wastewater to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$28,174 for water and \$30,508 for wastewater.



### **Income Taxes**

The Utility did not record any income taxes for the test year. Four Lakes is owned by a partnership comprised of three individuals and a business. In accordance with Federal Internal Revenue Service (IRS) regulations, a partnership must file an annual information return to report the income, deductions, gains, or losses from its operations, but it does not pay income tax. Instead, the partnership passes through any profits or losses to its partners. Each partner includes their share of the partnership's income or loss on their tax return.<sup>12</sup> Accordingly, no adjustments are necessary for test year income taxes.

### **Operating Expenses Summary**

The application of staff's recommended adjustments to Four Lakes' test year operating expenses results in operating expenses of \$192,125 for water and \$215,815 for wastewater. Operating expenses are shown on Schedules No. 3-A and 3-B. The adjustments are shown on Schedule No. 3-C.

---

<sup>12</sup>Source: <https://www.irs.gov/businesses/small-businesses-self-employed/partnerships>

**Issue 7:** Should the Commission utilize the operating ratio methodology as an alternative method of calculating the wastewater revenue requirement for Four Lakes and, if so, what is the appropriate margin?

**Recommendation:** Yes. The Commission should utilize the operating ratio methodology for calculating the wastewater revenue requirement for Four Lakes. The margin should be 5.41 percent of O&M expense. (Golden, Wilson)

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

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

By Order No. PSC-96-0357-FOF-WU,<sup>13</sup> the Commission, for the first time, utilized the operating ratio methodology as an alternative means for setting rates. This order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expense. This criterion was applied again in Order No. PSC-97-0130-FOF-SU.<sup>14</sup> Recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-2017-0383-PAA-SU.<sup>15</sup>

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

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

---

<sup>13</sup>Order No. PSC-96-0357-FOF-WU, issued March 13, 1996, in Docket No. 950641-WU, *In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.*

<sup>14</sup>Order No. PSC-97-0130-FOF-SU, issued February 10, 1997, in Docket No. 960561-SU, *In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.*

<sup>15</sup>Order No. PSC-2017-0383-PAA-SU, issued October 4, 2017, in Docket No. 20160165-SU, *In re: Application for staff-assisted rate case in Gulf County by ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.*

Date: October 26, 2017

Utility's primary risk resides with covering its operating expense. Based on staff's recommendation, the adjusted rate base for the test year is negative \$6,083, adjusted to zero for ratesetting purposes, while adjusted O&M expenses are \$184,764.

- 2) Whether the Utility is expected to become a Class B utility in the foreseeable future. Pursuant to Section 367.0814(9), F.S., the alternative form of regulation being considered in this case only applies to small utilities. Four Lakes is a Class C utility. If approved by the Commission, the recommended wastewater revenue requirement of \$225,815 will result in Four Lakes gaining Class B status. According to Order No. PSC-96-0357-FOF-WU, the concern with Class B status is that allowing the operating ratio method for a utility on the verge of becoming a Class B might subject the utility to overearnings action and rate reductions when Class B status is reached. Although the instant rate proceeding may result in Four Lakes gaining Class B status, the recommended wastewater revenue requirement is well below the \$275,000 threshold for SARC eligibility. Further, the Utility's last new customer was connected in 2002 and the service area is built out. Due to the lack of growth, Four Lakes' revenues are expected to remain well below the \$275,000 SARC eligibility threshold into the foreseeable future, and the Utility should remain eligible for alternative form of regulation allowed under Section 367.0814(9), F.S.
- 3) Quality of service and condition of plant. As discussed in Issue 1, the quality of service should be considered satisfactory.
- 4) Whether the Utility is developer-owned. Four Lakes is currently owned by a partnership comprised of three individuals and a business. The wastewater facilities were constructed by the developer as part of the residential community. According to Order No. PSC-96-0357-FOF-WU, being developer owned shall not disqualify a utility from the operating ratio method, and eligibility shall be determined on a case by case basis. It may not be appropriate to use the operating ratio if the development is in the early stages of growth. Other factors that may be considered when determining eligibility for the operating ratio method are customer growth, the developer's financial condition, the utility's financial and operational condition, government mandated improvements and/or other unanticipated expenses. The level of CIAC collected by the utility may also be considered.

The Utility has been in existence since 1995 and has never had a rate proceeding or filed for a price index rate adjustment. As would be expected with a developer owned Utility, Four Lakes' operations were sustained in the early years of the development through service revenues, supplemented by owner or managing company funds when needed. Four Lakes has reported losses in its annual reports each year since it was certificated in 1998, with most of the losses occurring with the wastewater system. As noted above, Four Lakes will not be experiencing any new growth because the last new customer was connected 2002 and the service area is built out. In addition, Four Lakes collected service availability charges from all its customers, which served to keep the customers' rates lower than would have otherwise been experienced if the Utility had not collected service availability. Based on the Utility's test year records, prior to staff's

Date: October 26, 2017

recommended adjustments in this case, Four Lakes' service availability charges were designed to achieve a 72 percent CIAC level, which is within the guidelines established by Rule 25-30.580, F.A.C. and near the target 75 percent maximum. Due to the age of the development, built-out status, and appropriate CIAC level, the Utility's current financial condition is not expected to change as a result of any developer-related activity. Staff notes that the negative rate base is due to a lack of record support and may be corrected if the Utility pursues an original cost study. In which case, the Utility may be able to return to the rate of return methodology in a future rate proceeding. Based on the Utility's history and the specific circumstances in this case that required consideration of the operating ratio methodology, staff believes it would be appropriate to apply the operating ratio methodology to calculate Four Lakes' wastewater revenue requirement.

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

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

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

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenue for the Utility to cover its interest expense. Four Lakes' interest expense is not a concern in this case.

Second, the operating ratio method recognizes that a major issue for small utilities is cash flow; therefore, the operating ratio method focuses more on cash flow than on investment. In the instant case, the Utility's primary risk resides with covering its operating expense. A traditional calculation of the revenue requirement may not provide sufficient revenue to protect against potential variances in revenues and expenses. Under the rate base methodology, the return to Four Lakes would be zero due to the Utility's negative rate base, providing no financial cushion.

Third, if the return on rate base method was applied, Four Lakes could be left with insufficient funds to cover operating expenses in the event revenues or expenses vary from staff's estimates. Therefore, the margin should provide adequate revenue to protect against potential variability in revenues and expenses. If the Utility's operating expenses increase or revenues decrease, Four Lakes may not have the funds required for day-to-day operations. Using a 10 percent margin in this docket produces an operating margin of \$18,476, which is above the suggested cap of

\$10,000. As such, staff recommends a 5.41 percent margin in this case, resulting in a \$10,000 operating margin.

In conclusion, staff believes the above factors show that the Utility needs a higher margin of revenue over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide Four Lakes with adequate cash flow to provide some assurance of safe and reliable service, staff recommends application of the operating ratio methodology at a margin of 5.41 percent of O&M expense for determining the revenue requirements.

**Issue 8:** What is the appropriate revenue requirement?

**Recommendation:** The appropriate revenue requirement is \$216,386 for water and \$225,815 for wastewater, resulting in an annual increase of \$73,366 for water (51.30 percent) and \$83,502 for wastewater (58.67 percent). (Golden, Wilson)

**Staff Analysis:** Four Lakes should be allowed an annual increase of \$73,366 for water (51.30 percent) and \$83,502 for wastewater (58.67 percent). This will allow the Utility the opportunity to recover its expenses, and earn a 7.31 percent return on its water system investment and a 5.41 percent margin over its wastewater O&M expenses. The calculations are shown below, in Tables 8-1 and 8-2 for water and wastewater, respectively:

**Table 8-1  
Water Revenue Requirement**

Adjusted Rate Base	\$331,883
Rate of Return	x 7.31%
Return on Rate Base	\$24,261
Adjusted O&M Expense	148,022
Depreciation Expense (Net)	15,930
Amortization	0
Taxes Other Than Income	28,174
Income Taxes	0
Revenue Requirement	\$216,386
Less Adjusted Test Year Revenues	143,020
Annual Increase	\$73,366
Percent Increase	51.30%

**Table 8-2**  
**Wastewater Revenue Requirement**

Adjusted O&M Expense	\$184,764
Operating Margin Ratio	x 5.41%
Operating Margin (\$10,000 Cap)	\$10,000
Adjusted O&M Expense	184,764
Depreciation Expense (Net)	543
Amortization	0
Taxes Other Than Income	30,508
Income Taxes	0
Revenue Requirement	\$225,815
Less Adjusted Test Year Revenues	142,313
Annual Increase	\$83,502
Percent Increase	58.67%

**Issue 9:** What are the appropriate rate structure and rates for Four Lakes' water and wastewater systems?

**Recommendation:** The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of noticing within 10 days of rendering its approved notice. (Johnson)

**Staff Analysis:** Four Lakes provides water service to approximately 813 residential customers, six general service customers, and seven irrigation service customers. Four Lakes also provides wastewater service to approximately 813 residential customers and six general service customers. The utility estimates that its customer base is over 30 percent seasonal. Staff cannot verify the seasonality of the customer base because the utility bills on a quarterly basis; therefore, the monthly billing data is not available. The average residential demand during the test year was approximately 6,805 gallons per month.

Currently, Four Lakes' rate structure consists of a single monthly base facility charge (BFC) of \$26.18 for both water and wastewater service combined. In addition, the BFC includes an allotment of 5,000 gallons a month. Any water usage above 5,000 gallons is billed at \$1.05 per thousand gallons, \$0.53 for water and \$0.52 for wastewater. 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 of privately owned water and wastewater utilities to the Commission.<sup>16</sup>

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

---

<sup>16</sup>Order No. PSC-99-1236-PAA-WS, issued June 22, 1999, in Docket No. 19981340-WS, *In re: Application for grandfather certificates to operate water and wastewater utility in Polk County by Four Lakes Golf Club, Ltd.*



Date: October 26, 2017

customers; 3) establish the appropriate non-discretionary usage threshold for restricting repression; and 4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

In response to staff's preliminary report, the utility requested that 55 percent of the water revenues be recovered through the BFC, estimating that 30 percent of Four Lakes' customer base is seasonal. Staff recommends that 50 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, as well as provide the utility with revenue stability. 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 51.30 percent, the residential discretionary consumption can be expected to decline by 7,669,000 gallons resulting in anticipated average residential demand of 6,032 gallons per month. Staff recommends a 11.36 percent reduction in test year gallons for rate setting purposes and corresponding reductions of \$1,022 for purchased power, \$481 for chemicals, and \$71 for RAFs to reflect the anticipated repression. This results in a post repression revenue requirement of \$214,811. Staff's recommended rate structure and resulting water rates are shown on Schedule No. 4-A.

Table 9-1 contains staff's recommended water rate structure and rates as well as alternative rate structures, which include varying BFC allocations. Alternative I results in slightly higher pricing signals to target discretionary usage. Alternative II is the utility's requested rate structure and provides the utility with more revenue stability to mitigate the impact of seasonal customers. The staff recommended rate structure provides both rate stability and a significant pricing signal that targets discretionary usage.

**Table 9-1  
 Staff's Recommended and Alternative Water Rate Structures and Rates**

	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES 50% BFC	ALTERNATIVE I 40% BFC	ALTERNATIVE II 55% BFC
<b>Residential</b>				
5/8" x 3/4" Meter Size	\$13.09	\$10.21	\$8.16	\$11.23
Charge per 1,000 gallons				
0-5,000 gallons	\$0.00			
Over 5,000 gallons	\$0.53			
0 – 3,000 gallons		\$1.57	\$1.88	\$1.41
Over 3,000 gallons		\$1.89	\$2.32	\$1.69
3,000 Gallons	\$13.09	\$14.92	\$13.80	\$15.46
5,000 Gallons	\$13.09	\$18.70	\$18.44	\$18.84
8,000 Gallons	\$14.68	\$24.37	\$25.40	\$23.91

**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 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 3,397,149 gallons to reflect the anticipated reduction in water demand used to

Date: October 26, 2017

calculate wastewater rates. Staff recommends a 6.07 percent reduction in total residential consumption and corresponding reductions of \$933 for chemicals, \$1,062 for purchased power, \$1,308 for sludge removal expense, and \$149 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$222,364.

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. 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 sheets provided customers have received notice pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of noticing within 10 days of rendering its approved notice.

**Issue 10:** Should Four Lakes' service availability charge be discontinued?

**Recommendation:** Yes, Four Lakes' service availability charge should be discontinued. In the event there is new development in Four Lakes' service territory, the utility should file an application for new service availability charges. (Johnson)

**Staff Analysis:** Four Lakes currently has a service availability charge of \$1,818 that is for both water and wastewater service. A service availability charge is a one time charge collected by the utility when a property first connects to the utility system and it allows the utility to recover a portion of its investment as customers connect to the system. At this time, Four Lakes is completely built out. In order to serve new customers, the utility would need to install additional facilities. Therefore, staff recommends Four Lakes' customer connection charge should be discontinued. In the event there is new development in Four Lakes' service territory, the utility should file an application for new service availability charges.

Date: October 26, 2017

**Issue 11:** 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?

**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) (Final Agency Action)

**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 \$1,436 and \$1,407 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.

Date: October 26, 2017

**Issue 12:** 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?

**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) (Final Agency Action)

**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 \$105,339. 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.

Date: October 26, 2017

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

**Recommendation:** Yes. The Utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. 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 no later than 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) (Final Agency Action)

**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 no later than 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 14:** Should this docket be closed?

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

<b>FOUR LAKES GOLF CLUB, LTD.</b>		<b>SCHEDULE NO. 1-A</b>	
<b>TEST YEAR ENDED 8/31/2016</b>		<b>DOCKET NO. 20160176-WS</b>	
<b>SCHEDULE OF WATER RATE BASE</b>			
<b>DESCRIPTION</b>	<b>BALANCE PER UTILITY</b>	<b>STAFF ADJUSTMENTS TO UTILITY BALANCE</b>	<b>BALANCE PER STAFF</b>
1. UTILITY PLANT IN SERVICE	\$704,613	\$123,794	\$828,407
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)	134,889	(310,948)
6. AMORTIZATION OF CIAC	300,427	(35,888)	264,539
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>18,331</u>	<u>18,331</u>
8. WATER RATE BASE	<u>\$90,757</u>	<u>\$241,126</u>	<u>\$331,883</u>

<b>FOUR LAKES GOLF CLUB, LTD.</b>		<b>SCHEDULE NO. 1-B</b>	
<b>TEST YEAR ENDED 8/31/2016</b>		<b>DOCKET NO. 20160176-WS</b>	
<b>SCHEDULE OF WASTEWATER RATE BASE</b>			
<b>DESCRIPTION</b>	<b>BALANCE PER UTILITY</b>	<b>STAFF ADJUSTMENTS TO UTILITY BALANCE</b>	<b>BALANCE PER STAFF</b>
1. UTILITY PLANT IN SERVICE	\$1,373,940	(\$370,165)	\$1,003,775
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)	255,594	(664,654)
6. AMORTIZATION OF CIAC	583,996	(36,979)	547,017
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>22,928</u>	<u>22,928</u>
8. WASTEWATER RATE BASE	<u>\$122,539</u>	<u>(\$128,622)</u>	<u>(\$6,083)</u>

<b>FOUR LAKES GOLF CLUB, LTD.</b>		<b>SCHEDULE NO. 1-C</b>	
<b>TEST YEAR ENDED 8/31/2016</b>		<b>DOCKET NO. 20160176-WS</b>	
<b>ADJUSTMENTS TO RATE BASE</b>			
	<u><b>WATER</b></u>	<u><b>WASTEWATER</b></u>	
<b><u>UTILITY PLANT IN SERVICE</u></b>			
1. To reflect removal of unsupported or non-utility plant.	(\$126,171)	(\$366,532)	
2. To reflect test year retirement of replaced pump for potable well #2.	(3,762)	0	
3. To reflect pro forma chlorinator replacement to Acct. No. 320.	1,200	0	
4. To reflect retirement of replaced chlorinator.	(161)	0	
5. To reflect pro forma hydropneumatic tank replacement to Acct. No. 330.	72,864	0	
6. To reflect pro forma meter replacements to Acct. No. 334.	193,499	0	
7. To reflect retirement of replaced meters.	(6,740)	0	
8. To reflect pro forma well shaft, pump and assembly to Acct. No. 311.	20,177	0	
9. To reflect an averaging adjustment.	<u>(\$27,113)</u>	<u>(\$3,633)</u>	
Total	<u>\$123,794</u>	<u>(\$370,165)</u>	
<b><u>ACCUMULATED DEPRECIATION</u></b>			
1. To reflect accumulated depreciation per Rule 25-30.140, F.A.C.	\$132,018	\$242,997	
2. To reflect test year retirement of replaced pump for potable well #2.	3,762	0	
2. To reflect pro forma chlorinator replacement to Acct. No. 320.	(61)	0	
2. To reflect retirement of replaced chlorinator.	161	0	
3. To reflect pro forma hydropneumatic tank replacement.	(2,208)	0	
4. To reflect pro forma meter replacements.	(10,986)	0	
5. To reflect retirement of replaced meters.	6,740	0	
6. To reflect pro forma well shaft, pump and assembly replacement.	(1,187)	0	
7. To reflect an averaging adjustment.	<u>6,650</u>	<u>12,597</u>	
Total	<u>\$134,889</u>	<u>\$255,594</u>	
<b><u>AMORTIZATION OF CIAC</u></b>			
1. To reflect appropriate amortization of CIAC	(\$28,482)	(\$24,698)	
2. To reflect an averaging adjustment.	<u>(7,406)</u>	<u>(12,281)</u>	
Total	<u>(\$35,888)</u>	<u>(\$36,979)</u>	
<b><u>WORKING CAPITAL ALLOWANCE</u></b>			
To reflect 1/8 of test year O&M expenses.	<u>\$18,331</u>	<u>\$22,928</u>	

<b>FOUR LAKES GOLF CLUB, LTD.</b>							<b>SCHEDULE NO. 2</b>		
<b>TEST YEAR ENDED 8/31/2016</b>							<b>DOCKET NO. 20160176-WS</b>		
<b>SCHEDULE OF CAPITAL STRUCTURE</b>									
<b>CAPITAL COMPONENT</b>	<b>PER UTILITY</b>	<b>STAFF ADJUST-MENTS</b>	<b>TEST YEAR BALANCE PER STAFF</b>	<b>ADJUSTMENTS TO RECONCILE TO RATE BASE</b>	<b>RECONCILED CAPITAL STRUCTURE PER STAFF</b>	<b>PERCENT OF TOTAL</b>	<b>COST</b>	<b>WEIGHTED COST</b>	
1. COMMON STOCK	\$0	\$0	\$0	\$0	\$0	\$0			
2. RETAINED EARNINGS	0	0	0	0	0	0			
3. PAID IN CAPITAL	0	0	0	0	0	0			
4. OTHER COMMON EQUITY	<u>0</u>	<u>286,540</u>	<u>286,540</u>	<u>(97,914)</u>	<u>188,626</u>				
TOTAL COMMON EQUITY	\$0	\$286,540	\$286,540	(\$97,914)	\$188,626	56.84%	9.96%	5.66%	
5. LONG TERM DEBT	\$0	\$213,296	\$213,296	(\$72,886)	\$140,410	42.31%	3.73%	1.58%	
6. SHORT-TERM DEBT	4,325	0	4,325	(1,478)	2,847	0.86%	8.32%	0.07%	
7. PREFERRED STOCK	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
TOTAL DEBT	\$4,325	\$213,296	\$217,621	(\$74,364)	\$143,257	43.16%	12.05%	1.65%	
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>	<u>\$499,836</u>	<u>\$504,161</u>	<u>(\$172,278)</u>	<u>\$331,883</u>	<u>100.00%</u>		<u>7.31%</u>	
<b>RANGE OF REASONABLENESS</b>						<b>LOW</b>	<b>HIGH</b>		
RETURN ON EQUITY						<u>8.96%</u>	<u>10.96%</u>		
OVERALL RATE OF RETURN						<u>6.74%</u>	<u>7.88%</u>		

<b>FOUR LAKES GOLF CLUB, LTD.</b>		<b>SCHEDULE NO. 3-A</b>				
<b>TEST YEAR ENDED 8/31/2016</b>		<b>DOCKET NO. 20160176-WS</b>				
<b>SCHEDULE OF WATER OPERATING INCOME</b>						
	<b>TEST YEAR PER UTILITY</b>	<b>STAFF ADJUSTMENTS</b>	<b>STAFF ADJUSTED TEST YEAR</b>	<b>ADJUST. FOR INCREASE</b>	<b>REVENUE REQUIREMENT</b>	
1. <b>OPERATING REVENUES</b>	<u>\$142,371</u>	<u>\$649</u>	<u>\$143,020</u>	<u>\$73,366</u> 51.30%	<u>\$216,386</u>	
<b>OPERATING EXPENSES:</b>						
2. OPERATION & MAINTENANCE	\$150,725	(\$2,703)	\$148,022	\$0	\$148,022	
3. DEPRECIATION (NET)	1,357	14,573	15,930	0	15,930	
4. AMORTIZATION	0	0	0	0	0	
5. TAXES OTHER THAN INCOME	12,585	12,287	24,872	3,301	28,174	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. <b>TOTAL OPERATING EXPENSES</b>	<u>\$164,667</u>	<u>\$24,157</u>	<u>\$188,824</u>	<u>\$3,301</u>	<u>\$192,125</u>	
8. <b>OPERATING INCOME/(LOSS)</b>	<u>(\$22,296)</u>		<u>(\$45,804)</u>		<u>\$24,261</u>	
9. <b>WATER RATE BASE</b>	<u>\$90,757</u>		<u>\$331,883</u>		<u>\$331,883</u>	
10. <b>RATE OF RETURN</b>	<u>(24.57%)</u>		<u>(13.80%)</u>		<u>7.31%</u>	

<b>FOUR LAKES GOLF CLUB, LTD.</b> <b>TEST YEAR ENDED 8/31/2016</b> <b>SCHEDULE OF WASTEWATER OPERATING INCOME</b>			<b>SCHEDULE NO. 3-B</b> <b>DOCKET NO. 20160176-WS</b>		
	<b>TEST YEAR PER UTILITY</b>	<b>STAFF ADJUSTMENTS</b>	<b>STAFF ADJUSTED TEST YEAR</b>	<b>ADJUST. FOR INCREASE</b>	<b>REVENUE REQUIREMENT</b>
1. <b>OPERATING REVENUES</b>	<u>\$142,994</u>	<u>(\$681)</u>	<u>\$142,313</u>	<u>\$83,502</u> 58.67%	<u>\$225,815</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	\$173,861	\$10,903	\$184,764	\$0	\$184,764
3. DEPRECIATION (NET)	14,011	(13,468)	543	0	543
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	17,392	9,358	26,750	3,758	30,508
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. <b>TOTAL OPERATING EXPENSES</b>	<u>\$205,264</u>	<u>\$6,793</u>	<u>\$212,057</u>	<u>\$3,758</u>	<u>\$215,815</u>
8. <b>OPERATING INCOME/(LOSS)</b>	<u>(\$62,270)</u>		<u>(\$69,744)</u>		<u>\$10,000</u>
9. <b>WASTEWATER RATE BASE</b>	<u>\$122,539</u>		<u>(\$6,083)</u>		<u>\$0</u>
10. <b>RATE OF RETURN</b>	<u>(50.82%)</u>				
11. <b>OPERATING RATIO</b>					<u>5.41%</u>

<b>FOUR LAKES GOLF CLUB, LTD.</b>		<b>SCHEDULE NO. 3-C</b>	
<b>TEST YEAR ENDED 8/31/2016</b>		<b>DOCKET NO. 20160176-WS</b>	
<b>ADJUSTMENTS TO OPERATING INCOME</b>		<b>Page 1 of 3</b>	
		<u><b>WATER</b></u>	<u><b>WASTEWATER</b></u>
<b>OPERATING REVENUES</b>			
.	To reflect appropriate test year service revenues.	<u>\$649</u>	<u>(\$681)</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>			
1.	Salaries and Wages - Employees (601/701)		
	a. To reflect appropriate test year allocated salaries.	\$15	\$281
	b. To reclassify test year payroll taxes to taxes other than income.	(6,848)	(7,736)
	c. To reflect pro forma allocated share of corporate payroll.	11,744	11,458
	d. To reflect pro forma change from quarterly to monthly billing.	<u>3,954</u>	<u>3,858</u>
	Subtotal	<u>\$8,865</u>	<u>\$7,861</u>
2.	Purchased Power (615/715)		
	a. To reflect annualized purchased power expense.	\$1,925	\$2,934
	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>(714)</u>	<u>0</u>
	Subtotal	<u>(\$22,756)</u>	<u>\$1,826</u>
3.	Chemicals (618/718)		
	a. To reflect test year chemicals expense.	(\$279)	(\$268)
	b. To reflect excessive unaccounted for water.	<u>(336)</u>	<u>0</u>
	Subtotal	<u>(\$615)</u>	<u>(\$268)</u>
4.	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>
5.	Contractual Services - Billing (630/730)		
	a. To reflect pro forma allocation of corporate billing expense.	\$1,476	\$1,440
	b. To reflect pro forma change from quarterly to monthly billing.	<u>\$2,618</u>	<u>\$2,555</u>
	Subtotal	<u>\$4,095</u>	<u>\$3,995</u>
6.	Contractual Services – Professional (631/731)		
	a. To reflect the appropriate test year expense.	<u>\$0</u>	<u>(\$5,930)</u>
7.	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>
8.	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>



<b>FOUR LAKES GOLF CLUB, LTD.</b>		<b>SCHEDULE NO. 3-C</b>	
<b>TEST YEAR ENDED 8/31/2016</b>		<b>DOCKET NO. 20160176-WS</b>	
<b>ADJUSTMENTS TO OPERATING INCOME</b>		<b>Page 2 of 3</b>	
9.	Rents (640/740)		
	a. To reflect pro forma allocation of corporate rental expense.	\$3,320	\$3,239
	b. To reflect pro forma allocation of corporate equipment rental expense.	<u>64</u>	<u>62</u>
	Subtotal	<u>\$3,384</u>	<u>\$3,302</u>
10.	Transportation Expense (650/750)		
	a. To reflect appropriate test year transportation expense.	(\$1,043)	(\$3,713)
	b. To reflect pro forma allocation of utility truck expense.	1,359	1,359
	c. To reflect pro forma allocation of tractor expense.	1,295	1,295
	d. To reflect pro forma allocation of corporate transportation expense.	<u>607</u>	<u>592</u>
	Subtotal	<u>\$2,219</u>	<u>(\$466)</u>
11.	Insurance Expense (655/755)		
	a. To reflect appropriate test year insurance expense.	\$665	(\$651)
	b. To reflect pro forma allocation of corporate insurance expense.	<u>230</u>	<u>225</u>
	Subtotal	<u>\$896</u>	<u>(\$426)</u>
12.	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 (\$10,859 total, split \$5,484/4 for water and \$5,375/4 for wastewater).	<u>1,371</u>	<u>1,344</u>
	Subtotal	<u>\$831</u>	<u>\$804</u>
13.	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.	459	448
	d. To reflect pro forma allocation of corporate miscellaneous expense.	<u>910</u>	<u>888</u>
	Subtotal	<u>\$831</u>	<u>\$493</u>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>		<u>(\$2,703)</u>	<u>\$10,903</u>
<b>DEPRECIATION EXPENSE</b>			
1.	To reflect test year depreciation calculated per Rule 25-30.140, F.A.C.	(\$2,655)	(\$23,987)
2.	To reflect test year retirement of replaced pump for potable well #2.	(110)	0
2.	To reflect pro forma chlorinator replacement to Acct. No. 320.	71	0
3.	To reflect retirement of replaced chlorinator.	(10)	0
3.	To reflect pro forma hydropneumatic tank replacement.	2,208	0
4.	To reflect pro forma meter replacements.	11,382	0
5.	To reflect retirement of replaced meters.	(396)	0
6.	To reflect pro forma well pump, shaft, and assembly replacement.	1,187	0
7.	To reflect appropriate test year CIAC amortization expense.	<u>2,896</u>	<u>10,519</u>
	Total	<u>\$14,573</u>	<u>(\$13,468)</u>

<b>FOUR LAKES GOLF CLUB, LTD.</b>		<b>SCHEDULE NO. 3-C</b>	
<b>TEST YEAR ENDED 8/31/2016</b>		<b>DOCKET NO. 20160176-WS</b>	
<b>ADJUSTMENTS TO OPERATING INCOME</b>		<b>Page 3 of 3</b>	
<b>TAXES OTHER THAN INCOME</b>			
1.	To reflect the appropriate test year RAFs.	\$45	\$135
2.	To reflect the appropriate test year payroll taxes.	6,848	7,736
3.	To reflect pro forma increase in payroll taxes.	1,513	1,487
4.	To reflect pro forma increase to utility property taxes.	<u>3,882</u>	<u>0</u>
	Total	<u>\$12,287</u>	<u>\$9,358</u>

<b>FOUR LAKES GOLF CLUB, LTD.</b>	<b>SCHEDULE NO. 3-D</b>		
<b>TEST YEAR ENDED 8/31/2016</b>	<b>DOCKET NO. 20160176-WS</b>		
<b>ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE</b>			
	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUST- MENTS</b>	<b>TOTAL PER STAFF</b>
(601) SALARIES AND WAGES - EMPLOYEES	\$74,356	\$8,865	\$83,221
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	31,953	(22,756)	9,197
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	4,942	(615)	4,327
(620) MATERIALS AND SUPPLIES	9,673	(947)	8,726
(630) CONTRACTUAL SERVICES - BILLING	0	4,095	4,095
(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	3,384	3,384
(650) TRANSPORTATION EXPENSE	5,079	2,219	7,298
(655) INSURANCE EXPENSE	2,144	896	3,040
(665) REGULATORY COMMISSION EXPENSE	540	831	1,371
(670) BAD DEBT EXPENSE	26	0	26
(675) MISCELLANEOUS EXPENSE	<u>3,956</u>	<u>831</u>	<u>4,787</u>
	<u>\$150,725</u>	<u>(\$2,703)</u>	<u>\$148,022</u>

<b>FOUR LAKES GOLF CLUB, LTD.</b>	<b>SCHEDULE NO. 3-E</b>		
<b>TEST YEAR ENDED 8/31/2016</b>	<b>DOCKET NO. 20160176-WS</b>		
<b>ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE</b>			
	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUST- MENTS</b>	<b>TOTAL PER STAFF</b>
(701) SALARIES AND WAGES - EMPLOYEES	\$83,921	\$7,861	\$91,782
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(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	1,826	17,495
(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	3,995	3,995
(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	3,302	3,302
(750) TRANSPORTATION EXPENSE	6,800	(466)	6,334
(755) INSURANCE EXPENSE	2,539	(426)	2,113
(765) REGULATORY COMMISSION EXPENSE	540	804	1,344
(770) BAD DEBT EXPENSE	26	0	26
(775) MISCELLANEOUS EXPENSE	<u>1,782</u>	<u>493</u>	<u>2,275</u>
	<u>\$173,861</u>	<u>\$10,903</u>	<u>\$184,764</u>

<b>FOUR LAKES GOLF CLUB, LTD.</b>		<b>SCHEDULE NO. 4-A</b>	
<b>TEST YEAR ENDED AUGUST 31, 2016</b>		<b>DOCKET NO. 20160176-WS</b>	
<b>MONTHLY WATER RATES</b>			
	<b>UTILITY CURRENT RATES</b>	<b>STAFF RECOMMENDED RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential, General, and Irrigation Service</u></b>			
Base Facility Charge by Meter Size			
5/8"X3/4"	\$13.09	\$10.21	\$0.07
3/4"		\$15.32	\$0.11
1"		\$25.53	\$0.18
1-1/2"		\$51.05	\$0.35
2"		\$81.68	\$0.56
3"		\$163.36	\$1.12
4"		\$255.25	\$1.75
6"		\$510.50	\$3.50
Charge per 1,000 gallons – Residential Service			
0 - 5,000 gallons	\$0.00	N/A	
Over 5,000 gallons	\$0.53	N/A	
0 - 3,000 gallons	N/A	\$1.57	\$0.01
Over 3,000 gallons	N/A	\$1.89	\$0.01
Charge per 1,000 gallons – General Service			
0 - 5,000 gallons	\$0.00	N/A	\$0.01
Over 5,000 gallons	\$0.53	N/A	
Charge per 1,000 gallons – Irrigation Service			
0 - 5,000 gallons	\$0.00	N/A	\$0.01
Over 5,000 gallons	\$0.53	N/A	
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
3,000 Gallons	\$13.09	\$14.92	
5,000 Gallons	\$13.09	\$18.70	
8,000 Gallons	\$14.68	\$24.37	

<b>FOUR LAKES GOLF CLUB, LTD.</b>		<b>SCHEDULE NO. 4-B</b>	
<b>TEST YEAR ENDED AUGUST 31, 2016</b>		<b>DOCKET NO. 20160176-WS</b>	
<b>MONTHLY WASTEWATER RATES</b>			
	<b>UTILITY CURRENT RATES</b>	<b>STAFF RECOMMENDED RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential Service</u></b>			
All Meter Sizes	\$13.09	\$10.99	\$0.07
Charge per 1,000 gallons – Residential Service 8,000 gallon cap	N/A	\$2.06	\$0.01
0 - 5,000 gallons	\$0.00	N/A	
Over 5,000 gallons	\$0.52	N/A	
<b><u>General Service</u></b>			
Base Facility Charge by Meter Size			
All Meter Sizes	\$13.09	N/A	
5/8" x 3/4"	N/A	\$10.99	\$0.07
3/4"	N/A	\$16.49	\$0.10
1"	N/A	\$27.48	\$0.18
1-1/2"	N/A	\$54.95	\$0.35
2"	N/A	\$87.92	\$0.56
3"	N/A	\$175.84	\$1.12
4"	N/A	\$274.75	\$1.75
6"	N/A	\$549.50	\$3.50
Charge per 1,000 gallons - General Service	N/A	\$2.47	\$0.02
0 - 5,000 gallons	\$0.00	N/A	
Over 5,000 gallons	\$0.52	N/A	
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
3,000 Gallons	\$13.09	\$17.17	
5,000 Gallons	\$13.09	\$21.29	
8,000 Gallons	\$14.65	\$27.47	

<b>FOUR LAKES GOLF CLUB, LTD.</b>			<b>SCHEDULE NO. 5-A</b>	
<b>TEST YEAR ENDED 8/31/2016</b>			<b>DOCKET NO. 20160176-WS</b>	
<b>SCHEDULE OF WATER PLANT, DEPRECIATION, CIAC, &amp; CIAC AMORTIZATION BALANCES</b>				
<b>ACCT NO.</b>	<b>DEPR. RATE PER RULE 25-30.140</b>	<b>DESCRIPTION</b>	<b>UPIS 8/31/2016 (DEBIT)*</b>	<b>ACCUM. DEPR. 8/31/2016 (CREDIT)*</b>
301	2.50%	Organization	\$0	\$0
302	2.50%	Franchises	0	0
303		Land and Land Rights (Non-Depreciable)	38,979	0
304	3.57%	Structures and Improvements	20,052	15,602
307	3.70%	Wells and Springs	141,226	70,535
309	3.13%	Supply Mains	2,213	1,464
310	5.88%	Power Generation Equipment	27,304	27,304
311	5.88%	Pumping Equipment	22,960	780
320	5.88%	Water Treatment Equipment	22,068	22,068
330	3.03%	Distribution Reservoirs and Standpipes	0	0
331	2.63%	Transmission and Distribution Mains	246,618	126,038
333	2.86%	Services	62,290	33,242
334	5.88%	Meters and Meter Installations	6,740	6,163
335	2.50%	Hydrants	19,160	5,578
340	16.67%	Office Furniture and Equipment	0	0
345	5.00%	Power Operated Equipment	0	0
349	10.00%	Other Tangible Plant	<u>4,050</u>	<u>1,283</u>
		Total Including Land	<u>\$613,659</u>	<u>\$310,057</u>
			<b>CIAC AMORT. 8/31/2016 (DEBIT)*</b>	<b>CIAC 8/31/2016 (CREDIT)</b>
			<u>\$312,504</u>	<u>\$507,425</u>

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

<b>FOUR LAKES GOLF CLUB, LTD.</b>			<b>SCHEDULE NO. 5-B</b>	
<b>TEST YEAR ENDED 8/31/2016</b>			<b>DOCKET NO. 20160176-WS</b>	
<b>SCHEDULE OF WASTEWATER PLANT, DEPRECIATION, CIAC, &amp; CIAC AMORT. BALANCES</b>				
<b>ACCT NO.</b>	<b>DEPR. RATE PER RULE 25-30.140</b>	<b>DESCRIPTION</b>	<b>UPIS 8/31/2016 (DEBIT)*</b>	<b>ACCUM. DEPR. 8/31/2016 (CREDIT)*</b>
351	2.50%	Organization	\$0	\$0
352	2.50%	Franchises	0	0
353		Land and Land Rights (Non-Depreciable)	70,004	0
354	3.70%	Structures and Improvements	181,358	123,229
360	3.70%	Collection Sewers - Force	10,494	8,370
361	2.50%	Collection Sewers - Gravity	398,113	212,153
363	2.86%	Services to Customers	96,494	54,133
364	20.00%	Flow Measuring Devices	17,584	15,953
365	2.86%	Flow Measuring Installations	0	0
370	5.56%	Receiving Wells	37,693	35,258
371	5.56%	Pumping Equipment	20,536	4,353
380	5.56%	Treatment and Disposal Equipment	200,139	193,274
381	3.13%	Plant Sewers	43,416	26,946
389	6.67%	Other Plant and Misc. Equipment	0	0
390	16.67%	Office Furniture and Equipment	0	0
395	5.00%	Power Operated Equipment	<u>1,579</u>	<u>1,579</u>
		Total Including Land	<u>\$1,077,411</u>	<u>\$675,248</u>
			<b>CIAC AMORT. 8/31/2016 (DEBIT)*</b>	<b>CIAC 8/31/2016 (CREDIT)</b>
			<u>\$559,298</u>	<u>\$985,153</u>

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