

State of Florida



# Public Service Commission

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

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

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**DATE:** June 27, 2018

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

**FROM:** Division of Economics (Sibley, Hudson) *MS* *W* *CS* *TS* *CR*  
Division of Accounting and Finance (Wilson, Brown) *KW* *ALM*  
Division of Engineering (Lewis) *CK*  
Office of the General Counsel (DuVal) *MD* *TH*

**RE:** Docket No. 20170147-WS – Application for staff-assisted rate case in Levy County by FIMC Hideaway, Inc.

**AGENDA:** 07/10/18 – Regular Agenda – Proposed Agency Action – Except for Issue Nos. 12, 13, and 14 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Brown

**CRITICAL DATES:** 11/21/18 (15-Month Effective Date (SARC))

**SPECIAL INSTRUCTIONS:** None

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## Case Background

FIMC Hideaway, Inc. (FIMC or utility) is a Class C utility which was granted water and wastewater certificates in 1984 to serve the Hideaway development when Levy County turned jurisdiction over to the Florida Public Service Commission (Commission) in 1983.<sup>1</sup> The Hideaway systems were transferred to Florida Investors Mortgage Corporation (FIMC) Hideaway, Inc. in 1992 following its foreclosure on the utility.<sup>2</sup> Subsequently, a transfer of majority organizational control was approved in 2005 when the utility stock was acquired by the current owners.<sup>3</sup> In 2009, the Commission approved the transfer of the Springside water and wastewater systems from Par Utilities, Inc. to FIMC Hideaway, Inc.<sup>4</sup> The Hideaway and Springside water and wastewater systems were interconnected in April 2013. The utility has not successfully applied for a rate increase since 1992.

On June 22, 2017, FIMC filed an application for a staff assisted rate case (SARC). Staff selected the test year ended June 30, 2017. According to FIMC's 2017 Annual Report, combined total gross revenues were \$99,762 and total operating expenses were \$88,810. The Hideaway and Springside systems currently serve 197 customers. The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, and 367.091, Florida Statutes (F.S.).

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<sup>1</sup>Order No. 13497, issued July 10, 1984, in Docket No. 19830552-WS, *In re: Application of Hideaway Service, Inc. for a certificate to operate a water and sewer utility in Levy County.*

<sup>2</sup>Order No. 25584, issued January 8, 1992, in Docket No. 19910672-WS, *In re: Application for transfer of Certificates Nos. 426-W and 362-S from Hideaway Service, Inc. to FIMC Hideaway, Inc. in Levy County.*

<sup>3</sup>Order No. PSC-05-0298-PAA-WS, issued March 18, 2005, in Docket No. 20040152-WS, *In re: Application for transfer of majority organizational control of FIMC Hideaway, Inc. in Levy County from Florida Investors Mortgage Corporation, a Florida corporation, to Robert and Janet McBride.*

<sup>4</sup>Order No. PSC-09-0279-PAA-WS, issued April 29, 2009, in Docket No. 20080268-WS, *In re: Joint Application for transfer of the Springside water and wastewater systems from Par Utilities, Inc. in Levy County to FIMC Hideaway, Inc.; amendment of Certificates 426-W and 362-S held by FIMC Hideaway, Inc.; and amendment of Certificate 428-W and cancellation of Certificate 366-S held by Par Utilities, Inc.*

## Discussion of Issues

**Issue 1:** Is the quality of service provided by FIMC Hideaway, Inc. satisfactory?

**Recommendation:** Staff recommends that the overall quality of service for FIMC should be considered marginal until the utility can sufficiently demonstrate that it meets the Department of Environmental Protection's (DEP) secondary water standards. Staff additionally recommends that the utility file the results of its next primary and secondary water standards tests with the Commission. Additional action, if any, should be considered after review of these test results. (Lewis)

**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 utility's attempt to address customer satisfaction, and (3) the operating conditions of the utility's plant and facilities. The rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with DEP and the county health department over the preceding three-year period shall be considered. Additionally, Section 367.0812(1), 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 DEP.<sup>5</sup>

### Quality of Utility's Product

In evaluation of FIMC's product quality, staff reviewed the utility's compliance with DEP's primary and secondary drinking water quality standards. Primary standards protect public health, while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water. In August 2015, the utility conducted sampling of all primary and secondary water standards. On January 8, 2016, DEP informed the utility that it exceeded the maximum contaminant levels for total dissolved solids and sulfates, which are secondary standards, and requested additional testing within 14 days. DEP records do not show receipt of the additional testing; however, DEP has elected to not pursue enforcement action against the utility. Testing for primary and secondary water standards are next due in August 2018.

Based on staff's review, there were no complaints received by the Commission, DEP, or FIMC concerning primary or secondary water standards. At the February 1, 2018 Customer Meeting, discussed below, customers did complain about the taste of FIMC's water as well as water pressure. Giving consideration to the exceedance of two secondary standards and the unresponsiveness to DEP's request, staff believes that the quality of FIMC's product should be considered marginal at this time. Staff additionally recommends that the utility file the results of its next primary and secondary water standards tests with the Commission. Additional action, if any, should be considered after review of these test results.

As discussed below, the utility's operation of its wastewater treatment plant (WWTP) is subject to various environmental requirements such as permitting, testing, and discharge monitoring

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<sup>5</sup>Rule 25-30.433(1), F.A.C., has been amended by the Commission. The amended rule should be effective on July 11, 2018.

under the jurisdiction of DEP. Currently, it appears DEP has no violations or corrective orders pending against the utility concerning the treatment and disposal of domestic wastewater.

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

Staff reviewed the Commission's complaint records related to FIMC from July 1, 2012, through December 31, 2017, and found two complaints. One customer complained about a significant reduction in water pressure. During the time of the complaint, the utility was in the process of replacing its water tank due to a small leak. The complaint was satisfactorily resolved on September 12, 2014. The second complaint was a billing dispute in which the customer disputed the installation charges for a new meter. The utility's response indicated that a main extension charge was included and improperly quoted to the customer. Commission staff reviewed the tariff charges with the utility and the proper charges were determined. This complaint was also recorded by FIMC and is the only complaint recorded by the utility during the previously indicated timeframe.

Staff also requested a copy of any complaints against the utility filed with DEP for the test year and four years prior. DEP responded that it received one complaint in 2014 concerning a tank leak. Based on DEP's complaint log, a new tank was already ordered and is being installed.

A customer meeting was held in Chiefland on February 1, 2018. Approximately 43 customers attended the meeting and 11 spoke. The subject of the customers' complaints included concerns about the taste of the water provided, emergency signage at FIMC's lift station, the ability to contact the utility, and water pressure.

The utility consulted with the Florida Rural Water Association (FRWA) on February 19, 2018, to address the concerns regarding the taste of the water. FRWA recommended that the utility install a flushing valve. Following the utility's meeting with FRWA, the utility identified and repaired an existing flushing valve. In response to a staff data request the utility indicated that it would begin performing scheduled flushing. On March 5, 2018, FIMC provided Commission staff with photos of newly installed emergency signage at its lift station. The utility also provided a bill which has a contact number for FIMC's operator and staff verified that the number on the bill is operative. With regard to the water pressure concerns, the utility represented that its operator offered to check the water pressure at the customers' homes and the customers were not interested. Based on the above, staff believes that the utility is adequately attempting to address customer satisfaction.

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

FIMC's service area is located in Chiefland, Florida, in Levy County and is within the Suwannee River Water Management District (SRWMD). The raw water source is ground water, which is obtained from two wells within the service area. The water treatment processing sequence is to pump raw water from the aquifer, inject calcium hypochlorite, store the treated water in a hydropneumatic tank, and distribute. DEP conducted a sanitary survey inspection of FIMC's water treatment plant (WTP) on November 30, 2015. Based on information obtained during and following the inspection, the system was determined to be in compliance with DEP's rules and regulations. The next sanitary survey is due to be performed in August 2018.

FIMC also operates an extended aeration WWTP. The treated effluent is discharged to groundwater via three rapid-rate infiltration basins. A wastewater inspection was conducted by DEP on April 26, 2016, and the facility was rated as in-compliance. As of April 1, 2018, there appear to be no compliance issues with respect to the condition of FIMC's facilities.

**Summary**

Staff recommends that the overall quality of service for FIMC should be considered marginal until the utility can sufficiently demonstrate that it meets DEP's secondary water standards. In addition, staff recommends that the utility file the results of its next primary and secondary water standards tests with the Commission. Additional action, if any, should be considered after review of these test results.

**Issue 2:** What are the used and useful (U&U) percentages of FIMC's WTP, WWTP, water distribution system, and wastewater collection system?

**Recommendation:** FIMC's WTP, WWTP, water distribution system, and wastewater collection system should be considered 100 percent U&U. Staff additionally recommends that no adjustment be made to purchased power and chemical expenses for excessive unaccounted for water (EUW) or infiltration and inflow (I&I). (Lewis)

**Staff Analysis:** Historically the Commission has given consideration to previous rate cases when evaluating U&U. In FIMC's last rate case (1992) the Commission found the WTP and WWTP to be 100 percent U&U. As discussed in the case background, the Commission approved a transfer of the Springside water and wastewater systems to FIMC in 2009. The systems, which are contiguous, were interconnected in 2013, and the Hideaway WTP and WWTP were subsequently abandoned. Therefore, the utility's system has substantially changed since the last rate case.

### **Used and Useful Analysis**

Rule 25-30.4325, F.A.C., provides that a water treatment system is considered 100 percent U&U if the service territory the system is designed to serve is built out and there is no apparent potential for expansion of the service territory. Rule 25-30.432, F.A.C., also requires the Commission to consider the extent to which a service area is built out when determining the U&U percentage of a utility's WWTP.

Based on review of FIMC's Annual Reports and staff's Audit Report, FIMC serves approximately 197 water and wastewater customers. The utility represented to Commission staff that the community is close to being built out with only about five lots remaining available. On December 6, 2017, Commission staff conducted a site visit and noted that the five remaining lots are interspersed throughout FIMC's service territory. Staff also notes that there has been little growth, less than one equivalent residential customer (ERC) per year, over the past five years. Considering that there has been minimal growth in the utility's service area in the past five years, and there appears to be no apparent potential for new development, staff recommends that FIMC's WTP, WWTP, water distribution system, and wastewater collection system should be considered 100 percent U&U.

### **Excessive Unaccounted for Water**

Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. When establishing the rule, the Commission recognized that some uses of water are readily measurable and others are not. Unaccounted for water is all water that is produced that is not sold, metered, or accounted for in the records of the utility. The rule provides that to determine whether adjustments to plant and operating expenses, such as purchased electrical power and chemicals, are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible.

Unaccounted for water is calculated by subtracting both the gallons used for other purposes, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year. FIMC's monthly operating reports (MORs) show that the utility treated 8,837,742 gallons of

water during the test year, July 2016 through June 2017. Based on staff's review of the billing records, the utility sold 5,322,340 gallons of water during the test year. The utility's 2016 Annual Report identifies an additional 2,628,000 gallons as accounted for. In the response to a staff data request, FIMC indicated that the accounted for gallonage is used to control foaming caused by fats, oils, grease, and other material introduced into the WWTP.

The amount of water sold and used for flushing was 7,950,340 (5,322,340 + 2,628,000) gallons. The amount of unaccounted for water is equal to the total treated gallons for the test year minus the total gallons accounted for, which is 887,402 (8,837,742 - 7,950,340) gallons. Ten percent of the treated water produced equates to 883,744 gallons. The EUW for water is 3,628 (887,402 - 883,774) gallons or 0.4 percent of the amount of the treated water produced for the year. Staff is recommending that no adjustment be made to operating expenses for chemicals and purchased power due to EUW because the amount of EUW is minimal (less than half of a percent).

### **Inflow & Infiltration**

Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider I&I. Infiltration occurs 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 allowance for infiltration is 500 gallons per day, per inch diameter pipe per mile. An amount equal to 10 percent of water sold is allowed for inflow. Excessive I&I is a calculation that is based on a comparison of the allowable wastewater treated to the actual amount of wastewater treated.

The utility's SARC application states that the collection system is a composite network of approximately 6,475 linear feet in the Hideaway subdivision and 4,960 linear feet in the Springside subdivision of various 2, 4, and 6 inch cast iron and PVC piping. The utility could not designate the length for each diameter of pipe; therefore, staff used 4 inches as the average diameter for the piping. The infiltration calculation equates to 4,331 gpd ((4 inches x 500 gpd x (11,435 ft/5,280 ft)) x 365 days) or 1,580,975 gallons per year (gpy). Billing data for FIMC indicates 4,624,180 gallons were sold during the test year. Therefore, the allowance for inflow is 462,418 gpy (4,624,180 x 10 percent). Based on the calculation above, the total I&I allowance is 2,043,393 (1,580,975 + 462,418) gallons for the test year.

Eighty percent of water sold is expected to flow to the WWTP; therefore, the estimated return of water sold is 3,699,344 (4,624,180 x 80 percent) gallons for the test year. The total estimated I&I is the amount of wastewater treated minus estimated water returned. Based on the total water treated, identified in the utility's discharge monitoring reports filed with DEP, and the estimated water returned, FIMC's total estimated I&I equals (4,746,000 - 3,699,344) 1,046,656 gallons. Excessive I&I is the estimated I&I minus the total I&I allowance (1,046,656 - 2,043,393). The resulting value, which is negative, indicates that there was no excessive I&I for the test year of July 2016 through June 2017.



**Conclusion**

Staff recommends that FIMC's WTP, WWTP, water distribution system, and wastewater collection system should be considered 100 percent U&U. Staff additionally recommends that no adjustment be made to purchased power and chemical expenses for EUW or I&I.

Date: June 27, 2018

**Issue 3:** What is the appropriate average test year water and wastewater rate bases for FIMC Hideaway, Inc.?

**Recommendation:** The appropriate average test year water rate base for FIMC is \$36,054 and the average test year wastewater rate base is \$7,935. (Wilson)

**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 was last established for FIMC Hideaway systems as of December 2003,<sup>6</sup> whereas Springside's net book value was last established in 2009.<sup>7</sup> The test year ended June 30, 2017, was used for the instant case. For ratemaking purposes, the utility has requested that its Hideaway water and wastewater systems be combined with its Springside water and wastewater systems. Staff believes this is appropriate since Hideaway and Springside customers are currently served by a single, shared water plant and a single, shared wastewater treatment plant. 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 \$251,809 for water and \$322,029 for wastewater. Staff reduced water UPIS by \$7,502 and increased wastewater UPIS by \$2,761 to reflect appropriate plant balances as identified in the staff audit. In response to staff's First Data Request, the utility requested two post test year items be considered as pro forma. Staff believes only one item, a \$2,000 replacement of 40-50 feet of PVC pipe with galvanized pipe for the wastewater treatment plant should be considered at this time. Staff included this project in its rate base calculation. Since no original cost invoices were available, 75 percent of the cost of the replacement was used as the retirement value by staff. This is consistent with Commission practice. As such, staff utilized \$1,500 (\$2,000 x 75 percent) for the retirement associated with this project. The net increase to UPIS is \$500 (\$2,000 - \$1,500). A second item, which totaled approximately \$2,700, was not included in wastewater UPIS as it appeared to be related to a customer conversion from septic to sewer. As shown in Table 3-1, the net increase to wastewater UPIS to reflect the pro forma line replacement is \$500, which includes the associated retirements estimated by staff based on the utility's available records. Based on the plant addition described above, staff believes the following adjustments should be made:

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<sup>6</sup>Order No. PSC-05-0298-PAA-WS, issued March 18, 2005, in Docket No. 20040152-WS, *In re: Application for transfer of majority organizational control of FIMC Hideaway, Inc. in Levy County from Florida Investors Mortgage Corporation, a Florida corporation, to Robert and Janet McBride.*

<sup>7</sup>Order No. PSC-09-0279-PAA-WS, issued April 29, 2009, in Docket No. 20080268-WS, *In re: Joint Application for transfer of the Springside water and wastewater systems from Par Utilities, Inc. in Levy County to FIMC Hideaway, Inc.; amendment of Certificates 426-W and 362-S held by FIMC Hideaway, Inc.; and amendment of Certificate 428-W and cancellation of Certificate 366-S held by Par Utilities, Inc.*

**Table 3-1  
 Pro Forma Wastewater Plant Adjustments**

<b>Description</b>	<b>Acct. No.</b>	<b>UPIS</b>	<b>Accum. Depr.</b>	<b>Depr. Exp.</b>	<b>Prop. Taxes</b>
WWTP Line Replacement	361	\$500	\$1,450	\$13	\$7

Source: Utility responses to staff data requests.

As discussed previously in this issue, the utility’s customers are served by a single, shared water plant and a single, shared wastewater treatment plant. The two systems were interconnected in 2013, and the Hideaway water and wastewater systems were decommissioned. As a result, staff believes that the associated decommissioned plant should be removed from rate base. The net reduction to water UPIS to reflect the decommissioning of the Hideaway water plant is \$54,374, which includes the appropriate plant balances identified in the audit. Based on these plant adjustments, staff believes corresponding adjustments should also be made to accumulated depreciation and depreciation expense. Staff’s water plant adjustments are reflected in Table 3-2.

**Table 3-2  
 Water Plant Adjustments**

<b>Description</b>	<b>Acct. No.</b>	<b>UPIS</b>	<b>Accum. Depr.</b>	<b>Depr. Exp.</b>
Structures and Improvements	304	(\$4,965)	\$4,965	-
Wells and Springs	307	(20,094)	20,094	(\$299)
Water Treatment Equipment	320	(873)	873	(18)
Distribution Reservoirs	330	(28,442)	28,442	-
Net Adjustment		<u>(\$54,374)</u>	<u>\$54,374</u>	<u>(\$317)</u>

Source: FIMC Hideaway audit workpapers.

To reflect the decommissioning of the Hideaway wastewater plant, staff reduced wastewater UPIS by \$24,998. Based on the plant adjustment, staff believes a corresponding adjustment to accumulated depreciation should also be made. Due to the plant item being fully depreciated, no depreciation expense was recorded, thus no corresponding adjustment is needed. Staff’s adjustments to reflect the decommissioning of the Hideaway wastewater plant are reflected in Table 3-3.

**Table 3-3  
 Wastewater Plant Adjustments**

<b>Description</b>	<b>Acct. No.</b>	<b>UPIS</b>	<b>Accum. Depr.</b>	<b>Depr. Exp.</b>
Treatment and Disposal Equipment	380	(\$24,998)	\$24,998	-

Source: FIMC Hideaway audit workpapers.

Staff notes that corresponding adjustments to property taxes for the decommissioned water and wastewater plant are addressed in Issue 6.

Staff's net adjustments to UPIS reflect a reduction of \$61,876 to water and \$21,737 to wastewater. Consistent with Commission practice, no averaging adjustment was applied to the pro forma additions. Therefore, staff recommends a UPIS balance of \$189,933 (\$251,809 - \$61,876) for water and \$300,292 (\$322,029 - \$21,737) for wastewater.

### **Land and Land Rights**

The utility recorded land of \$15,858 for water and \$10,383 for wastewater. Staff verified that the land is owned by the utility and determined there have been no changes to the utility's cost of land since rate base was last established. As discussed earlier in this issue, the Hideaway and Springside water systems and wastewater systems were interconnected in 2013, and the Hideaway water and wastewater systems were decommissioned. As such, staff believes the land associated with the decommissioned water and wastewater plants should also be removed from rate base. Staff removed \$3,858 from water and \$1,895 for wastewater. Staff notes that land related to a Hideaway lift station remains in the combined wastewater land balance since it is still in use. With these adjustments, any land associated with the FIMC Hideaway Clubhouse that may have been intermingled with the decommissioned plant land has also been removed. The clubhouse, which had nothing to do with the utility's current water or wastewater operations, is no longer in use. Staff's corresponding adjustments to property taxes are addressed in Issue 6. As such, staff recommends a land and land rights balances of \$12,000 (\$15,858 - \$3,858) for water and \$8,488 (\$10,383 - \$1,895) for wastewater.

### **Non-Used and Useful Plant**

As discussed in Issue 2, FIMC's water treatment plant, water distribution system, wastewater treatment plant, and wastewater collection system are considered 100 percent U&U. Therefore, no U&U adjustments are necessary.

### **Contributions In Aid of Construction (CIAC)**

The utility did not record CIAC in their general ledger. Staff calculated CIAC using the beginning balances noted in Order Nos. PSC-05-0298-PAA-WS<sup>8</sup> and PSC-04-0610-PAA-WS<sup>9</sup> and subsequent additions reflected in the utility's Annual Reports compared to customer growth. Based on these calculations, staff's recommended CIAC balances are \$39,100 for water and \$75,772 for wastewater.

### **Accumulated Depreciation**

According to the utility's general ledger, the accumulated depreciation balance was \$146,773 for water and \$247,550 for wastewater as of June 30, 2017. Test year depreciation expense was not recorded in the general ledger, but was reflected in the 2016 Annual Report. Staff recalculated

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<sup>8</sup>Order No. PSC-05-0298-PAA-WS, issued March 18, 2005, in Docket No. 20040152-WS, *In re: Application for transfer of majority organizational control of FIMC Hideaway, Inc. in Levy County from Florida Investors Mortgage Corporation, a Florida corporation, to Robert and Janet McBride.*

<sup>9</sup>Order No. PSC-04-0610-PAA-WS, issued June 21, 2004, in Docket No. 20030407-WS, *In re: Application for transfer of water and wastewater facilities and Certificate No. 366-S in Levy County from Springside at Manatee, Ltd. to Par Utilities, Inc., for cancellation of Certificate No. 435-W held by Springside, and for amendment of Certificate No. 428-W held by Par.*

accumulated depreciation and depreciation expense using the audited UPIS balances and the depreciation rates established by Rule 25-30.140(2), F.A.C. Staff increased this account by \$60,718 for water and \$48,149 for wastewater to reflect the appropriate balances. Staff also increased wastewater accumulated depreciation by \$1,450 to reflect the pro forma plant addition discussed previously in this issue.

As discussed previously, the Hideaway and Springside water systems and wastewater systems were interconnected, and the Hideaway water and wastewater systems were decommissioned. To reflect this, staff reduced water accumulated depreciation by \$54,374 and wastewater accumulated depreciation by \$24,998, which includes the appropriate plant balances as identified in the audit. These adjustments are reflected in Tables 3-2 and 3-3 in UPIS.

In addition, staff reduced accumulated depreciation by \$725 for wastewater to reflect the simple average. Staff's adjustments to this account result in accumulated depreciation balances of \$153,117 for water and \$269,976 for wastewater.

### **Accumulated Amortization of CIAC**

The utility did not record accumulated amortization of CIAC in their general ledger. Staff recalculated accumulated amortization of CIAC using the depreciation rates established by Rule 25-30.140(2), F.A.C. As a result, staff increased this account by \$21,634 for water and by \$39,216 for wastewater. Staff's recommended accumulated amortization of CIAC balances are \$21,634 for water and \$39,216 for wastewater.

### **Working Capital Allowance**

Working capital is defined as the short-term, investor-supplied funds that are necessary to meet operating expenses of the utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Staff also removed the unamortized balance of rate case expense, discussed in Issue 6, of \$313 for water and \$192 for wastewater pursuant to Section 367.081(9), F.S. Applying this formula, staff recommends a working capital allowance of \$4,704 ( $\$37,634/8$ ) for water, based on the adjusted O&M expense of \$37,634 ( $\$37,947 - \$313 = \$37,634$ ). Further, staff recommends a working capital allowance of \$5,688 ( $\$45,501/8$ ) for wastewater, based on the adjusted O&M expense of \$45,501 ( $\$45,693 - \$192 = \$45,501$ ).

### **Rate Base Summary**

Based on the foregoing, staff recommends that the appropriate average test year rate base for water is \$36,054 and the average test year rate base for wastewater is \$7,935. Water and wastewater rate bases are shown on Schedule Nos. 1-A and 1-B. The related adjustments are shown on Schedule No. 1-C

**Issue 4:** What is the appropriate return on equity and overall rate of return for FIMC Hideaway, Inc.?

**Recommendation:** The appropriate return on equity (ROE) is 9.01 percent with a range of 8.01 percent to 10.01 percent. The appropriate overall rate of return is 9.33 percent. (Wilson)

**Staff Analysis:** FIMC's test year capital structure reflected common equity of \$61,545, long-term debt of \$10,371, and no customer deposits. The long-term debt was associated with a credit card which the utility owner used to finance a 37,000 gallon replacement storage tank for the Springside water plant in 2014. Staff used a 22 percent cost rate for the long-term debt based on information provided by the utility during the audit for purposes of the Staff Report. Subsequent to the Staff Report, staff received an updated statement from the utility that reflected a current interest rate on the debt of 11.24 percent as of January 2018.<sup>10</sup> Staff has applied the 11.24 percent to long term debt.

The utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE for the utility is 9.01 percent based upon the Commission-approved leverage formula currently in effect.<sup>11</sup> Staff recommends an ROE of 9.01 percent, with a range of 8.01 percent to 10.01 percent, and an overall rate of return of 9.33 percent. The ROE and overall rate of return are shown on Schedule No. 2.

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<sup>10</sup>Document No. 03314-2018, filed April 30, 2018.

<sup>11</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 the water and wastewater systems of FIMC Hideaway, Inc.?

**Recommendation:** The appropriate test year revenues are \$41,680 for the water system and \$52,504 for the wastewater system. (Sibley)

**Staff Analysis:** FIMC recorded \$43,813 in test year revenues for its water systems, which includes \$39,985 of service revenues and \$3,828 of miscellaneous revenues. Test year service revenues include revenues associated with the clubhouse. In addition, FIMC recorded \$55,469 in test year revenues for its wastewater systems, which includes \$52,591 of service revenues and \$2,878 of miscellaneous revenues. Test year revenues include revenues associated with the clubhouse.

During the test year, the utility rates changed due to a price index. Staff annualized the service revenues using the test year billing determinants and the rates in effect at the end of the test year. Staff also reclassified water revenues incorrectly recorded as wastewater revenues. In addition, staff adjusted test year revenues resulting from the utility’s failure to include a cap in the residential wastewater bills and the wastewater revenues were adjusted to include the base facility charge for the clubhouse. Staff also adjusted miscellaneous revenues to remove CIAC for meter installations and accounts receivable incorrectly recorded as miscellaneous revenues. The adjustments to test year revenues are shown in Table 5-1. Based on the above, the appropriate test year revenues for FIMC are \$41,680 for the water system and \$52,504 for the wastewater system.

**Table 5-1  
 Test Year Revenues**

	<b>Water*</b>	<b>Wastewater*</b>
<b>Service Revenues</b>		
Utility Recorded Service Revenues	\$ 39,985	\$ 52,591
Staff Adjustment	\$ 986	\$ (909)
<b>Total Service Revenues</b>	\$ 40,971	\$ 51,682
<b>Miscellaneous Revenues</b>		
Utility Recorded Miscellaneous Revenues	\$ 3,828	\$ 2,878
Staff Adjustment	\$ (3,119)	\$ (2,057)
<b>Total Miscellaneous Revenues</b>	\$ 709	\$ 821
<b>Total Test Year Revenues</b>	\$ 41,680	\$ 52,504
* Includes Hideaway and Springside revenues		

Source: Staff’s calculations.

**Issue 6:** What is the appropriate amount of operating expense for FIMC Hideaway, Inc.?

**Recommendation:** The appropriate amount of operating expense for the utility is \$44,608 for water and \$53,077 for wastewater. (Wilson, Brown)

**Staff Analysis:** FIMC recorded operating expense of \$35,580 for water and \$30,292 for wastewater for the test year ended June 30, 2017. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made several adjustments to the utility's operating expenses as summarized below.

### **Salaries and Wages - Officers (603/703)**

The utility did not record any salaries and wages – officers expense during the test year. The owners of the utility have requested pro forma salaries as part of this rate case. Staff notes that the owners are the utility's only employees and are responsible for a variety of tasks from billing to tree trimming. Using information found in the Audit Report and related work papers, staff has calculated that the utility's requested increase equates to \$12.00 per hour, based on the owners working a combined 30 hours per week for 50 weeks per year.<sup>12</sup> Even though the utility has contracted with Two-Fold Water Engineering, Inc. to operate and maintain the water and wastewater systems, staff believes it is likely that the owners have undervalued the work they perform for the utility. According to the 2012 American Water Works Association Water utility Compensation Survey for Small and Medium Sized Utilities, the minimum Office/Administrative Services Manager salary, for surveyed water utilities with less than 25 employees, is \$40,995.<sup>13</sup> Assuming that this salary is for a full-time person, working 40 hours per week, it represents approximately \$19.71 per hour. Additionally, in response to staff applying an hourly rate approved in another recent rate case.<sup>14</sup> The Office of Public Counsel (OPC) stated in its January 24, 2018 letter that, "[a] more reasonable hourly rate for these types of services ranges from \$16 to \$18 per hour."<sup>15</sup> OPC went on to state the following:

Accordingly, OPC believes that the Utility's requested salary of \$18,000 per year should be allowed. On a conservative basis, if you take the utility's requested total salary of \$18,000 and divide that by \$18 an hour, this would equate to 1,000 hours per year or 20 hours a week. OPC contends that this is a more reasonable officer salary allowance for a very small utility.<sup>16</sup>

While OPC does not agree with staff's usage of 30 hours per week in work requirements for FIMC, staff believes that the utility has documented the work performed by the owners on a weekly basis and has provided a reasonable estimate of the time required to perform those duties. Staff believes that using OPC's suggested hourly rate of \$18 per hour in conjunction with the owners' 30 hours of work each week produces an appropriate level of pro forma salaries. For these reasons, staff applied the \$18 per hour rate to 30 hours per week, for 50 weeks of the year.

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<sup>12</sup>The utility requested pro forma salaries which totaled \$18,000. Staff's calculation of \$12.00 per hour is based on the pro forma salary of \$18,000 divided by 1,500 hours (30 hrs. x 50 weeks).

<sup>13</sup>Salary at the 50<sup>th</sup> percentile.

<sup>14</sup>In Docket No. 20160165-SU, the Commission approved salaries for a wastewater only utility that averaged \$26.75 per hour. For purposes of the Staff Report, staff applied the \$26.75 per hour rate to the hours provided by FIMC's owners.

<sup>15</sup>Document No. 00603-2018, filed January 24, 2018.

<sup>16</sup>Document No. 00603-2018.



This results in pro forma officer salaries of \$27,000. Staff believes the expense should be allocated according to ERCs. As such, staff increased water by \$13,039 ( $\$27,000 \times 48.29$  percent) and wastewater by \$13,961 ( $\$27,000 \times 51.71$  percent) to reflect the appropriate test year salaries. Staff also made a corresponding adjustment in Taxes Other Than Income (TOTI) to reflect the pro forma payroll taxes associated with the recommended increase. Therefore, staff recommends salaries and wages – officers expense of \$13,039 for water and \$13,961 for wastewater.

### **Sludge Removal Expense (711)**

The utility recorded sludge removal expense of \$1,260 for the test year. In support, the utility produced an invoice reflecting \$1,260 for sludge disposal that occurred in January 2017.<sup>17</sup> In response to a staff data request, the utility produced an additional invoice of \$2,033 for sludge removal from December 2017.<sup>18</sup> Based on information provided by the utility, it appears that sludge removal occurs roughly once a year. Given the increase between the test-year invoice and the most recent invoice, staff believes that averaging the two amounts will help the utility cover the cost of sludge removal going forward, especially if costs vary substantially from what was included in the test year. As such, staff recommends average sludge removal expense of \$1,647. The resulting adjustment is an increase of \$387 ( $\$1,647 - \$1,260$ ). Therefore, staff's recommendation for sludge removal expense is \$1,647.

### **Purchased Power (615/715)**

FIMC recorded purchased power expense of \$2,121 for water and \$4,477 for wastewater for the test year. Staff decreased this account by \$10 for water and \$37 for wastewater to remove late fees from the test year balances. Therefore, staff recommends purchased power expense of \$2,111 for water and \$4,440 for wastewater.

### **Materials and Supplies (620/720)**

The utility recorded materials and supplies expense of \$2,453 for water and \$32 for wastewater for the test year. Staff decreased the water account by \$626 to reflect the removal of \$248 in unsupported expenses and reclassification of an additional \$378 to Account 636 - Contractual Services-Other. Staff made no adjustments to this account for wastewater. Accordingly, staff recommends materials and supplies expense of \$1,827 for water and \$32 for wastewater.

### **Contractual Services - Billing (630/730)**

FIMC did not record any test year contractual services – billing expense for the test year. However, the utility provided invoices from Redline Data Systems for billing support of \$350 and a billing card subscription of \$225.<sup>19</sup> The fee for the billing card subscription is assessed once every 25 months. As such, staff believes it is appropriate to amortize the expense, resulting in an expense of \$112 per year. This results in a total contractual services – billing expense of \$462 ( $\$350 + \$112$ ). Staff allocated FIMC's total billing expense between the water and wastewater systems based on ERCs, or \$223 ( $\$462 \times 48.29$  percent) for water and \$239 ( $\$462 \times 51.71$  percent) for wastewater. Therefore, staff recommends contractual services – billing expense for the test year of \$223 for water and \$239 for wastewater.

### **Contractual Services - Professional (631/731)**

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<sup>17</sup>Document No. 09327-2017, filed October 31, 2017.

<sup>18</sup>Document No. 01930-2018, filed February 28, 2018.

<sup>19</sup>Document No. 03875-2018, filed May 23, 2018.

FIMC did not record any test year contractual services – professional expense for water, but did include \$1,300 for wastewater. The utility provided supporting documentation for the \$1,300 included in wastewater, indicating that the expense was for engineering fees related to the DEP permit renewal. The DEP permit renewal occurs every five years. As such, staff believes it is appropriate to amortize the expense over a five-year period, which results in expense of \$260 per year (\$1,300/5 years). The resulting adjustment is a decrease of \$1,040 (\$260 - \$1,300). Staff also increased both water and wastewater by \$510 to account for costs related to the utility’s regulatory accountant. Additionally, staff reclassified \$1,500 related to a CPA retainer fee from Account 636 – Contractual Services-Other to Account 631/731 – Contractual Services-Professional. Staff believes the retainer should be allocated to both water and wastewater based on ERCs. This results in an increase of \$724 (\$1,500 x 48.29 percent) and \$776 (\$1,500 x 51.71 percent) to water and wastewater, respectively. As such, staff’s total adjustment to water contractual services – professional expense is an increase of \$1,234 (\$510 + \$724), and staff’s net adjustment to wastewater contractual services – professional expense is an increase of \$246 (\$510 - \$1,040 + \$776). Therefore, staff recommends contractual services – professional expense for the test year of \$1,234 for water and \$1,546 for wastewater.

**Contractual Services - Testing (635/735)**

The utility recorded testing expense of \$1,165 for water and \$45 for wastewater in this account. Staff increased this account by \$518 for water to reflect the utility’s triennial water compliance testing. The utility provided an invoice for this expense, reflecting an amount of \$1,555.<sup>20</sup> This test is performed every three years. As such, staff believes it is appropriate to amortize the expense, resulting in an expense of \$518 (\$1,555/3 years) per year. Additionally, staff decreased wastewater testing by \$45 to reclassify an item to Account 736 – Contractual Services–Other and increased the account by \$960 for the monthly testing performed by the contract operator, which was reclassified from Account 775 – Miscellaneous Expense. Based on the above, staff recommends contractual services – testing expense for the test year of \$1,683 for water and \$960 for wastewater.

**Contractual Services - Other (636/736)**

The utility recorded contractual services – other expense of \$3,283 for water and \$50 for wastewater. Staff made several adjustments to this account which are reflected in Table 6-1.

**Table 6-1  
 Staff Adjustments to Contractual Services – Other**

<b>Description</b>	<b>Water Adjustment</b>	<b>Wastewater Adjustment</b>
Reclassification from Account 620 - Materials & Supplies	\$378	\$0
Reclassification to Account 631 - Contractual Services-Professional	(1,500)	0
Reclassification from Account 675 - Miscellaneous Expense	6,884	0
Reclassification from Account 735 - Contractual Services-Testing	0	45
Reclassification from Account 775 - Miscellaneous Expense	190	17,633
<b>Total</b>	<b><u>\$5,952</u></b>	<b><u>\$17,678</u></b>

Source: Document No. 08747-2017, FIMC Hideaway Audit Report.

<sup>20</sup>Document No. 03875-2018.

As noted above, staff increased this account by \$5,952 for water and \$17,678 for wastewater to reclassify amounts identified during the staff audit and reflected in the Audit Report. Therefore, staff recommends contractual services – other expense for the test year of \$9,235 (\$3,283 + \$5,952) for water and \$17,728 (\$50 + \$17,678) for wastewater.

### **Rent Expense (640/740)**

FIMC recorded rent expense of \$11,000 for water, but recorded no rent expense for wastewater. The utility's office is in the home of the utility's owners for which they are charging rent of \$500 per month to both the Hideaway and Springside water systems. The utility owners' home consists of 1,648 square feet and the office is 144 square feet. In addition, the utility also has 80 square feet of storage that it uses within the home. Together, the combined 224 square feet represents approximately 13.59 percent of the home. The monthly mortgages on the home total \$1,254<sup>21</sup> and the \$1,000 (\$500 x 2) monthly rent expense reflects roughly 80 percent of the cost, which appears excessive to staff. Instead, staff supports OPC's proposal that ". . . the office rent should be based on the square footage of the office space, as compared to the total home space."<sup>22</sup> This treatment of rent expense is also consistent with IRS requirements allowing a home office deduction. Thus, total rent expense should be no more than approximately \$170 (\$1,254 x 13.59 percent) per month, or approximately \$2,045 (\$170 x 12 months) per year. Staff allocated FIMC's total rent expense between the water and wastewater systems based on ERCs, or \$988 (\$2,045 x 48.29 percent) for water and \$1,057 (\$2,045 x 51.71 percent) for wastewater. Staff's total adjustments to this account are a decrease of \$10,012 (\$11,000 - \$988) for water and an increase of \$1,057 for wastewater. Therefore, staff recommends for rent expense is \$988 for water and \$1,057 for wastewater.

### **Transportation Expense (650/750)**

The utility did not record any test year transportation expense. The utility provided staff with a mileage log that reflected a total of 2,720 miles for the owner's utility-related travel. The mileage reflects the utility owner's three trips per month from Gainesville to Chiefland, where FIMC is located. Staff recommends using the utility's mileage log and IRS standard mileage rates to develop an appropriate amount of transportation expense. Staff believes that the utility's mileage is reasonable based on normal operations. According to the IRS, the standard mileage rate for business includes the fixed and variable costs of operating a vehicle for business purposes. These costs would include standard maintenance, repairs, taxes, gas, insurance, and registration fees. As such, staff believes transportation expense of \$1,482 (2,720 miles x \$0.545 per mile) is appropriate. Staff increased this account by \$716 (\$1,482 x 48.29 percent) for water and \$766 (\$1,482 x 51.71 percent) for wastewater, to reflect the allocation of transportation expense. Therefore, staff recommends transportation expense of \$716 for water and \$766 for wastewater.

### **Insurance Expense (655/755)**

The utility did not record test year insurance expense for the test year. However, insurance expense of \$600 for water and \$600 for wastewater was reported in the utility's 2016 Annual Report. According to the utility's regulatory accountant, the amounts in the utility's Annual Report reflect insurance expense which is "self insurance." Staff notes that prior to 2016, the

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<sup>21</sup>Document No. 03875-2018, filed May 23, 2018. The monthly mortgage on the home is \$572.63. There also appears to be a home equity loan on the home, with monthly payments of \$681.23. This equals \$1,253.86 in monthly payments on the home.

<sup>22</sup>Document No. 00603-2018, filed January 24, 2018.

Date: June 27, 2018

utility's recent Annual Reports reflect insurance expense of \$1,200 for water and \$1,200 for wastewater. The utility did not provide an explanation for the decrease in its insurance expense. Staff is not including the utility's self insurance costs for purposes of this rate case. During the course of this docket, the utility looked into obtaining a general liability insurance policy. Initial estimates provided by the utility reflect a premium of approximately \$10,000.<sup>23</sup> Due to the excessive cost of a general liability policy, the utility opted to forgo coverage and continue to self insure for the time being. Staff has not included the utility's self insurance costs in O&M expenses.

### **Regulatory Commission Expense (665/765)**

The utility did not record regulatory commission expense for the test year. 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 \$295 for postage expense, \$197 for printing expense, and \$30 for envelopes. This results in \$522 (\$295 + \$197 + \$30) for the noticing requirement. The utility paid a total of \$1,500 in rate case filing fees (\$1,000 for water and \$500 for wastewater). Based on the above, staff recommends total rate case expense of \$2,022 (\$522 + \$1,500), which amortized over four years is \$506. Staff has allocated the annual rate case expense to the water and wastewater systems based on ERCs, resulting in annual rate case expense of \$313 for water and \$192 for wastewater. Therefore, staff recommends regulatory commission expense of \$313 for water and \$192 for wastewater.

### **Bad Debt Expense (670/770)**

FIMC did not record any bad debt in its general ledger for the test year. However, the utility did include bad debt expense of \$2,696 for water and \$2,995 for wastewater in its 2016 and 2017 Annual Reports. Staff notes that no bad debt expense was included in the utility's 2014 or 2015 Annual Reports. In addition, only nominal amounts of bad debt expense were reported in the utility's 2011, 2012, and 2013 Annual Reports.<sup>24</sup> While it is Commission practice to calculate bad debt expense using a three-year average, in this particular case staff believes that it produces a skewed result since the utility recorded no bad debt in 2015. Additionally, staff believes that it is unlikely that a utility of this size would have no bad debt expense. Generally, the basis for determining bad debt expense has been whether the amount is representative of the bad debt expense to be incurred by the utility. With this in mind, staff utilized an average for the four most recent years where bad debt expense was available for the utility's water and wastewater operations. Staff believes the resulting bad debt expense of \$1,575 for water and \$1,745 for wastewater is reasonable here, and likely to be representative of the utility's bad debt expense going forward. As such, staff increased bad debt expense by \$1,575 and \$1,745 for water and wastewater, respectively.

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<sup>23</sup>Document No. 01930-2018, filed February 28, 2018.

<sup>24</sup>Based on the utility's 2011-2013 Annual Reports, FIMC reported combined bad debt expense for water and wastewater of \$948 in 2011, \$948 in 2012, and \$495 in 2013. The 2013 amount reflects bad debt for wastewater only.

### **Miscellaneous Expense (675/775)**

The utility recorded test year miscellaneous expense of \$12,065 for water and \$20,394 for wastewater. Staff decreased the water account by \$100 for disallowed expense related to a Christmas bonus for the utility's plant operator, \$118 for insufficient support, and reclassified \$6,884 to Account 636 – Contractual Services-Other. Additionally, staff decreased the wastewater account by \$144 for disallowed expense, mostly related to bank fees and service charges, and removed \$131 for insufficient support. Staff also reclassified \$960 to Account 735 – Contractual Services-Testing, reclassified \$17,633 to Account 736 – Contractual Services-Other, and reclassified \$190 to Account 636 – Contractual Services-Other. Staff's adjustments reflect decreases of \$7,102 (\$100 + \$118 + \$6,884) to water and \$19,058 (\$144 + \$131 + \$960 + \$17,633 + \$190) to wastewater.

Furthermore, the utility provided support documentation for their home/office internet expense of \$51 per month.<sup>25</sup> Staff allocated 13.60 percent of this amount, reflective of the amount of space the home office occupies in the home. The result is internet expense of \$7.00 (\$51 x 13.60 percent) per month, or \$84 (\$7 x 12 months) per year. Staff allocated FIMC's total internet expense between the water and wastewater systems based on ERCs, or \$40 (\$84 x 48.29 percent) for water and \$43 (\$84 x 51.71 percent) for wastewater. In total, staff's adjustments are decreases of \$7,062 (\$40 - \$7,102) to water and \$19,015 (\$43 - \$19,058) to wastewater. Therefore, staff recommends miscellaneous expense of \$5,003 for water and \$1,379 for wastewater.

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

Based on the above adjustments, O&M expense should be increased by \$5,860 for water and by \$18,135 for wastewater, resulting in total O&M expense of \$37,947 for water and \$45,693 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 no test year water depreciation expense or CIAC amortization expense. Also, the utility's records reflect no test year wastewater depreciation expense or CIAC amortization expense.<sup>26</sup> Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and increased water and wastewater depreciation expense by \$3,385 and \$5,100, to reflect the appropriate test year depreciation expense. In addition, the utility did not record amortization expense in their general ledger. Staff calculated amortization expense using audited CIAC balances and the depreciation rates established by Rule 25-30.140, F.A.C. Staff also adjusted amortization expense by \$833 and \$1,202 for water and wastewater, to reflect the appropriate test year amortization expense. Further, staff made an adjustment to wastewater depreciation expense to reflect a plant addition. Staff increased the wastewater account by \$13 to reflect the additional depreciation expense associated with a plant addition to plant Account No. 361 – Collection Sewers-Gravity equipment that occurred after the end of the test year.

Staff also decreased depreciation expense by \$554 and \$1,666 for water and wastewater, respectively, to reflect the decommissioning of the Hideaway water and wastewater plants and the removal of the associated plant from rate base as discussed in Issue 3. Additionally, staff

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<sup>25</sup>Document No. 03875-2018.

<sup>26</sup>While not reflected in the general ledger, the utility did reflect depreciation expense in its 2016 Annual Report.

removed depreciation expense for several utility plant accounts that appeared to be fully depreciated. Staff's adjustments are summarized in Table 6-2 below.

**Table 6-2  
 Additional Depreciation Expense Adjustments**

<b>Description</b>	<b>Acct. No.</b>	<b>Staff Adjustment</b>
<b><u>Water</u></b>		
Wells and Springs (Issue 3)	307	(\$299)
Water Treatment Equipment (Issue 3)	320	(18)
Transmission & Distribution Lines	331	(237)
Net Water Adjustment		<u>(\$554)</u>
<b><u>Wastewater</u></b>		
Collection Sewers Gravity	361	<u>(\$1,666)</u>
Net Wastewater Adjustment		<u>(\$1,666)</u>

Source: Document No. 08747-2017, FIMC Hideaway Audit Report.

Based on the above, staff's net adjustment to depreciation expense are \$2,831 (\$3,385 - \$554) and \$3,447 (\$5,100 + \$13 - \$1,666) for water and wastewater, respectively.

Given staff's adjustments, the net depreciation expense for water is \$1,998 (\$2,831 - \$833 = \$1,998), and the net depreciation expense for wastewater is \$2,245 (\$3,447 - \$1,202 = \$2,245). Therefore, staff recommends net depreciation expense of \$1,998 for water and \$2,245 for wastewater.

**Taxes Other Than Income (TOTI)**

FIMC recorded TOTI of \$3,493 for water and \$2,734 for wastewater for the test year. Staff increased these accounts by \$42 for water and \$328 for wastewater to reflect the appropriate test year regulatory assessment fees (RAFs). Staff also increased TOTI by \$1,995 for water and \$2,136 for wastewater to reflect the pro forma payroll taxes discussed earlier in this issue.

As discussed in Issue 3, the Hideaway and Springside water systems and wastewater systems were interconnected in 2013, and the Hideaway water and wastewater systems were decommissioned. Staff believes that corresponding adjustments are necessary to remove the property tax associated with the land related to the decommissioned plant. In addition, it appears the utility continues to pay the real estate taxes for the clubhouse parcel, which had nothing to do with either water or wastewater operations and is no longer in use. As such, the property taxes associated with the clubhouse should also be removed. An adjustment should also be made to reflect the property tax associated with the pro forma plant item also addressed in Issue 3. Furthermore, staff believes that current property tax information is more reflective of the utility's property taxes going forward. Accordingly, staff used 2017 tax information to reflect the

appropriate property taxes. Staff's adjustments to property taxes are reflected in Table 6-3, below.

**Table 6-3  
 Staff Adjustments to Property Taxes**

Description	Utility Balance	Staff Adjustment	Staff Balance
Water			
Remove Hideaway-WTP and Clubhouse	\$1,082	(\$1,082)	\$0
Reflect appropriate 2017 property tax	<u>271</u>	<u>(68)</u>	<u>203</u>
<b>Total</b>	<u>\$1,353</u>	<u>(\$1,150)</u>	<u>\$203</u>
Wastewater			
Remove Hideaway-WWTP	\$648	(\$289)	\$359
Reflect appropriate 2017 property tax	319	(8)	311
Reflect property tax associated w/pro forma	<u>0</u>	<u>7</u>	<u>7</u>
<b>Total</b>	<u>\$967</u>	<u>(\$290)</u>	<u>\$677</u>

Source: FIMC Hideaway audit work papers, Levy County Property Appraiser/Tax Collector.

Staff's total adjustments to TOTI reflect increases of \$887 (\$42 + \$1,995 - \$1,150) to water and \$2,174 (\$328 + \$2,136 - \$290) to wastewater.

As discussed in Issue 8, revenues have been increased by \$6,292 for water and \$5,142 for wastewater to reflect the change in revenue required to cover expenses and allow an opportunity to recover the operating margin on water and wastewater. As a result, TOTI should be increased by \$283 for water and \$231 for wastewater to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$4,663 for water and \$5,139 for wastewater.

**Operating Expenses Summary**

The application of staff's recommended adjustments to FIMC's test year operating expenses results in operating expenses of \$44,608 for water and \$53,077 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The adjustments are shown on Schedule No. 3-C.

**Issue 7:** Should the Commission utilize the operating ratio methodology as an alternative method for calculating the wastewater revenue requirement for FIMC Hideaway, Inc., 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 FIMC. The margin should be 10 percent of O&M expense for wastewater. (Wilson, Brown)

**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 \$275,000 or less per system may petition the Commission for staff assistance using alternative rate setting.<sup>27</sup>

FIMC 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 FIMC's O&M expenses plus a margin. This methodology has been applied in cases in which the traditional calculation of the revenue requirement would not provide sufficient revenue to protect against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU,<sup>28</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>29</sup> Recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-2017-0459-PAA-WS.<sup>30</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 utility's

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<sup>27</sup> As of July 1, 2018, threshold levels for eligibility will increase to \$300,000 or less per system.

<sup>28</sup> Order No. PSC-96-0357-FOF-WU, issued March 13, 1996, in Docket No. 19950641-WU, *In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.*

<sup>29</sup> Order No. PSC-97-0130-FOF-SU, issued February 10, 1997, in Docket No. 19960561-SU, *In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.*

<sup>30</sup> Order No. PSC-2017-0459-PAA-WS, issued November 30, 2017, in Docket No. 20160176-WS, *In re: Application for staff-assisted rate case in Polk County by Four Lakes Golf Club, Ltd.*



primary risk resides with covering its operating expense. Based on staff's recommendation, the adjusted wastewater rate base for the test year is \$7,935, while adjusted O&M expenses are \$45,693.

- 2) Whether the utility is expected to become a Class B utility in the foreseeable future. Pursuant to Section 367.0814(9), F.S., the alternative form of regulation being considered in this case only applies to small utilities with gross annual revenue of \$275,000 or less per systems. FIMC is a Class C utility and the recommended revenue requirement of \$57,646 for wastewater is substantially below the threshold level for Class B status (\$200,000 per system). The utility's service area has not had any significant growth in the last five years. Therefore, it appears the utility will not become a Class B utility in the foreseeable future.
- 3) Quality of service and condition of plant. As discussed in Issue 1, staff recommended the quality of service be found marginal until the utility can sufficiently demonstrate that it meets DEP's secondary water standards.
- 4) Whether the utility is developer-owned. The current utility owner is not a developer.
- 5) Whether the utility operates treatment facilities or is simply a distribution and/or collection system. The issue is whether or not purchased water and/or wastewater costs should be excluded in the computation of the operating margin. FIMC operates the water and wastewater treatment plants.

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

By Order Nos. PSC-96-0357-FOF-WU and PSC-97-0130-FOF-SU, 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. FIMC's 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 FIMC would be \$740 for wastewater. Staff does not believe this would provide the necessary financial cushion to successfully operate this utility.

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Third, if the return on rate base method was applied, FIMC 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, FIMC may not have the funds required for day-to-day operations. Using a 10 percent margin in this docket produces an operating margin of \$4,569. As such, staff recommends using a 10 percent margin for wastewater in this case.

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

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

**Recommendation:** The appropriate revenue requirement is \$47,972 for water and \$57,646 for wastewater, resulting in an annual increase of \$6,292 for water (15.10 percent) and \$5,142 for wastewater (9.79 percent). (Wilson)

**Staff Analysis:** FIMC should be allowed an annual increase of \$6,292 for water (15.10 percent) and \$5,142 for wastewater (9.79 percent). This will allow the utility the opportunity to recover its expenses, and earn a 9.33 percent return on its water system investment and a 10 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	\$36,054
Rate of Return	x 9.33%
Return on Rate Base	\$3,364
Adjusted O&M Expense	37,947
Depreciation Expense	2,831
Amortization	(833)
Taxes Other Than Income	4,663
Income Taxes	0
Revenue Requirement	\$47,972
Less Adjusted Test Year Revenues	41,680
Annual Increase	<u>\$6,292</u>
Percent Increase	15.10%

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

Adjusted O&M Expense	\$45,693
Operating Margin (%)	x 10.00%
Operating Margin (\$10,000 Cap)	\$4,569
Adjusted O&M Expense	45,693
Depreciation Expense	3,447
Amortization	(1,202)
Taxes Other Than Income	5,139
Income Taxes	0
Revenue Requirement	\$57,646
Less Adjusted Test Year Revenues	52,504
Annual Increase	<u>\$5,142</u>
Percent Increase	9.79%

**Issue 9:** What are the appropriate rate structure and rates for FIMC Hideaway's 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 sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of this notice. (Sibley)

**Staff Analysis:**

**Water Rates**

FIMC is located in Levy County within the SRWMD. The utility provides water service to approximately 183 residential customers and a clubhouse in the Hideaway and Springside service areas. Approximately 24 percent of the residential customer bills during the test year had zero gallons, indicating the customer base is seasonal. The average residential water demand is approximately 2,488 gallons per customer. The average demand excluding zero gallon bills is approximately 3,022 gallons per customer.

The Hideaway and Springside customers currently have separate water rates as shown on Schedule No. 4-A. The current rate structures for the residential and general service water customers consist of base facility charges (BFC) based on meter size and uniform gallonage charges. Approximately 77 residential customers in the Springside service area also have separate irrigation meters. The residential irrigation rate structure includes a uniform gallonage charge without a BFC.

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

The utility requested uniform rates for its Hideaway and Springside systems. Hideaway customers currently pay \$5.17 per month more than Springside customers for 2,000 gallons of water. Staff believes uniform rates are appropriate since Hideaway and Springside customers are served by a single WTP. On a uniform basis with the recommended percentage increase, the Springside system receives an increase while the Hideaway system receives a decrease at the 2,000 gallon consumption level. Additionally, billing and accounting functions would be simpler with uniform rates which could mitigate these administrative costs. As a result, staff is recommending uniform rates for the FIMC water system.

Due to the customers' low average monthly consumption and somewhat seasonal customer base, staff recommends 50 percent of the revenue requirement should be recovered through the BFC in

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an effort to provide revenue stability. In addition, the average number of persons per household served by the water system is two and one half; therefore, based on the number of persons per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold would be 3,000 gallons per month. However, staff does not recommend a non-discretionary threshold or repression adjustment because of the low average monthly demand. Staff recommends continuation of the BFC and uniform gallonage charge rate structure for residential and general service customers.

Staff evaluated whether residential irrigation customers should be assessed a BFC. Typically, the configuration of irrigation meters determines whether or not it is appropriate to assess a BFC. Based on staff's analysis, the residential irrigation customers' average demand is 754 gallons per month, which does not indicate high usage for irrigation customers with separate meters. Based on the above, staff recommends that the irrigation customers continue a gallonage charge only rate structure. The gallonage charge for irrigation service should be consistent with the gallonage charge for residential service.

### **Wastewater Rates**

The utility provides wastewater service to 197 customers. As previously described, the Hideaway and Springside service areas also have separate wastewater rates as shown on Schedule No. 4-B. The current rate structures for wastewater service consist of uniform BFCs for all residential meter sizes and gallonage charges with caps of 6,000 gallons per month for Hideaway and 10,000 gallons per month for Springside. In addition, there are approximately 13 customers in the service area that are wastewater only customers because they have their own wells. These customers are billed a flat monthly rate for wastewater service. The general service rates include a BFC by meter size and a gallonage charge that is higher than the residential gallonage charge.

Staff performed an analysis of the utility's billing data to evaluate various BFC cost recovery percentages and gallonage caps for the residential 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.

As previously discussed, the Hideaway and Springside customers are served by a single WWTP. Currently, Springside wastewater customers pay \$12.22 per month more than Hideaway customers for 2,000 gallons per month. On a uniform basis with the recommended percentage increase, the Hideaway system receives an increase while the Springside system receives a decrease in contrast to the typical bills for water at the 2,000 gallon consumption level. Consistent with staff's recommendation for the water system, staff recommends uniform rates be approved for the Hideaway and Springside wastewater customers.

As mentioned earlier, the customer base is somewhat seasonal; therefore, 50 percent of the wastewater revenue should be allocated to the BFC to help provide revenue stability. FIMC's current residential wastewater caps are 6,000 gallons for the Hideaway and 10,000 gallons for the Springside customers. It is Commission practice to set the wastewater cap at approximately 80 percent of residential water gallons sold, which typically results in gallonage caps of 6,000, 8,000, or 10,000. The wastewater gallonage cap recognizes that not all water used by the residential customers is returned to the wastewater system. However, due to the seasonality of

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the utility's customer base, 86 percent of the total water sold is captured at 4,000 gallons which is lower than gallonage caps typically approved for wastewater systems. Therefore, staff recommends a residential wastewater gallonage cap of 6,000 gallons for the Hideaway and Springside systems. Staff also recommends no repression adjustment for the WWTP. Staff recommends a residential flat rate based on the recommended BFC and average consumption of 2,488 gallons per month. Additionally, staff recommends that the general service gallonage charge be 1.2 times greater than the residential gallonage charge which is consistent with Commission practice.

### **Conclusion**

Based on the above, 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 sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of this notice.

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**Issue 10:** What are the appropriate initial customer deposits for FIMC's water and wastewater systems?

**Recommendation:** The appropriate initial customer deposits should be \$43 for the single family residential 5/8 inch x 3/4 inch meter size for water and \$55 for the single family residential 5/8 inch x 3/4 inch meter size for wastewater. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated monthly bill. The approved initial customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding. (Sibley)

**Staff Analysis:** Rule 25-30.311, F.A.C., provides the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the utility and, ultimately, the general body of ratepayers. An initial customer deposit ensures that the cost of providing service is recovered from the cost causer. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.<sup>31</sup> Currently, the utility does not have initial deposits. Based on the staff recommended water rates, the appropriate initial customer deposit for water should be \$43 to reflect an average residential customer bill for two months. The appropriate initial customer deposit for wastewater should be \$55 to reflect an average residential customer bill for two months.

Staff recommends the appropriate initial customer deposits should be \$43 for water and \$55 for wastewater for the residential 5/8 inch x 3/4 inch meter size. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated monthly bill. The approved initial customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding.

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<sup>31</sup>See e.g., Order No. PSC-15-0142-PAA-SU, issued March 26, 2015, in Docket No. 20130178-SU, *In re: Application for staff-assisted rate case in Polk County by Crooked Lake Park Sewerage Company*.



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**Issue 11:** Should FIMC Hideaway, Inc.'s existing service availability charges be revised, and if so, what are the appropriate charges?

**Recommendation:** Yes. Staff recommends that FIMC's existing service availability charges be revised. Staff recommends a meter installation charge of \$142.40 for a 5/8 inch x 3/4 inch meter and actual cost for all other meter sizes. Staff recommends a uniform water main extension charge of \$375 per ERC (ERC = 350 gpd). All other service availability charges should be discontinued. FIMC should provide notice to customers who have requested service within 12 calendar months prior to the month the application was filed to the present. The approved charges should be effective for connections made on or after the stamped approval date on the tariff sheets. The utility should provide proof of the date notice was given within 10 days of the date of the notice. (Sibley)

**Staff Analysis:** The utility's existing service availability charges were approved in separate dockets for each system.<sup>32</sup> The utility currently is authorized to charge new connections in the Hideaway system main extension charges of \$600 for water and \$725 for wastewater. The authorized charges for the Springside system consist of system capacity charges of \$325 for water and \$950 for wastewater. The meter installation charges are \$100 for Hideaway and \$105 for Springside. Approximately five lots in the utility's service area are vacant.

Rule 25-30.580, F.A.C., establishes guidelines for designing service availability charges. Pursuant to the Rule, the maximum amount of contributions-in-aid-of construction (CIAC), net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity. The minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and wastewater collection systems. The maximum guideline is designed to ensure that the utility retains an investment in the system. The utility's current contribution levels are 48 percent for water and 123 percent for wastewater.

### **Meter Installation Charge**

A meter installation charge is designed to recover the cost of the meter and the installation. FIMC is requesting an increase in its meter installation charges to reflect the current costs of installing a meter along with the associated labor and parts. The utility provided the necessary cost justification for its requested \$142.40 meter installation charge for a 5/8 inch x 3/4 inch meter, which includes \$97.40 for the meter and fittings and \$45 for labor. The utility's requested meter installation charge is reasonable and should be approved. Therefore, staff recommends meter installation charges of \$142.40 for a 5/8 inch x 3/4 inch meter and actual cost for all other meter sizes should be approved.

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<sup>32</sup>See Order No. PSC-92-0479-FOF-WS, issued June 9, 1992, in Docket No. 19911091-WS, *In re: Application for a staff-assisted rate case in Levy County by FIMC Hideaway, Inc.*; Order No. 23970, issued January 8, 1991, Docket No. 19900408-WS, *In re: Application for transfer of Certificates Nos. 435-W and 366-S in Levy County from Springside, Inc. to Springside At Manatee, Ltd.*

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### **Main Extension Charge**

A main extension charge allows the utility to recover a portion of the cost of the utility's distribution and collection lines from future customers. The water distribution system has a design capacity of 200 ERCs and the average cost of the lines per ERC is approximately \$375. Therefore, staff recommends that the Hideaway water main extension charge of \$600 and the Springside water system capacity charge of \$325 should be discontinued. A uniform main extension charge for the water system of \$375 per ERC should be approved. However, because the utility has fully recovered the cost of the collection lines and the utility's current contribution level exceeds, the maximum guideline in Rule 25-30.580, F.A.C., staff recommends that the utility's wastewater main extension charge of \$725 for the Hideaway system and the \$900 system capacity charge for the Springside wastewater system be discontinued.

### **Summary**

Staff recommends that FIMC's existing service availability charges be revised. Staff recommends a meter installation charge of \$142.40 for a 5/8 inch x 3/4 inch meter and actual cost for all other meter sizes. Staff recommends a uniform water main extension charge of \$375 per ERC (ERC = 350 gpd). All other prior service availability charges should be discontinued. FIMC should provide notice to customers who have requested service within 12 calendar months prior to the month the application was filed to the present. The approved charges should be effective for connections made on or after the stamped approval date on the tariff sheets. The utility should provide proof of the date notice was given within 10 days of the date of the notice.

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**Issue 12:** 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:** FIMC's 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, pursuant to Section 367.081(8), F.S. The utility should be required to file revised tariff sheets 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 FIMC 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. (Sibley, Wilson)

**Staff Analysis:** FIMC's 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, pursuant to Section 367.081(8), F.S. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs which is \$328 and \$202 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.

The utility 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 should also be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction. If FIMC 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.

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**Issue 13:** Should the recommended rates be approved for FIMC Hideaway, Inc. on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the utility?

**Recommendation:** Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the utility. 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. (Wilson)

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

The utility should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$7,718. 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.

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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 security, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the Commission 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 14:** Should the utility be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision?

**Recommendation:** Yes. The utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. FIMC should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) primary accounts, as shown on Schedule Nos. 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 not less than seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Wilson)

**Staff Analysis:** FIMC should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Schedule Nos. 5-A and 5-B reflect the accumulated plant, depreciation, CIAC, and amortization of CIAC balances as of June 30, 2017. FIMC 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 Nos. 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 not less than seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

**Issue 15:** 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 the utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket should be closed administratively. (DuVal)

**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 the utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket should be closed administratively.

<b>FIMC HIDEAWAY, INC.</b>		<b>SCHEDULE NO. 1-A</b>	
<b>TEST YEAR ENDED June 30, 2017</b>		<b>DOCKET NO. 20170147-WS</b>	
<b>SCHEDULE OF COMBINED WATER RATE BASE</b>			
<b>DESCRIPTION</b>	<b>BALANCE PER UTILITY</b>	<b>STAFF ADJUSTMENTS TO UTIL. BAL.</b>	<b>BALANCE PER STAFF</b>
1. UTILITY PLANT IN SERVICE	\$251,809	(\$61,876)	\$189,933
2. LAND & LAND RIGHTS	15,858	(3,858)	12,000
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	0	(39,100)	(39,100)
5. ACCUMULATED DEPRECIATION	(146,773)	(6,344)	(153,117)
6. AMORTIZATION OF CIAC	0	21,634	21,634
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>4,704</u>	<u>4,704</u>
8. WATER RATE BASE	<u>\$120,894</u>	<u>(\$84,840)</u>	<u>\$36,054</u>



<b>FIMC HIDEAWAY, INC.</b>		<b>SCHEDULE NO. 1-B</b>	
<b>TEST YEAR ENDED June 30, 2017</b>		<b>DOCKET NO. 20170147-WS</b>	
<b>SCHEDULE OF COMBINED WASTEWATER RATE BASE</b>			
<b>DESCRIPTION</b>	<b>BALANCE PER UTILITY</b>	<b>STAFF ADJUSTMENTS TO UTIL. BAL.</b>	<b>BALANCE PER STAFF</b>
1. UTILITY PLANT IN SERVICE	\$322,029	(\$21,737)	\$300,292
2. LAND & LAND RIGHTS	10,383	(\$1,895)	8,488
3. NON-USED AND USEFUL COMPONENTS	0	\$0	0
4. CIAC	0	(75,772)	(75,772)
5. ACCUMULATED DEPRECIATION	(247,550)	(22,426)	(269,976)
6. AMORTIZATION OF CIAC	0	39,216	39,216
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>5,688</u>	<u>5,688</u>
8. WASTEWATER RATE BASE	<u>\$84,862</u>	<u>(\$76,927)</u>	<u>\$7,935</u>

<b>FIMC HIDEAWAY, INC.</b>		<b>SCHEDULE NO. 1-C</b>	
<b>TEST YEAR ENDED June 30, 2017</b>		<b>DOCKET NO. 20170147-WS</b>	
<b>ADJUSTMENTS TO RATE BASE</b>		<b>PAGE 1 OF 1</b>	
	<u><b>WATER</b></u>	<u><b>WASTEWATER</b></u>	
<b><u>UTILITY PLANT IN SERVICE</u></b>			
1. To reflect audit adjustments.	(\$7,502)	2,761	
2. To reflect pro forma plant (net of retirements).	0	500	
3. To reflect staff adjustments.	<u>(\$54,374)</u>	<u>(24,998)</u>	
Total	<u>(\$61,876)</u>	<u>(\$21,737)</u>	
<b><u>LAND &amp; LAND RIGHTS</u></b>			
To remove land associated with Hideaway WTP and WWTP.	<u>(\$3,858)</u>	<u>(\$1,895)</u>	
<b><u>CIAC</u></b>			
To reflect audit adjustments..	<u>(\$39,100)</u>	<u>(\$75,772)</u>	
<b><u>ACCUMULATED DEPRECIATION</u></b>			
1. To reflect audit adjustments.	(\$60,718)	(\$48,149)	
2. To reflect pro forma plant accumulated depreciation & retirement.	0	1,450	
3. To reflect staff adjustments.	54,374	24,998	
4. To reflect an averaging adjustment.	<u>0</u>	<u>(725)</u>	
Total	<u>(\$6,344)</u>	<u>(\$22,426)</u>	
<b><u>AMORTIZATION OF CIAC</u></b>			
1. To reflect audit adjustments (Hideaway)	<u>\$21,634</u>	<u>\$39,216</u>	
<b><u>WORKING CAPITAL ALLOWANCE</u></b>			
To reflect 1/8 of test year O & M expenses.	<u>\$4,704</u>	<u>\$5,688</u>	

FIMC HIDEAWAY, INC.							SCHEDULE NO. 2		
TEST YEAR ENDED June 30, 2017							DOCKET NO. 20170147-WS		
SCHEDULE OF CAPITAL STRUCTURE (YEAR END)									
CAPITAL COMPONENT	PER UTILITY (YEAR END)	STAFF ADJUSTMENTS	TEST YEAR BALANCE PER STAFF	ADJUSTMENTS TO RECONCILE TO RATE BASE	RECONCILED CAPITAL STRUCTURE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON EQUITY	\$61,545	\$0	\$61,545	(23,899)	37,646				
2. CAPITAL STOCK	\$0	0	\$0	0	0				
3. RETAINED EARNINGS	0	0	0	0	0				
4. OTHER PAID IN CAPITAL	0	0	0	0	0				
5. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>				
TOTAL COMMON EQUITY	\$61,545	\$0	\$61,545	(\$23,899)	\$37,646	85.58%	9.01%	7.71%	
6. LONG-TERM DEBT	\$10,371	\$0	\$10,371	(\$4,027)	6,344	14.42%	11.24%	1.62%	
7. SHORT-TERM DEBT	0	0	0	<u>0</u>	0	0.00%	0.00%	0.00%	
8. 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	\$10,371	\$0	\$10,371	(\$4,027)	\$6,344	14.42%	11.24%	1.62%	
9. 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>	
10. TOTAL	<u>\$71,916</u>	<u>\$0</u>	<u>\$71,916</u>	<u>(\$27,926)</u>	<u>\$43,990</u>	<u>100.00%</u>		<u>9.33%</u>	
<b>RANGE OF REASONABLENESS</b>						<b>LOW</b>	<b>HIGH</b>		
RETURN ON EQUITY						<u>8.01%</u>	<u>10.01%</u>		
OVERALL RATE OF RETURN						<u>8.48%</u>	<u>10.19%</u>		

<b>FIMC HIDEAWAY, INC.</b>		<b>SCHEDULE NO. 3-A</b>			
<b>TEST YEAR ENDED June 30, 2017</b>		<b>DOCKET NO. 20170147-WS</b>			
<b>SCHEDULE OF COMBINED 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>\$43,813</u>	<u>(\$2,133)</u>	<u>\$41,680</u>	<u>\$6,292</u> 15.10%	<u>\$47,972</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	\$32,087	\$5,860	\$37,947	\$0	\$37,947
3. DEPRECIATION	0	2,831	2,831	0	2,831
4. AMORTIZATION	0	(833)	(833)	0	(833)
5. TAXES OTHER THAN INCOME	3,493	887	4,380	283	4,663
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>\$35,580</u>	<u>\$8,745</u>	<u>\$44,325</u>	<u>\$283</u>	<u>\$44,608</u>
8. <b>OPERATING INCOME/(LOSS)</b>	<u>\$8,233</u>		<u>(\$2,645)</u>		<u>\$3,364</u>
9. <b>WATER RATE BASE</b>	<u>\$120,894</u>		<u>\$36,054</u>		<u>\$36,054</u>
10. <b>RATE OF RETURN</b>	<u>6.81%</u>		<u>(7.34%)</u>		<u>9.33%</u>

<b>FIMC HIDEAWAY, INC.</b>		<b>SCHEDULE NO. 3-B</b>			
<b>TEST YEAR ENDED June 30, 2017</b>		<b>DOCKET NO. 20170147-WS</b>			
<b>SCHEDULE OF COMBINED WASTEWATER 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>\$55,469</u>	<u>(\$2,965)</u>	<u>\$52,504</u>	<u>\$5,142</u> 9.79%	<u>\$57,646</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	\$27,558	\$18,135	\$45,693	\$0	\$45,693
3. DEPRECIATION	0	3,447	\$3,447	0	3,447
4. AMORTIZATION	0	(1,202)	(1,202)	0	(1,202)
5. TAXES OTHER THAN INCOME	2,734	2,174	4,908	231	5,139
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>\$30,292</u>	<u>\$22,553</u>	<u>\$52,845</u>	<u>\$231</u>	<u>\$53,077</u>
8. <b>OPERATING INCOME/(LOSS)</b>	<u>\$25,177</u>		<u>(\$341)</u>		<u>\$4,569</u>
9. <b>WASTEWATER RATE BASE</b>	<u>\$84,862</u>		<u>\$7,935</u>		<u>\$7,935</u>
10. <b>RATE OF RETURN</b>	<u>29.67%</u>				
11. <b>OPERATING RATIO</b>					<u>10.00%</u>

<b>FIMC HIDEAWAY, INC.</b>		<b>SCHEDULE NO. 3-C</b>	
<b>TEST YEAR ENDED June 30, 2017</b>		<b>DOCKET NO. 20170147-WS</b>	
<b>ADJUSTMENTS TO OPERATING INCOME</b>		<b>Page 1 of 2</b>	
		<b><u>WATER</u></b>	<b><u>WASTEWATER</u></b>
<b>OPERATING REVENUES</b>			
1.	To reflect the appropriate test year services revenues.	\$986	(\$908)
2.	To reflect the appropriate test year miscellaneous service revenues.	<u>(3,119)</u>	<u>(2,057)</u>
	Subtotal	<u>(\$2,133)</u>	<u>(\$2,965)</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>			
NOTE: All accounts are listed; accounts with adjustments are highlighted			
1.	Salaries and Wages - Officers (603/703) To reflect appropriate salaries and wages.	<u>\$13,039</u>	<u>\$13,961</u>
2.	Sludge Removal Expense (711) To reflect appropriate sludge removal expense.	<u>\$0</u>	<u>\$387</u>
3.	Purchased Power (615/715) To remove late fees.	<u>(\$10)</u>	<u>(\$37)</u>
4.	Materials and Supplies (620/720) To reflect audit adjustment.	<u>(\$626)</u>	<u>\$0</u>
5.	Contractual Services - Billing (630/730) To reflect appropriate billing expense.	<u>\$223</u>	<u>\$239</u>
6.	Contractual Services - Professional (631/731)		
	a. To reflect audit adjustment for accountant.	\$510	\$510
	b. To reflect amortization of CPA retainer fee.	724	776
	c. To reflect appropriate amortization of DEP permit fee.	<u>0</u>	<u>(1,040)</u>
	Subtotal	<u>\$1,234</u>	<u>\$246</u>
7.	Contractual Services – Testing (635/735)		
	a. To remove expense and reclassify to Contractual Services - Other (736)	\$0	(\$45)
	b. To reflect reclassification of testing expense from Miscellaneous Expense account.	0	960
	c. To reflect the utility's triennial water compliance testing	<u>518</u>	<u>0</u>
	Subtotal	<u>\$518</u>	<u>\$915</u>
8.	Contractual Services - Other (636/736) To reflect audit adjustments related to reclassification of expenses.	<u>\$5,952</u>	<u>\$17,678</u>

<b>FIMC HIDEAWAY, INC.</b>		<b>SCHEDULE NO. 3-C</b>	
<b>TEST YEAR ENDED June 30, 2017</b>		<b>DOCKET NO. 20170147-WS</b>	
<b>ADJUSTMENTS TO OPERATING INCOME</b>		<b>Page 2 of 2</b>	
		<b><u>WATER</u></b>	<b><u>WASTEWATER</u></b>
9. Rents (640/740)			
To reflect appropriate rent expense.		<u>(\$10,012)</u>	<u>\$1,057</u>
10. Transportation Expense (650/750)			
To reflect appropriate transportation expense.		<u>\$716</u>	<u>\$766</u>
11. Regulatory Commission Expense (665/765)			
To reflect 4-year amortization of rate case expense.		<u>\$313</u>	<u>\$192</u>
12. Bad Debt Expense (670/770)			
To reflect appropriate bad debt expense.		<u>\$1,575</u>	<u>\$1,745</u>
13. Miscellaneous Expense (675/775)			
a. To reflect audit adjustment.		(\$7,102)	(\$19,058)
b. To reflect appropriate miscellaneous expense.		<u>40</u>	<u>43</u>
Subtotal		<u>(\$7,062)</u>	<u>(\$19,015)</u>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>		<b><u>\$5,860</u></b>	<b><u>\$18,135</u></b>
<b>DEPRECIATION EXPENSE</b>			
1. To reflect appropriate test year depreciation expense per Audit.		\$3,385	\$5,100
2. To reflect staff adjustment for plant retirement and plant that was fully depreciated.		(554)	(1,666)
3. To reflect net depreciation expense associated with pro forma adjustment.		<u>0</u>	<u>13</u>
Total		<u>\$2,831</u>	<u>\$3,447</u>
<b>AMORTIZATION OF CIAC</b>			
To reflect appropriate amortization expense.		<u>(\$833)</u>	<u>(\$1,202)</u>
<b>TAXES OTHER THAN INCOME</b>			
1. To reflect the appropriate test year RAFs.		\$42	\$328
2. To reflect appropriate test year utility payroll taxes.		1,995	2,136
3. To reflect appropriate test year utility property taxes.		(1,150)	(297)
4. To reflect prop tax associated with plant addition		<u>0</u>	<u>7</u>
Total		<u>\$887</u>	<u>\$2,174</u>

<b>FIMC HIDEAWAY, INC.</b>		<b>SCHEDULE NO. 3-D</b>	
<b>TEST YEAR ENDED June 30, 2017</b>		<b>DOCKET NO. 20170147-WS</b>	
<b>ANALYSIS OF COMBINED WATER O&amp;M EXPENSE</b>			
	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUST- MENT</b>	<b>TOTAL PER STAFF</b>
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(603) SALARIES AND WAGES - OFFICERS	0	13,039	13,039
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	2,121	(10)	2,111
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	0	0	0
(620) MATERIALS AND SUPPLIES	2,453	(626)	1,827
(630) CONTRACTUAL SERVICES - BILLING	0	223	223
(631) CONTRACTUAL SERVICES - PROFESSIONAL	0	1,234	1,234
(635) CONTRACTUAL SERVICES - TESTING	1,165	518	1,683
(636) CONTRACTUAL SERVICES - OTHER	3,283	5,952	9,235
(640) RENTS	11,000	(10,012)	988
(650) TRANSPORTATION EXPENSE	0	716	716
(655) INSURANCE EXPENSE	0	0	0
(665) REGULATORY COMMISSION EXPENSE	0	313	313
(670) BAD DEBT EXPENSE	0	1,575	1,575
(675) MISCELLANEOUS EXPENSE	<u>12,065</u>	<u>(7,062)</u>	<u>5,003</u>
	<u>\$32,087</u>	<u>\$5,860</u>	<u>\$37,947</u>



<b>FIMC HIDEAWAY, INC.</b>	<b>SCHEDULE NO. 3-E</b>		
<b>TEST YEAR ENDED June 30, 2017</b>	<b>DOCKET NO. 20170147-WS</b>		
<b>ANALYSIS OF COMBINED WASTEWATER O&amp;M EXPENSE</b>			
	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUST- MENT</b>	<b>TOTAL PER STAFF</b>
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(703) SALARIES AND WAGES - OFFICERS	0	13,961	13,961
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	1,260	387	1,647
(715) PURCHASED POWER	4,477	(37)	4,440
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	0	0	0
(720) MATERIALS AND SUPPLIES	32	0	32
(730) CONTRACTUAL SERVICES - BILLING	0	239	239
(731) CONTRACTUAL SERVICES - PROFESSIONAL	1,300	246	1,546
(735) CONTRACTUAL SERVICES - TESTING	45	915	960
(736) CONTRACTUAL SERVICES - OTHER	50	17,678	17,728
(740) RENTS	0	1,057	1,057
(750) TRANSPORTATION EXPENSE	0	766	766
(755) INSURANCE EXPENSE	0	0	0
(765) REGULATORY COMMISSION EXPENSES	0	192	192
(770) BAD DEBT EXPENSE	0	1,745	1,745
(775) MISCELLANEOUS EXPENSE	<u>20,394</u>	<u>(19,015)</u>	<u>1,379</u>
	<u>\$27,558</u>	<u>\$18,135</u>	<u>\$45,693</u>

<b>FIMC HIDEWAY, INC.</b>		<b>SCHEDULE NO. 4-A</b>		
<b>TEST YEAR ENDED JUNE 30, 2017</b>		<b>DOCKET NO. 20170147-WU</b>		
<b>MONTHLY WATER RATES</b>				
	<b>HIDEAWAY CURRENT RATES</b>	<b>SPRINGSIDE CURRENT RATES</b>	<b>STAFF RECOMMENDED RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential and General Service</u></b>				
Base Facility Charge by Meter Size				
5/8"X3/4"	\$13.85	\$8.74	\$10.81	\$0.07
3/4"	\$20.77	\$13.11	\$16.22	\$0.11
1"	\$34.61	\$21.86	\$27.03	\$0.19
1-1/2"	\$69.23	\$43.71	\$54.05	\$0.37
2"	\$110.77	\$69.94	\$86.48	\$0.60
3"	\$221.53	\$139.88	\$172.96	\$1.19
4"	\$346.14	\$218.56	\$270.25	\$1.86
6"	\$692.29	N/A	\$540.50	\$3.73
Charge per 1,000 gallons - Residential and General Service	\$3.08	\$3.05	\$4.43	\$0.03
<b><u>Irrigation Service</u></b>				
Base Facility Charge - All Meter Sizes				
	\$0.00	\$0.00	\$0.00	\$0.00
Charge per 1,000 gallons - Irrigation Service	N/A	\$1.74	\$4.43	\$0.03
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>				
2,000 Gallons	\$20.01	\$14.84	\$19.67	
6,000 Gallons	\$32.33	\$27.04	\$37.39	
10,000 Gallons	\$44.65	\$39.24	\$55.11	

<b>FIMC HIDEWAY INC.</b>		<b>SCHEDULE NO. 4-B</b>		
<b>TEST YEAR ENDED JUNE 30, 2017</b>		<b>DOCKET NO. 20170147-WU</b>		
<b>MONTHLY WASTEWATER RATES</b>				
	<b>HIDEAWAY CURRENT RATES</b>	<b>SPRINGSIDE CURRENT RATES</b>	<b>STAFF RECOMMENDED RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential Service</u></b>				
Base Facility Charge - All Meter Sizes	\$11.81	\$17.85	\$12.13	\$0.04
Charge Per 1,000 gallons 6,000 gallon cap	\$2.67	N/A	\$6.31	\$0.02
Charge Per 1,000 gallons 10,000 gallon cap	N/A	\$5.76	N/A	N/A
Flat Rate	26.61	N/A	\$25.55	\$0.09
<b><u>General Service</u></b>				
Base Facility Charge by Meter Size				
5/8" x 3/4"	\$11.81	\$17.85	\$12.13	\$0.04
3/4"	\$17.72	\$26.78	\$18.20	\$0.06
1"	\$29.53	\$44.63	\$30.33	\$0.10
1-1/2"	\$59.06	\$89.27	\$60.65	\$0.20
2"	\$94.50	\$142.83	\$97.04	\$0.32
3"	\$188.99	\$285.66	\$194.08	\$0.64
4"	\$295.30	\$446.34	\$303.25	\$1.00
6"	\$590.59	N/A	\$606.50	\$2.00
Charge per 1,000 gallons	\$3.09	\$6.92	\$7.57	\$0.03
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>				
2,000 Gallons	\$17.15	\$29.37	\$24.75	
6,000 Gallons	\$27.83	\$52.41	\$49.99	
10,000 Gallons	\$27.83	\$75.45	\$49.99	

<b>FIMC HIDEAWAY, INC.</b>			<b>SCHEDULE NO. 5-A</b>	
<b>TEST YEAR ENDED June 30, 2017</b>			<b>DOCKET NO. 20170147-WS</b>	
<b>SCHEDULE OF WATER 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 6/30/2017 (DEBIT)</b>	<b>ACCUM. DEPR. 6/30/2017 (CREDIT)</b>
301	2.50%	ORGANIZATION	\$3,345	\$3,105
303	N/A	LAND AND LAND RIGHTS	12,000	N/A
304	3.70%	STRUCTURES AND IMPROVEMENTS	34,071	34,071
307	3.70%	WELLS AND SPRINGS	2,125	838
311	5.88%	PUMPING EQUIPMENT	15,525	15,525
320	5.88%	WATER TREATMENT EQUIPMENT	2,575	2,397
330	3.03%	DISTRIBUTION RESERVOIRS	28,076	2,552
331	2.63%	TRANSMISSION & DISTRIBUTION LINES	74,816	66,334
333	2.86%	SERVICES	10,777	10,291
334	5.88%	METERS & METER INSTALLATIONS	16,605	15,986
336	10.00%	BACKFLOW PREVENTION DEVICES	204	204
340	6.67%	OFFICE FURNITURE AND EQUIPMENT	<u>1,814</u>	<u>1,814</u>
		<b>TOTAL INCLUDING LAND</b>	<b><u>\$201,933</u></b>	<b><u>\$153,117</u></b>
			<b>CIAC AMORT. 6/30/2017 (DEBIT)</b>	<b>CIAC 6/30/2017 (CREDIT)</b>
			<b><u>\$21,634</u></b>	<b><u>\$39,100</u></b>

<b>FIMC HIDEAWAY, INC.</b>			<b>SCHEDULE NO. 5-B</b>	
<b>TEST YEAR ENDED June 30, 2017</b>			<b>DOCKET NO. 20170147-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 6/30/2017 (DEBIT)</b>	<b>ACCUM. DEPR. 6/30/2017 (CREDIT)*</b>
351	2.50%	ORGANIZATION	\$2,340	\$2,340
353	N/A	LAND AND LAND RIGHTS	8,488	N/A
354	3.70%	STRUCTURES AND IMPROVEMENTS	3,437	1,900
360	3.70%	COLLECTIONS SEWERS - FORCE	4,775	4,775
361	2.50%	COLLECTION SEWERS - GRAVITY	186,826	163,459
363	2.86%	SERVICES TO CUSTOMERS	17,780	16,876
370	4.00%	RECEIVING WELLS	12,538	7,317
380	6.67%	TREATMENT AND DISPOSAL EQUIPMENT	70,526	70,526
389	6.67%	OTHER PLANT & MISCELLANEOUS EQUIP.	256	244
390	6.67%	OFFICE FURNITURE AND EQUIPMENT	<u>1,814</u>	<u>1,814</u>
		<b>TOTAL INCLUDING LAND</b>	<b><u>\$308,780</u></b>	<b><u>\$269,251</u></b>
			<b>CIAC</b>	
			<b>AMORT.</b>	<b>CIAC</b>
			<b>6/30/2017</b>	<b>6/30/2017</b>
			<b>(DEBIT)</b>	<b>(CREDIT)</b>
			<b><u>\$39,216</u></b>	<b><u>\$75,772</u></b>