

State of Florida



Public Service Commission

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

DATE: November 18, 2019

TO: Laura V. King, Chief of Reliability and Resource Planning, Division of Engineering

FROM: Division of Engineering (Knoblauch, Graves, K. Johnson, M. Watts)
Division of Accounting and Finance (D. Brown, T. Brown, Wilson)
Division of Economics (Hudson, Sibley)
Office of the General Counsel (Weisenfeld)

RE: Docket No. 20190071-WS – Application for staff-assisted rate case in Polk County by Deer Creek RV Golf & Country Club, Inc.

--STAFF REPORT--

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting scheduled for December 17, 2019.

TABLE OF CONTENTS

Case Background	1
Issue 1 – Quality of Service	2
Issue 2 – Used and Useful.....	4
Issue 3 – Average Test Year Rate Base	6
Issue 4 – Rate of Return.....	8
Issue 5 - Test Year Revenues.....	9
Issue 6 – Operating Expenses	10
Issue 7 – Alternative Calculation for Revenue Requirement.....	14
Issue 8 – Revenue Requirements	15
Issue 9 - Appropriate Rate Structure.....	17
Issue 10 – Four-Year Rate Reduction.....	20
Issue 11 – Temporary Rates.....	21
Issue 12 – Proof of Adjustments.....	23
Issue 13 - Cross Connection Control and Backflow Tariff.....	24
Issue 14 - Close Docket	25
Schedule No.1-A – Water Rate Base	26
Schedule No.1-B – Wastewater Rate Base	27
Schedule No.1-C– Adjustments to Rate Base.....	28
Schedule No. 2 – Capital Structure.....	29
Schedule No. 3-A – Water Operating Income	30
Schedule No. 3-B– Wastewater Operating Income	31
Schedule No. 3-C – Adjustments to Operating Income.....	32
Schedule No. 3-D – Water Operation and Maintenance Expense	33
Schedule No. 3-E – Wastewater Operation and Maintenance Expense	34
Schedule No. 4-A – Monthly Water Rates	35
Schedule No. 4-B – Monthly Wastewater Rates	36

Case Background

Deer Creek RV Golf & Country Club, Inc. (Deer Creek or Utility) is a Class C utility providing water and wastewater service to approximately 752 residential and 39 commercial customers in Polk County. Deer Creek is part of a Development of Regional Impact (DRI), which was established in the early 1980s.¹ Under the DRI, several contiguous mobile home communities and commercial properties were developed. The ownership of the developments has changed hands several times and several different agreements were made as to how utility service would be managed and billed. On December 5, 2013, Deer Creek acquired the recreational facilities, amenities, and other property exclusively serving several of the communities. The Florida Public Service Commission (Commission) granted Certificate Nos. 670-W and 572-S to Deer Creek on November 17, 2017, to provide water and wastewater service.²

On March 25, 2019, Deer Creek filed an application for a staff-assisted rate case (SARC). Pursuant to Section 367.0814(2), Florida Statutes, (F.S.), the official filing date of the SARC has been determined to be May 13, 2019. Staff selected the test year ended December 31, 2018, for the instant case. According to the Utility's 2018 Annual Report, it reported total operating revenues of \$132,542 for water and \$194,307 for wastewater, and net operating income of \$124,265 for water and \$81,798 for wastewater.

Commission staff notes that the Florida Department of Environmental Protection (DEP) conducted a sanitary survey in 2018 and determined the plant and facilities to be in compliance with DEP rules and regulations pursuant to Rule 25-30.433(2), Florida Administrative Code (F.A.C.).

The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, 367.091, and 367.121, F.S.

¹Pursuant to Section 380.06(1), F.S., a Development of Regional Impact is defined as "any development which, because of its character, magnitude or location, would have a substantial effect upon the health, safety, or welfare of citizens of more than one County."

²Order No. PSC-2017-0440-FOF-WS, issued November 17, 2017, in Docket No. 20160248-WS, *In re: Application for original certificates to provide water and wastewater service in Polk County by Deer Creek RV Golf & Country Club, Inc.*

Discussion of Issues

Issue 1: Is the quality of service provided by Deer Creek satisfactory?

Preliminary Recommendation: Staff's recommendation regarding quality of service will not be finalized until after the December 17, 2019, customer meeting. (Knoblauch)

Staff Analysis: Pursuant to Rule 25-30.433(1), F.A.C., the Commission, in every rate case, shall make a determination of the quality of service provided by the utility by evaluating the quality of utility's product (water) and the utility's attempt to address customer satisfaction (water and wastewater). The Rule states that the most recent chemical analyses, outstanding citations, violations, and consent orders on file with the DEP and the county health department, along with any DEP and county health department officials' testimony concerning quality of service shall be considered. In addition, any customer testimony, comments, or complaints shall also be considered.

Staff notes that Deer Creek does not have its own water or wastewater treatment facilities. Instead, it purchases bulk water and wastewater treatment from Polk County. Therefore, the Utility only maintains its distribution and collection systems. Systems that purchase bulk water and/or wastewater treatment are referred to as "consecutive" system.

Quality of the Utility's Product

As a reseller of water, Deer Creek is not subject to the DEP's secondary water standards which regulate contaminants that may impact the taste, odor, and color of drinking water. The chemical analyses required within Deer Creek's distribution system include microbiological, disinfection byproducts, as well as lead and copper. Staff reviewed the Utility's most recent results for the distribution system, and all results were in compliance with the DEP's rules and regulations which protect public health.

As discussed in the section below, Deer Creek has no outstanding citations, violations, and consent orders on file with the DEP. Additionally, based on staff's review at this time, there have been no complaints regarding the quality of the Utility's product filed with the Utility, the Commission, or the DEP, over the last five years.

The Utility's Attempt to Address Customer Satisfaction

A review of the Commission's complaint tracking system for water and wastewater revealed one complaint in the previous five-year period. The complaint, regarding a billing issue, was forwarded to the Utility for resolution and was subsequently closed. In response to a staff data request, Deer Creek provided three complaints that were received by the Utility. All of the complaints were concerning billing, with one of the complaints relating to the previously discussed complaint that was made to the Commission. Of the two remaining complaints, one was resolved with a meter test performed by the Utility, while the other remains open as the customer requested additional meter testing. In addition, staff contacted the DEP requesting complaints regarding Deer Creek for the prior five years, and there are no outstanding citations, violations, nor consent orders on file with the DEP.

Conclusion

Quality of service will be determined at a later date, pending review of comments made at the December 17, 2019, customer meeting.

Issue 2: What are the used and useful (U&U) percentages for the Deer Creek’s water distribution system and wastewater collection system?

Preliminary Recommendation: Staff recommends that the water distribution system and the wastewater collection system be considered 100 percent U&U. Staff’s initial analysis shows that there may be excessive unaccounted for water (EUW). However, since more information is expected that will clarify the situation, staff is recommending that no adjustment be made for EUW at this time. Staff is unable to calculate inflow and infiltration (I&I) due to the nature of the Utility’s provision of wastewater service. Therefore, no adjustment to operating expenses is necessary. This is a preliminary determination and further investigation is needed. (M. Watts)

Staff Analysis: As discussed in Issue 1, Deer Creek does not have its own wells or water and wastewater treatment plants. The Utility’s water distribution system consists of polyvinyl chloride (PVC) pipe and 21 fire hydrants. The wastewater collection system is composed of PVC pipe, 110 manholes, and a lift station. A summary of Deer Creek’s distribution and collection system is provided in Table 2-1.

**Table 2-1
 Water Distribution System and Wastewater Collection System Mains**

Diameter of Pipe	No. of Feet of Pipe	
	Water Mains	Wastewater Collecting Mains
4-inch	5,430	
6-inch	10,810	
8-inch	10,247	15,841
10-inch	580	6,011

Source: Deer Creek RV Golf & Country Club, Inc. 2018 Annual Report.

Water Distribution and Wastewater Collection System Used & Useful

Deer Creek serves several contiguous mobile home communities and commercial properties that were developed in the 1980s. The service territory is built out, with no growth occurring over the past five years and no prospect for further growth. Therefore, the U&U for the water distribution system and the wastewater collection system should be considered 100 percent.

Excessive Unaccounted for Water

Rule 25-30.4325(1)(e), F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. The Commission recognizes that some uses of the 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 operating expenses (such as purchased water in the case of a consecutive

system) 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. The unaccounted for water is calculated by subtracting both the gallons used for other purposes (such as flushing) and the gallons sold to customers from the total gallons purchased for the test year.

Staff's calculations for unaccounted for water currently show an EUW of 27.1 percent. However, there is a pending investigation into the Utility's leak detection analysis, so staff does not recommend an adjustment be made for EUW at this time.

Infiltration and Inflow

Typically infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas, inflow results from water entering a wastewater collection system through manholes or lift stations. Because the amount of wastewater treated by Polk County on behalf of Deer Creek is not measured separately, staff is unable at this time, to calculate whether there is excessive I&I and thus no adjustment is recommended.

Conclusion

Staff recommends that the water distribution system and the wastewater collection system be considered 100 percent U&U. Staff's initial analysis shows that there may be EUW. However, since more information is expected that will clarify the situation, staff is recommending that no adjustment be made for EUW at this time. Staff is unable to calculate I&I due to the nature of the Utility's provision of wastewater service. Therefore, no adjustment to operating expenses is necessary. This is a preliminary determination and further investigation is needed.

Issue 3: What is the appropriate average test year water rate base and wastewater rate base for Deer Creek?

Preliminary Recommendation: The appropriate average test year rate base for Deer Creek is \$63,312 for water and \$116,927 for wastewater. (D. Brown, Wilson)

Staff Analysis: The appropriate components of a Utility's rate base include utility plant in service, land, contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. Rate base has not previously been established for Deer Creek, but net book value was established in the Utility's 2017 transfer docket.³ In that docket, the Commission also approved the Utility's existing rates. The test year ended December 31, 2018, was used for the instant case. Deer Creek operated at an operating loss in 2017 and 2018 based on the Utility's annual reports. Commission audit staff determined that the Utility's books and records are in compliance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). A summary of each water rate base and wastewater rate base component, and recommended adjustments, are discussed below.

Utility Plant in Service (UPIS)

The Utility recorded UPIS of \$44,553 for water and \$95,948 for wastewater. The Utility does not operate a water treatment facility or a wastewater facility. Deer Creek's utility plant consists of a water distribution system, water meters, and a wastewater collection system with a master lift station. Water is purchased from Polk County via a single master meter. Effluent from the lift station is transferred to Polk County for treatment and disposal. Staff decreased UPIS by \$11,034 for water and \$6,900 for wastewater to reflect averaging adjustments. Therefore, staff recommends a UPIS balance of \$33,519 for water and \$89,048 for wastewater.

Land and Land Rights

The Utility recorded no land for water and wastewater. Audit staff verified that the Utility has no land deeds and determined that there have been no changes to land since the Utility was acquired on December 5, 2013. The lift station is on common property owned by the Utility's parent. Audit staff did not determine the value of land, nor was a cost assigned to the Utility. Accordingly, no adjustments are necessary. Staff recommends a land and land rights balance of \$0 for water and wastewater.

Non-Used and Useful Plant

As discussed in Issue 2, Deer Creek'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

The Utility does not collect any CIAC and had none recorded for water or wastewater; therefore, no adjustments are necessary. As such, staff's recommended CIAC balances are \$0 for water and wastewater.

³Order No. PSC-2017-0440-FOF-WS, issued November 17, 2017, in Docket No. 20160248-WS, *In re: Application for original certificates to provide water and wastewater service in Polk County by Deer Creek RV Golf & Country Club, Inc.*

Date: November 18, 2019

Accumulated Depreciation

According to the Utility's general ledger, the accumulated depreciation balances for Deer Creek water and wastewater were \$1,651 and \$7,171, respectively, as of December 31, 2018. Staff recalculated 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 decreased this account by \$7 for water and \$37 for wastewater to reflect the audited balances. In addition, staff decreased accumulated depreciation by \$670 for water and \$2,421 for water wastewater, to reflect an averaging adjustment. Staff's adjustments to this account result in accumulated depreciation balances of \$974 (\$1,651 - \$7 - \$670) for water and \$4,714 (\$7,171 - \$37 - \$2,421) for wastewater.

Accumulated Amortization of CIAC

As mentioned previously, the Utility does not collect any CIAC and there is no CIAC to amortize; therefore, no adjustments are necessary. As such, staff's recommended accumulated amortization of CIAC balances are \$0 for water and 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(3), 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 of \$517 for water and \$517 for wastewater pursuant to Section 367.081(9), F.S.⁴ Applying this formula, staff recommends a working capital allowance of \$30,767 (\$246,139/8) for water, based on the adjusted O&M expense of \$246,139 (\$246,656 - \$517). Further, staff recommends a working capital allowance of \$32,593 (\$260,742/8) for wastewater, based on the adjusted O&M expense of \$260,742 (\$261,259 - \$517).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$63,312 for water and \$116,927 for wastewater. Water and wastewater rate bases are shown on Schedule Nos. 1-A and 1-B, respectively. The related adjustments are shown on Schedule No. 1-C.

⁴Section 367.081(9), F.S., which became effective July 1, 2016, states, "A utility may not earn a return on the unamortized balance of the rate case expense. Any unamortized balance of rate case expense shall be excluded in calculating the utility's rate base." The unamortized balance of rate case expense is reflected in Issue 6 and in Schedule Nos. 3-D and 3-E.

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

Preliminary Recommendation: The appropriate return on equity (ROE) is 10.55 percent with a range of 9.55 percent to 11.55 percent. The appropriate overall rate of return is 4.87 percent. (D. Brown, Wilson)

Staff Analysis: Deer Creek's capital structure consists of common equity, long-term debt, and customer deposits. Audit staff determined that common equity for the Utility resulted in a negative balance. As such, common equity was set to zero consistent with Commission practice. The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE for the Utility is 10.55 percent based upon the Commission-approved leverage formula currently in effect.⁵ Staff recommends an ROE of 10.55 percent, with a range of 9.55 percent to 11.55 percent, and an overall rate of return of 4.87 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁵Order No. PSC-2019-0267-PAA-WS, issued July 1, 2019, in Docket No. 20190006-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.*

Date: November 18, 2019

Issue 5: What are the appropriate test year revenues for Deer Creek RV Golf & Country Club, Inc.?

Preliminary Recommendation: The appropriate test year revenues are \$120,051 for the water system and \$197,363 for the wastewater system. (Sibley)

Staff Analysis: The Utility recorded total test year revenues of \$132,542 for water and \$194,307 for wastewater. The water revenues included \$128,765 of service revenues and \$3,777 of miscellaneous revenues. The wastewater revenues included \$194,307 of service revenues and no miscellaneous revenues.

Based on staff's review of the Utility's billing determinants and the service rates that were in effect during the test year, staff determined test year service revenues should be \$118,165 for water and \$195,476 for wastewater. This results in a decrease of \$10,600 (\$128,765 - \$118,165) for water and an increase of \$1,169 (\$195,476 - \$194,307) for wastewater test year service revenues. The decrease in water service revenues is attributable to revenues collected for a Polk County tax which is non-jurisdictional.

Staff also made adjustments to miscellaneous revenues for water and wastewater. Staff decreased the Utility's water miscellaneous revenues by \$4 to reflect the appropriate miscellaneous revenues based on the number of test year occurrences and the approved miscellaneous service charges. In addition, miscellaneous revenues were reallocated equally between the water and wastewater systems. Therefore, staff recommends miscellaneous revenues of \$1,886 for the water system and \$1,887 for the wastewater system.

Based on the above, the appropriate test year revenues are \$120,051 (\$118,165 + \$1,886) for the water system and \$197,363 (\$195,476 + \$1,887) for the wastewater system. In addition, staff will evaluate including revenues from a commercial irrigation customer that erroneously had not been billed by the Utility. The additional revenues are approximately \$44,561.

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

Preliminary Recommendation: The appropriate amount of operating expense for the Utility is \$262,655 for water and \$280,681 for wastewater. (D. Brown, Wilson, T. Brown)

Staff Analysis: Deer Creek recorded operating expense of \$254,463 for water and \$276,106 for wastewater for the test year ended December 31, 2018. 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 - Employees (601/701)

The Utility recorded salaries and wages – employees expense of \$36,793 for water and \$26,701 for wastewater during the test year. There are two Deer Creek Corp. employees assigned to the Utility. Deer Creek Corp. charges 100 percent of their time plus overhead to Utility operations. There is no pension and benefit expense recorded by the Utility. Deer Creek Corp. recovers these types of costs from the Utility by means of a corporate overhead calculation applied to the bi-weekly salary charged for the Utility's employees.

Staff has included the recorded salary amounts for purposes of the Staff Report, but notes that the amounts require additional review to determine the Utility's appropriate salaries and wages expense going forward. Therefore, staff's preliminary recommendation for salaries and wages-employees expense is \$36,793 for water and \$26,701 for wastewater.

Purchased Water (610)

Deer Creek recorded purchased water expense of \$175,431 in the test year. Supporting documentation confirming the purchased water expense was provided. Staff made no adjustments to this account for purposes of the Staff Report. As such, staff's preliminary recommendation for purchased water for the test year is \$175,431.

Purchased Sewage Treatment (710)

The Utility recorded purchased wastewater expense of \$202,710 in the test year. Supporting documentation confirming the purchased wastewater expense was provided. Staff made no adjustments to this account for purposes of the Staff Report. As such, staff's preliminary recommendation for purchased wastewater for the test year is \$202,710.

Purchased Power (615/715)

Deer Creek recorded purchased power expense of \$2,059 for wastewater for the test year. No purchased power expense was recorded for water. Supporting documentation confirming the purchased power expense was provided by the Utility. Staff made no adjustments to this account. Therefore, staff's preliminary recommendation for purchased power expense is \$2,059 for wastewater.

Materials and Supplies (620/720)

The Utility recorded materials and supplies expense of \$1,079 for water. No materials and supplies expense was recorded for wastewater during the test year.⁶ Staff made no adjustments to this account for water. Accordingly, staff's preliminary recommendation for materials and supplies expense for the test year is \$1,079 for water.

Contractual Services - Billing (630/730)

Deer Creek recorded billing expense of \$600 for water and \$600 for wastewater for the test year. Staff made no adjustments to this account for either system. Accordingly, staff's preliminary recommendation for contractual services – billing expense for the test year is \$600 for water and \$600 for wastewater.

Contractual Services - Professional (631/731)

Deer Creek recorded contractual services – professional expense of \$15,190 for water and \$15,190 for wastewater for the test year. Staff made no adjustments to this account for either system. While staff has included the recorded professional expense amounts for purposes of the Staff Report, the amounts require additional review to determine the Utility's appropriate professional expense going forward. Therefore, staff's preliminary recommendation for contractual services – professional expense for the test year is \$15,190 for water and \$15,190 for wastewater.

Contractual Services - Testing (635/735)

The Utility recorded testing expense of \$6,110 for water only. No testing expense was reflected for wastewater. Staff decreased water testing by \$3,030 to reflect the testing expense supported by actual invoices. Based on the above, staff's preliminary recommendation for contractual services – testing expense for the test year is \$3,080 (\$6,110 - \$3,030) for water.

Contractual Services - Other (636/736)

The Utility recorded contractual services – other expense of \$1,051 for water and \$3,945 for wastewater. As discussed in Issue 2, Deer Creek recorded a significant amount of unaccounted for water during the test year. In order to determine the source of the unaccounted for water, the Utility requested bids for a leak detection survey project. Three bids were received, and Deer Creek stated that the lowest bid of \$20,400 was selected. The Utility requested recovery of expenses related to the leak detection project, which was completed in August 2019.⁷ The leak detection survey was unable to identify the source of the unaccounted for water; however, the Utility recently become aware of a customer that was receiving unbilled water from Deer Creek. Based on the documentation provided, staff recommends an amount of \$20,400 for the leak detection survey project be included in contractual services – other. Staff believes recovery of this project should be amortized over five years, or \$4,080 (\$20,400/5 years) per year. No additional adjustments were made to contractual services – other for water. Staff made no adjustments to wastewater contractual services – other expense. Based on the above, staff's

⁶The materials and supplies balance was \$0 for both 2017 and 2018 according to the Utility's Annual Reports for each of those years.

⁷The Utility initially requested recovery of four pro forma projects, but later withdrew all but one of the pro forma projects. Deer Creek indicated that it anticipates addressing the additional pro forma projects in a separate proceeding at the conclusion of this SARC (Document No. 09174-2019, filed October 3, 2019).

preliminary recommendation for contractual services – other expense for the test year is \$5,131 (\$1,051 + \$4,080) for water and \$3,945 for wastewater.

Rent Expense (640/740)

Deer Creek recorded rent expense of \$3,600 for water and \$3,600 for wastewater. According to the Utility, the lease amount was determined based on the square footage occupied by the Utility Supervisor's office. The price per square foot was determined by using an existing lease between Deer Creek's parent and a non-related third-party lessee, Oaks Realty, which is located in the same building. In addition to the lease amount of \$600 per month, there is a \$300 per month allocation for office supplies and the use of office equipment such as facsimile, printers, scanners, copiers, telephones, and other general office equipment. This includes use of common areas such as the bathroom, kitchen, and conference room. Utilities are also included in rent. The \$300 per month for office supplies is split between water and wastewater and is included in the miscellaneous expense balances discussed below. Total rent for the test year is \$7,200 (\$600 x 12 months), which is then split between water and wastewater. The Utility provided staff with a copy of the lease in response to a staff data request.⁸ Staff made no adjustments to this account for the Staff Report. Therefore, staff's preliminary recommendation for rent expense is \$3,600 for water and \$3,600 for wastewater.

Regulatory Commission Expense (665/765)

The Utility did not record any regulatory commission expense in this account. Rule 25-30.433(9), F.A.C., requires that non-recurring expenses be amortized over a five-year period unless a shorter or longer period of time can be justified. Accordingly, staff increased water by \$300 (\$1,500/5) and wastewater by \$300 (\$1,500/5) to reflect the five-year amortization of the Utility's original application filing fee which has not been recovered.⁹

Regarding the instant case, the Utility is required by Rule 25-22.0407, F.A.C., to provide notices of the customer meeting and notices of final rates in this case to its customers. Staff is also recommending that the Utility be required to provide notice of the four-year rate reduction to its customers when the rates are reduced to remove the amortized rate case expense. For noticing, staff estimated \$1,305 for postage expense, \$712 for printing expense, and \$119 for envelopes. This results in \$2,136 (\$1,305 + \$712 + \$119) for the noticing requirement. The Utility paid a total of \$2,000 in rate case filing fees (\$1,000 for water and \$1,000 for wastewater) in this docket. Based on the above, staff recommends total rate case expense of \$4,316 (\$2,316 + \$2,000), which amortized over four years is \$1,034. Staff allocated the annual rate case expense to the water and wastewater systems equally, resulting in annual rate case expense of \$517 for water and \$517 for wastewater. Therefore, staff's preliminary recommendation for regulatory commission expenses is \$817 (\$300 + \$517) for water and \$817 (\$300 + \$517) for wastewater.

Bad Debt Expense (670/770)

Deer Creek recorded \$57 in bad debt expense for water and no bad debt expense for wastewater. Staff notes that no bad debt expense was included in the Utility's 2017 or 2018 Annual Reports.

⁸Document No. 09174-2019.

⁹Docket No. 20160248-WS, *In re: Application for original certificates to provide water and wastewater service in Polk County by Deer Creek RV Golf & Country Club, Inc.*

Staff's preliminary recommendation for bad debt expense is \$57 for water and \$0 for wastewater.

Miscellaneous Expense (675/775)

The Utility recorded test year miscellaneous expense of \$4,878 for water and \$5,997 for wastewater. Staff decreased the wastewater account by \$360 to remove past due amounts from the test year balance. Staff made no adjustments to water. As mentioned previously, there is a \$300 per month allocation for office supplies and the use of office equipment such as facsimile, printers, scanners, copiers, telephones, and other general office equipment included as part of the Utility's lease. The amount is split between each system, \$150 for water and \$150 for wastewater on a monthly basis. The amounts are included in the recorded amounts reflected above. As such, staff's preliminary recommendation for miscellaneous expense for the test year is \$4,878 for water and \$5,637 (\$5,997 - \$360) for wastewater.

Operation and Maintenance Expense (O&M Summary)

Based on the above adjustments, O&M expense should be increased by \$1,867 for water and by \$457 for wastewater, resulting in total O&M expense of \$246,656 for water and \$261,259 for wastewater. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A through 3-C.

Depreciation Expense (Net of Amortization of CIAC)

The Utility's records reflect test year depreciation expense of \$1,340 for water and \$4,841 for wastewater. Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and found that no adjustments were necessary. As mentioned in Issue 3, Deer Creek does not collect any CIAC and there is no CIAC to amortize; therefore, no adjustments are necessary. As such, staff's recommended CIAC amortization expense balances should be \$0 for both water and wastewater. Therefore, staff recommends net depreciation expense of \$1,340 for water and \$4,841 for wastewater.

Taxes Other Than Income (TOTI)

Deer Creek recorded TOTI of \$8,334 for water and \$10,463 for wastewater for the test year. Staff decreased water by \$477 and increased wastewater by \$53 to reflect the appropriate test year Regulatory Assessment Fees (RAFs).

As discussed in Issue 8, revenues have been increased by \$151,151 for water and \$90,344 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 \$6,802 for water and \$4,065 for wastewater to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$14,659 for water and \$14,581 for wastewater.

Operating Expenses Summary

The application of staff's recommended adjustments to Deer Creek's test year operating expenses results in operating expenses of \$262,655 for water and \$280,681 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 of calculating the water and wastewater revenue requirements for Deer Creek, and, if so, what is the appropriate margin?

Preliminary Recommendation: Yes. As required by Rule 25-30.4575, F.A.C., the Commission must utilize the operating ratio methodology for calculating the water and wastewater revenue requirements for Deer Creek. The margin should be 12 percent of water and wastewater O&M expenses, capped at \$15,000. (D. Brown, Wilson)

Staff Analysis: Rule 25-30.4575, F.A.C., requires that the Commission use the operating ratio methodology when a utility's rate base is no greater than 125 percent of O&M expenses, and the use of the operating ratio methodology does not change the utility's qualification for a SARC under Rule 25-30.455(1), F.A.C.

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 Deer Creek's operating expenses plus a margin of 12 percent. 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. As discussed in Issues 3 and 6, staff has recommended water rate base of \$63,312 and wastewater rate base of \$116,927, and O&M expenses of \$246,656 for water and \$261,259 for wastewater. Based on staff's recommended amounts, Deer Creek's water rate base is 26 percent of total O&M expenses and wastewater rate base is 45 percent of total O&M expenses. Furthermore, the application of the operating ratio methodology does not change the Utility's qualification for a staff-assisted rate case. As such, Deer Creek meets the criteria for the operating ratio methodology established in Rule 25-30.4575(2), F.A.C. Therefore, staff recommends the application of the operating ratio methodology at a margin of 12 percent of water and wastewater O&M expense for determining the water and wastewater revenue requirements.

Issue 8: What is the appropriate revenue requirement?

Preliminary Recommendation: The appropriate revenue requirement is \$271,202 for water and \$287,707 for wastewater, resulting in an annual increase of \$151,151 for water (125.91 percent) and \$90,344 for wastewater (45.78 percent). (D. Brown, Wilson, T. Brown)

Staff Analysis: Deer Creek should be allowed an annual increase of \$151,151 for water (125.91 percent) and \$90,344 for wastewater (45.78 percent). This will allow the Utility the opportunity to recover its expenses and earn a 12 percent margin on O&M expenses for its water and wastewater systems.¹⁰ The calculations are shown below, in Tables 8-1 and 8-2 for water and wastewater, respectively:

**Table 8-1
 Water Revenue Requirement**

Adjusted O&M Expense (less Purchased Water)	\$71,225
Operating Margin (%)	x 12.00%
Operating Margin (\$15,000 Cap)	\$8,547
Adjusted O&M Expense	246,656
Depreciation Expense (Net)	1,340
Taxes Other Than Income	7,857
Test Year RAFs	6,802
Revenue Requirement	\$271,202
Less Adjusted Test Year Revenues	120,051
Annual Increase	<u>\$151,151</u>
Percent Increase	125.91%

¹⁰For utilities that are resellers, purchased water and purchased wastewater expenses are removed from operation and maintenance expense before the 12 percent margin is applied.

Table 8-2
Wastewater Revenue Requirement

Adjusted O&M Expense (less Purchased Wastewater)	\$58,549
Operating Margin (%)	x 12.00%
Operating Margin (\$15,000 Cap)	\$7,026
Adjusted O&M Expense	261,259
Depreciation Expense (Net)	4,841
Taxes Other Than Income	10,516
Test Year RAFs	4,065
Revenue Requirement	\$287,707
Less Adjusted Test Year Revenues	197,363
Annual Increase	<u>\$90,344</u>
Percent Increase	45.78%

Issue 9: What are the appropriate rate structure and rates for Deer Creek RV Golf & Country Club, Inc.?

Preliminary Recommendation: The recommended rate structure and monthly water and wastewater rates are shown on Schedule No. 4-A and Schedule No. 4-B. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets 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: Deer Creek is located in Polk County within the Southwest Florida Water Management District. The Utility provides water service to approximately 752 residential customers and 39 general service customers. Approximately 28 percent of the residential customer bills during the test year had zero gallons, indicating a seasonal customer base. The average residential water demand is 1,431 gallons per month. The average residential water demand excluding zero gallon bills is 1,997 gallons per month.

The Utility's current water system rate structure for residential and general service customers consists of a base facility charge (BFC) and a four-tier inclining block rate structure. The rate blocks are: (1) 0-2,400 gallons, (2) 2,401-4,700 gallons, (3) 4,700-9,500 gallons, (4) all usage in excess of 9,500 gallons per month.

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

Staff recommends that 40 percent of the water revenues be generated from the BFC, which will provide sufficient revenues to design gallonage charges that send pricing signals to customers using above the non-discretionary level. The average people per household served by the water system is two; therefore, based on the number of people per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 3,000 gallons per month. Staff recommends a BFC and a two-tier inclining block rate structure, which includes separate gallonage charges for discretionary and non-discretionary usage for residential water customers. The rate blocks are: (1) 0-3,000 gallons; and (2) all usage in excess of 3,000 gallons per month. This rate structure sends the appropriate pricing signals because it targets customers with high consumption levels and minimizes price increases for customers at non-discretionary levels. General service customers should be billed a BFC based on meter size and a uniform gallonage charge without conservation tiers, which is consistent with Commission practice and general service usage characteristics.

Based on a recommended revenue increase of 125.91 percent, which excludes miscellaneous revenues, the residential consumption can be expected to decline by 1,526,000 gallons resulting in anticipated average residential demand of 1,262 gallons per month. Staff recommends an 11.8 percent reduction in test year residential gallons for ratesetting purposes and a corresponding reduction of \$16,418 for purchased water and \$774 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$252,125.

Due to the magnitude of the revenue requirement increase, staff will re-evaluate the rates and rate structures for the final recommendation. In addition, staff will evaluate including additional billing determinants for a commercial irrigation customer that erroneously had not been billed by the Utility.

Wastewater Rates

The Utility provides wastewater service to 752 residential customers and 39 general service customers. Currently, the residential wastewater rate structure consists of a uniform BFC for all meter sizes and a gallonage charge without a gallonage cap. The general service rate structure consists of a uniform BFC for all meter sizes and a gallonage charge which is the same as 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.

Consistent with Commission practice, staff allocated 50 percent of the wastewater revenue to the BFC due to the capital intensive nature of wastewater plants. The Utility does not have a gallonage cap for residential customers because the Utility purchases water and wastewater treatment from Polk County and is billed wastewater treatment on all water gallons purchased. As a result, staff recommends a continuation of no residential wastewater gallonage cap. Staff recommends a continuation of the existing wastewater rate structure for residential service customers, which consists of a uniform BFC for all meter sizes and a gallonage charge with no gallonage cap. For general service customers, staff recommends a rate structure which consists of a BFC by meter size and a gallonage charge that is the same as residential.

In addition, based on the expected reduction in water demand described above, staff recommends that a repression adjustment also be made for wastewater. Because wastewater rates are calculated based on customers' water demand, if those customers' water demand is expected to decline, then the billing determinants used to calculate wastewater rates should also be adjusted. Based on the billing analysis for the wastewater system, staff recommends that a repression adjustment of 292,616 gallons to reflect the anticipated reduction in water demand be used to calculate wastewater rates. Staff recommends a 2.27 percent reduction in total residential consumption and corresponding reductions of \$4,594 for purchased wastewater treatment and \$207 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$281,019.

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.

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

Preliminary Recommendation: Deer Creek'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 Deer Creek 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, D. Brown, Wilson)

Staff Analysis: Deer Creek'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 \$541 and \$541 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 Deer Creek files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 11: Should the recommended rates be approved for Deer Creek RV Golf & Country Club, Inc. on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

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

Deer Creek should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$163,154. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If the Utility chooses a bond as security, the bond should contain wording to the effect that it will be terminated only under the following conditions:

- 1) The Commission approves the rate increase; or,
- 2) If the Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

If the Utility chooses a letter of credit as a security, it should contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect, and,
- 2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

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

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

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

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

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

Preliminary Recommendation: Yes. Deer Creek should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Deer Creek should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all applicable National Association of Regulatory Commissioners (NARUC) Uniform System of Accounts (USOA) primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice providing good cause should be filed within seven days prior to the deadline. Staff should be given administrative authority to grant such an extension for up to 60 days. (D. Brown, Wilson)

Staff Analysis: Deer Creek should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Deer Creek should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice providing good cause should be filed within seven days prior to the deadline. Staff should be given administrative authority to grant such an extension for up to 60 days.

Issue 13: Should Deer Creek's request for a cross connection control and backflow prevention tariff sheet be approved?

Preliminary Recommendation: Staff's recommendation regarding the Utility's cross connection control and backflow prevention tariff sheet will not be finalized until after the December 17, 2019, customer meeting. (Sibley)

Staff Analysis: Section 367.091, F. S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. The Utility provided justification to staff requesting a cross connection control and backflow prevention tariff page. Staff believes that additional information is needed in order to finalize a recommendation on the request. Therefore, staff's recommendation regarding Deer Creek's cross connection control and backflow prevention tariff will not be finalized until after the December 17, 2019, customer meeting.

Issue 14: Should this docket be closed?

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

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 proposed agency action Order, a Consummating Order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively.

DEER CREEK RV GOLF & COUNTRY CLUB, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDED DECEMBER 31, 2018		DOCKET NO. 20190071-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$44,553	(\$11,034)	\$33,519
LAND & LAND RIGHTS	0	0	0
NON-USED AND USEFUL	0	0	0
CIAC	0	0	0
ACCUMULATED DEPRECIATION	(1,651)	677	(974)
AMORTIZATION OF CIAC	0	0	0
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>30,767</u>	<u>30,767</u>
WATER RATE BASE	<u>\$42,902</u>	<u>\$20,410</u>	<u>\$63,312</u>

DEER CREEK RV GOLF & COUNTRY CLUB, INC.		SCHEDULE NO. 1-B	
TEST YEAR ENDED DECEMBER 31, 2018		DOCKET NO. 20190071-WS	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$95,948	(\$6,900)	\$89,048
LAND & LAND RIGHTS	0	0	0
NON-USED AND USEFUL	0	0	0
CIAC	0	0	0
ACCUMULATED DEPRECIATION	(7,171)	2,458	(4,714)
AMORTIZATION OF CIAC	0	0	0
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>32,593</u>	<u>32,593</u>
WASTEWATER RATE BASE	<u>\$88,777</u>	<u>\$28,150</u>	<u>\$116,927</u>

DEER CREEK RV GOLF & COUNTRY CLUB, INC.	SCHEDULE NO. 1-C	
TEST YEAR ENDED DECEMBER 31, 2018	DOCKET NO. 20190071-WS	
ADJUSTMENTS TO RATE BASE	PAGE 1 OF 1	
	<u>WATER</u>	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>		
To reflect an averaging adjustment.	<u>(\$11,034)</u>	<u>(\$6,900)</u>
<u>ACCUMULATED DEPRECIATION</u>		
1. To reflect appropriate accumulated depreciation.	\$7	\$37
2. To reflect an averaging adjustment.	<u>670</u>	<u>2,421</u>
Total	<u>\$677</u>	<u>\$2,458</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
To reflect 1/8 of test year O&M expenses.	<u>\$30,767</u>	<u>\$32,593</u>

DEER CREEK RV GOLF & COUNTRY CLUB, INC.							SCHEDULE NO. 2		
TEST YEAR ENDED DECEMBER 31, 2018							DOCKET NO. 20190071-WS		
SCHEDULE OF CAPITAL STRUCTURE									
CAPITAL COMPONENT	PER UTILITY	SPECIFIC 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 STOCK	\$0	\$0	\$0	0	\$0				
2. RETAINED EARNINGS	0	0	0	0	0				
3. PAID IN CAPITAL	0	0	0	0	0				
4. OTHER COMMON EQUITY	<u>0</u>	\$0	<u>0</u>	<u>0</u>	<u>0</u>				
TOTAL COMMON EQUITY	\$0	\$0	\$0	\$0	\$0	0.00%	10.55%	0.00%	
5. LONG-TERM DEBT	\$175,987	\$0	\$175,987	\$202	176,189	97.75%	4.90%	4.79%	
6. SHORT-TERM DEBT	1,409	0	1,409	2	1,411	0.78%	6.07%	0.05%	
7. PREFERRED STOCK	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
TOTAL DEBT	\$177,396	\$0	\$177,396	\$204	\$177,600	98.54%	10.97%	4.84%	
8. CUSTOMER DEPOSITS	<u>2,640</u>	<u>0</u>	<u>2,640</u>	<u>0</u>	<u>2,640</u>	<u>1.46%</u>	2.00%	<u>0.03%</u>	
9. TOTAL	<u>\$180,036</u>	<u>\$0</u>	<u>\$180,036</u>	<u>\$204</u>	<u>\$180,240</u>	<u>100.00%</u>		<u>4.87%</u>	
RANGE OF REASONABLENESS						LOW	HIGH		
RETURN ON EQUITY						<u>9.55%</u>	<u>11.55%</u>		
OVERALL RATE OF RETURN						<u>4.87%</u>	<u>4.87%</u>		

DEER CREEK RV GOLF & COUNTRY CLUB, INC.			SCHEDULE NO. 3-A		
TEST YEAR ENDED DECEMBER 31, 2018			DOCKET NO. 20190071-WS		
SCHEDULE OF WATER OPERATING INCOME					
	BALANCE PER UTILITY	STAFF ADJUSTMENTS	BALANCE PER STAFF	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$132,542</u>	<u>(\$12,491)</u>	<u>\$120,051</u>	<u>\$151,151</u> 125.91%	<u>\$271,202</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$244,789	\$1,867	\$246,656	\$0	\$246,656
3. DEPRECIATION (NET)	1,340	0	1,340	0	1,340
4. AMORTIZATION	\$0	\$0	\$0	0	0
5. TAXES OTHER THAN INCOME	8,334	(477)	7,857	6,802	14,659
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$254,463</u>	<u>\$1,390</u>	<u>\$255,853</u>	<u>\$6,802</u>	<u>\$262,655</u>
8. OPERATING INCOME/(LOSS)	<u>(\$121,921)</u>		<u>(\$135,802)</u>		<u>\$8,547</u>
9. WATER RATE BASE	<u>\$42,902</u>		<u>\$63,312</u>		<u>\$63,312</u>
10. OPERATING MARGIN					<u>12.00%</u>

DEER CREEK RV GOLF & COUNTRY CLUB, INC.			SCHEDULE NO. 3-B		
TEST YEAR ENDED DECEMBER 31, 2018			DOCKET NO. 20190071-WS		
SCHEDULE OF WASTEWATER OPERATING INCOME					
	BALANCE PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$194,307</u>	<u>\$3,056</u>	<u>\$197,363</u>	<u>\$90,344</u> 45.78%	<u>\$287,707</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$260,802	\$457	\$261,259	\$0	\$261,259
3. DEPRECIATION (NET)	4,841	0	4,841	0	4,841
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	10,463	53	10,516	4,065	14,581
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$276,106</u>	<u>\$510</u>	<u>\$276,616</u>	<u>\$4,065</u>	<u>\$280,681</u>
8. OPERATING INCOME/(LOSS)	<u>(\$81,799)</u>		<u>(\$79,253)</u>		<u>\$7,026</u>
9. WASTEWATER RATE BASE	<u>\$88,777</u>		<u>\$116,927</u>		<u>\$116,927</u>
10. OPERATING RATIO					<u>12.00%</u>

DEER CREEK RV GOLF & COUNTRY CLUB, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDED DECEMBER 31, 2018		DOCKET NO. 20190071-WS	
ADJUSTMENTS TO OPERATING INCOME		Page 1 of 1	
	<u>WATER</u>	<u>WASTEWATER</u>	
OPERATING REVENUES			
1. To reflect audit adjustments.	(\$10,600)	1,169	
2. To reflect appropriate miscellaneous revenues.	<u>(1,891)</u>	<u>1,887</u>	
Subtotal	<u>(\$12,491)</u>	<u>\$3,056</u>	
OPERATION AND MAINTENANCE EXPENSES			
1. Contractual Services - Testing (635/735)			
To reflect appropriate testing expense.	<u>(\$3,030)</u>	<u>\$0</u>	
2. Contractual Services - Other (636/736)			
To reflect 5-yr amortization of leak detection project.	<u>\$4,080</u>	<u>\$0</u>	
3. Regulatory Commission Expense (665/765)			
To reflect five-year amortization of original certificate filing fee.	\$300	\$300	
To reflect four-year amortization of rate case expense.	<u>517</u>	<u>517</u>	
Subtotal	<u>\$817</u>	<u>\$817</u>	
4. Miscellaneous Expense (675/775)			
To reflect removal of bank late payment fees.	<u>\$0</u>	<u>(\$360)</u>	
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$1,867</u>	<u>\$457</u>	
TAXES OTHER THAN INCOME			
To reflect audit adjustments	<u>(\$477)</u>	<u>\$53</u>	

DEER CREEK RV GOLF & COUNTRY CLUB, INC.		SCHEDULE NO. 3-D	
TEST YEAR ENDED DECEMBER 31, 2018		DOCKET NO. 20190071-WS	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$36,793	\$0	\$36,793
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	175,431	0	175,431
(615) PURCHASED POWER	0	0	0
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	0	0	0
(620) MATERIALS AND SUPPLIES	1,079	0	1,079
(630) CONTRACTUAL SERVICES - BILLING	600	0	600
(631) CONTRACTUAL SERVICES - PROFESSIONAL	15,190	0	15,190
(635) CONTRACTUAL SERVICES - TESTING	6,110	(3,030)	3,080
(636) CONTRACTUAL SERVICES - OTHER	1,051	4,080	5,131
(640) RENTS	3,600	0	3,600
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	0	0	0
(665) REGULATORY COMMISSION EXPENSE	0	817	817
(670) BAD DEBT EXPENSE	57	0	57
(675) MISCELLANEOUS EXPENSE	<u>4,878</u>	<u>0</u>	<u>4,878</u>
	<u>\$244,789</u>	<u>\$1,867</u>	<u>\$246,656</u>

DEER CREEK RV GOLF & COUNTRY CLUB, INC.	SCHEDULE NO. 3-E		
TEST YEAR ENDED DECEMBER 31, 2018	DOCKET NO. 20190071-WS		
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$26,701	\$0	\$26,701
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	202,710	0	202,710
(711) SLUDGE REMOVAL EXPENSE	0	0	0
(715) PURCHASED POWER	2,059	0	2,059
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	0	0	0
(720) MATERIALS AND SUPPLIES	0	0	0
(730) CONTRACTUAL SERVICES - BILLING	600	0	600
(731) CONTRACTUAL SERVICES - PROFESSIONAL	15,190	0	15,190
(735) CONTRACTUAL SERVICES - TESTING	0	0	0
(736) CONTRACTUAL SERVICES - OTHER	3,945	0	3,945
(740) RENTS	3,600	0	3,600
(750) TRANSPORTATION EXPENSE	0	0	0
(755) INSURANCE EXPENSE	0	0	0
(765) REGULATORY COMMISSION EXPENSES	0	817	817
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSE	<u>5,997</u>	<u>(360)</u>	<u>5,637</u>
	<u>\$260,802</u>	<u>\$457</u>	<u>\$261,259</u>

DEER CREEK RV GOLF & COUNTRY CLUB, INC.		SCHEDULE NO. 4-A	
TEST YEAR ENDED DECEMBER 31, 2018		DOCKET NO. 20190071-WS	
MONTHLY WATER RATES			
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge - All Meter Sizes	\$2.45	N/A	N/A
Base Facility Charge by Meter Size			
5/8"X3/4"	N/A	\$10.62	\$0.02
3/4"	N/A	\$15.93	\$0.03
1"	N/A	\$26.55	\$0.06
1-1/2"	N/A	\$53.10	\$0.11
2"	N/A	\$84.96	\$0.18
3"	N/A	\$169.92	\$0.36
4"	N/A	\$265.50	\$0.56
6"	N/A	\$531.00	\$1.12
Charge per 1,000 gallons - Residential			
0 - 2,400 gallons	\$2.93	N/A	N/A
2,401 - 4,700 gallons	\$5.51	N/A	N/A
4,701 - 9,500 gallons	\$10.70	N/A	N/A
Over 9,500 gallons	\$18.51	N/A	N/A
0 - 3,000 gallons	N/A	\$9.91	\$0.02
Over 3,000 gallons	N/A	\$13.79	\$0.03
Charge per 1,000 gallons - General Service	\$2.45	\$10.24	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$8.31	\$30.44	
4,000 Gallons	\$14.17	\$54.14	
6,000 Gallons	\$20.03	\$81.72	

DEER CREEK RV GOLF AND COUNTRY CLUB, INC.		SCHEDULE NO. 4-B	
TEST YEAR ENDED DECEMBER 31, 2018		DOCKET NO. 20190071-WS	
MONTHLY WASTEWATER RATES			
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge - All Meter Sizes	\$8.96	N/A	N/A
Charge per 1,000 gallons	\$6.77	N/A	N/A
<u>Residential</u>			
Base Facility Charge - All Meter Sizes	N/A	\$15.05	\$0.03
Charge per 1,000 gallons	N/A	\$8.63	\$0.02
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	N/A	\$15.05	\$0.03
3/4"	N/A	\$22.58	\$0.05
1"	N/A	\$37.63	\$0.08
1-1/2"	N/A	\$75.25	\$0.15
2"	N/A	\$120.40	\$0.24
3"	N/A	\$240.80	\$0.48
4"	N/A	\$376.25	\$0.75
6"	N/A	\$752.50	\$1.50
Charge per 1,000 gallons	N/A	\$8.63	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$22.50	\$32.30	
4,000 Gallons	\$36.04	\$49.55	
6,000 Gallons	\$49.58	\$66.80	