State of Florida

Public Service Commission

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

DATE: January 26, 2017

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Vogel)
Division of Economics (Bruce)
Division of Engineering (Matthews)
Office of the General Counsel (Corbari, Lherisson)

RE: Docket No. 150257-WS – Application for staff-assisted rate case in Marion County, by East Marion Utilities, LLC.

AGENDA: 02/07/17 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Polmann

CRITICAL DATES: 03/03/17 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

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Case Background

East Marion Utilities, LLC (East Marion or Utility) is a Class C utility serving approximately 103 water customers and 92 wastewater customers in Marion County. According to East Marion's 2014 annual report, the Utility had water and wastewater operating revenues of $23,750 and $35,522, respectively, and operating expenses of $31,504 and $37,071, respectively, resulting in net operating losses of $7,754 and $1,550. The last rate case for the Utility was in 2002.[1] East Marion was transferred to new ownership by Order No. PSC-15-0576-PAA-WS.[2]

East Marion was originally certificated in 1987.[3] In 1990 and 1997, there were transfers of majority organizational control.[4] Currently, the Utility is owned by Mr. Michael Smallridge. Mr. Smallridge owns multiple small, Class C utilities in Florida. Florida Utility Services 1, LLC (FUS1) manages all of Mr. Smallridge's utilities.

In the instant docket, East Marion filed its application for a Staff Assisted Rate Case (SARC) on December 3, 2015. February 1, 2016 was established as the official filing date in this case.

The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.0812, 367.0814, 367.0816, 367.091, 367.101, and 367.121, F.S.

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[1]Order No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS, *In re: Application for staff-assisted rate case in Marion County by East Marion Sanitary Systems, Inc.*

[2]Order No. PSC-15-0576-PAA-WS, issued December 21, 2015, in Docket No. 150091-WS, *In re: Application for approval of transfer of Certificate Nos. 490-W and 425-S from East Marion Sanitary Systems, Inc. to East Marion Utilities, LLC, in Marion County.*

[3]Order No. 17837, issued July 7, 1987, in Docket No. 870389-WU, *In re: Application of East Marion Water Distribution, Inc. for a certificate to operate a water utility in Marion County, Florida.*

[4]Order No. 24553, issued May 20, 1991, in Docket No. 900603-WS, *In re: Application for transfer of majority organizational control of East Marion Water Distribution, Inc. and East Marion Sanitary Systems, Inc. in Marion County from Penelope A. Wagner, trustee for the Estate of Eric E. Wagner, to Forest Lake Village – Del American Ltd.*, and Order No. PSC-98-0928-FOF-WS, issued July 7, 1998, in Docket No. 971269-WS, *In re: Application for transfer of majority organizational control of East Marion Sanitary Systems, Inc. and East Marion Water Distribution, Inc. in Marion County from Del-American/First Federal of Osceola to Herbert Hein, and change in name on Certificate No. 490-W from East Marion Water Distribution, Inc. to East Marion Sanitary Systems, Inc.*

Discussion of Issues

Issue 1: Is the quality of service provided by East Marion Utilities, LLC satisfactory?

Recommendation: Yes, the overall quality of service provided by East Marion should be considered satisfactory. (Matthews)

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

Quality of Utility's Product

Staff's evaluation of East Marion's water quality consisted of a review of the Utility's compliance with the DEP primary and secondary drinking water standards and customer complaints regarding the water quality. Primary standards protect public health, while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water.

Staff reviewed the most recent chemical analyses for East Marion's system, conducted on November 2, 2015, and all results complied with DEP primary and secondary standards. Staff requested complaints against the system filed with the DEP for the test year and four years prior. The DEP reported that it did not receive any complaints regarding the quality of East Marion's product during the period requested. No complaints regarding the quality of East Marion's product have been filed with the Commission.

Based on staff's review, giving consideration to the Utility's current compliance with DEP standards, as well as the lack of customer complaints, the quality of East Marion's product should be considered satisfactory.

Operating Conditions of the Utility's Plant and Facilities

East Marion's water treatment system has one well rated at 250 gallons per minute (gpm). The water treatment processing sequence is to pump raw water from the aquifer, treat the water by injecting chlorine, pump it into a 6,000 gallon hydropneumatic pressurizing tank, and then through the distribution system which is composed of PVC pipe. Staff's evaluation of East Marion's facilities included a review of the Utility's compliance with DEP standards of operation. For the water system, staff reviewed the Utility's most recent DEP sanitary survey reports. The DEP found no deficiencies and determined the system to be in compliance with its rules and regulations.

East Marion's wastewater treatment plant (WWTP), which has a rating of 50,000 gallons per day (gpd), uses extended aeration to treat wastewater. Effluent is disposed of through reuse to three rapid infiltration basins. DEP conducted an inspection on July 21, 2016, and reported deficiencies including discharge monitoring reports with missing, incomplete, or inconsistent data, a clarifier and contact chamber surfaces covered with sludge, and an infiltration basin containing excessive solids and vegetation. The operator subsequently resolved each of these deficiencies by August 25, 2016. DEP's compliance inspection report dated August 31, 2016, states that the operator is now in compliance.

Staff has not identified any issues or concerns with the operating condition of East Marion's water and wastewater treatment plants or its distribution and collection systems. Therefore, the operating condition of East Marion's plant and facilities should be considered satisfactory.

The Utility's Attempt to Address Customer Satisfaction

The final component of the overall quality of service that must be assessed is customer satisfaction. As part of staff's evaluation of customer satisfaction, staff held a customer meeting on October 4, 2016, to receive customer comments concerning East Marion's quality of service. Four customers attended the meeting and all spoke. Topics included the odor and taste of the water, brown rings caused by the water, water pressure, and delays in a meter replacement.

The Utility was acquired by a new owner on January 9, 2015, and the transfer was approved by Order PSC-15-0576-PAA-WS.[5] The Utility stated that, during periods of line flushing, the pressure of the water might be low, as the lines are flushed weekly and the tank is flushed monthly in order to maintain acceptable levels of color and odor. The new owner is working with the Florida Rural Water Association to determine the best way to address customer concerns relating to odor and taste through the addition of an aeration tank and addressing insufficient turnover in the existing tank. However, recovery for the aeration tank addition and replacement of the existing tank are not being addressed in the instant case. Lastly, a customer stated that her meter had not been replaced as promised. The customer's meter was replaced on October 25, 2016.

As stated above, staff requested complaints filed against the system with DEP for the test year and the prior four years. DEP responded on August 4, 2016, stating that no complaints have been received in the five-year period. Finally, staff reviewed the Commission's complaint records for the test year and the prior four years. No complaints were filed against the Utility during this period. Therefore, staff recommends the Utility's attempt to address customer satisfaction should be considered satisfactory.

Conclusion

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

[5]Order No. PSC-15-0576-PAA-WS, issued December 21, 2015, in Docket No. 150091-WS, *In re: Application for approval of transfer of Certificate Nos. 490-W and 425-S from East Marion Sanitary Systems, Inc. to East Marion Utilities, LLC, in Marion County.*

Issue 2**:** What are the used and useful (U&U) percentages of East Marion Utilities, LLC's water treatment plant (WTP), wastewater treatment plant (WWTP) and distribution and collection systems?

Recommendation: East Marion's WTP should be considered 100 percent U&U. The water distribution system should be considered 58.7 percent U&U. The WWTP should be considered 24.0 percent U&U. The wastewater collection system should be considered 50.8 percent U&U. There is no excessive unaccounted for water (EUW) and no excessive infiltration and inflow (I&I). (Matthews)

Staff Analysis: East Marion's water system has one 6-inch diameter well rated at 250 gpm. Water from the well is treated with chlorine and pumped into a 6,000 gallon hydropneumatic tank for pressurization. The Utility has no fire hydrants in its system. The distribution system consists of the following lengths and sizes of PVC pipe:

200 linear feet – 6 inch
8,450 linear feet – 4 inch
1,675 linear feet – 2 inch
375 linear feet – 1.5 inch

East Marion's WWTP is permitted by the DEP for 50,000 gpd on an annual average daily flow basis. According to the Utility, the wastewater collection system includes 35 manholes and 2 lift stations. In addition, the wastewater collection system consists of the following sized components:

9,880 linear feet – 6 inch gravity main
950 linear feet – 4 inch gravity main
950 linear feet – 3 inch gravity main

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 chemical costs, are necessary, the Commission will consider relevant factors as to the reason for the 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 pumped for the test year.

The monthly operating reports filed by East Marion with DEP indicate an unaccounted for water value of less than 10 percent. Therefore, there appears to be no EUW to be considered, and staff recommends that no adjustments be made to operating expenses for chemicals and purchased water due to EUW.

Infiltration and Inflow

Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider I&I. 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. The allowance for infiltration is 500 gpd per inch diameter pipe per mile, and an additional 10 percent of water sold is allowed for inflow. In addition, adjustments to operating expenses, such as chemical and electrical costs, are considered necessary if excessive.

All wastewater collection systems experience I&I. The convention noted above provides guidance for determining whether the I&I experienced at a WWTP is excessive. After the allowable I&I is determined, staff calculates the estimated amount of wastewater returned to the WWTP from customers. The estimated return is determined by summing 80 percent of the water sold to residential customer with 90 percent of the water sold to non-residential customers. Adding the estimated return to the allowable I&I yields the maximum amount of wastewater that should be treated by a WWTP without incurring adjustments to operating expenses. If this amount exceeds the actual amount treated, no adjustment is made. If it is less than the gallons treated, then the difference is the excessive amount of I&I.

Staff performed the calculations to determine the allowable I&I and estimated amount of wastewater to be treated and compared it to the actual total amount of wastewater treated by the utility during the test year. The total wastewater treated does not exceed the total wastewater allowed, therefore there is no excessive I&I.

Water Treatment Plant Used and Useful

Pursuant to Rule 25-30.4325(4), F.A.C., systems served by a single well are considered 100 percent U&U. East Marion has one well providing its water; therefore the WTP is 100 percent U&U.

Wastewater Treatment Plant Used and Useful

Pursuant to Rule 25-30.432, F.A.C., the U&U analysis of the Utility's WWTP is based on the customer demand compared with the permitted plant capacity, with consideration also given for growth over a 5-year statutory period and excessive I&I. In its most recent rate case, the Utility's WWTP was found to be 7.5 percent U&U.[6] The formula for calculating U&U for the wastewater treatment plant is (average daily flow + growth – excessive I&I) / permitted plant capacity. The average daily flow for East Marion is 12,000 gpd. The growth is calculated to be 0 gpd. There is no excessive I&I. The permitted capacity of the plant is 50,000 gpd. Based upon staff's analysis in the instant case, the WWTP is 24.0 percent U&U.

Water Distribution and Wastewater Collection Systems

The analysis of U&U for the water distribution system and wastewater collection system is based on the number of test year connections compared to the capacity of the system, with consideration given for growth over a 5-year statutory period. In its most recent rate case, the

[6] Order No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS, *In re: Application for staff-assisted rate case in Marion County by East Marion Sanitary Systems, Inc.*

Utility's water distribution and wastewater collection systems were both found to be 38.7 percent U&U.[7]

The formula for calculating U&U for the water distribution system is (number of test year connections + growth) / capacity of the system. East Marion had an average number of 101.5 connections during the test year. Growth is obtained by the product of customer growth for the last five years using regression analysis and the statutory growth period. This calculation yields a growth of 0.7 gallons per minute. The capacity of the system is 179 equivalent residential connections (ERCs).

The formula for calculating U&U for the wastewater collection system is given by (test year connections + growth) / capacity of the system. There were an average of 92 ERCs in the test year. Growth is calculated to be 0 ERCs per year. The capacity of the system is 181 ERCs.

Based on staff's calculations, the water distribution system should be 58.7 percent U&U and the wastewater collection system should be 50.8 percent U&U.

Conclusion

East Marion's WTP should be considered 100 percent U&U. The water distribution system should be considered 58.7 percent U&U. The WWTP should be considered 24.0 percent U&U. The wastewater collection system should be considered 50.8 percent U&U. There is no EUW and no excessive I&I.

[7]Order No. PSC-02-1168-PAA-WS

Issue 3: What is the appropriate average test year water rate base and wastewater rate base for East Marion Utilities, LLC?

Recommendation: The appropriate average test year water rate base for East Marion is $16,177 and the average test year wastewater rate base is $12,257. (Vogel)

Staff Analysis: East Marion's net book value was last established in its 2015 transfer docket by Order No. PSC-15-0576-PAA-WS.[8] East Marion's owner, Michael Smallridge, owns and manages several Class C utilities in Florida under the company FUS1. As of January 1, 2015, Mr. Smallridge has been recording common costs on FUS1 books. These costs, which include salaries, transportation, and office supplies, have been allocated among all of the utilities they serve. All allocations are based on customer count. The test year ended December 31, 2015, was used for the instant case. A summary of each water and wastewater rate base component, and recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

The Utility recorded UPIS of $142,734 for water and $482,102 for wastewater. East Marion has requested a new turbine water meter as an addition to the current plant. Staff included this addition to water plant along with retirements. Staff increased water plant in service by $894 for the water meter and the retirements associated with the addition. Staff also capitalized a major pump repair at the wastewater plant originally expensed to Account 636 and 736. The expense was allocated to both water and wastewater. Therefore, staff increased wastewater plant by $1,908 and decreased Account 636 and 736 by $954 each. Staff also reduced plant by $447 for water and $954 for wastewater to reflect an averaging adjustment. Staff's net adjustments increase UPIS by $447 for water and $954 for wastewater. Therefore, staff recommends that the appropriate UPIS balances are $143,181 for water and $483,056 for wastewater.

UPIS - Allocated

The Utility did not record a balance in UPIS – Allocated for water or wastewater. Due to the Utility's relationship with FUS1, staff has included allocated common plant from FUS1. Staff's audit included total FUS1 balances for Office Furniture & Equipment, Transportation Equipment, and Tools, Shop, and Garage Equipment of $21,770. After East Marion's 5 percent allocation (based on ERCs), staff increased UPIS – Allocated by $1,094, $547 for water and $547 for wastewater. Staff also included an averaging adjustment of $24 for both water and wastewater. Therefore, staff recommends that the appropriate UPIS - Allocated balances are $523 for water and $523 for wastewater.

Land & Land Rights

The Utility did not record a test year land balance, as the Utility leases the land. No adjustments are necessary; therefore, staff recommends that Land & Land Rights balances remain $0.

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[8]Order No. PSC-15-0576-PAA-WS, issued December 21, 2015, in Docket No. 150091-WS, *In re: Application for approval of transfer of Certificate Nos. 490-W and 425-S from East Marion Sanitary Systems, Inc. to East Marion Utilities, LLC, in Marion County.*

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

The Utility did not record a test year non-U&U plant balance for water or wastewater. As discussed in Issue 2, the WTP should be considered 100 percent U&U and the WWTP should be considered 24 percent U&U. In addition, East Marion's water distribution system should be considered 58.7 percent U&U and wastewater collection system should be considered 50.8 percent U&U.

Application of the U&U percentage to the average plant balances and associated average accumulated depreciation balances results in increases of $14,489 and $51,328 for water and wastewater non-U&U components, respectively. Therefore, staff's recommended non-U&U plant balances are $14,489 for water and $51,328 for wastewater.

Contributions In Aid of Construction (CIAC)

The Utility recorded CIAC balances of $39,700 for water and $77,600 for wastewater. Commission audit staff found no additions in the test year, and determined that no adjustments are necessary. Staff's recommends CIAC balances of $39,700 and $77,600 for water and wastewater, respectively.

Accumulated Depreciation

East Marion recorded a test year accumulated depreciation balance of $99,112 for water and $390,285 for wastewater. Staff recalculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and increased water by $26 and decreased wastewater by $11,787. Staff also decreased this account by $2,656 for the water plant addition and associated retirement. Staff decreased this account by $3,261 for water and $4,094 for wastewater to reflect the simple average. Staff's total adjustments to this account are a decrease of $5,891 for water and $15,881 for wastewater. Staff's adjustments to these accounts result in accumulated depreciation balances of $93,221 for water and $374,404 for wastewater.

Accumulated Depreciation – Allocated

The Utility did not record a test year water or wastewater balance for Accumulated Depreciation – Allocated. Staff calculated accumulated depreciation for plant associated with FUS1's common plant that has been allocated to East Marion. Staff has included a new balance of $20 for both water and wastewater. Staff also included an averaging adjustment of $7 for each account. Therefore, staff's adjustments to these accounts result in Accumulated Depreciation – Allocated balances of $13 for water and $13 for wastewater.

Accumulated Amortization of CIAC

The Utility recorded test year Accumulated Amortization of CIAC balances of $18,101 for water and $29,279 for wastewater. Amortization of CIAC was recalculated by staff using composite depreciation rates. Staff decreased this account by $286 for water and $421 for wastewater. Also, staff decreased this account by $639 for water and $659 for wastewater to reflect the simple average. Staff's adjustments result in a decrease of $925 for water and $1,080 for wastewater. Staff's recommended Accumulated Amortization of CIAC balances are $17,176 for water and $28,199 for wastewater.

Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of $2,721 for water (based on O&M expense of $21,766/8), and $3,824 for wastewater (based on O&M expense of $30,590/8).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base for water is $16,177 and the average test year rate base for wastewater is $12,257. 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.

Issue 4: What is the appropriate return on equity and overall rate of return for East Marion Utilities, LLC?

Recommendation: The appropriate return on equity (ROE) is 11.16 percent with a range of 10.16 percent to 12.16 percent. The appropriate overall rate of return is 5.49 percent. (Vogel)

Staff Analysis: According to staff's audit, East Marion's test year capital structure reflected common equity of negative $172,102, long term debt of $90,325, and customer deposits of $3,625.

Staff increased common equity by $10,000 to reflect the down payment made by the owner at the time of purchase. The retained earnings for the Utility are negative $172,102. Since including negative equity would penalize the Utility's capital structure by understating the overall rate of return, staff adjusted the total negative equity to zero. Adjusting negative equity to zero has been Commission practice in similar cases.[9] The Utility's capital structure was reconciled with staff's recommended rate base. The appropriate ROE for the Utility is 11.16 percent based upon the Commission-approved leverage formula currently in effect.[10] Staff recommends an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 5.49 percent. The ROE and overall rate of return are shown on Schedule No. 2.

[9]Order No. PSC-08-0652-PAA-WS, issued October 6, 2008, in Docket No. 070722-WS, *In re: Application for staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.*
[10]Order No. PSC-16-0254-PAA-WS, issued June 29, 2016, in Docket No. 160006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

Issue 5: What are the appropriate test year revenues for East Marion Utilities, LLC's water and wastewater systems?

Recommendation: The appropriate test year revenues for East Marion's water system and wastewater systems are $23,903 and $35,882, respectively. (Bruce)

Staff Analysis: East Marion recorded total revenues of $23,718 for water and $34,144 for wastewater. The water revenues included $23,213 of service revenues and $505 of miscellaneous revenues. The wastewater revenues consisted of service revenues only. During the test year, the Utility had a rate increase as a result of a price index. Therefore, staff annualized test year revenues by applying the rates in effect as of October 1, 2015, to the water and wastewater billing determinants. Staff determined that service revenues should be $23,593 for water and $35,572 for wastewater, which results in increases of $380 and $1,428 for water and wastewater, respectively.

Staff also made several adjustments to miscellaneous revenues for water and wastewater. Staff increased miscellaneous revenues by $75 for nonsufficient funds charges and $90 for two initial connections, which the Utility did not appropriately record during the test year. Staff decreased miscellaneous revenues by $30 to reflect credits issued to six customers for duplicate late payment charges. In addition, staff decreased miscellaneous revenues by $20 to remove convenience charges that were collected. The Utility does not have an authorized tariff to charge customers for using their credit or debit card to make a payment. However, as discussed in Issue 10, staff is recommending approval of a convenience charge and refunds for the collection of the unauthorized convenience charge. For the reasons outlined above, the miscellaneous revenues should be $620 ($505+$75+$90-$30-$20). As a result, staff increased miscellaneous revenues by $115 ($620-$505). The Utility allocated all of the miscellaneous revenues to the water system. Staff recommends that the miscellaneous revenues be equally distributed between the water and wastewater systems.

Based on the above, the appropriate test year revenues for East Marion's water and wastewater system, including miscellaneous service revenues are $23,903 ($23,593+$310) for water and $35,882 ($35,572+$310) for wastewater.

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

Recommendation: The appropriate amount of operating expense for East Marion is $28,447 for water and $39,033 for wastewater. (Vogel)

Staff Analysis: East Marion recorded operating expense of $34,401 for water and $48,884 for wastewater for the test year ended December 31, 2015. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff also included an allocated portion of FUS1's operating expenses for the test year ending December 31, 2015. Staff made several adjustments to the Utility's operating expenses as summarized below.

Salaries and Wages – Employees (601/701)

East Marion recorded salaries and wages – employees expense of $4,246 for water and $4,246 for wastewater. Staff decreased this expense by $60 for both water and wastewater to remove a payroll markup. Staff increased this expense by $225 for both water and wastewater to reclassify salary expense from Account 636 and 736. Staff also decreased this expense by $315 for both water and wastewater to reflect the appropriate payroll tax for the test year. Staff reallocated these accounts based on an audit response to a related utility in Docket No. 160143-WU.[11] This audit response detailed FUS1's new customer counts based on ERCs including an accurate listing of utilities managed by FUS1. Based on the updated allocations, staff increased this account by $450 for water and $450 for wastewater.

Staff received a compensation survey completed by OCBOA Consulting, LLC (OCBOA) regarding the salaries of FUS1 employees. The Utility requested an increase in salaries based on the survey and also requested a new part time position to handle customer billing. Staff analyzed the results of the compensation survey and properly allocated the salary adjustments for East Marion. Staff's analysis of salaries is detailed below.

Although the compensation study provided by OCBOA was thorough in its analysis of FUS1 positions and responsibilities for each employee, staff believes the compensations study's need determination calculation for a part time customer billing position is inaccurate. The total number of FUS1 customers has in fact decreased since 2015 from 2,267 customers to 1,961 customers. However, staff spoke with customers of FUS1 and believes that a part-time customer billing position would increase the level of customer service for FUS1 systems. The Utility requested $8.10 per hour for the part-time position. However, staff believes the responsibilities of the position, including customer billing and cut-off noticing, warrant more than minimum wage. Similar positions, for example, Part-Time Senior Clerk employed by the state of Florida, has a base salary of $10.35 per hour. Therefore, staff believes a salary of $10 per hour is more appropriate. Staff agrees that the reclassification of two positions to include Office Manager and Operations Supervisor is reasonable based on the roles those employees now have in the company. In addition, staff determined that a Maintenance Technician, an employee of FUS1 should not be allocated to East Marion, as he works solely on other systems. Therefore, with the adjustments to positions and allocations and the increases in salaries based on the compensation

[11] Document No. 08857-16, filed November 17, 2016 in Docket No. 160143-WU.

study, a decrease in total employee salaries for East Marion is appropriate. The compensation study was used by the Utility as a basis for a request to increase salaries for FUS1. Table 6-1 shows the requested amounts for each position, as well as staff's recommended salaries for East Marion.

Table 6-1
Adjustments made to Salaries and Wages – Employees

Title	Requested	Current	Current Allocated	Recommended	Recommended Allocated
Chief Financial Off.	$55,500	$53,040	$2,664	$54,366	$2,731
Oper. Supervisor	39,000	33,488	1,682	39,000	1,959
Maintenance Tech	37,900	33,488	1,682	0	0
Office Manager	39,500	37,440	1,881	39,500	1,984
Cust. Serv. Rep.	34,000	30,160	1,515	34,000	1,708
Part-time Billing	8,424	0	0	10,400	522
Total	$214,324	$187,616	$9,424	$177,266	$8,904

Source: Compensation Survey from OCBOA

Staff believes the salary levels are appropriate and necessary for East Marion. Therefore, staff recommends a salaries and wages – employees expense of $8,904 for East Marion, to be allocated $4,452 to water expense and $4,452 to wastewater expense.

Salaries and Wages – Officers (603/703)

East Marion recorded salaries and wages – officers expense of $2,154 for water and $2,154 for wastewater. Staff decreased this expense by $654 for both water and wastewater to remove the salary expense of the former owner.

The compensation survey completed by OCBOA Consulting, LLC (OCBOA) also included a salary recommendation for FUS1's president. The Utility requested an increase in salary based on the survey. Staff has analyzed the results of the compensation survey and properly allocated those expenses for East Marion.

The current salary for the president is $60,000, as approved in a SARC for a sister utility in Docket No. 120269-WU.[12] The compensation study states, "[t]he maximum average salary range was used for evaluating officers and executive level employees that have obtained and perform the advanced skills required for the respective position." The owner requested a salary of $93,800, which is the maximum salary in the compensation study. In the instant case, staff considered the last approved salary, along with information regarding the president's duties, and his level of advanced skills obtained since his salary was last approved. In Docket No. 120269-WU, the requested salary for the president was $60,000, which at the time was below the average salary range. Since that time, the president has taken steps to increase his expertise in the industry. Staff believes a more appropriate salary level falls between the minimum and mid average salary range which, in the 2015 AWWA Compensation Survey, equates to a salary level

[12]Issued July 12, 2013, in Docket No. 120269-WU, *In re: Application for staff-assisted rate case in Polk County by Pinecrest Utilities, LLC.*

of $70,023. This salary level provides the president with an increase that staff believes is appropriate. East Marion's allocated portion of president salary results in an increase of $259 for water and $259 for wastewater.

Staff's net adjustments result in a decrease of $395 for water and $395 for wastewater. Therefore, staff recommends a salaries and wages – officers expense of $1,759 for water and $1,759 for wastewater.

Employee Pensions and Benefits (604/704)

East Marion recorded employee pensions and benefits expense of $0 for water and $0 for wastewater. Staff increased this expense by $512 for both water and wastewater to include the appropriate amount of benefit expense for the test year. Staff also increased this expense by $54 for water and $54 for wastewater to reflect the updated allocations for East Marion from FUS1. Staff's adjustments result in an increase of $566 for water and $566 for wastewater. Therefore, staff is recommending employee pensions and benefits expense of $566 for water and $566 for wastewater.

Purchased Power (615/715)

The Utility recorded purchased power expense of $1,267 for water and $5,158 for wastewater. Staff has increased these expense accounts by $205 for water and $56 for wastewater to reflect the appropriate Utility expense for the test year. Staff also decreased these expenses by $406 for water and $376 for wastewater, to reflect proper allocation of East Marion's systems from FUS1. Staff also removed late fees of $28 for wastewater. Staff's net adjustments result in a decrease of $201 for water and $348 for wastewater. Therefore, staff recommends purchased power expense of $1,066 and $4,810 for water and wastewater, respectively.

Chemicals (618/718)

East Marion recorded chemicals expense of $1,189 for water and $1,189 for wastewater. Staff decreased water expense by $347 and increased wastewater expense by $347 to properly allocate the test year expenses to the correct plant. Staff's total adjustments result in a decrease of $347 for water and an increase of $347 for wastewater. Therefore, staff recommends chemicals expense of $842 for water and $1,536 for wastewater.

Materials & Supplies (620/720)

The Utility recorded materials & supplies expense of $826 for water and $808 for wastewater. Staff decreased these accounts by $68 for both water and wastewater, to remove purchases outside of the test year. Staff also decreased these accounts by $132 for water and $91 for wastewater to remove items not related to the Utility. To reflect the new allocations to East Marion from FUS1, staff increased water expense by $62 and wastewater expense by $64. Staff also decreased these account by $43 for both water and wastewater to reclassify these amounts to Account 650 and 750, transportation expense. Staff's total adjustments result in decreases of $181 for water and $138 for wastewater. Therefore, staff recommends materials & supplies expense of $645 for water and $670 for wastewater.

Contractual Services - Professional (631/731)

East Marion recorded contractual services – professional expense of $266 for water and $66 for wastewater. Staff decreased water expense by $100 and increased wastewater expense by $100 to properly allocate these expenses between systems. Staff also removed $66 from both water and wastewater relating to expenses from a lawsuit. Staff's total adjustments result in a decrease of $166 for water and an increase of $34 for wastewater. Therefore, staff recommends contractual services – professional expense of $100 for water and $100 for wastewater.

Contractual Services - Testing (635/735)

East Marion recorded contractual services – testing expense of $928 for water and $928 for wastewater. Staff increased water expense by $928 and decreased wastewater expense by $928 to properly allocate the expense to the water plant. Staff's total adjustments result in an increase of $928 for water and a decrease of $928 for wastewater. Therefore, staff recommends contractual services – testing expense of $1,856 for water and $0 for wastewater.

Contractual Services - Other (636/736)

East Marion recorded contractual services – other expense of $10,755 for water and $8,801 for wastewater. Staff recommends the following adjustments to contractual services – other.

Table 6-2
Adjustments made to Contractual Services - Other

	Adjustment Description	Water	Wastewater
1.	To remove expenses outside the test year.	($98)	($98)
2.	To properly allocate expenses between systems.	(1,779)	1,757
3.	To remove an additional mowing bill.	(225)	0
4.	To include an unrecorded bill.	230	345
5.	To remove a major pump repair and capitalize the project.	(954)	(954)
6.	To amortize non-recurring tree trimming expense.	(420)	(420)
7.	To amortize non-recurring tank cleaning.	(1,440)	0
8.	To reclassify salary expense to Accounts 601 and 701.	(225)	(225)
9.	To remove items not related to the Utility.	(160)	(141)
10.	To reflect the new allocations for East Marion from FUS1.	2	2
	Total	($5,069)	$266

Source: Utility Records and Audit Control No. 15-362-4-1

Based on the adjustments shown above, staff's net adjustment is a decrease of $5,069 to water and an increase of $266 to wastewater. Staff recommends contractual services – other expense of $5,686 for water and $9,067 for wastewater.

Rent Expense (640/740)

East Marion recorded rent expense of $5,857 for water and $2,395 for wastewater. Rent expense is based on the requested land lease for the Utility. Staff believes that the requested rent expense is not reasonable for this Utility. In this Utility's previous rate case, (Order No. PSC-02-1168-

PAA-WS[13]) the Commission found that, “an annual lease amount of $7,200 is not reasonable.” Therefore, staff decreased rent expense by $5,448 for water and $2,043 for wastewater. The commission found that the maximum lease amount should be the annual rate of return and original cost of the land when placed in service. The Commission approved an annual land lease of $405 for water and $582 for wastewater.

Staff believes the land lease amount should be increased from the last approved amount by an index factor, which is common practice in land lease agreements, including the lease provided. Staff used the United States Bureau of Labor Statistics’ Consumer Price Index to increase the land lease amount by $138 for water expense and $199 for wastewater expense. Staff believes these amounts are fair, just, and reasonable to both the land owner and customers.

FUS1 also recorded rent expense to be allocated to East Marion of $409 for water and $352 for wastewater for office space. Staff decreased water rent expense by $27 and increased wastewater rent expense by $30 to reflect the appropriate allocated expenses from FUS1. Staff has also increased these accounts by $40 for water expense and wastewater expense to reflect the updated allocations to East Marion. Staff’s net adjustments result in a decrease of water rent expense by $4,892 and a decrease of wastewater expense by $1,192. Staff recommends a water rent expense of $965 and a wastewater rent expense of $1,203

Transportation Expense (650/750)

East Marion recorded transportation expense of $512 for water and $446 for wastewater. Staff decreased this account by $33 for water and increased this account by $33 for wastewater to properly allocate this expense between plants. Staff decreased both accounts by $100 to remove a truck loan not related to this Utility. Staff increased this account by $114 for both water and wastewater to properly allocate vehicle insurance expense from FUS1. Staff increased these accounts $57 for water expense and $57 for wastewater expense to reflect the updated allocations to East Marion from FUS1. Staff also increased this expense by $43 for both water and wastewater to reclassify expenses from Account 620 and 720. Staff’s total adjustments result in an increase of $81 for water and $147 for wastewater. Therefore, staff’s recommended transportation expense is $593 for water and $593 for wastewater.

Insurance Expense (655/755)

East Marion recorded insurance expense of $1,671 for water and $1,639 for wastewater for the test year. Staff increased this expense by $21 for both water and wastewater to reflect the appropriate test year expense. Staff decreased this expense by $705 for water and $673 for wastewater to appropriately adjust and reclassify health insurance premiums from FUS1 to Accounts 604 and 704. Staff’s net adjustments decrease insurance expense for water by $684 and for wastewater by $652. Therefore, staff recommends insurance expense for the test year of $987 for water and $987 for wastewater.

[13]Issued August 26, 2002, Docket No. 010869-WS, *In re: Application for staff-assisted rate case in Marion County by East Marion Sanitary Systems, Inc.*

Regulatory Commission Expense (665/765)

East Marion did not record regulatory commission expense for the test year. By Rule 25-30.0407, F.A.C., a utility is required to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, staff has estimated $97 for postage expense, $72 for printing expense, and $10 for envelopes. These amounts result in $179 for postage, printing notices, and envelopes. Additionally, the Utility paid a $1,000 rate case filing fee. Based on the above, staff recommends that total rate case expense is $1,179, which amortized over four years is $294 annually. Therefore, staff recommends regulatory commission expense of $147 for water and $147 for wastewater.

Miscellaneous Expense (675/775)

East Marion recorded miscellaneous expense of $1,678 for water and $1,277 for wastewater. Staff decreased these expenses by $16 for both water and wastewater to remove overdraft fees. Staff also decreased water expense by $70 and increased wastewater expense by $70 to properly allocate expenses between systems. Staff also increased both water and wastewater expense accounts by $338 to reflect the appropriate amount of Utility expense from FUS1. Staff increased these accounts by $172 for water expense and $172 for wastewater expense to reflect the updated allocations to East Marion from FUS1. Staff's total adjustments increase water expense by $424 and wastewater expense by $564. Therefore, staff recommends miscellaneous expense of $2,102 for water and $1,841 for wastewater.

Operation and Maintenance Expenses Summary

Based on the above adjustments, staff recommends that the O&M expense balances are $21,766 for water and $30,590 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)

East Marion recorded depreciation expense of $4,616 for water and $19,975 for wastewater during the test year. Staff recalculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff decreased depreciation expense by $15 for water and $11,787 for wastewater, which includes removing expense for fully depreciated accounts to reflect the appropriate depreciation expense. Staff also calculated depreciation expense for the plant additions and retirements the Utility requested. These additions result in an increase of $26 for water. Staff included depreciation expense for the pump repair that is being capitalized; this adjustment results in an increase in wastewater depreciation expense of $64. Also, staff decreased depreciation expense by $1,254 for water and $4,468 for wastewater to reflect the non-U&U portion of the test year depreciation expense. East Marion recorded amortization of CIAC expense as $1,564 for water and $3,057 for wastewater during the test year. Staff also recalculated amortization of CIAC expense and increased these accounts by $286 for water and $1,739 for wastewater to reflect the appropriate amount of this expense. Staff increased both water and wastewater accounts by $86 to include depreciation expense for allocated plant from FUS1. Staff's net adjustments are decreases of $871 to water and $14,366 to wastewater, resulting in a net depreciation expense of $2,181 ($4,616 – $1,564 - $871) for water and $2,552 ($19,975 – $3,057 - $14,366) for wastewater.

Taxes Other Than Income (TOTI)

East Marion did not record a TOTI balance for water or wastewater. Staff calculated the Utility's property taxes using updated rates and increased this account $784 for water and $784 for wastewater. Staff also included property tax expense for the plant additions resulting in an increase of $14 to water and $30 for wastewater. Staff increased this account to include payroll taxes of $447 for both water and wastewater. Staff increased this account by $1,076 for water and $1,615 for wastewater to reflect the appropriate test year Regulatory Assessment Fees (RAFs) based on adjusted test year revenues. Staff also included decreases of $252 for water and $466 for wastewater to include non-used and useful property tax. Staff's net adjustments are increases of $2,069 for water and $2,410 for wastewater.

In addition, as discussed in Issue 8, revenues have been increased by $4,492 for water and $2,859 for wastewater to reflect the change in revenue required to cover expenses and allow the recommended operating margin. As a result, TOTI should be increased by $202 for water and $129 for wastewater to reflect RAFs of 4.5 percent on the change in revenues. Therefore, staff recommends TOTI of $2,271 and $2,539 for water and wastewater, respectively.

Operating Expenses Summary

The application of staff's recommended adjustments to East Marion's test year operating expenses results in operating expenses of $26,218 for water and $35,682 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule Nos. 3-C, 3-D, and 3-E.

Issue 7: Should the Commission utilize the operating ratio methodology as an alternative means to calculate the water and wastewater revenue requirement for East Marion Utility, LLC, and, if so, what is the appropriate margin?

Recommendation: Yes, the Commission should utilize the operating ratio methodology for calculating the water and wastewater revenue requirements for East Marion. The margin should be 10 percent of O&M expense. (Vogel)

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

East Marion did not petition the Commission for alternative rate setting under the aforementioned rule, but staff believes that the Commission should employ the operating ratio methodology to set rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the Utility's rate base, the revenue requirement is based East Marion'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,[14] 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.[15] Most recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-16-0126-PAA-WU.[16]

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) <u>Whether the Utility's O&M expense exceeds rate base</u>. 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. The decision to use the operating ratio method depends on the determination of whether the primary risk resides in capital costs or operating expenses. In the instant case, the water and wastewater rate bases are

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[14]Issued March 13, 1996, in Docket No. 950641-WU, *In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.*
[15]Issued February 10, 1997, in Docket No. 960561-SU, *In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.*
[16]Issued March 28, 2016, in Docket No. 140220-WU, *In re: Application for staff-assisted rate case in Polk County by Sunrise Utilities, LLC.*

lower than the level of O&M expense. The Utility's primary risk resides with covering its operating expenses. Based on the staff's recommendation, the adjusted water and wastewater rate bases for the test year are $16,177 and $12,257, while adjusted O&M expenses are $21,766 for water and $30,590 for wastewater.

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. East Marion is a Class C utility and the recommended revenue requirements of $28,395 and $38,741 are substantially below the threshold level for Class B status ($275,000 per system). The Utility's service area has not had any significant growth in the last five years. Therefore, the Utility will not become a Class B utility in the foreseeable future.

3) Quality of service and condition of plant. As discussed in Issue 1, the quality of service should be considered satisfactory.

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

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

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

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

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenue for the Utility to cover its interest expense. Staff believes the margin will provide sufficient revenue to cover East Marion's interest expense.

Second, use of the operating ratio methodology rests on the contention that the principal risk to the Utility resides in operating costs. Also, 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 East Marion would be $888 for water and $673 wastewater. Staff does not believe this would not provide the necessary financial cushion to successfully operate this Utility.

Third, if the return on rate base method was applied, a normal return would generate such a small level of revenue that in the event revenues or expenses vary from staff's estimates, East Marion could be left with insufficient funds to cover operating expenses. Therefore, the margin should provide adequate revenue to protect against potential variability in revenues and expenses. If the Utility's operating expenses increase or revenues decrease, East Marion may not have the funds required for day-to-day operations. Staff determined that a 10 percent margin would be applicable 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 East Marion 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 water and wastewater revenue requirements.

Issue 8: What is the appropriate revenue requirement for East Marion Utilities, LLC?

Recommendation: The appropriate revenue requirement is $28,395 for water and $38,741 for wastewater, resulting in an annual increase of $4,492 (18.79 percent) for water and an annual increase of $2,859 (7.97 percent) for wastewater. (Vogel)

Staff Analysis: East Marion should be allowed an annual increase of $4,492 (18.79 percent) for water and an annual increase of $2,859 (7.97 percent) for wastewater. This will allow the Utility the opportunity to recover its expenses as well as a 10 percent margin on O&M expenses for its water and wastewater systems. The calculations are shown in Tables 8-1 and 8-2 for water and wastewater, respectively:

Table 8-1
Water Revenue Requirement

Adjusted O&M Expense	$21,776
Operating Margin (%)	10.00%
Operating Margin ($)	$2,177
Adjusted O&M Expense	21,776
Depreciation Expense (Net)	2,181
Taxes Other Than Income	2,069
Test Year RAFs	202
Revenue Requirement	$28,395
Less Adjusted Test Year Revenues	23,903
Annual Increase	$4,492
Percent Increase	18.79%

Table 8-2
Wastewater Revenue Requirement

Adjusted O&M Expense	$30,590
Operating Margin (%)	10.00%
Operating Margin ($)	$3,059
Adjusted O&M Expense	30,590
Depreciation Expense (Net)	2,552
Taxes Other Than Income	2,410
Test Year RAFs	129
Revenue Requirement	$38,741
Less Adjusted Test Year Revenues	35,882
Annual Increase	$2,859
Percent Increase	7.97%

Issue 9: What are the appropriate rate structures and rates for East Marion Utilities, LLC'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 the notice. (Bruce)

***Staff Analysis*:**

Water Rates

East Marion is located in Marion County in the St. Johns River Water Management District (SJRWMD). The Utility provides water service to approximately 94 residential customers of which 9 customers have separate meters for irrigation. There are no general service customers. Approximately eight percent of the residential customer bills during the test year had zero gallons, indicating a non-seasonal customer base. The average residential water demand is 3,973 gallons per month. The average residential water demand excluding zero gallon bills is 4,300 gallons per month. The Utility's current water system rate structure for residential customers consists of a base facility charge (BFC) and two-tier inclining block rate structure. The rate blocks are: (1) 0-10,000 gallons and (2) all usage in excess of 10,000 gallons per month. The general service rate structure consists of a BFC and uniform gallonage charge.

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.

For the preliminary rates, staff designed a more conservation-oriented rate structure. However, for the final rates, staff believes an across-the-board increase to the Utility's rates prior to filing is appropriate due to the low revenue requirement percentage increase. In addition, no significant repression is anticipated. To determine the appropriate percentage increase to apply to the service rates, miscellaneous revenues were removed from the test year revenues, resulting in a 19.04 percent increase in the service rates.

Wastewater Rates

East Marion also provides wastewater service to 94 residential customers. There are no general service wastewater customers. Currently, the residential wastewater rate structure consists of a uniform BFC for all meter sizes and a gallonage charge with a 10,000 gallon cap per month. The general service rate structure consists of a BFC by meter size and a gallonage charge that is 1.2 times 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 discussed for the water system, staff also recommends an across-the-board increase to the Utility's existing wastewater rates due to the recommended low revenue requirement percentage increase. To determine the appropriate percentage increase to apply to the service rates, miscellaneous revenues were removed from the test year revenues, resulting in a 8.04 percent increase in the service rates.

Summary

Based on the foregoing, staff recommends no change to the water and wastewater rate structures Staff recommends that the water rates be increased by 19.04 percent and wastewater rates be increased by 8.04 percent. 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 the notice.

Issue 10: Should the Commission approve East Marion Utilities, LLC's request to implement a convenience charge for customers who opt to pay their bill by debit or credit card?

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

East Marion should be required to make a refund to those customers who where assessed an unauthorized convenience charge in accordance with Rule 25-30.360 F.A.C. The refunds should be made with interest and completed within 90 days of the Commission's final order. Monthly reports on the status of the refund shall be made by the 20th of the following month and a report should be completed within 90 days of the completion of the refund consistent with Rule 25-30.360(7), F.A.C. (Bruce)

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. On August 12, 2016, the Utility requested a $3.43 credit card convenience charge and provided justification as required Section 367.091. F.S. The Utility's cost analysis breakdown for its requested charge is shown below.

Table 10-1
Convenience Charge Cost Justification

Activity	Cost
Labor	$0.54
Supplies	$0.06
Credit Card Machines	$2.83
Total Requested	**$3.43**

The Commission recently approved a charge of $3.00 for customers who opt to pay their bill with debit or credit cards for Charlie Creek Utilities, LLC.[17] The charge was designed to recover the cost of supplies, administrative labor, and equipment. As mentioned in Issue 5, East Marion charged several of its customers an unauthorized convenience charge of $2.50 for using their credit or debit card to pay their bill during the test year. The Utility began assessing the convenience charge on October 5, 2015, and has had a total of 36 occurrences since that time, which results in total collections of $90. The Utility indicated that charging its customers an unauthorized convenience charge was unintentional. East Marion, along with its sister utilities, are managed by FUS1. The sister utilities have an approved convenience charge and the customer service representative applied the convenience charges to East Marion's customers, inadvertently.

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

Although the Utility charged an unauthorized convenience charge, staff does not believe the Utility "willfully" disregarded Commission rules or statutes. Staff believes it was unintentional on the Utility's behalf. However, East Marion should be required to make a refund to those customers who where assessed an unauthorized convenience charge in accordance with Rule 25-30.360 F.A.C. Based on the above, staff believes no enforcement action is warranted at this time. However, East Marion should be put on notice that, in the future, it may be subject to a show cause proceeding by the Commission, including penalties, if the Utility charges amounts other than those approved by the Commission.

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

East Marion should be required to make a refund to those customers who where assessed an unauthorized convenience charge in accordance with Rule 25-30.360 F.A.C. The refunds should be made with interest and completed within 90 days of the Commission's final order. Monthly reports on the status of the refund shall be made by the 20th of the following month and a report should be completed within 90 days of the completion of the refund consistent with Rule 25-30.360(7), F.A.C.

Issue 11: What is the appropriate amount by which rates should be reduced in four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816 F.S.?

Recommendation: The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. East Marion should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Vogel, Bruce)

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. The total reductions are $170 and $169 for water and wastewater, respectively.

The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. East Marion should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 12: Should the recommended rates be approved for East Marion Utility, LLC on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

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

Staff Analysis: This recommendation proposes an increase in water and wastewater 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. East Marion 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.

East Marion 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 $4,924. 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; and,
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.

Should the recommended rates be approved by the Commission on a temporary basis, East Marion 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 13: Should East Marion Utilities, LLC be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision?

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

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

Issue 14: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating should be issued. The docket should remain open for staff to verify: (i) the required revised tariff sheets and customer notices have been filed by East Marion Utilities, LLC and approved by our staff; (ii) East Marion Utilities, LLC filed its letter stating it has adjusted its books; and (iii) East Marion Utilities, LLC has properly refunded all unauthorized convenience fee charges collected. Once these actions are complete, this docket should be closed administratively. (Corbari)

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 should be issued. The docket should remain open for staff to verify: (i) the required revised tariff sheets and customer notices have been filed by East Marion Utilities, LLC and approved by our staff; (ii) East Marion Utilities, LLC filed its letter stating it has adjusted its books; and (iii) East Marion Utilities, LLC has properly refunded all unauthorized convenience fee charges collected. Once these actions are complete, this docket should be closed administratively.

EAST MARION UTILITIES, LLC **SCHEDULE NO. 1-A**
TEST YEAR ENDED 12/31/15 **DOCKET NO. 150257-WS**
SCHEDULE OF WATER RATE BASE

DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	$142,734	$447	$143,181
UTILITY PLANT IN SERVICE- ALLOCATED	0	523	523
LAND & LAND RIGHTS	0	0	0
NON-USED AND USEFUL COMPONENTS	0	(14,489)	(14,489)
CIAC	(39,700)	0	(39,700)
ACCUMULATED DEPRECIATION	(99,112)	5,891	(93,221)
ACCUMULATED DEPRECIATION- ALLOCATED	0	(13)	(13)
AMORTIZATION OF CIAC	18,101	(925)	17,176
WORKING CAPITAL ALLOWANCE	0	2,721	2,721
WATER RATE BASE	$22,023	($5,846)	$16,177

EAST MARION UTILITIES, LCC TEST YEAR ENDED 12/31/15 SCHEDULE OF WASTEWATER RATE BASE			SCHEDULE NO. 1-B DOCKET NO. 150257-WS
DESCRIPTION	**BALANCE PER UTILITY**	**STAFF ADJUSTMENTS TO UTIL. BAL.**	**BALANCE PER STAFF**
UTILITY PLANT IN SERVICE	$482,102	$954	$483,056
UTILITY PLANT IN SERVICE – ALLOCATED	0	523	523
LAND & LAND RIGHTS	0	0	0
NON-USED AND USEFUL COMPONENTS	0	(51,328)	(51,328)
CIAC	(77,600)	0	(77,600)
ACCUMULATED DEPRECIATION	(390,285)	15,881	(374,404)
ACCUMULATED DEPRECIATION - ALLOCATED	0	(13)	(13)
AMORTIZATION OF CIAC	29,279	(1,080)	28,199
WORKING CAPITAL ALLOWANCE	0	3,824	3,824
WASTEWATER RATE BASE	$43,496	($31,239)	$12,257

EAST MARION UTILITIES, LLC | **SCHEDULE NO. 1-C**
TEST YEAR ENDED 12/31/15 | **DOCKET NO. 150257-WS**
ADJUSTMENTS TO RATE BASE

		WATER	WASTEWATER
	UTILITY PLANT IN SERVICE		
1.	To reflect pro forma plant replacements and retirements.	$894	$0
2.	To capitalize a pump repair previously placed in Acct. 636 and 736.	0	1,908
3.	Averaging adjustment.	(447)	(954)
	Total	$447	$954
	UTILITY PLANT IN SERVICE – ALLOCATED		
1.	To allocated common plant from FUS1.	$547	$547
2.	Averaging adjustment.	(24)	(24)
	Total	$523	$523
	NON-USED AND USEFUL PLANT		
1.	To reflect non-used and useful plant.	($45,257)	($276,423)
2.	To reflect non-used and useful accumulated depreciation.	30,767	225,096
	Total	($14,489)	($51,328)
	ACCUMULATED DEPRECIATION		
1.	To reflect plant retirements.	$2,656	$0
2.	Depreciation adjustment per Rule 25-30.140 F.A.C.	(26)	11,787
3.	Averaging adjustment.	3,261	4,094
	Total	$5,891	$15,881
	ACCUMULATED DEPRECIATION – ALLOCATED		
1.	To reflect the appropriate Accumulated Depreciation – Allocated.	($20)	($20)
2.	Averaging adjustment.	7	7
	Total	($13)	($13)
	AMORTIZATION OF CIAC		
1.	To reflect the appropriate amount of amortization.	($286)	($421)
2.	To reflect an averaging adjustment.	(639)	(659)
	Total	($925)	($1,080)
	WORKING CAPITAL ALLOWANCE		
	To reflect 1/8 of test year O&M expenses.	$2,721	$3,824

EAST MARION UTILITIES, LLC | **SCHEDULE NO. 2**
TEST YEAR ENDED 12/31/15 | **DOCKET NO. 150257-WS**
SCHEDULE OF CAPITAL STRUCTURE

	CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1.	COMMON EQUITY	$0	$10,000	$10,000	$0	$0	0.00%	11.16%	0.00%
2.	RETAINED EARNINGS	(172,102)	162,102	(10,000)	0	0	0.00%	0.00%	0.00%
3.	LONG-TERM DEBT	(6,675)	97,000	90,325	(65,515)	24,810	87.25%	6.00%	5.24%
4.	SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
5.	PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%
6.	CUSTOMER DEPOSITS	3,493	132	3,625	0	3,625	12.75%	2.00%	0.25%
7.	TOTAL	($175,284)	$269,234	$93,950	($65,515)	$28,435	100.00%		5.49%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	10.16%	12.16%
OVERALL RATE OF RETURN	5.49%	5.49%

EAST MARION UTILITIES, LLC | **SCHEDULE NO. 3-A**
TEST YEAR ENDED 12/31/15 | **DOCKET NO. 150257-WS**
SCHEDULE OF WATER OPERATING INCOME

		TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1.	**OPERATING REVENUES**	$23,718	$185	$23,903	$4,492	$28,395
					18.79%	
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	$31,349	($9,583)	$21,766	$0	$21,766
3.	DEPRECIATION (NET)	3,052	(871)	2,181	0	2,181
4.	AMORTIZATION	0	0	0	0	0
5.	TAXES OTHER THAN INCOME	0	2,069	2,069	202	2,271
6.	INCOME TAXES	0	0	0	0	0
7.	**TOTAL OPERATING EXPENSES**	$34,401	($8,385)	$26,016	$202	$26,218
8.	**OPERATING INCOME/(LOSS)**	($10,568)		($2,113)		$2,177
9.	**WATER O&M EXPENSES**	$31,349		$21,766		$21,766
10.	**OPERATING MARGIN**					10.00%

EAST MARION UTILITIES, LLC — **SCHEDULE NO. 3-B**
TEST YEAR ENDED 12/31/15 — **DOCKET NO. 150257-WS**
SCHEDULE OF WASTEWATER OPERATING INCOME

		TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1.	**OPERATING REVENUES**	$34,144	$1,738	$35,882	$2,859	$38,741
					7.97%	
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	$31,966	($1,376)	$30,590	$0	$30,590
3.	DEPRECIATION (NET)	16,918	(14,366)	2,552	0	2,552
4.	AMORTIZATION	0	0	0	0	0
5.	TAXES OTHER THAN INCOME	0	2,410	2,410	129	2,539
6.	INCOME TAXES	0	0	0	0	0
7.	**TOTAL OPERATING EXPENSES**	$48,884	($13,331)	$35,553	$129	$35,682
8.	**OPERATING INCOME/(LOSS)**	($14,740)		$329		$3,059
9.	**WASTEWATER O&M EXPENSES**	$31,966		$30,590		$30,590
10.	**OPERATING RATIO**					10.00%

EAST MARION UTILITIES, LLC | **SCHEDULE NO. 3-C**
TEST YEAR ENDED 12/31/15 | **DOCKET NO. 150257-WS**
ADJUSTMENTS TO OPERATING INCOME | **Page 1 of 3**

		WATER	WASTEWATER
	OPERATING REVENUES		
1.	To reflect the appropriate test year revenues.	$380	$1,428
2.	To reflect miscellaneous revenues.	(310)	310
	Subtotal	$70	$1,738
	OPERATION AND MAINTENANCE EXPENSES		
1.	Salaries and Wages – Employees (601/701)		
	a. To remove a payroll markup.	($60)	($60)
	b. To reclassify salary expense from Acct. 636/736.	225	225
	c. To reflect the appropriate payroll tax.	(315)	(315)
	d. To reflect the new allocations.	450	450
	e. To include the new salary information.	(94)	(94)
	Subtotal	$206	$206
2.	Salaries and Wages – Officers (603/703)		
	a. To remove former owner's salary.	($654)	($654)
	b. To reflect the new salary information.	259	259
	Subtotal	($395)	($395)
3.	Employee Pension & Benefits (604/704)		
	a. To reflect appropriate amount of benefit expense.	$512	$512
	b. To reflect the new allocations.	54	54
	Subtotal	$566	$566
4.	Purchased Power (615/715)		
	a. To include appropriate Utility expenses for the test year.	$205	$56
	b. To properly allocate expenses between systems.	(406)	(376)
	c. To remove late fees.	0	(28)
	Subtotal	($201)	($348)
5.	Chemicals (618/718)		
	To properly allocate expenses between systems.	($347)	$347
6.	Materials & Supplies (620/720)		
	a. To remove purchases outside the test year.	($68)	($68)
	b. To remove items not related to the Utility.	(132)	(91)
	c. To reflect the new allocations.	62	64
	d. To reclassify expenses to Account 650/750).	(43)	(43)
	Subtotal	($181)	($138)
7.	Contractual Services – Professional (631/731)		
	a. To properly allocate expenses between systems.	($100)	$100
	b. To exclude expenses from a lawsuit.	(66)	(66)
	Subtotal	($166)	$34
8.	Contractual Services – Testing (635/735)		
	To properly allocate expenses between systems.	$928	($928)

EAST MARION UTILITIES, LLC | **SCHEDULE NO. 3-C**
TEST YEAR ENDED 12/31/15 | **DOCKET NO. 150257-WS**
ADJUSTMENTS TO OPERATING INCOME | **Page 2 of 3**

		WATER	WASTEWATER
9.	Contractual Services - Other (636/736)		
	a. To remove expenses outside the test year.	($98)	($98)
	b. To properly allocate expenses between systems.	(1,779)	1,757
	c. To remove an additional mowing bill.	(225)	0
	d. To include an unrecorded bill.	230	345
	e. To remove a major pump repair and capitalize the expense.	(954)	(954)
	f. To amortize non-recurring tree trimming expense.	(420)	(420)
	g. To amortize non-recurring tank cleaning.	(1,440)	0
	h. To reclassify salary expense to Accounts 601 and 701.	(225)	(225)
	i. To reflect the new allocations.	2	2
	j. To remove items not related to the Utility.	(160)	(141)
	Subtotal	($5,069)	$266
10.	Rent Expense (640/740)		
	a. To reflect appropriate amount and allocation of expenses.	($5,448)	($2,043)
	b. To reflect the land lease established in previous case.	405	582
	b. To reflect the inflation adjustment to land lease.	138	199
	c. To reflect the new allocations.	40	40
	b. To reflect the appropriate allocated expenses from FUS1.	(27)	30
	Subtotal	($4,892)	($1,192)
11.	Transportation Expense (650/750)		
	a. To reallocate expenses appropriately.	($33)	$33
	b. To remove a truck loan not related to the Utility.	(100)	(100)
	c. To appropriately allocate expenses to the Utility.	114	114
	d. To reflect the new allocations.	57	57
	e. To reclassify expenses from Accounts 620 and 720.	43	43
	Subtotal	$81	$147
12.	Insurance Expense (655/755)		
	a. To reflect appropriate insurance expense.	$21	$21
	b. To remove health insurance premiums.	(705)	(673)
	Subtotal	($684)	($652)
13.	Regulatory Commission Expense (665/765)		
	To include rate case expense.	$147	$147
14.	Miscellaneous Expense (675/775)		
	a. To remove overdraft fees.	($16)	($16)
	b. To reflect the appropriate allocation of expenses.	(70)	70
	c. To reflect the appropriate amount of Utility expense from FUS1.	338	338
	d. To reflect the new allocations.	172	172
	Subtotal	$424	$564
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	($9,583)	($1,376)

EAST MARION UTILITIES, LLC | **SCHEDULE NO. 3-C**
TEST YEAR ENDED 12/31/15 | **DOCKET NO. 150257-WS**
ADJUSTMENTS TO OPERATING INCOME | **Page 3 of 3**

		WATER	WASTEWATER
	DEPRECIATION EXPENSE		
1.	To reflect test year depreciation calculated per Rule 25-30.140, F.A.C.	($15)	($11,787)
2.	To include depreciation expense for pro forma plant.	26	0
3.	To include depreciation expense for pump repair.	0	64
4.	To reflect non-used and useful depreciation expense.	(1,254)	(4,468)
5.	To reflect the appropriate amount of amortization expense of CIAC.	286	1,739
6.	To reflect appropriate depreciation expense from allocated plant.	86	86
	Total	($871)	($14,366)
	TAXES OTHER THAN INCOME		
1.	To reflect property taxes.	$784	$784
2.	To reflect appropriate property tax for plant additions.	14	30
3.	To reflect payroll taxes.	447	447
4.	To reflect the appropriate test year RAFs.	1,076	1,615
5.	To reflect non-used and useful property tax.	(252)	(466)
	Total	$2,069	$2,410

EAST MARION UTILITIES, LLC			SCHEDULE NO. 3-D
TEST YEAR ENDED 12/31/15			DOCKET NO. 150257-WS
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST-MENTS	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	$4,246	$206	$4,452
(603) SALARIES AND WAGES - OFFICERS	2,154	(395)	1,759
(604) EMPLOYEE PENSIONS AND BENEFITS	0	566	566
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	1,267	(201)	1,066
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	1,189	(347)	842
(620) MATERIALS AND SUPPLIES	826	(181)	645
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	266	(166)	100
(633) CONTRACTUAL SERVICES – TESTING	928	928	1,856
(636) CONTRACTUAL SERVICES - OTHER	10,755	(5,069)	5,686
(640) RENTS	5,857	(4,892)	965
(650) TRANSPORTATION EXPENSE	512	81	593
(655) INSURANCE EXPENSE	1,671	(684)	987
(665) REGULATORY COMMISSION EXPENSE	0	147	147
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSE	1,678	424	2,102
	$31,349	($9,583)	$21,766

EAST MARION UTILITIES, LLC			SCHEDULE NO. 3-E
TEST YEAR ENDED 12/31/15			DOCKET NO. 150257-WS
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST-MENTS	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	$4,246	$206	$4,452
(703) SALARIES AND WAGES - OFFICERS	2,154	(395)	1,759
(704) EMPLOYEE PENSIONS AND BENEFITS	0	566	566
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	2,859	0	2,859
(715) PURCHASED POWER	5,158	(348)	4,810
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	1,189	347	1,536
(720) MATERIALS AND SUPPLIES	808	(138)	670
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	66	34	100
(735) CONTRACTUAL SERVICES - TESTING	928	(928)	0
(736) CONTRACTUAL SERVICES - OTHER	8,801	266	9,067
(740) RENTS	2,395	(1,192)	1,203
(750) TRANSPORTATION EXPENSE	446	147	593
(755) INSURANCE EXPENSE	1,639	(652)	987
(765) REGULATORY COMMISSION EXPENSE	0	147	147
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSE	1,277	564	1,841
	$31,966	($1,376)	$30,590

EAST MARION UTILITIES, LLC. **SCHEDULE NO. 4-A**
TEST YEAR ENDED DECEMBER 31, 2015 **DOCKET NO. 150257-WS**
MONTHLY WATER RATES

	RATES AT TIME OF FILING	RECOMMENDED INTERIM RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
Residential, Irrigation, and General Service				
Base Facility Charge by Meter Size				
5/8" x 3/4"	$10.05	$11.73	$11.96	$0.07
3/4"	$15.10	$17.60	$17.94	$0.11
1"	$25.15	$29.33	$29.90	$0.18
1-1/2"	$50.29	$58.65	$59.80	$0.36
2"	$80.47	$93.84	$95.68	$0.58
3"	$160.94	$187.68	$191.36	$1.15
4"	$251.47	$293.25	$299.00	$1.80
6"	$502.93	$586.50	$598.00	$3.61
Charge per 1,000 gallons - Residential and Irrigation Service				
0-10,000 gallons	$2.11	$2.46	$2.51	$0.01
Over 10,000 gallons	$3.15	$3.68	$3.75	$0.02
Charge per 1,000 gallons - General Service	$2.46	$2.87	$2.93	$0.02
Typical Residential 5/8" x 3/4" Meter Bill Comparison				
4,000 Gallons	$18.49	$21.57	$22.00	
8,000 Gallons	$26.93	$31.41	$32.04	
10,000 Gallons	$31.15	$36.33	$37.06	

EAST MARION UTILITIES, LLC. TEST YEAR ENDED DECEMBER 31, 2015 MONTHLY WASTEWATER RATES			SCHEDULE NO. 4-B DOCKET NO. 150257-WS
	RATES AT TIME OF FILING	**STAFF RECOMMENDED RATES**	**4 YEAR RATE REDUCTION**
Residential			
Base Facility Charge - All Meter Sizes	$15.37	$16.61	$0.07
Charge Per 1,000 gallons			
10,000 gallon cap	$4.69	$5.07	$0.02
-			
General Service			
Base Facility Charge by Meter Size			
5/8" x 3/4"	$15.37	$16.61	$0.07
3/4"	$23.05	$24.92	$0.11
1"	$38.42	$41.53	$0.18
1-1/2"	$76.84	$83.05	$0.37
2"	$122.92	$132.88	$0.59
3"	$245.86	$265.76	$1.17
4"	$384.16	$415.25	$1.83
6"	$768.28	$830.50	$3.66
Charge per 1,000 gallons	$5.63	$6.08	$0.03
Typical Residential 5/8" x 3/4" Meter Bill Comparison			
4,000 Gallons	$34.13	$36.89	
8,000 Gallons	$52.89	$57.17	
10,000 Gallons	$62.27	$67.31	
Residential			
Base Facility Charge - All Meter Sizes	$15.37	$16.61	$0.07