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DANIEL PEREZ
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VIA: ELECTRONIC FILING

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

Docket No. 20250088-WU – Application for staff-assisted rate case in Lake County by Sun Communities Finance, LLC d/b/a Water Oak Utility.

Dear Mr. Teitzman:

The intent of this letter is to advise the Commission, its staff, and Sun Communities Finance, LLC d/b/a Water Oak Utility (Water Oak or Utility) of the Office of Public Counsel's (OPC) additional observations and recommendations, based on a further review of the Staff Recommendation filed March 26, 2026, the discussion at the April 7, 2026, Commission Agenda Conference, and additional information provided to Commission Staff by the Utility.

In light of a possibly significant understatement of the recommended test year CIAC amount in rate base and negative CIAC amortization expense amount in operating expenses, the OPC recommends that the Commission delay its decision in this SARC from the June 2, 2026, Agenda Conference, to allow additional time for the Commission Staff to investigate further the appropriate level of CIAC, as well as the corresponding levels of test year accumulated amortization of CIAC and CIAC amortization expense for ratemaking purposes.

Issue 4 – CIAC & Accumulated Amortization of CIAC

Given the significant test year revenue concerns raised in the OPC’s April 17, 2026, letter, the OPC began examining whether there were perhaps other understatement components factoring into the recommended revenue increase.

On page 13 of the Recommendation filed on March 26, 2026, the Commission staff states, in pertinent part, the following:

Contributions In Aid of Construction (CIAC)

The Utility recorded CIAC of \$174,916. Staff made no adjustments to CIAC and, therefore, recommends an average CIAC balance of \$174,916.

Accumulated Amortization of CIAC

The Utility recorded accumulated amortization of CIAC of \$174,916. Staff made no adjustments and, therefore, recommends an average accumulated amortization of CIAC balance of \$174,916.

Based on the OPC’s review of the official audit workpapers for the Staff Audit Report issued October 7, 2025, in this docket, the audit workpapers related to CIAC includes: 4, 4.1, 4.2, 6.5, 6.6, 10, 10-4, 20 Lead, 20, 20-1, 23, 23.1, 23.2, 23.3, 23.4, 23-1, and 23-2.

According to Audit Workpaper 4.2, it reveals that the Audit Service Request dated June 23, 2025, requested the staff auditors to “[t]est CIAC additions and adjustments up to the beginning of the test year” and “[t]est by using service availability policy in effect during period.”¹

According to Audit Workpaper 6.5, the Audit Program Steps contained the following objective: “[t]o determine that utility CIAC balances are properly stated and are reflective of service availability charges authorized in the utility’s approved Commission tariff.” This audit workpaper also reflected the following substantive field procedures for this objective:

¹ Audit Workpaper 4.2

ASR Substantive Fieldwork Procedures

- 11
- A Test CIAC additions and adjustments since inception. Test by estimation using service availability policy in effect during period and number of customers.
 - B Agree beginning CIAC balances obtained above to the prior Commission order.
 - C Obtain and read the utility's authorized tariff to determine the type and amount, if any, of service availability fees for new customer additions.
 - D Obtain utility representation letter concerning its CIAC policy and procedures.
 - E Obtain utility representation regarding special agreements and copies of developer agreements.
 - F Obtain utility representation on whether or not it has received donated property as CIAC.
 - G Request access to the utility's Federal Tax Returns and examine for contributions not recorded in the utility's books and records.
 - H Reconcile UPIS determined above with the utility's Federal Tax Returns and investigate material differences that may result from contributed assets.
 - I Obtain and review the utility's cash receipts records since the last Commission proceeding for un-recorded CIAC.
 - J Obtain or prepare the following schedule.
 - 1 Schedule of CIAC additions which includes the following information.
 - a) Description of asset or fees received
 - b) Date acquired
 - c) Original cost
 - d) Account number where contributed asset is recorded in utility books
 - K Perform the following tests of selected CIAC additions.
 - 1 Determine if the amount collected is authorized in the utility tariff.
 - 2 Verify that the collected amount reconciles to the requirements of the utility tariff.
 - 3 Verify that other CIAC additions reconcile to developer agreements and special tariffs.
 - 4 Verify that donated T&D lines are recorded UPIS.
 - L Reconcile CIAC additions to the utility's General Ledger.

The conclusion on Audit Workpaper 20 Lead reflected the following:

CONCLUSION: Audit staff requested the additions, adjustments and supporting documentation of CIAC since 1996 from the Utility. The Utility was unable to provide the detailed supporting documentation, but only a summary of CIAC additions and balance since 1998 by year. Based on the steps performed above, audit staff traced the CIAC balance as the end of December 31, 2024 to the Utility's 2024 annual report. No further work was performed. **KG**

In order to begin examining the appropriate level of CIAC, accumulated amortization of CIAC, and CIAC amortization expense for the test year ended December 31, 2024, it requires looking back to the previous owner to gain a better understanding of the unique nature of CIAC and the subsequent circumstantial changes under the present owner after the transfer of ownership.

Docket No. 19960040-WS, Order No. PSC-97-0034-FOF-WS (pages 5-6), issued January 7, 1997, states in pertinent part:

We considered the request to rescind the requirement for collection of CIAC in Docket No. 870122-WS. The utility initially argued that meters were installed to encourage conservation, not to achieve compensatory earnings. However, in proposed agency action Order No. 17651, issued June 3, 1987, we rejected the utility's argument since "(t)hrough a change in ownership, management or policy, the utility could bring a rate case before the Commission and ask for a full rate of return ... " On July 22, 1987, the utility protested our decision and requested a formal hearing. On August 11, 1987, the utility filed a proposed offer of settlement that enlarged upon the reasons for removal of CIAC charges. The proposal essentially explained how an agreement between Mr. Bishop and the new owners would accomplish the same objective as collection of CIAC. More specifically, the utility proposed that a negative acquisition adjustment should be recorded to distinguish between the expected future cost to serve the fully developed community, an obligation partially assumed by the developer, and the utility's share of that cost. Relying upon engineering studies, the utility estimated that \$1,075,564 would be needed to serve 2,000 mobile homes, or a \$767,500 addition to the plant investment level at December 31, 1985. The utility's share of this added construction cost would be \$179,130, an amount that would be funded through \$55 incremental payments to the developer for each newly developed lot and each customer connection. After further review, we agreed to waive collection of CIAC charges provided that a negative acquisition adjustment was recognized to offset the lost CIAC. Reflecting on the unusually favorable purchase agreement, Order No. 18255, issued October 6, 1987, declared that subsequent rate base determinations would thereafter include this negative acquisition adjustment.

Unfortunately, an error in the proposed stipulation produced an incorrect provision for the negative acquisition adjustment. Instead of the \$588,370 properly stated difference between the projected construction cost (\$767,500) and the utility's contribution (\$179,130), Order No. 18255 incorrectly specified that a \$729,972 credit acquisition adjustment should be recorded. This error resulted from an incorrect comparison of gross plant and depreciated plant balances. Order No. 18255 further specified that a \$767,500 provision for the expected future additions to plant in service shall be recorded. However, the real significance of the stipulation was our decision to require rate base inclusion of a negative acquisition adjustment, the projected \$588,030 difference between the developer's contribution and the utility's reimbursement provision.

The audit investigation disclosed that, between 1987 and 1989, the utility paid the developer \$60,015 pursuant to the purchase agreement. Presumably, a \$119,115 remaining obligation exists pursuant to the purchase agreement. If the utility can document that it actually paid this additional sum, rate base inclusion of an additional charge may be appropriate in a later proceeding. However, the most important element of the stipulation that was not recorded concerns the negative acquisition adjustment, or a sum designed to reflect the developer's contribution towards the construction cost. It is that component that ultimately persuaded the Commission to cancel the CIAC charges. That omission is corrected through a journal entry that adds \$588,370 (\$282,678 for water and \$305,692 for wastewater) to plant with a matching \$588,370 (\$282,678 for water and \$305,692 for wastewater) entry to a negative acquisition adjustment account. These offsetting accounts have no impact on the rate base determination.

(Underline emphasis added.)

Order PSC-00-1165-PAA-WS (pages 13-19), issued June 27, 2000 in Docket No. 19990243-WS, states in pertinent part:

Negative Acquisition Adjustment

The second acquisition adjustment is a negative acquisition adjustment, which we have approved in two separate dockets. This negative acquisition adjustment amount was the subject of an offer of settlement which was first approved by us in Order No. 18255, issued October 6, 1987, in Docket No. 870122-WS. To better understand this extremely complex negative acquisition adjustment, a history of the adjustment is necessary.

The original owner, Mr. Mel Bishop, was providing water and wastewater service to Water Oak Estates. Since the service charges of the water and wastewater were included in the lot rent, the utility was exempt from our jurisdiction. In 1985, Mr. Bishop proposed to install meters and initiate separate charges. Therefore, Mr. Bishop applied for water and wastewater certificates, and requested that we establish a rate base and set rates and charges for Water Oak Utilities Co., Inc. (Water Oak). During the pendency of the certification docket, negotiations led to the signing of a contract for the sale of Water Oak Estates to Water Oak. Pursuant to that sales contract, the portion of the purchase price specifically allocated to the sale of the utility's gross utility plant at completion, was \$345,592. By Order No. 16150, issued May 23, 1986, in Docket No. 850517-WS, we granted certificates to Water Oak authorizing it to operate its existing water and wastewater systems. However, the docket remained open in order for us to establish rate base and set rates and charges.

Subsequently, Order No. 16528, issued on August 27, 1986, established rate base and set rates and charges. Order No. 16528 approved system capacity charges in the amount of \$200 for water and \$200 for wastewater. These charges were based upon projected plant at build out of \$437,766 for water and \$637,798 for wastewater and would result in CIAC levels of 75% for water and 62% for wastewater for 2,000 equivalent residential connections (ERCs) upon project completion. By Order No. 16977, issued December 18, 1986, we approved the transfer of majority organizational control (TMOC). On February 4, 1987, the new owners filed a request for "cancellation of the plant capacity charges in view of a bargain purchase agreement" between the new owners and the former owner.

We first addressed the request to rescind the requirement for collection of plant capacity charges in Order No. 17651, issued on June 3, 1987. That Order stated that the utility argued that meters had been installed to promote conservation, not to achieve compensatory earnings. The utility stated that even if its CIAC charges were canceled, resulting in a large, uncontributed rate base, it has no present or future intentions of seeking a full rate of return. We rejected the utility's argument, stating that "through a change in ownership, management, or policy, the utility could bring a rate case before the Commission and ask for a full rate of return." We denied the utility's request to cancel CIAC charges because the utility had not met its burden of proving that cancellation of these charges was in the best interest of its customers, pursuant to Rule 25-30.580, Florida Administrative Code.

On June 22, 1987, the utility protested Order No. 17651. On August 11, 1987, the utility filed a proposed offer of settlement. On October 6, 1987, Order No. 18255 was issued approving the settlement proposal. Pursuant to the

settlement, the utility would book total estimated gross utility plant of \$1,075,564, (\$437,766 for water and \$637,798 for wastewater). For clarification, this amount of plant was projected through completion of the project to serve approximately 2,000 ERCs and included \$60,000 for a 25 acre sprayfield in the wastewater amount. The difference between the gross projected plant and the purchase price of \$345,592 (\$111,268 for water and \$234,324 for wastewater) was to be booked as a negative acquisition adjustment. This amount of \$729,972 (\$326,498 for water and \$403,474 for wastewater), along with the gross estimated plant would be booked as of December 31, 1987.

According to Order No. 18255, this negative acquisition adjustment was allowed because of the existence of extraordinary circumstances. Given the extraordinary circumstances, we found that it would be in the best interests of the customers to waive the requirements of Rule 25-30.580, Florida Administrative Code. However, the Order goes on to state that:

It is only due to the extraordinary circumstances of this case that we approve this acquisition adjustment. However, any change in the circumstances, as set forth herein, could have a drastic impact on this utility's rate base and rates. Therefore, [the Commission] caution[s] the utility that any change in circumstances will result in a full investigation into its rate base and CIAC policy.

On January 9, 1996, Water Oak applied for a transfer of the water and wastewater system to Sun Communities. By Order No. PSC- 97-0034-FOF-WS, issued on January 7, 1997, in Docket No. 960040-WS, we approved the transfer and addressed this negative acquisition adjustment. Specifically, the Order corrected the amount of the negative acquisition adjustment by stating:

Unfortunately, an error in the proposed stipulation produced an incorrect provision for the negative acquisition adjustment. Instead of the \$588,370 properly stated difference between the projected construction cost (\$767,500) and the utility's contribution (\$179,130), Order 18255 incorrectly specified that a \$729,972 credit acquisition adjustment should be recorded.

The Order continues by stating that a correcting 'journal entry that adds \$588,370 (\$282,678 for water and \$305,692 for wastewater) to plant with a matching \$588,370 (\$282,678 for water and \$305,692 for wastewater) entry to negative acquisition adjustment account" should be made. Further, we found that "[t]hese

offsetting accounts have no impact on the rate base determination.” We are concerned with this journal entry, and believe that this finding was made in error.

According to the current audit, the utility did not record these negative acquisition adjustments and projected UPIS as required by Order No. PSC-97-0034-FOF-WS. However, a closer examination of the circumstances surrounding the existence of this previously approved negative acquisition adjustment and the subsequent transfer to Sun Communities is warranted. **As determined in Audit Exception No. 3, the circumstances as set forth in Order No. 18255 cited above have significantly changed as described below and the issue of acquisition adjustment and service availability policy shall be reexamined.**

Circumstantial Changes:

- 1) The utility’s former owners and the original developer who were parties to the approved stipulation agreement are no longer involved in the operations of the utility or mobile home community.**
- 2) The stipulated agreement as approved was based upon a projected construction cost of \$1,075,565 for 2,000 ERCs at completion with \$345,592 of that cost allocated to gross utility investment, at build out. Our auditors calculated a \$687,674 gross utility investment as of December 31, 1998, for approximately 760 ERCs.**
- 3) The stipulated agreement as approved was designed to protect the interests of Water Oak’s customers in absence of the protection afforded by Rule 25-30.580, Florida Administrative Code. We find that this situation no longer exists as a result of the recent transfer.**
- 4) Acquisition adjustments do not survive subsequent purchases. This is further discussed below.**

Further, it was not appropriate to require the utility to book projected plant costs in its current plant-in-service accounts at the time the original stipulated agreement was approved. However, we realize that we were approving an offer of settlement and thus avoided the expense of the hearing process. Nonetheless, now that the utility has been transferred, has requested a rate increase, and a complete audit has been performed, it is the appropriate time to address the appropriate treatment of this previous adjustment. As stated in the audit, the utility has not booked the projected plant nor the negative acquisition adjustment.

Acquisition adjustments are determined by comparing the purchase price to the net original cost of the property when first devoted to service. Therefore, the comparison would be made between the purchase price paid by Sun Communities and the net original cost of the assets. **Acquisition adjustments do not survive subsequent purchases of the utility's assets. When Sun Communities purchased the utility, the accounting methodology for acquisition adjustments would not allow any further recognition of prior acquisition adjustment amounts. To do this would harm the utility customers by increasing rate base.**

In determining the appropriate treatment of this adjustment, we are faced with the dilemma of ensuring that the interests of the customers are protected by making sure they remain in the same position after the recent transfer as they were in before the transfer occurred. Order No. PSC-97-0034-FOF-WS states that Sun Communities provided a statement that it will fulfill the commitments, obligations, and representations of the transferor. This includes the obligation to protect the interests of the utility's customers by recognition of a negative acquisition adjustment, in lieu of collecting service availability charges.

We find that the best methodology to protect the utility's customers, by keeping them whole, is as follows. Sun Communities shall convert the previously approved negative acquisition adjustment to CIAC. This would lower the utility's rate base thus protecting the customers' interests. Therefore, the utility shall record CIAC in the amount of \$117,170 for water and \$117,844 for wastewater to reflect an amount equal to the obligation agreed upon by the former owner, Water Oak. As stated earlier, the main reason we accepted the previous owner's offer of settlement, was that the interests of the customers would still be protected. Therefore, we canceled the utility's previously-approved CIAC charges.

To determine the appropriate amount to be booked to CIAC, we are making a pro-rata adjustment similar to a used and useful adjustment. This would be accomplished as follows: the 2,000 ERCs at project build out, previously approved by us, would be compared to the current number of ERCs. There were approximately 829 water ERCs and 771 wastewater ERCs being served at the end of the test period ending December 31, 1998. Therefore, by applying this ratio to the previously approved negative acquisition adjustment would result in CIAC in the amount of \$117,170 for water and \$117,844 for wastewater, for the test year ending December 31, 1998. However, as discussed below, service availability charges shall be reinstated. Therefore, the amount of CIAC associated with the prior negative acquisition adjustment shall be updated up until the date the new service availability charges are

placed into effect. This would include a calculation to include all ERCs connected in the year 1999 and all ERCs connected in the year 2000 up until the effective date on the approved service availability charges tariff.

Finally, service availability charges shall be reinstated equal to the amount of the remaining prior negative acquisition. This equates to \$141 for water and \$153 for wastewater. Also, meter installation charges shall be reinstated. As stated earlier, in Order No. 18255, we waived the requirements of Rule 25-30.580, Florida Administrative Code. The circumstances have changed dramatically since we accepted the settlement. Therefore, we find that we have an obligation to adhere to the provisions as set forth in Rule 25-30.580, Florida Administrative Code. By reinstating the service availability charges, the utility customers' interests will continue to be protected, and there is no longer a need to waive the provisions of Rule 25-30.580, Florida Administrative Code.

Based upon the foregoing, we find that an acquisition adjustment is no longer an appropriate component of rate base for this utility. However, Sun Communities shall convert the previously approved negative acquisition adjustment to CIAC. Therefore, for the period ending December 31, 1998, the utility shall record CIAC in the amount of \$117,170 for water and \$117,844 for wastewater to reflect obligations previously approved by us. Service availability charges shall be reinstated equal to the amount of the remaining prior negative acquisition adjustment.

Contributions-in-aid-of-Construction: The appropriate amount of CIAC associated with the reclassification of the negative acquisition adjustment as of December 31, 1998 is \$117,170 for water and \$117,844 for wastewater. The associated average amount of amortization of CIAC is \$41,595 for water and \$53,095 for wastewater for the test period ending December 31, 1998.

The utility recorded zero amount of CIAC for water and wastewater. Our auditor recommended imputation of CIAC based upon the previously approved service availability charges. This was recommended in lieu of discontinuing the negative acquisition adjustment as a component of rate base. As stated above, the main reason we accepted the previous owner's offer of settlement, was that the interests of the customers would still be protected. Therefore, we canceled the utility's previously approved CIAC charges. Our auditor calculated the imputation of CIAC by using the previously approved charge of \$200 water system capacity charge, \$200 wastewater system capacity charge, and \$100 meter installation charge. The utility was serving 245 ERCs at the time Order No. 16528 was issued

on August 27, 1986. The utility's annual reports indicate an addition of 515 water and wastewater customers from August 27, 1986, through the test period ending December 31, 1998. Therefore, the amount of CIAC that would have been collected, if we had not canceled the charges, would have been \$154,500 for water and \$103,000 for wastewater. However, we are not imputing CIAC based upon these charges.

The utility filed a letter responding to this imputation by stating that previous Commission orders specifically prohibited collection of service availability charges. The utility stated that it would be wholly inappropriate to tell a utility it may not collect a service availability charge, and then later impute CIAC to the utility as though it had collected the charges. We agree and find that the best methodology to recognize CIAC is the adjustments we made to recognize the reclassification of the previously approved negative acquisition adjustment.

We increased the wastewater CIAC by \$90,000 to reflect the value of the developer donated land. **Therefore, the appropriate amount of CIAC and amortization of CIAC for water is \$117,170 and \$41,595 and for wastewater is \$207,844 and \$53,095 for wastewater, test period ending December 31, 1998.** The amount of the amortization includes an averaging adjustment as shown on Schedule No. 1A.

Further, pursuant to Rule 25-30.140(8)(a), Florida Administrative Code, the amount of spray field (\$90,000) shall be separately identified to prevent amortization of the land CIAC from occurring.

(Bolded emphasis added.)

Audit Workpapers 4 and 4.1 reveal that the Audit Service Request (ASR) dated June 23, 2025, included both Order No. PSC-97-0034-FOF-WS (Transfer Order) and Order PSC-00-1165-PAA-WS in the "REFERENCES" section. According to the Audit Workpaper 4.2, Objective 1 of the ASR states to "[r]eview prior work papers, order, etc. (see References)."² The OPC would note that it could not locate Water Oak's last rate proceeding order (Order PSC-00-1165-PAA-WS) in the official audit workpapers for the Staff Audit Report issued October 7, 2025, in this docket.

On page 18 of Order PSC-00-1165-PAA-WS, it states, in pertinent part, the following:

² This objective is consistent with the Commission's Audit Manual currently in effect for SARC audits, specifically 4600 – Staff Assisted Rate Case under subsection A. of Section V., Audit Planning.

. . . . Therefore, the amount of CIAC associated with the prior negative acquisition adjustment shall be updated up until the date the new service availability charges are placed into effect. This would include a calculation to include all ERCs connected in the year 1999 and all ERCs connected in the year 2000 up until the effective date on the approved service availability charges tariff.

According to the Commission's Increase/Decrease Report for the Commission regulated-water and wastewater utilities, the effective date of the rates and charges for the Utility's last rate proceeding occurred on June 27, 2000. The Utility's 2000 Annual Report reflected customer growth of additional 17 residential customers and 14 general service customers. Because the effective date of the Commission reinstatement of service availability charges occurred on June 27, 2000, the OPC attributed half of the 2000 customer growth to the \$117,170 legacy CIAC and the other half of the 2000 customer growth applicable to the Commission-reinstated service availability charges.

With this information and the fact that service availability charges were reinstated in Water Oak's last rate proceeding, the OPC believes there are three pools of CIAC for the Utility: 1) the legacy CIAC of \$117,170 established by Order No. PSC-00-1165-PAA-WS; 2) CIAC from meter installation fees for the additional customers connected since June 27, 2000, through the 2024 test year, by applying the Commission-authorized meter installation fees during that period; and 3) CIAC from capacity fees for the additional customers connected since June 27, 2000, through the 2024 test year, by applying the Commission-authorized capacity fees during that period.

Legacy CIAC

As stated above, the legacy CIAC is well established as \$117,170 for all customer connections prior to June 27, 2000. Because the OPC was not able located any CIAC retirements in the Utility's 1999 to 2024 Annual Reports, the legacy CIAC for the 2024 test year would remain at \$117,170. Using the Utility's annual composite depreciation rates from 1999 to 2024, excluding intangible plant, general plant, and the plant account for meters and meter installations, the OPC

calculated the simple average accumulated amortization of CIAC of \$91,675 for the test year ended December 31, 2024.

CIAC from Meter Installation Fees

As mentioned in the “History of Water Oak” section of the OPC’s Observation Letter dated April 17, 2026, the Commission approved an increase in meter installation fees from \$100 to \$190.³ Using the customer growth reflected in the Utility’s annual reports from June 27, 2000, to December 31, 2024 and the Commission-authorized meter installation fees during this period, the OPC calculated the simple average CIAC and accumulated amortization of CIAC for the test year ended December 31, 2024, as reflected in the table below.

| Accumulated Amortization of CIAC for Meters | | | | | |
|--|--|--|---|---|---|
| Line No. | Year | OPC Calculated Authorized Meter Fees Collection | Depreciation Rate for Meters (1) | Incremental CIAC Amort. Expense for Meters (2) | Accum. Amort. of CIAC for Meters (2) |
| 1 | 2000 | 1,500 | 5.88% | \$44 | \$44 |
| 2 | 2001 | 3,300 | 5.88% | \$97 | \$163 |
| 3 | 2002 | 1,800 | 5.88% | \$53 | \$309 |
| 4 | 2003 | 1,710 | 5.88% | \$50 | \$527 |
| 5 | 2004 | 15,390 | 5.88% | \$453 | \$1,199 |
| 6 | 2005 | 5,890 | 5.88% | \$173 | \$1,843 |
| 7 | 2006 | 6,270 | 5.88% | \$184 | \$2,811 |
| 8 | 2007 | 950 | 5.88% | \$28 | \$3,801 |
| 9 | 2008 | 0 | 5.88% | \$0 | \$4,870 |
| 10 | 2009 | 1,140 | 5.88% | \$34 | \$5,986 |
| 11 | 2010 | 380 | 5.88% | \$11 | \$7,097 |
| 12 | 2011 | 2,660 | 5.88% | \$78 | \$8,297 |
| 13 | 2012 | 4,370 | 5.88% | \$129 | \$9,592 |
| 14 | 2013 | 3,990 | 5.88% | \$117 | \$10,979 |
| 15 | 2014 | 3,990 | 5.88% | \$117 | \$12,489 |
| 16 | 2015 | 5,700 | 5.88% | \$168 | \$14,167 |
| 17 | 2016 | 1,710 | 5.88% | \$50 | \$15,870 |
| 18 | 2017 | 5,890 | 5.88% | \$173 | \$17,783 |
| 19 | 2018 | 8,170 | 5.88% | \$240 | \$19,804 |
| 20 | 2019 | 5,130 | 5.88% | \$151 | \$21,867 |
| 21 | 2020 | 0 | 5.88% | \$0 | \$23,923 |
| 22 | 2021 | 0 | 5.88% | \$0 | \$25,921 |
| 23 | 2022 | 0 | 5.88% | \$0 | \$27,371 |
| 24 | 2023 | 0 | 5.88% | \$0 | \$28,760 |
| 25 | 2024 | 18,240 | 5.88% | \$536 | \$30,579 |
| 26 | Total | \$98,180 | | \$2,888 | |
| 27 | | | | | |
| 28 | | 2024 Simple Average Accumulated Amortization of CIAC for Meters | | | \$29,669 |
| 29 | | | | | |
| 30 | Notes: | | | | |
| 31 | (1) Pursuant to Rule 25-30.140(2)(a), F.A.C., Meters and Meter Installations for Class C Water Utilities have a | | | | |
| 32 | 17-year service life which equates to a depreciation rate of 5.88% [(100/17)/100]. | | | | |
| 33 | (2) The OPC used half-year's convention for amortization purposes in the first year for CIAC - Meters Additions. | | | | |

³ Order No. PSC-2002-1831-TRF-WS, issued December 20, 2002, in Docket No. 20020388-WS.

CIAC from Capacity Fees

Using the customer growth reflected in the Utility’s annual reports from June 27, 2000, to December 31, 2024, and the Commission-authorized meter installation fees during this period, the OPC calculated the simple average CIAC and accumulated amortization of CIAC for the test year ended December 31, 2024, as reflected in the table below.

| Accumulated Amortization of CIAC for Capacity Fees | | | | | | | |
|---|---|-------------------------|--------------------------|------------------------------|------------------------------|------------------------|--|
| | | OPC Calculated | Depreciation | Incremental CIAC | Accum. Amort. | | |
| Line No. | Year | Authorized Meter | Rate for | Amort. Expense | of CIAC | | |
| | | Fees Collection | Capacity Fees (1) | for Capacity Fees (2) | for Capacity Fees (2) | | |
| 1 | 2000 | 4,230 | 2.90% | 61 | \$61.36 | | |
| 2 | 2001 | 4,653 | 2.91% | 68 | \$159.74 | | |
| 3 | 2002 | 2,538 | 2.89% | 37 | \$291.63 | | |
| 4 | 2003 | 1,269 | 3.82% | 24 | \$463.27 | | |
| 5 | 2004 | 11,421 | 2.61% | 149 | \$790.21 | | |
| 6 | 2005 | 4,371 | 2.75% | 60 | \$1,114.83 | | |
| 7 | 2006 | 4,653 | 2.72% | 63 | \$1,547.26 | | |
| 8 | 2007 | 705 | 2.89% | 10 | \$1,988.25 | | |
| 9 | 2008 | 0 | 2.90% | 0 | \$2,455.82 | | |
| 10 | 2009 | 846 | 2.87% | 12 | \$2,940.61 | | |
| 11 | 2010 | 282 | 3.25% | 5 | \$3,423.91 | | |
| 12 | 2011 | 1,974 | 4.06% | 40 | \$3,951.04 | | |
| 13 | 2012 | 3,243 | 3.84% | 62 | \$4,522.69 | | |
| 14 | 2013 | 2,961 | 4.36% | 65 | \$5,147.79 | | |
| 15 | 2014 | 2,961 | 3.96% | 59 | \$5,830.42 | | |
| 16 | 2015 | 4,230 | 4.08% | 86 | \$6,602.23 | | |
| 17 | 2016 | 1,269 | 3.34% | 21 | \$7,381.44 | | |
| 18 | 2017 | 4,371 | 3.17% | 69 | \$8,231.85 | | |
| 19 | 2018 | 6,063 | 3.05% | 92 | \$9,086.00 | | |
| 20 | 2019 | 3,807 | 3.24% | 62 | \$9,938.08 | | |
| 21 | 2020 | 0 | 3.41% | 0 | \$10,775.06 | | |
| 22 | 2021 | 0 | 3.97% | 0 | \$11,614.89 | | |
| 23 | 2022 | 0 | 3.78% | 0 | \$12,232.75 | | |
| 24 | 2023 | 0 | 4.17% | 0 | \$12,847.59 | | |
| 25 | 2024 | <u>13,536</u> | 3.25% | <u>220</u> | \$13,645.43 | | |
| 26 | Total | <u>\$79,383</u> | | <u>\$1,265</u> | | | |
| 27 | | | | | | | |
| 28 | 2024 Simple Average Accumulated Amortization of CIAC for Capacity Fees | | | | | <u>\$13,247</u> | |
| 29 | | | | | | | |
| 30 | Notes: | | | | | | |
| 31 | (1) Pursuant to Rule 25-30.140(9)(b), F.A.C., it states the following: "[b]eginning with the year ending | | | | | | |
| 32 | December 31, 2003, for Class C utilities, where adequate CIAC records are maintained in sub-accounts, by type of | | | | | | |
| 33 | charge or contributed plant, CIAC amortization rates shall be applied separately to each sub-account. Where CIAC | | | | | | |
| 34 | records are not kept by sub-account, a composite depreciation rate for total plant, excluding general plant, shall be | | | | | | |
| 35 | applied to the entire CIAC account. Pursuant to Rule 25-30.140(9)(c), F.A.C., it states the following: "[a]ny composite | | | | | | |
| 36 | rate used shall be recalculated each year based on the applicable plant balances and depreciation rates. | | | | | | |
| 37 | (2) The OPC used half-year's convention for amortization purposes in the first year for CIAC - Capacity Fee Additions. | | | | | | |

Test Year CIAC, Accumulated Amortization of CIAC, and CIAC Amortization Expense

The table below depicts the OPC’s total test year CIAC, Accumulated Amortization of CIAC (AA of CIAC), and CIAC Amortization Expense, as well as the proposed adjustments to the recommended amounts in the Recommendation filed March 26, 2026.

| CIAC | AA of CIAC | Description |
|--------------------|-------------------------|---|
| \$117,170 | \$91,675 | 2024 Simple Average of Legacy CIAC associated with the negative acquisition adjustment |
| 89,060 | 29,669 | 2024 Simple Average of Incremental CIAC for Meters from 1999 to 2024 |
| <u>72,615</u> | <u>13,247</u> | 2024 Simple Average of Incremental CIAC for Capacity Fees from 1999 to 2024 |
| <u>(\$278,845)</u> | <u>\$134,591</u> | OPC Calculated 2024 Simple Average CIAC and Accumulate Amortization of CIAC |
| <u>(\$174,916)</u> | <u>\$174,916</u> | March 26, 2026 Staff Recommended 2024 Simple Average CIAC and Accumulate Amortization of CIAC |
| <u>(\$103,929)</u> | <u>(\$40,325)</u> | OPC Calculated Adjustments to 2024 Simple Average CIAC and Accumulate Amortization of CIAC |
| | | |
| | CIAC Amort. Exp. | |
| | (\$3,804) | CIAC Amortization Expense for Legacy CIAC |
| | (1,819) | CIAC Amortization Expense for Meters |
| | <u>(798)</u> | CIAC Amortization Expense for Capacity Fees |
| | <u>(\$6,421)</u> | OPC Calculated CIAC Amortization Expense |
| | <u>\$0</u> | March 26, 2026 Staff Recommended CIAC Amortization Expense |
| | <u>(\$6,421)</u> | OPC Calculated Adjustments to 2024 CIAC Amortization Expense |
| | | |

Issue 6 – Test Year Operating Revenues

The test year general service revenues from only the base facility charges in the Recommendation filed March 26, 2026, was \$1,584. On April 22, 2026, the Commission Staff received an Excel file from the Utility containing additional general service customers counts by meter size, but it did not have the associated gallons for these customers. Based on the numbers of general service customers by meter size, the OPC calculated test year general service revenues of \$10,986 from only the respective base facility charges, as reflected in the table below.

| OPC's Annualized BFC General Service Revenues | | | | |
|---|---------------------|-----------------|---------------|---------------------|
| Meter Size | Number of Customers | Number of Bills | Current Rates | Annualized Revenues |
| 5/8 X 3/4" | 8 | 96 | \$5.74 | \$551.04 |
| 1" | 1 | 12 | \$14.35 | \$172.20 |
| 1 - 1/2" | 9 | 108 | \$28.70 | \$3,099.60 |
| 2" | 9 | 108 | \$45.92 | \$4,959.36 |
| 3" | <u>2</u> | <u>24</u> | \$91.84 | <u>\$2,204.16</u> |
| | <u>29</u> | <u>348</u> | | <u>\$10,986.36</u> |

This represents an increase of \$9,402 over the Commission Staff previous-recommended amount of \$1,584 for only the respective base facility charges.

Other Comments

On Page 25, Line 22, through Page 26, Line 8, of the April 7, 20026, Commission Agenda Conference Transcript,⁴ the Utility’s counsel stated the following:

The idea here about double billing and fake meters, and et cetera, which are all things designed to make more money, is difficult to reconcile with the fact that staff’s recommendation of a \$294,000 annual increase basically can be turned on its head to say that’s how much the customers are being subsidized. I am not saying it’s their fault. I’m not saying it’s not some of the utility’s fault. But the idea that this utility is grabbing more money, **they have been bleeding money** in the related companies. They haven’t had a rate case in 29 years.

(Bolded emphasis added.)

Given this assertion by the Utility’s counsel and the significant understatement of CIAC and revenues discussed above, the OPC reviewed the Utility’s 1999 through 2024 Annual Reports for the reported earnings posture for this 26-year time period. The annual reports reflected a net operating loss (NOL) for non-sequential 21 years of this 26-year period. As mentioned in the

⁴ Document No. 02307-2026, filed April 22, 2026.

OPC’s Observation Letter dated April 17, 2026, the Commission imputed revenues of \$38,791 by Order No. PSC-00-1165-PAA-WS for the test year ended December 31, 1998. However, simply subtracting the general revenues reported by the Utility from 1999 to 2024 from the Commission-approved 1998 imputed revenues, the OPC notes that the number of years resulting in a NOL reduces from 21 years to 11 years, as reflected in the table below.

| Line No. | Year | Utility | Utility | Utility | OPC Adjustment | | OPC Estimated Achieved ORR |
|----------|------|-----------------------|--------------------------|--------------------------------------|---|----------------------------|-------------------------------|
| | | Reported NOI/(NOL) | Reported Achieved ORR | Reported GS and Other Revenues | For 1998 Imputed Revenues Less GS Revenues | OPC Estimated NOI/(NOL) | |
| 1 | 1999 | \$24,219 | 27.49% | \$0 | \$38,791 | \$63,010 | 71.52% |
| 2 | 2000 | \$17,436 | 16.52% | \$10,554 | \$28,237 | \$45,673 | 43.28% |
| 3 | 2001 | (\$21,297) | N/A | \$11,268 | \$27,523 | \$6,226 | 5.46% |
| 4 | 2002 | (\$14,409) | N/A | \$16,643 | \$22,148 | \$7,739 | 6.73% |
| 5 | 2003 | (\$22,867) | N/A | \$7,359 | \$31,432 | \$8,565 | 5.79% |
| 6 | 2004 | (\$67) | N/A | \$8,379 | \$30,412 | \$30,345 | 17.98% |
| 7 | 2005 | \$7,092 | 3.43% | \$16,178 | \$22,613 | \$29,705 | 14.37% |
| 8 | 2006 | \$21,545 | 9.23% | \$18,540 | \$20,251 | \$41,796 | 17.90% |
| 9 | 2007 | \$16,823 | 6.01% | \$17,744 | \$21,047 | \$37,870 | 13.53% |
| 10 | 2008 | (\$15,369) | N/A | \$16,504 | \$22,287 | \$6,918 | 2.06% |
| 11 | 2009 | (\$1,491) | N/A | \$16,320 | \$22,471 | \$20,980 | 5.66% |
| 12 | 2010 | (\$14,954) | N/A | \$13,475 | \$25,316 | \$10,362 | 2.54% |
| 13 | 2011 | (\$59,400) | N/A | \$13,590 | \$25,201 | (\$34,199) | N/A |
| 14 | 2012 | (\$68,073) | N/A | \$14,424 | \$24,367 | (\$43,706) | N/A |
| 15 | 2013 | (\$96,062) | N/A | \$14,992 | \$23,799 | (\$72,263) | N/A |
| 16 | 2014 | (\$60,785) | N/A | \$14,540 | \$24,251 | (\$36,534) | N/A |
| 17 | 2015 | (\$45,723) | N/A | \$14,758 | \$24,033 | (\$21,690) | N/A |
| 18 | 2016 | (\$16,034) | N/A | \$16,539 | \$22,252 | \$6,218 | 0.88% |
| 19 | 2017 | (\$44,557) | N/A | \$18,746 | \$20,045 | (\$24,512) | N/A |
| 20 | 2018 | (\$58,921) | N/A | \$17,558 | \$21,233 | (\$37,688) | N/A |
| 21 | 2019 | (\$45,868) | N/A | \$18,415 | \$20,376 | (\$25,492) | N/A |
| 22 | 2020 | (\$19,112) | N/A | \$15,948 | \$22,843 | \$3,731 | 0.51% |
| 23 | 2021 | (\$35,877) | N/A | \$3,008 | \$35,783 | (\$94) | N/A |
| 24 | 2022 | (\$114,879) | N/A | \$849 | \$37,942 | (\$76,937) | N/A |
| 25 | 2023 | (\$33,656) | N/A | \$563 | \$38,228 | \$4,572 | 0.52% |
| 26 | 2024 | (\$163,704) | N/A | \$0 | \$38,791 | (\$124,913) | N/A |

This limited, conservative approach of subtracting the general revenues reported by the Utility from 1999 to 2024 from the Commission-approved 1998 imputed revenues still would understate the Utility's earnings posture during this time period because of the apparent addition understatement of net CIAC in rate base and the negative CIAC amortization expense in operating expenses. Further, the OPC would note that for the years 1999 through 2001, the Utility's reported earnings posture did not capture any carryover, non-used and useful (U&U) adjustments to rate base, net depreciation expense, and property taxes, consistent with the Commission's non-U&U determinations in Order No. PSC-00-1165-PAA-WS. Thus, for those years, Water Oak's reported achieved earning posture was understated further by the failure to reflect the appropriate cost reductions in these annual reports.

Lastly, the OPC questions the accuracy of any reported NOLs by the Utility on its annual reports. In addition to the understatements of revenues and CIAC, the Commission Staff recommended Water Oak's 2024 test year reported O&M expenses of \$216,890 be reduced by \$36,008, or 16.60% in the instant SARC.⁵ As such, there could be similar such reductions in prior years. For 2011, the OPC would point out that the reported O&M expenses increased by \$40,565, or 30.38% from 2010, which is far greater than the reported customer growth increase of 12 customers or 1.20% and the Commission's 2011 Price Index of 1.18%.

Conclusion

In conclusion, the OPC respectfully requests the Staff and the Commission consider our above-mentioned observations and recommendations.

Respectfully submitted,

/s/ *Bart Fletcher*

Bart Fletcher
Legislative Analyst

⁵ Page 34 of Staff Recommendation filed March 26, 2026 – see Document No. 01789-2026.