

STATE OF FLORIDA

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OFFICE OF THE GENERAL COUNSEL  
S. CURTIS KISER  
GENERAL COUNSEL  
(850)413-6199

# Public Service Commission

January 15, 2014

CHC VII, Ltd.  
c/o Mr. Martin Friedman  
766 North Sun Drive, Ste. 4030  
Lake Mary, FL 32746

RECEIVED-FPSC  
14 JAN 15 AM 9:37  
COMMISSION  
CLERK

VIA ELECTRONIC MAIL

**Re: Docket No. 130210-WS - Application for staff-assisted rate case in Polk County, by CHC VII, Ltd.**

Dear Mr. Friedman:

This will confirm that Commission staff will hold a customer meeting on Tuesday, February 4, 2014. We ask that, if at all possible, you or another knowledgeable representative of the Utility attend the meeting in order to answer customer questions. The location of the general meeting will be as follows:

5:00 p.m., Tuesday February 4, 2014  
Chain of Lakes Complex – Poolside Room  
210 Cypress Gardens Boulevard  
Winter Haven, Florida

As required by Rule 25-22.0407(9)(b), Florida Administrative Code (F.A.C.), the utility must provide, in writing, a customer meeting notice to all customers within its service area no less than 14 days and no more than 30 days prior to the date of a customer meeting. A draft customer meeting notice is enclosed. Please note the date has been left blank so that you can fill in the date that the notice is sent to the customers. Please furnish me with a copy of the notice, as reproduced at the time it is distributed to your customers, together with a cover letter indicating the exact date(s) on which the notice was mailed or otherwise delivered to the customers.

Mr. Friedman  
Page 2  
January 14, 2014

We will send you two copies of the staff report no later than January 16, 2014. When you receive the staff report, please ensure that a copy of the completed Application for Staff Assistance and the staff report are available for review, pursuant to Rule 25-22.0407(9)(a), F.A.C., by all interested persons at the following location:

Swiss Golf & Tennis  
1 Century Drive  
Winter Haven, FL 33881

For your convenience, I have also enclosed a copy of Rule 25-22.0407(9), F.A.C. Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-6185. In addition, you may contact Pete Lester at (850) 413-6467, with any questions.

Sincerely,



Lee Eng Tan  
Senior Attorney

Enclosures

TLT/pl

cc: Division of Accounting & Finance (Prestwood, Mouring, Lester)  
Division of Economics (Daniel, Hudson, Bruce)  
Division of Engineering (Vickery, Lewis, Watts)  
Office of General Counsel (Teitzman, Tan)  
Office of Commission Clerk (Docket No. 130210-WS)

**Rule 25-22.0407(9), Florida Administrative Code**

~~(9) When a utility applies for a staff-assisted rate case in accordance with Section 367.0814, Florida Statutes, and Rule 25-30.455, F.A.C., and staff-assistance is granted, the requirements of subsections (2), (3), (4), and (5) of this rule shall not apply.~~

(a) Upon receipt of the staff reports, the utility shall place two copies of its application for staff-assistance and the staff reports at any business offices it has in its service area. Such copies shall be available for public inspection during the utility's regular business hours. If the utility does not have a business office in its service area, the utility shall place two copies of its application and the staff reports at the main county library, the local community center or other appropriate location that is within or most convenient to the service area and that is willing to accept and provide public access to the copies.

(b) No less than 14 days and no more than 30 days prior to the date of a customer meeting conducted by the Commission staff, the utility shall provide, in writing, a customer meeting notice to all customers within its service area and to all persons in the same service areas who have filed a written request for service or who have been provided a written estimate for service within the 12 calendar months prior to the month the petition is filed.

(c) The customer meeting notice shall be approved by the Commission staff prior to distribution and shall include the following:

1. The date the notice was issued;
2. The time, date, location, and purpose of the customer meeting;
3. A statement that the utility has applied for a staff-assisted rate case and the general reasons for doing so;
4. A statement of the location where copies of the application and the staff reports are available for public inspection and the times during which inspection may be made;
5. A comparison of current rates and charges and the proposed new rates and charges;
6. The utility's address, telephone number, and business hours;
7. A statement that written comments regarding utility service or the proposed rates and charges should be addressed to the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0870, and that such comments should identify the docket number assigned to the proceeding;
8. A statement that complaints regarding service may be made to the Commission's Division of Service, Safety & Consumer Assistance at the following toll-free number: 1(800)342-3552.
9. A statement that the Commission will be reviewing the utility's service availability charges in the pending case and that the Commission may adjust those charges.
10. The docket number assigned by the Commission's Office of Commission Clerk.

(d) The customer meeting notice shall be mailed to the out-of-town address of all customers who have provided the utility with an out-of-town address.

(e) If the proposed agency action order issued in the case is protested and any hearings are subsequently held, the utility shall give notice in accordance with subsections (6) and (7) above.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

NOTICE OF CUSTOMER MEETING

TO THE CUSTOMERS OF CHC VII, LTD.

AND

ALL OTHER INTERESTED PERSONS

DOCKET NO. 130210-WS

APPLICATION OF CHC VII, LTD.

FOR A STAFF-ASSISTED RATE CASE IN

POLK COUNTY

Issued:

Notice is hereby given that the staff of the Florida Public Service Commission (Commission) will conduct a customer meeting to discuss the application of CHC VII, Ltd. (CHC or Utility) for a staff-assisted rate case (SARC) in Polk County. The meeting will be held at the following time and place:

5:00 p.m., Tuesday February 4, 2014  
Chain of Lakes Complex – Poolside Room  
210 Cypress Gardens Boulevard  
Winter Haven, Florida 33800

All persons who wish to comment are urged to be present at the beginning of the meeting, since the meeting may be adjourned early if no customers are present. One or more of the Commissioners of the Commission may attend and participate in this meeting. The meeting will begin as scheduled and will continue until all the customers have been heard.

If a named storm or other disaster requires cancellation of the meeting, Commission staff will attempt to give timely direct notice to the parties. Notice of the cancellation of the meeting will also be provided on the Commission's website (<http://www.psc.state.fl.us/>) under the Hot Topics link found on the home page. Cancellation can also be confirmed by calling the Commission's Office of the General Counsel at (850) 413-6199.

Any person requiring some accommodation at the customer meeting because of a physical impairment should call the Office of Commission Clerk at (850) 413-6770 at least five calendar days prior to the meeting. Any person who is hearing or speech impaired should contact the Commission by using the Florida Relay Service, which can be reached at 1-800-955-8771 (TDD).

## PURPOSE

The purpose of this meeting is to give customers and other interested persons an opportunity to offer comments to Commission staff regarding the quality of service the Utility provides, the recommended rate increase, and to ask questions and comment on staff's preliminary rates included in this notice as well as other issues. Staff members will summarize CHC's filing, the preliminary work accomplished, and answer questions to the extent possible. A representative from the Utility has also been invited to respond to questions.

At the beginning of the meeting, procedures will be established for the order of comments. Commission staff will have sign-up sheets, and customers will be called to speak in the order that they sign up. Staff will be available to coordinate customers' comments and to assist members of the public.

Any person who wishes to comment or provide information to staff may do so at the meetings, orally or in writing. Written comments may also be sent to the Commission at the address given at the end of this notice. Your letter will be placed in the correspondence file of this docket. You may also submit comments through the Commission's toll-free facsimile line at 1-800-511-0809.

## BACKGROUND

CHC VII, Ltd. is a Class C water and wastewater utility serving approximately 882 water customers and 875 wastewater customers in Polk County. The service territory is located in the Southwest Florida Water Management District. The Utility's 2012 annual report shows the following:

### Revenues and Expenses

	Water	Wastewater
Operating Revenues	\$94,223	\$91,244
Operating Expenses	\$81,386	\$149,571
Net Operating Income	Combined (\$84,681)	

Polk County came under the Commission's jurisdiction on July 11, 1996, and the Commission subsequently granted grandfather certificate Nos. 609-W and 525-S to CHC in 1999.<sup>1</sup> CHC filed for a SARC during 2007 in Docket No. 070415-WS. The staff's preliminary report from that case indicated net overearnings and recommended the over-earnings be applied to an aggressive meter change-out program. On February 8, 2008, the Company withdrew its application for staff assistance and the docket was closed.

<sup>1</sup> See Order No. PSC-99-1235-PAA-WS, issued June 22, 1999, in Docket No. 981341-WS, In re: Application for grandfather certificates to operate water and wastewater utility in Polk County by CHC VII, Ltd.

In the instant docket, CHC filed its application for a SARC on August 5, 2013, and completed the Commission's filing requirements on October 4, 2013, which was established as the official filing date in this case. The Commission has jurisdiction in this case pursuant to Sections 367.0814, F.S.

#### CURRENT AND PRELIMINARY RATES AND CHARGES

Staff has compiled the following recommended rates for the purpose of discussion at the customer meeting. These rates are preliminary and subject to change based on information gathered at the customer meeting, further staff review, and the final decision by the Commission. The Utility's current and staff's recommended preliminary rates are as follows:

CHC VII, LTD  
 TEST YEAR ENDED JUNE 30, 2013  
 MONTHLY WATER RATES

SCHEDULE NO. 4-A  
 DOCKET NO. 130210-WS

	UTILITY CURRENT RATES	STAFF PRELIMINARY RECOMMENDED RATES	4 YEAR RATE REDUCTION
<b><u>Residential and General Service*</u></b>			
Base Facility Charge for All Meter Sizes	\$15.71		
Charge per 1,000 gallons			
0 - 8,000 gallons	\$0.00		
8,001 - 10,000 gallons	\$1.31		
Over 10,000 gallons	\$2.09		
* The Utility collects a base facility charge (BFC) and gallonage charges for both water and wastewater service, which includes a monthly allotment of 8,000 gallons per month.			
Base Facility Charge by Meter Size			
5/8"X3/4"		\$4.68	\$0.05
3/4"		\$7.02	\$0.08
1"		\$11.70	\$0.13
1-1/4"		\$18.72	\$0.21
1-1/2"		\$23.40	\$0.26
2"		\$37.44	\$0.41
3"		\$74.88	\$0.82
4"		\$117.00	\$1.29
6"		\$234.00	\$2.57
8"		\$374.40	\$4.12
Charge per 1,000 gallons - Residential Water			
0 - 5,000 gallons	\$0.00	\$1.34	\$0.01
Over 5,000 gallons	\$0.00	\$2.13	\$0.02
Charge per 1,000 gallons - General Service			
		\$1.53	\$0.02

CHC VII, LTD  
 TEST YEAR ENDED JUNE 30, 2013  
 MONTHLY WATER RATES

SCHEDULE NO. 4-A  
 DOCKET NO. 130210-WS

	UTILITY CURRENT RATES	STAFF PRELIMINARY RECOMMENDED RATES	4 YEAR RATE REDUCTION
<b><u>Irrigation Service</u></b>			
<u>Base Facility Charge for All Meter Sizes</u>	\$7.86 **	\$4.68	\$0.05
Charge per 1,000 gallons - Irrigation	\$0.65	\$1.53	\$0.02
** Includes a monthly allotment of 8,000 gallons per month			
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
3,000 Gallons	\$15.71	\$8.70	
6,000 Gallons	\$15.71	\$13.51	
10,000 Gallons	\$18.33	\$22.03	

CHC VII, LTD  
 TEST YEAR ENDED JUNE 30, 2013  
 MONTHLY WASTEWATER RATES

SCHEDULE NO. 4-B  
 DOCKET NO. 130210-WS

	UTILITY CURRENT RATES	STAFF PRELIMINARY RECOMMENDED RATES	4 YEAR RATE REDUCTION
<b><u>Residential and General Service</u></b>			
<u>Base Facility Charge for All Meter Sizes</u>	*		
Charge per 1,000 gallons			
0 - 8,000 gallons	*		
8,001 - 10,000 gallons	*		
Over 10,000 gallons	*		
* The Utility collects a base facility charge (BFC) and gallonage charges for both water and wastewater service, which includes a monthly allotment of 8,000 gallons per month.			
Base Facility Charge by Meter Size			
5/8"X3/4"		\$8.34	\$0.07
3/4"		\$12.51	\$0.10
1"		\$20.85	\$0.16
1-1/4"		\$33.36	\$0.26
1-1/2"		\$41.70	\$0.33
2"		\$66.72	\$0.52
3"		\$133.44	\$1.04
4"		\$208.50	\$1.63
6"		\$417.00	\$3.25
8"		\$667.20	\$5.20
Charge per 1,000 gallons - Residential 8,000 gallon cap		\$1.89	\$0.01
Charge per 1,000 gallons - General Service		\$2.27	\$0.02
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
3,000 Gallons	\$15.71	\$14.01	
6,000 Gallons	\$15.71	\$19.68	
10,000 Gallons	\$18.33	\$23.46	

## STAFF REPORTS AND UTILITY APPLICATION

The results of staff's preliminary investigation are contained in a staff report dated January 14, 2014. Copies of the report may be examined by interested members of the public from 9:00 a.m. to 1:00 p.m., Monday through Friday at the following location:

Swiss Golf & Tennis  
1 Century Drive  
Winter Haven, FL 33881

## PROCEDURES AFTER CUSTOMER MEETING

After the customer meeting, Commission staff will prepare a recommendation which is tentatively scheduled to be submitted to the Commission on March 27, 2014. The Commission will then vote on staff's recommendation at its April 8, 2014 Commission Conference. The Commission will thereafter issue a proposed agency action (PAA) order containing rates which may be different from those contained in staff's final recommendation. Substantially affected persons have 21 days from the date that the PAA order is issued to protest the Commission's PAA order. Customers are able to obtain a copy of staff's recommendation and all documents filed in this docket from the Commission's website.

## HOW TO CONTACT THE COMMISSION

Written comments regarding the Utility and the proposed rates, and requests to be placed on the mailing list for this case, may be directed to this address:

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

All correspondence should refer to "Docket No. 130210-WS, CHC VII, Ltd." If you wish to contact the Commission regarding complaints about service, you may call the Commission's Office of Consumer Assistance and Outreach at the following toll-free number: 1-800-342-3552. This notice was prepared by Commission staff for distribution by the Utility to its customers.

State of Florida



## Public Service Commission

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

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

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**DATE:** January 14, 2014

**TO:** Clarence Prestwood, Chief of Finance, Tax & Cost Recovery, Division of Accounting & Finance

**FROM:** Pete Lester, Professional Accountant Specialist, Division of Accounting & Finance  
Sonica Bruce, Economic Analyst, Division of Economics  
Melinda Watts, Engineering Specialist III, Division of Engineering  
Clayton K. Lewis, Utilities System/Engineering Specialist Supervisor, Division of Engineering

**RE:** Docket No. 130210-WS - Application for staff-assisted rate case in Polk County by CHC VII, Ltd.

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- STAFF REPORT -

This staff report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting.

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Case Background

CHC VII, Ltd. (CHC or Utility) is a Class C water and wastewater utility serving approximately 882 water customers and 875 wastewater customers in Polk County. The service territory is located in the Southwest Florida Water Management District. The Utility's 2012 annual report shows the following:

Revenues and Expenses

	Water	Wastewater
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Operating Expenses	81,386	149,571
Net Operating Income	Combined (84,681)	

Polk County came under the Commission's jurisdiction on July 11, 1996, and the Commission subsequently granted grandfather certificate Nos. 609-W and 525-S to CHC in 1999.<sup>1</sup> CHC filed for a staff-assisted rate case during 2007 in Docket No. 070415-WS. The staff's preliminary report from that case indicated net overearnings and recommended the overearnings be applied to an aggressive meter change-out program. On February 8, 2008, the Company withdrew its application for staff assistance and the docket was closed.

In the instant docket, CHC filed its application for a SARC on August 5, 2013, and completed the Commission's filing requirements on October 4, 2013, which was established as the official filing date in this case. The Commission has jurisdiction in this case pursuant to Sections 367.0814, Florida Statutes, (F.S.)

This Staff Report is a preliminary analysis of the Utility prepared by the Florida Public Service Commission (PSC or Commission) staff to give Utility customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed March 27, 2014, for the April 8, 2014 Commission Conference) will be revised as necessary using updated information including quality of service or other relevant comments received at the customer meeting.

<sup>1</sup> See Order No. PSC-99-1235-PAA-WS, issued June 22, 1999, in Docket No. 981341-WS. In re: Application for grandfather certificates to operate water and wastewater utility in Polk County by CHC VII, Ltd.

## Discussion of Issues

**Issue 1:** Should the quality of service provided by CHC be considered satisfactory?

**Recommendation:** The determination of the quality of water and wastewater service provided by CHC will be deferred until after the customer meeting scheduled for February 4, 2014. (M. Watts)

**Staff Analysis:** Pursuant to Rule 25-30.433(1), F.A.C., in every water and wastewater rate case, the Commission shall determine the overall quality of service provided by a utility by evaluating three separate components of water and wastewater operations. These components are the quality of the utility's product; the operating conditions of the utility's plant and facilities, and 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, along with input from the DEP and health department officials and consideration of customer comments or complaints. Below, is staff's preliminary analysis addresses each of these three components.

### Quality of Service

CHC is a class "C" utility that, presently, provides water and wastewater services to approximately 869 residential and 13 general service connections in Polk County. The Utility's service area is located at Swiss Golf and Tennis Club Mobile Home Park and Hidden Golf Club Mobile Home Park, in Winter Haven, Florida. The raw water source is ground water, which is obtained from one main well with a golf course irrigation well used as a back-up source. The processing sequence for this water treatment system is to pump raw water from the aquifer, inject liquid chlorine, pressurize/storage in a tank, and distribute. Wastewater service is provided via a wastewater treatment plant with percolation ponds and drip fields.

### Quality of Utility's Product

Staff reviewed the Utility's and DEP records. According to DEP, the Utility's wastewater finished product complies with regulatory standards. In Polk County, the Polk County Health Department (PCHD) regulates the potable water program. According to the PCHD inspector, the finished water product complies with regulatory standards. Therefore, it appears the quality of the finished water product is satisfactory. This utility is located within the Southwest Florida Water Management District (SWFWMD).

### Operating Condition of the Water and Wastewater Treatment Facilities

The DEP's May 10, 2013, inspection of the water treatment plant's condition found it to be in compliance (i.e. no deficiencies found), but the report contained a reminder that the double check valve on the irrigation line will need to be upgraded if it needs repairs. Deficiencies noted in its 2011 and 2012 inspections had been corrected.

~~Based on the DEP's inspection, the condition of the wastewater and water treatment facilities complies with the agency's regulatory standards. Staff will conduct its engineering field investigation in conjunction with the customer meeting scheduled for February 4, 2014, and will address any further findings in its recommendation. Based on the above, it appears that the operating conditions of the wastewater and water treatment facilities are satisfactory.~~

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

Staff reviewed the Commission's complaint records and found that there were no complaints recorded during the test year. Further, staff reviewed the DEP's records and found no customer complaints on file. At the February 4, 2014 customer meeting in Winter Haven, Florida, customers will be given an opportunity to go on record with specific concerns regarding the utility's attitude and responsiveness to quality of service issues. All valid quality of service complaints will be investigated and will be addressed during the preparation of staff's final recommendation. The recommendation is scheduled for consideration at the April 8, 2014 Commission Conference.

#### Summary

Currently, staff has reviewed the water treatment plant's sanitary survey and the wastewater treatment plant's yearly evaluation for the past three years, which was provided by DEP. These reports indicate no water quality compliance or facility condition problems. During staff's on-site engineering investigation, staff will review the operating condition of the wastewater and the water treatment plants along with the wastewater collection and water distribution systems. A complete determination of customer satisfaction will not be made until after the February 4, 2014 customer meeting. Based on the above, staff will reserve a final quality of service determination until after the information obtained at the customer meeting has been thoroughly reviewed.

~~**Issue 2:** What are the used and useful percentages for the utility's water and wastewater treatment, distribution and collection systems?~~

**Recommendation:** CHC's used and useful percentages (U&U) should be as follows:

Water Treatment Facilities	100%
Wastewater Treatment Facilities	100%
Distribution and Collection System	100%

(M. Watts)

**Staff Analysis:** Staff has performed a preliminary analysis of the Utility's facilities and our analysis and recommendations are discussed below.

Water Treatment Plant

The Utility has one well with a total capacity of 600 gpm. The service territory the system is designed to serve is built-out and there is no potential for expansion of the service territory; therefore, in accordance with past Commission practice and Rule 25-30.4325(4), F.A.C., staff recommends the water treatment plant be considered 100 percent used and useful (U&U).

Wastewater Treatment Plant

Pursuant to Rule 25-30.432, F.A.C., the U&U percentage of the wastewater treatment plant was calculated by taking 3 maximum month average daily flow (3MMADF) plus the growth allowance minus the excess inflow and infiltration, and dividing the sum by the permitted capacity of the plant. The Utility's test year 3MMADF was 102,855 gpd. The calculation reflected 58.4 percent used and useful. (See Attachment B, 1 of 2) However, the service territory that the system is designed to serve is built-out and there is no potential for expansion of the service territory; therefore, in accordance with Commission practice staff recommends the wastewater treatment plant be considered 100 percent U&U.

Water Distribution and Wastewater Collection Systems

Staff reviewed the service territory and believes all of the current mains are providing service for the existing customers and considers this system built-out. As the service territory the system is designed to serve is built-out and there is no potential for expansion of the service territory, in accordance with Commission practice, staff recommends the water distribution and wastewater collection systems be considered 100 percent used and useful.

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

**Recommendation:** The appropriate average test year rate base for CHC is \$166,301 for water and \$154,709 for wastewater. (Lester)

**Staff Analysis:** The appropriate components of the Utility's rate base include utility plant in service, accumulated depreciation, contribution-in-aid-of-construction (CIAC), accumulated amortization of CIAC, and working capital. Staff selected the test year ended June 30, 2013, for this rate case. A summary of each component of rate base and the recommended adjustments follows:

**Utility Plant in Service (UPIS):** The Utility recorded UPIS of \$546,362 for water and \$1,523,928 for wastewater. Staff's adjustments to UPIS are identified in Table 3-1 below.

Table 3-1  
Rate Base Adjustments

<u>UTILITY PLANT IN SERVICE</u>	<u>WATER</u>	<u>WASTEWATER</u>
1. To reflect original cost study balances as of 12/31/2006	(\$104,153)	(\$997,535)
2. To reflect staff audit adjustments from Dkt. 070715-WS report	8,173	7,020
3. To reflect plant additions and retirements	(47,476)	(9,032)
4. To reflect simple average		1,971
5. To add pro forma plant	<u>565</u>	<u>253</u>
Total	(\$142,891)	(\$997,323)

Staff's net adjustments to UPIS are decreases of \$142,891 and \$997,923 for water and wastewater, respectively. Staff's recommended UPIS balance is \$403,471 (\$546,362 - \$142,891) for water and \$526,605 (\$1,523,928 - \$997,323) for wastewater.

**Land & Land Rights:** The Utility recorded a test year land value of \$11,313 for water and \$18,166 for wastewater. Staff reduced these balances by \$8,148 and \$13,084 for water and wastewater, respectively, to reflect the original cost of utility land. The appropriate land balances are \$3,165 for water and \$5,082 for wastewater.

**Non-Used and Useful Plant:** As discussed in Issue 2, CHC's water treatment plant and distribution system, and the wastewater treatment plant and collection system should be considered 100 percent used and useful. As a result, no additional adjustments are necessary.

**Contributions In Aid of Construction:** CHC did not record CIAC on its books. The service area consists of lots rented by the affiliated developer. The Utility records do not include CIAC because the developer still owns the lots. On a preliminary basis, staff considers this as evidence that the Utility does not have to impute CIAC pursuant to Rule 25-30.570, F.A.C. Therefore, staff recommends no adjustment to CIAC.

**Accumulated Depreciation:** CHC recorded a balance for accumulated depreciation of \$391,733 and \$1,364,710 for water and wastewater, respectively. Staff recalculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and reflected depreciation associated with plant additions and retirements. The balances should be decreased by \$137,145 for water and by \$967,317 for wastewater. Staff recommends an accumulated depreciation balances of \$254,588 for water and \$397,393 for wastewater.

**Accumulated Amortization of CIAC:** As the utility does not have any CIAC, no amortization of CIAC is necessary.

**Working Capital Allowance:** CHC did not record a working capital balance for water or wastewater. Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$14,253 for water (based on O&M expense of \$114,026/8), and \$20,415 for wastewater (based on O&M expense of \$163,323/8).

**Rate Base Summary:** Based on the foregoing, staff recommends that the appropriate average test year rate base is \$166,301 for water and \$154,709 for wastewater. Rate base is shown on Schedule No. 1-A for water and on Schedule No. 1-B for wastewater. The related adjustments for water and wastewater are shown on Schedule No. 1-C.

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

**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 4.18 percent. (Lester)

**Staff Analysis:** CHC VII, Ltd. consists of two mobile home parks and the Utility. The Utility does not have a separate capital structure. CHC's capital structure consists of long-term debt of \$46,423,502 and negative common equity of \$24,084,441. Consistent with prior Commission orders, staff set the common equity balance at zero.<sup>2</sup> Using the Commission-approved leverage formula currently in effect, staff calculated the appropriate ROE to be 11.16 percent.<sup>3</sup> The Utility does not have customer deposits. The Utility's capital structure has been reconciled with staff's recommended rate base.

Staff recommends an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent. Based on a capital structure of 100% debt, the appropriate overall rate of return is 4.18 percent. The ROE and overall rate of return are shown on Schedule No. 2.

<sup>2</sup> See 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.

<sup>3</sup> See Order Nos. PSC-13-0241-PAA-WS, issued June 3, 2013, and PSC-13-0307-CO-WS, issued July 8, 2013, in Docket No. 120006-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), Florida Statutes.

**Issue 5:** What is the appropriate amount of test year revenue?

**Preliminary Recommendation:** The appropriate test year revenues for CHC's water and wastewater systems are \$94,263 and \$93,125, respectively. (Bruce)

**Staff Analysis:** CHC recorded total test year revenues of \$183,614, including water service revenues of \$93,547 and wastewater service revenues of \$90,067. The Utility's current tariff reflects a monthly base facility charge (BFC) of \$15.71 for both water and wastewater service, which includes an allotment of 8,000 gallons per month. The Utility bills the BFC monthly and allocates it equally between water and wastewater service. However, the customer's usage is billed quarterly and allocated equally between both services.

During the test year the Utility had several billing errors. The Utility billed irrigation customers the entire BFC rather than the portion allocated for water. In addition, general service and irrigation customers were billed one BFC per quarter rather than a BFC for each month of the quarter. Finally, the Utility recorded service revenues associated with general service usage to water rather than allocating it equally between water and wastewater. Staff has corrected these errors and applied the Utility's rates in effect during the test year to the test year billing determinants. Staff determined test year water service revenues should be increased by \$716 and wastewater service revenues should be increased by \$3,058 to reflect total test year revenues of \$94,263 and \$93,125 for water and wastewater service, respectively. Also, it should be noted the Utility did not bill several general service customers during the test year. Staff will be evaluating the appropriate billing determinants and test year revenues to include for the final recommendation, which may result in lower rates. Based on the above, staff recommends the appropriate test year revenues for CHC's water and wastewater systems are \$94,263 and \$93,125, respectively.

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

**Recommendation:** The appropriate amount of operating expense for CHC is \$129,077 for water and \$178,600 for wastewater. (Lester)

**Staff Analysis:** CHC recorded operating expense of \$86,398 for water and \$165,804 for wastewater for the test year ended June 30, 2013. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made several adjustments to the Utility's operating expenses as summarized below:

Salaries and Wages - Employees (601/701) - CHC recorded \$5,812 for water salaries and \$45,431 for wastewater salaries in these accounts. However, the company had not allocated the cost of employees from the parent company. Staff increased water salaries by \$44,472 and wastewater salaries by \$20,229 to cover management, administrative, and operations activities done for the utility by parent company employees. Since the parent company owns other water and wastewater utilities, these salaries were allocated on the basis of lots. Staff did not include a management fee since the fee was unsupported and the salary allocation covers management activities. The resulting amounts for salaries are \$50,284 for water and \$65,660 for wastewater.

Purchased Power (615/715) - CHC recorded \$16,439 for purchased power expense for water and \$19,104 for wastewater. Staff reduced these amounts \$62 and \$146 for water and wastewater, respectively, because the Utility had included late fees. In addition, for wastewater, staff removed \$302 for a purchased power bill associated with a different utility. Staff recommends purchased power expense of \$16,377 for water and \$18,656 for wastewater.

Chemicals (718) - CHC recorded \$9,390 in chemicals expense for wastewater. Staff removed \$28 associated with late fees from this amount. The resulting balance for wastewater is \$9,362.

Materials and Supplies (620/720) - For materials and supplies, the Utility recorded \$10,308 and \$15,766 for water and wastewater, respectively. For water, staff reduced the amount by \$1,098 to eliminate a double booking of expense. For wastewater, staff reduced the amount by \$4,921 to reclassify expenses as wastewater plant, i.e., \$2,095 for flow measuring plant, \$1,044 as pumping equipment, and \$1,781 as other plant and equipment. The resulting amounts for water and wastewater are \$9,210 and \$10,845, respectively.

Contractual Services - Testing (735) - The Utility recorded \$2,757 for water and \$8,111 for wastewater for testing expense. For water, staff decreased the amount by \$182 to reflect the required copper and lead testing that occurs every three years. For wastewater, staff increased the amount by \$2,100 to reflect quarterly monitoring of groundwater at the wastewater treatment plant. Staff recommends contractual services - testing expense of \$2,575 for water and \$10,211 for wastewater.

Rents (640/740) - CHC did not record any rent expense for water and wastewater. The Company requested that staff consider the cost of leasing a mini-excavator. The Company noted that this would be safer for employees and reduce overtime. The annual lease expense is \$6,984. On an annual basis, staff allocated 30 percent of the lease expense to CHC and split this amount

~~evenly, \$1,048 for water and for wastewater. Staff reduced this expense by \$315 for water and wastewater to reflect savings based on leasing the mini-excavator. For rent expense, staff recommends \$733 for water and \$733 for wastewater.~~

Regulatory Commission Expense (665/765) - CHC recorded \$0 for regulatory commission expense in these accounts. Regarding the current rate case, pursuant to Rule 25-22.0407, F.A.C., the Utility is required to mail notices of the customer meeting and notices of final rates to its customers. For these notices, staff has estimated \$852 for postage expense, \$608 for printing expense, and \$87 for envelopes, for the total company. The Utility paid a \$1,000 rate case filing fee for the water utility, and a \$1,000 rate case filing fee for the wastewater utility. On a preliminary basis, staff allowed a consulting fee of \$7,676. This fee is based on the amount allowed in Docket No. 110130-WS, the staff-assisted rate case for Shangri La-by-the-Lake Utilities, Inc. This allowance for the consulting fee is preliminary and may require adjustment. The total rate case expense including postage, notices, envelopes, consulting fee, and filing fee is \$11,223. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period. Staff recommends regulatory commission expense of \$1,403 for water and \$1,403 for wastewater.

Operation and Maintenance Expenses (O&M) Summary – Total adjustments to O&M expense result in an increase of \$45,266 for water and \$19,068 for wastewater. Staff's recommended O&M expense is \$114,026 for water and \$163,323 for wastewater. O&M expenses are shown on Schedule Nos. 3-A and 3-B for water and wastewater, respectively.

Depreciation Expense (Net of Related Amortization of CIAC) – The Utility recorded depreciation expense of \$12,347 for water and \$15,755 for wastewater during the test year. Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined depreciation expense to be \$9,760 for water and \$9,398 for wastewater.

Taxes Other Than Income (TOTI) – The Utility recorded \$5,291 for water and \$5,794 for wastewater for TOTI. Staff increased the amount for wastewater by \$85 to reflect the correct amount for regulatory assessment fees. Therefore, staff recommends TOTI of \$5,291 for water and \$5,879 for wastewater.

Operating Expenses Summary – The application of staff's recommended adjustments to CHC's adjusted test year operating expenses results in staff's recommended operating expenses of \$129,077 for water and \$178,600 for wastewater. Operating expenses are shown on Schedule No. 3-A for water and Schedule 3-B for wastewater. The related adjustments for water and wastewater are shown on Schedule No. 3-C.

**Issue 7:** What is the appropriate revenue requirement?

**Recommendation:** The appropriate revenue requirement is \$137,996 for water and \$189,399 for wastewater, resulting in an annual increase of \$43,733 for water (46.40 percent), and an annual increase of \$96,274 for wastewater (103.38 percent). (Lester)

**Staff Analysis:** CHC should be allowed an annual increase of \$43,733 for water (46.40 percent) and \$96,274 for wastewater (103.38 percent). This will allow the Utility the opportunity to recover its expenses and earn a 4.18 percent return on its investment. The calculations are shown in Table 6-1 and Table 6-2 for water and wastewater, respectively:

Table 6-1

<u>Water Revenue Requirement</u>	
Adjusted Rate Base	\$166,301
Rate of Return	x .0418
Return on Rate Base	\$6,951
Adjusted O&M expense	114,026
Depreciation expense	9,760
Amortization	0
Taxes Other Than Income	7,259
Income Taxes	0
Revenue Requirement	\$137,996
Less Test Year Revenues	94,263
Annual Increase	\$43,733
Percent Increase/(Decrease)	46.40%

Table 6-2

<u>Wastewater Revenue Requirement</u>	
Adjusted Rate Base	\$154,719
Rate of Return	x .0418
Return on Rate Base	\$6,467
Adjusted O&M expense	163,323
Depreciation expense	9,398
Amortization	0
Taxes Other Than Income	10,211
Income Taxes	0
Revenue Requirement	\$189,399
Less Test Year Revenues	93,125
Annual Increase	\$96,274
Percent Increase/(Decrease)	103.38%

~~**Issue 8:** What are the appropriate rate structures and rates for CHC's water and wastewater systems?~~

**Preliminary Recommendation:** The preliminary recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. 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 services rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Bruce)

**Staff Analysis:**

The CHC water system is located in Polk County within the South Florida Water Management District (SWFWMD). The Utility provides service to 869 residential customers, 6 general service customers, and 7 irrigation customers. Approximately 6 percent of the residential customer bills during the test year had zero gallons indicating a non-seasonal customer base. The average residential water demand was 5,515 gallons per month.

Currently, the Utility's rate structure consists of a monthly BFC of \$15.71, which includes an allotment of 8,000 gallons per month, and a two-tier inclining block rate structure for both water and wastewater service. The rate blocks are: 1) 8,001-10,000 gallons and 2) usage in excess of 10,000 gallons. Irrigation service is billed based on a monthly BFC of \$7.86, which includes an allotment of 8,000 gallons and a usage charge of \$.65 per 1,000 gallons. The BFC is billed monthly and the gallonage charges are billed quarterly. This rate structure is not considered conservation oriented because the 8,000 gallon allotment does not encourage conservation and billing on a quarterly basis for usage does not give customers a timely price signal. Therefore, in order to promote conservation, the allotment should be eliminated and the Utility should bill on a monthly basis.

**Water Rates**

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

Staff recommends that 40 percent of the water revenues should be generated from the BFC, which will provide sufficient revenues to design a gallonage charge that will send a pricing signal to customers using above non-discretionary usage. Based on the most recent census data, the average persons per household served by the Utility is 3, which indicates the non-discretionary usage should be set at 5,000 gallons. Therefore, staff recommends a traditional

~~BFC and gallonage charge rate structure with an additional gallonage charge for non-discretionary usage for residential water customers. General service and irrigation customers should be billed a BFC and uniform gallonage charge. Staff's recommended rate structure is shown on Schedule No. 4-A.~~

Staff's recommended rate structure coupled with the revenue reflects that a repression adjustment is necessary. A repression adjustment quantifies changes in consumption patterns in response to an increase in price. Customers will typically reduce their discretionary consumption in response to price changes, while non-discretionary consumption remains relatively unresponsive to price changes.

Based on the customer billing data provided by the Utility, approximately 36 percent of total residential consumption is discretionary and therefore, subject to the effects of repression. Based on a recommended revenue increase of 46.4 percent, the residential discretionary consumption can be expected to decline by 9,450,000 gallons resulting in anticipated average residential demand of 4,643 gallons per month. Staff recommends a 15.8 percent reduction in total residential consumption and corresponding reductions of \$2,500 for purchased power, \$1,553 for chemicals, and \$191 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$133,752.

### **Wastewater Rates**

Staff performed an analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages and gallonage caps for the residential wastewater customers. The goal of the evaluation was to select the rate design parameters that: 1) produce the recommended revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; and 3) implement a gallonage cap that considers approximately the amount of water that may return to the wastewater system.

Typically, the Commission's practice is to allocate at least 50 percent of the wastewater revenue requirement to the BFC due to the capital intensive nature of wastewater plants. Therefore, staff recommends a BFC allocation of 50 percent. Currently, the Utility does not have a gallonage cap for residential wastewater customers. The gallonage cap recognizes that not all water used by residential customers is returned to the wastewater system. The cap also creates the maximum amount a residential customer would pay for wastewater service. Typically, the residential wastewater cap is set at approximately 80 percent of the water demand. Based on the Utility's billing analysis, the 8,000 gallon level is where approximately 80 percent of the water demand is captured. Therefore, staff recommends the gallonage cap should be set at 8,000 gallons. The gallonage charge for general service customers should be 1.2 times greater than the residential gallonage charge, which is consistent with Commission practice. Staff's recommended rate design for the wastewater system is shown on Schedule No. 4-B.

**Summary**

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Based on the foregoing, staff recommends 40 percent of the water revenues be generated from the BFC. The traditional BFC and gallonage charge rate structure with an additional block for the non-discretionary usage threshold of 5,000 gallons should be approved for residential water customers. A 15.8 percent reduction in total residential consumption and corresponding reductions of \$2,500 for purchased power, \$1,553 for chemicals, and \$191 for RAFs should be made to reflect the anticipated repression. General service and irrigation customers should be billed a BFC and uniform gallonage charge.

Staff recommends that the residential wastewater customers' rate structure should consist of a BFC for all meter sizes, based on a 50 percent allocation of wastewater revenue to the BFC, with a cap of 8,000 gallons. General service wastewater customers should be billed a BFC and gallonage charge that is 1.2 times higher than the residential gallonage charge.

The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. 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 services rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

**Issue 9:** ~~What is the appropriate amount by which rates should be reduced four years after the established 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 regulatory assessment fees 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. CHC 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. (Lester, 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 \$1,477 for both water and wastewater.

The water and wastewater rates should be reduced as shown on Schedule No. 4-A and 4-B to remove rate case expense grossed-up for regulatory assessment fees 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. CHC 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 10:** Should the recommended rates 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?~~

**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. CHC 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. (Lester)

**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. CHC 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.

CHC 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 \$93,382. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If CHC 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 CHC 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) No monies in the escrow account may be withdrawn by the Utility without the express approval of the Commission;
- 2) The escrow account shall be an interest bearing account;
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to CHC VII, Ltd.;
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) 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;
- 8) The Commission Clerk must be a signatory to the escrow agreement; and,
- 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 CHC VII, Ltd., 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.

CHC VII, Ltd. 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

Docket No. 130210-WS

Date: January 14, 2014

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 11:** Should the Utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all applicable National Association of Regulatory Commissioners Uniform System of Accounts (NARUC USOA) primary accounts associated with the Commission approved adjustments?~~

**Recommendation:** Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, CHC should provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made. (Lester)

**Staff Analysis:** To ensure that the Utility adjusts its books in accordance with the Commission's decision, CHC should provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made.

**Issue 12:** Should this docket be closed?

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

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

CHC VII, Ltd. TEST YEAR ENDED 6/30/2013 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 130210-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$546,362	(\$142,891)	\$403,471
2. LAND & LAND RIGHTS	11,313	(8,148)	3,165
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	0	0	0
5. ACCUMULATED DEPRECIATION	(391,733)	137,145	(254,588)
6. AMORTIZATION OF CIAC	0	0	0
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>14,253</u>	<u>14,253</u>
8. WATER RATE BASE	<u>\$165,942</u>	<u>\$359</u>	<u>\$166,301</u>

CHC VII, Ltd. TEST YEAR ENDED 6/30/2013 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-B DOCKET NO. 130210-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$1,523,928	(\$997,323)	\$526,605
2. LAND & LAND RIGHTS	18,166	(13,084)	5,082
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	0	0	0
5. ACCUMULATED DEPRECIATION	(1,364,710)	967,317	(397,393)
6. AMORTIZATION OF CIAC	0	0	0
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>20,415</u>	<u>20,415</u>
8. WASTEWATER RATE BASE	<u>\$177,384</u>	<u>(\$22,675)</u>	<u>\$154,709</u>

CHC VII, Ltd.

TEST YEAR ENDED 6/30/2013  
 ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-C  
 DOCKET NO. 130210-WS

	<u>WATER</u>	<u>WASTEWATER</u>
<b><u>UTILITY PLANT IN SERVICE</u></b>		
1. To reflect original cost study balances as of 12/31/2006	(\$104,153)	(\$997,535)
2. To reflect staff audit adjustments from Dkt. 070715-WS report	8,173	7,020
3. To reflect plant additions and retirements	(47,476)	(9,032)
4. To reflect simple average		1,971
5. To add pro forma plant	<u>565</u>	<u>253</u>
Total	<u>(\$142,891)</u>	<u>(\$997,323)</u>
<b><u>LAND</u></b>		
To reflect land at original cost per audit in Dkt. 070715-WS	<u>(\$8,148)</u>	<u>(\$13,084)</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>		
1. To reflect the appropriate test year accumulated depreciation (AF5)	\$135,582	\$966,625
2. To reflect retirement associated with pro forma plant	1,563	692
Total	<u>\$137,145</u>	<u>\$967,317</u>
<b><u>WORKING CAPITAL ALLOWANCE</u></b>		
To reflect 1/8 of test year O&M expenses.	<u>\$14,253</u>	<u>\$20,415</u>

CHC VII, Ltd. TEST YEAR ENDED 6/30/2013 SCHEDULE OF CAPITAL STRUCTURE							SCHEDULE NO. 2 DOCKET NO. 130210-WS		
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON STOCK	(\$24,084,441)	\$24,084,441	\$0						
2. RETAINED EARNINGS	0	0	0						
3. PAID IN CAPITAL	0	0	0						
4. TREASURY STOCK	0	0	0						
5. TOTAL COMMON EQUITY	(\$24,084,441)	\$24,084,441	\$0	0	0	0.00%	11.16%	0.00%	
6. LONG TERM DEBT	\$0	\$0	\$0	0	0	0.00%	0.00%	0.00%	
7. LONG TERM DEBT	<u>46,423,502</u>	0	<u>46,423,502</u>	<u>-46,102,491</u>	<u>321,011</u>	<u>100.00%</u>	4.18%	4.18%	
7. TOTAL LONG TERM DEBT	\$46,423,502	\$0	\$46,423,502	-46,102,491	321,011	100.00%			
8. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	2.00%	0.00%	
9. TOTAL	<u>\$22,339,061</u>	<u>\$24,084,441</u>	<u>\$46,423,502</u>	<u>-\$46,102,491</u>	<u>\$321,011</u>	<u>100.00%</u>		<u>4.18%</u>	
<b>RANGE OF REASONABLENESS</b>						<b>LOW</b>	<b>HIGH</b>		
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>		
OVERALL RATE OF RETURN						<u>4.18%</u>	<u>4.18%</u>		

CHC VII, Ltd. TEST YEAR ENDED 6/30/2013 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 130210-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$93,547</u>	<u>\$716</u>	<u>\$94,263</u>	<u>\$43,733</u> 46.40%	<u>\$137,996</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	\$68,760	\$45,266	\$114,026	\$0	\$114,026
3. DEPRECIATION (NET)	12,347	(2,587)	9,760	0	9,760
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	5,291	0	5,291	1,968	7,259
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$86,398</u>	<u>\$42,679</u>	<u>\$129,077</u>	<u>\$1,968</u>	<u>\$131,045</u>
8. OPERATING INCOME/(LOSS)	<u>\$7,149</u>		<u>(\$34,814)</u>		<u>\$6,951</u>
9. WATER RATE BASE	<u>\$165,942</u>		<u>\$166,301</u>		<u>\$166,301</u>
10. RATE OF RETURN	<u>4.31%</u>		<u>-20.93%</u>		<u>4.18%</u>

CHC VII, Ltd.		SCHEDULE NO. 3-B DOCKET NO. 130210-WS			
TEST YEAR ENDED 6/30/2013					
SCHEDULE OF WASTEWATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$90,067</u>	<u>\$3,058</u>	<u>\$93,125</u>	<u>\$96,274</u> 103.38%	<u>\$189,399</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	\$144,255	\$19,068	\$163,323	\$0	\$163,323
3. DEPRECIATION (NET)	15,755	(6,357)	9,398	0	9,398
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	5,794	85	5,879	4,332	10,211
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$165,804</u>	<u>\$12,796</u>	<u>\$178,600</u>	<u>\$4,332</u>	<u>\$182,932</u>
8. OPERATING INCOME/(LOSS)	<u>(\$75,737)</u>		<u>(\$85,475)</u>		<u>\$6,467</u>
9. WASTEWATER RATE BASE	<u>\$177,384</u>		<u>\$154,709</u>		<u>\$154,709</u>
10. RATE OF RETURN	<u>-42.70%</u>		<u>-55.25%</u>		<u>4.18%</u>

CHC VII, Ltd.  
 TEST YEAR ENDED 6/30/2013  
 ADJUSTMENTS TO OPERATING INCOME

	<u>WATER</u>	<u>WASTEWATER</u>
<b>OPERATING REVENUES</b>		
1. To adjust utility revenues to audited test year amount.	<u>\$716</u>	<u>\$3,058</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>		
1. Salaries and Wages - Employees (601/ 701)		
To allocate utility payroll and corporate overhead salaries	\$50,125	\$25,704
To eliminate unsupported management fee	<u>(5,653)</u>	<u>(5,475)</u>
Subtotal	<u>\$44,472</u>	<u>\$20,229</u>
2. Purchased Power (615/715)		
To remove late fees and expense for a different utility (AF8)	<u>(\$62)</u>	<u>(\$448)</u>
3. Chemicals (618/718)		
To remove late fees		<u>(\$28)</u>
4. Materials & Supplies (620/720)		
To capitalize items entered as expenses (AF 2 & 8)	<u>(\$1,098)</u>	<u>(\$4,921)</u>
5. Contract Testing		
To reflect 3 year lead and copper testing	<u>(\$182)</u>	
To reflect annual groundwater monitoring for WWTP		<u>\$2,100</u>
6. Rents (640/740)		
To allocate mini-excavator lease expense	\$1,048	\$1,048
To reflect savings associated with mini-excavator	<u>(315)</u>	<u>(315)</u>
Subtotal	<u>\$733</u>	<u>\$733</u>
7. Regulatory Commission Expense (765)		
To reflect 4-year amortization of rate case expense	<u>\$1,403</u>	<u>\$1,403</u>
<b>TOTAL O &amp; M EXPENSE ADJUSTMENTS</b>	<u><b>\$45,266</b></u>	<u><b>\$19,068</b></u>

**CHC VII, Ltd.**  
**TEST YEAR ENDED 6/30/2013**  
**ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-C**  
**DOCKET NO. 130210-WS**  
**PAGE 2 OF 2**

	<u>WATER</u>	<u>WASTEWATER</u>
<b>DEPRECIATION EXPENSE</b>		
To reflect test year depreciation calculated per 25-30.140, FAC		
1. (AF3)	(\$2,620)	(\$6,374)
2. To add depreciation expense for pro forma plant	<u>33</u>	<u>17</u>
Total	<u>(\$2,587)</u>	<u>(\$6,357)</u>
 <b>TAXES OTHER THAN INCOME</b>		
To agree RAFs to test year revenue	<u>\$0</u>	<u>\$85</u>

CHC VII, Ltd.

TEST YEAR ENDED 6/30/2013

SCHEDULE NO. 3-D  
DOCKET NO. 130210-WS

## ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$5,812	\$44,472	\$50,284
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	16,439	(62)	16,377
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	10,175	0	10,175
(620) MATERIALS AND SUPPLIES	10,308	(1,098)	9,210
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	13,352	0	13,352
(635) CONTRACTUAL SERVICES - TESTING	2,757	(182)	2,575
(636) CONTRACTUAL SERVICES - OTHER	855	0	855
(640) RENTS	0	733	733
(650) TRANSPORTATION EXPENSE	4,961	0	4,961
(655) INSURANCE EXPENSE	0	0	0
(665) REGULATORY COMMISSION EXPENSE	0	1,403	1,403
(670) BAD DEBT EXPENSE	509	0	509
(675) MISCELLANEOUS EXPENSES	<u>3,592</u>	<u>0</u>	<u>3,592</u>
	<u>\$68,760</u>	<u>\$45,266</u>	<u>\$114,026</u>

CHC VII, Ltd.

TEST YEAR ENDED 6/30/2013

SCHEDULE NO. 3-E  
 DOCKET NO. 130210-WS

ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE

	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$45,431	\$20,229	\$65,660
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	21,999	0	21,999
(715) PURCHASED POWER	19,104	(448)	18,656
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	9,390	(28)	9,362
(720) MATERIALS AND SUPPLIES	15,766	(4,921)	10,845
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	7,499	0	7,499
(735) CONTRACTUAL SERVICES - TESTING	8,111	2,100	10,211
(736) CONTRACTUAL SERVICES - OTHER	5,064	0	5,064
(740) RENTS	0	733	733
(750) TRANSPORTATION EXPENSE	5,669	0	5,669
(755) INSURANCE EXPENSE	4,707	0	4,707
(765) REGULATORY COMMISSION EXPENSES	0	1,403	1,403
(770) BAD DEBT EXPENSE	509	0	509
(775) MISCELLANEOUS EXPENSES	<u>1,006</u>	<u>0</u>	<u>1,006</u>
	<u>\$144,255</u>	<u>\$19,068</u>	<u>\$163,323</u>

CHC VII, LTD TEST YEAR ENDED JUNE 30, 2013 MONTHLY WATER RATES		SCHEDULE NO. 4-A DOCKET NO. 130210-WS	
	UTILITY CURRENT RATES	STAFF PRELIMINARY RECOMMENDED RATES	4 YEAR RATE REDUCTION
<b><u>Residential and General Service*</u></b>			
Base Facility Charge for All Meter Sizes	\$15.71		
Charge per 1,000 gallons			
0 - 8,000 gallons	\$0.00		
8,001 - 10,000 gallons	\$1.31		
Over 10,000 gallons	\$2.09		
* The Utility collects a base facility charge (BFC) and gallonage charges for both water and wastewater service, which includes a monthly allotment of 8,000 gallons per month.			
Base Facility Charge by Meter Size			
5/8"X3/4"		\$4.68	\$0.05
3/4"		\$7.02	\$0.08
1"		\$11.70	\$0.13
1-1/4"		\$18.72	\$0.21
1-1/2"		\$23.40	\$0.26
2"		\$37.44	\$0.41
3"		\$74.88	\$0.82
4"		\$117.00	\$1.29
6"		\$234.00	\$2.57
8"		\$374.40	\$4.12
Charge per 1,000 gallons - Residential Water			
0 - 5,000 gallons	\$0.00	\$1.34	\$0.01
Over 5,000 gallons	\$0.00	\$2.13	\$0.02
Charge per 1,000 gallons - General Service			
		\$1.53	\$0.02

<del>CHC VII, LTD</del>		SCHEDULE NO. 4-A	
TEST YEAR ENDED JUNE 30, 2013		DOCKET NO. 130210-WS	
MONTHLY WATER RATES			
	UTILITY CURRENT RATES	STAFF PRELIMINARY RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Irrigation Service</u>			
Base Facility Charge for All Meter Sizes	\$7.86 **	\$4.68	\$0.05
Charge per 1,000 gallons - Irrigation	\$0.65	\$1.53	\$0.02
** Includes a monthly allotment of 8,000 gallons per month			
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$15.71	\$8.70	
6,000 Gallons	\$15.71	\$13.51	
10,000 Gallons	\$18.33	\$22.03	

CHC VII, LTD		SCHEDULE NO. 4-B	
TEST YEAR ENDED JUNE 30, 2013		DOCKET NO. 130210-WS	
MONTHLY WASTEWATER RATES			
	UTILITY CURRENT RATES	STAFF PRELIMINARY RECOMMENDED RATES	4 YEAR RATE REDUCTION
<b><u>Residential and General Service</u></b>			
Base Facility Charge for All Meter Sizes	*		
Charge per 1,000 gallons			
0 - 8,000 gallons	*		
8,001 - 10,000 gallons	*		
Over 10,000 gallons	*		
* The Utility collects a base facility charge (BFC) and gallonage charges for both water and wastewater service, which includes a monthly allotment of 8,000 gallons per month.			
Base Facility Charge by Meter Size			
5/8"X3/4"		\$8.34	\$0.07
3/4"		\$12.51	\$0.10
1"		\$20.85	\$0.16
1-1/4"		\$33.36	\$0.26
1-1/2"		\$41.70	\$0.33
2"		\$66.72	\$0.52
3"		\$133.44	\$1.04
4"		\$208.50	\$1.63
6"		\$417.00	\$3.25
8"		\$667.20	\$5.20
Charge per 1,000 gallons - Residential 8,000 gallon cap		\$1.89	\$0.01
Charge per 1,000 gallons - General Service		\$2.27	\$0.02
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
3,000 Gallons	\$15.71	\$14.01	
6,000 Gallons	\$15.71	\$19.68	
10,000 Gallons	\$18.33	\$23.46	

<b>CHC VII, Ltd.</b> <b>Docket No: 130210-WS</b>	<b>Attachment A, Page 1 of 2</b> <b>Historical Test Year July 12 - June 13</b>
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**WATER TREATMENT PLANT - USED AND USEFUL DATA**

1)	<b>Capacity of Plant</b>	600.00	gallons per min
2)	<b>Maximum Day From Maximum Month</b>	226.39	gallons per min
2a)	<b>Max. day @ peak</b>	285.07	gallons per min
3)	<b>Average Daily Flow</b>	158.68	gallons per min
4)	<b>Fire Flow Capacity (FF)</b> Required Fire Flow: 500 gallons per minute for 4 hours	500	gallons per min
5)	<b>Growth</b>		
a)	Average Test Year Customers in ERCs: Historical Test Year: July. 2012 - June. 2013	197	ERCs
b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	0	ERCs
c)	Statutory Growth Period	5	Years
d)	Growth = (5b)x(5c)x [2a\5a]	0	gallons per min
6)	<b>Excessive Unaccounted for Water (EUW)</b>	43.43	gallons per min
a)	Percentage of Excessive amount	27.3%	
b)	Total Unaccounted for Water	59.30	gallons per min
c)	Reasonable Amount (10% of average Daily Flow)	15.87	gallons per min
d)	Excessive Amount	43.43	gallons per min

**USED AND USEFUL FORMULA**

$$[2 \times (\text{Max days} - \text{EUW}) + \text{FF} + \text{Growth}] / \text{Capacity of Plant}$$

$$[2 \times (226.39 - 43.43) + 500 + 0] / 600 = 100\% \quad \text{Used \& Useful}$$

<b>CHC VII, Ltd.</b> <b>Docket No: 130210-WS</b>	<b>Attachment A, Page 2 of 2</b> <b>Historical Test Year July 12 - June 13</b>
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**WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA**

1)	<b>Capacity of System (ERCs)</b>	197	ERCs
2)	<b>Test Year Connections</b> Average Test Year	950	ERCs
3)	<b>Growth</b>		
a)	Customer growth in connections for last 5 years including test year using Regression Analysis	0	ERCs
b)	Statutory Growth Period	5	Years
c)	Growth = (a)x(b) Connections allowed for growth	0	ERCs

**USED AND USEFUL FORMULA**

$$\frac{[2+3]}{(1)} = 100\% \quad \text{Used and Useful}$$

$$\frac{(950 + 0)}{197} = 100\% \quad \text{Used \& Useful}$$

<b>CHC VII, Ltd.</b> <b>Docket No: 130210-WS</b>	<b>Attachment B, Page 1 of 2</b> <b>Historical Test Year July 12 - June 13</b>
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**WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA**

1. WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA				
1)		<b>Permitted Capacity of Plant Using (MMADF, AADF, 3MMADF, etc.)</b>	176,000	gallons per day
2)		<b>Average Daily Flow (3MMADF)</b>	102,855	gallons per day
3)		<b>Growth</b>		
	a)	Average Test Year Customers in ERCs: Historical Test Year: Jul. 2012 - Jun. 2014	197	ERCs
	b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	0	ERCs
	c)	Statutory Growth Period	5	Years
	d)	Growth = (3b)x(3c)x[2\3a]	0	gallons per day
4)		<b>Excessive Infiltration or Inflow (I&amp;I)</b>	0	gallons per day
	a)	Total I&I	0	gallons per day
	b)	Percent of Excessive		
	c)	Reasonable Amount (500 gpd per inch dia pipe per mile)	21,291	gallons per day
	d)	Excessive Amount	0	gallons per day

$$(102.855 + 0 - 0) / 176.000 = (58.4\%) \text{ Used \& Useful}$$

The utility's service territory is built-out; therefore, the facility is 100% U&U

<b>CHC VII, Ltd.</b> <b>Docket No: 130210-WS</b>	<b>Attachment B, Page 2 of 2</b> <b>Historical Test Year July 12 - June 13</b>
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**WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA**

<b>WASTEWATER COLLECTION SYSTEM – USED AND USEFUL DATA</b>				
1)		<b>Capacity of System (Number of Potential in ERCs)</b>	197	ERCs
2)		<b>Test Year Connections (Customers)</b> Average Test Year in ERC	197	ERCs
3)		<b>Growth</b>		
	a)	Customer growth in connections for last 5 years including test year using Regression Analysis	0	ERCs
	b)	Statutory Growth Period	5	Years
	c)	Growth = (a)x(b) Connections allowed for growth	0	ERCs

**USED AND USEFUL FORMULA**

$[(2)+(3C)] / (1) = 100\%$  Used and Useful  
 $(197 + 0)/197 = 100\%$  Used & Useful