

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-

DATE: March 27, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Lester, Mouring)
Division of Economics (Bruce, Hudson)
Division of Engineering (Watts, Lewis, Vickery)
Office of the General Counsel (Tan)

Handwritten initials and signatures: M, P2, CP, JWD, CRL, WAB, MA, TS, AT, TM

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

AGENDA: 04/10/14 - Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: 01/05/15 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

Discussion of Issues

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Case Background

CHC VII, Ltd. (CHC or Utility) is a Class C water and wastewater utility serving 894 water customers and 873 wastewater customers in Polk County. The service territory is located in the Southwest Florida Water Management District. According to the Utility's 2012 annual report, operating revenues were \$94,223 for water and \$91,244 for wastewater. Operating expenses were \$99,026 for water and \$171,122 for wastewater. Combined net operating income was a loss of \$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 1999.¹ 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 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.

In this docket, CHC filed its application for a SARC on August 5, 2013, and completed the Commission's filing requirements on October 4, 2013, which is the official filing date.

Staff engineers reviewed the company's operations and quality of service. Staff auditors conducted an audit and filed a report on November 7, 2013. Staff filed a preliminary report addressing quality of service and rates on January 14, 2014. Staff held a customer meeting on February 4, 2014, at the Chain of Lakes Complex in Winter Haven and ten customers attended and three customers spoke. Since the meeting, the Commission has received a large number of letters from customers regarding the rates in staff's preliminary report and the quality of service provided by the company. The Office of Public Counsel (OPC) filed a letter on March 3, 2014, (OPC letter) regarding the rates in staff's report and the quality of service. In this recommendation, staff addresses the concerns expressed by the customers and OPC.

The Commission has jurisdiction pursuant to Sections 367.0814, Florida Statutes (F.S.).

¹ 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: Yes, the overall quality of service for the CHC system in Polk County is satisfactory. (Watts)

Staff Analysis: Pursuant to Rule 25-30.433(1), F.A.C., in water and wastewater rate cases, the Commission shall determine the overall quality of service provided by a utility. This is derived from an evaluation of three separate components of the Utility 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 Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered. In addition, input from the DEP and health department officials, as well as customer comments or complaints will be considered.

Quality of Utility's Product and Operating Conditions of the Utility's Plant and Facilities.

CHC is a Class C utility serving 869 residential water and wastewater customers, 4 general service water and wastewater customers, and 21 irrigation customers in Polk County. CHC's service area is located at Swiss Golf and Tennis Club Mobile Home Park (MHP) and Hidden Golf Club MHP, in Winter Haven, Florida. The raw water source is ground water, which is obtained from one main well, and a golf course irrigation well is 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 in a hydropneumatic tank, and distribute. Wastewater service is provided via wastewater treatment plant with percolation ponds and spray fields. The Utility is located within the Southwest Florida Water Management District (SWFWMD).

Staff reviewed the Utility's and DEP records. In Polk County, the Polk County Health Department (PCHD) regulates the potable water program. The PCHD's May 10, 2013, sanitary survey 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. According to the PCHD inspector, the finished water product complies with regulatory standards. Staff recommends the quality of the finished water product is satisfactory.

In the last wastewater DEP Compliance Evaluation Inspection, dated April 5, 2012, no deficiencies were listed. However, the report noted that the current reduced pressure zone backflow prevention device certification was dated April 12, 2011, and instructed the Utility to ensure it was recertified as soon as possible. During staff's engineering field investigation on February 4, 2014, staff noted the device had been recertified on April 12, 2012. According to DEP, the Utility's wastewater finished product complies with regulatory standards. Based on the above, staff recommends 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 there were no complaints recorded during the last three years. A request was made to the Utility for copies of complaints that were handled in house during the test year. The Utility's response indicated that it did not receive any complaints during the test year. Further, staff reviewed DEP's records and found no customer complaints on file.

Staff conducted a customer meeting on February 4, 2014. This meeting gave the customers an opportunity to express specific concerns regarding the Utility's attitude and responsiveness to quality of service issues. All quality of service complaints raised following the customer meeting were investigated and were taken into consideration during the preparation of staff's final recommendation.

The customer meeting was held in Winter Haven. Ten customers attended the meeting and three customers spoke with concerns about the Utility. The customers asked 1) for clarification of the proposed rates and how they would be applied; 2) about the water being used to irrigate the golf course and if the cost was being recovered in their rates; and 3) whether part-time residents should have to pay for wastewater charges when they are away and only using water for irrigation.

As of March 21, 2014, one hundred sixty-one customers have sent comments to the Commission regarding this rate case. Most of the customers stated they were opposed to a rate increase. Other concerns were about excessive unaccounted for water (EUW), watering the golf course and common areas, and the park mandate to keep their yards irrigated, especially for part-time residents. Some of the customers stated they had heard the Utility had a high rate of EUW, some citing as much as 40 percent. Staff's preliminary investigation suggested an EUW of 27.3 percent. However, as discussed in Issue 5, staff found that some general service meters were not being read, and imputed gallonage significantly reduced the EUW (see Issue 2).

Many customers expressed the belief that the water used to irrigate the golf course and common areas was included in their rates or was contributing to the EUW. According to the Utility, the golf course is irrigated from a non-potable well, which is not an asset of the Utility. Further, none of the expenses related to operating and maintaining that well are included in the expenses of the Utility's system. During its field investigation, staff verified that power to the golf course is provided through a separate meter that is not included in the electric invoices for the Utility, and is serviced by non-Utility staff. Thus, none of the expenses incurred in maintaining the golf course are included in the rate base for the Utility. The common areas are metered separately and billed to the mobile home park.

In other areas of concern, customers stated that most residents are seasonal, on fixed incomes, and would not water their lawns if there is a rate increase. Twenty-seven customers mentioned the poor quality of water with respect to odor and taste. The water provided by the Utility is meeting applicable DEP primary and secondary standards.

Summary

Staff recommends that quality of the finished water and wastewater products are satisfactory since the Utility is current in meeting water quality standards for all required chemical analyses and the water provided by the Utility is meeting applicable primary and secondary standards as prescribed in the rules of the DEP. In addition, staff recommends the conditions of the wastewater and water treatment facilities are satisfactory since no deficiencies were reported by DEP. Based on the analysis above, it appears the Utility has provided adequate customer service. Therefore, the overall quality of service for the CHC system in Polk County is satisfactory.

Issue 2: What are the used and useful percentages of the Utility's water treatment plant (WTP), water distribution, wastewater treatment plant (WWTP) and wastewater collection systems?

Recommendation: CHC's WTP, water distribution, WWTP, and wastewater collection system should be considered 100 percent used and useful (U&U). Staff recommends that a 6.1 percent adjustment to operation and maintenance expenses should be made for excessive unaccounted for water (EUW). No adjustment is recommended for excessive infiltration and inflow (I&I). (Watts, Lester)

Staff Analysis: CHC has one WTP with one 8-inch well, AAJ2901,² operating at a depth of 530 feet and rated at a total capacity of 600 gallons per minute (gpm). It is equipped with a 75 horsepower (hp) vertical turbine pump. CHC also has a second well, AAJ2900, used solely to provide untreated water for golf course irrigation. Although to date it has not been necessary, the second well is available as a backup to CHC's potable water system. However, as stated in Issue 1, since its usage, electricity and personnel are not charged to the utility and it is, therefore, not a Utility asset, staff's used and useful analysis will consider only well AAJ2901. The raw water pumped from well AAJ2901 is treated with liquid chlorine, which is injected prior to entry into the 20,000-gallon hydropneumatic tank. The treated water from the tank is then pumped into the water distribution system.

The distribution system is a composite network consisting of approximately 9,060 linear feet of 6-inch PVC pipe, 1,740 linear feet of 4-inch PVC pipe, and 8,760 linear feet of 2-inch PVC pipe. The distribution system supports 40 fire hydrants.

The WWTP capacity is permitted by DEP at 0.176 million gallons per day (MGD) per Three Month Average Daily Flow (3MADF). The plant is a Type II, extended aeration domestic wastewater treatment plant that consists of one flow equalization basin of 70,821 gallons, two aeration basins of 140,814 total gallons, two clarifiers of 25,264 total gallons with a total of 536 square feet of surface area, three dual media sand filters with 200 square feet of filter surface area, two chlorine contact chambers of 4,908 total gallons and two digesters of 10,988 total gallons. This plant is operated to provide secondary treatment with liquid chlorine basic disinfection. The Utility's land application for effluent disposal consists of a percolation pond and two spray fields.

The collection system is made up of approximately 28,105 linear feet of 8-inch PVC pipe. There are 84 four-inch brick manholes and 8 lift stations. The 8 lift stations transfer the influent by force mains to the wastewater treatment plant.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. When establishing the Rule, the Commission recognized that some uses of water are readily measurable and others are not. The Commission allows 10 percent of unaccounted water for the uses of water that is not metered, which includes but is not

² DEP Florida Unique Well ID Number

limited to, line flushing, hydrant testing, street cleaning, and theft.³ The rule provides that to determine whether adjustments to operating expenses, such as purchased electrical power and chemicals cost are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible. The unaccounted for water is calculated by subtracting both the gallons used for flushing during the test year and the gallons sold to customers during that period from the total gallons pumped for the test year. CHC pumped a total of 83,370,027 gallons, used 514,700 gallons for flushing, and sold 69,454,318 gallons to customers, including 8,370,228 gallons imputed for unbilled usage as discussed in Issue 5. Thus, CHC'S unaccounted for water for the test year is 16.1 percent, with an EUW of 6.1 percent of the total gallons pumped (which is equal to 9.6 gpm).

Infiltration and Inflow (I&I)

Typically, infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas, inflow results from water entering a wastewater collection system through manholes or lift stations. The allowance for infiltration is 500 gpd per inch diameter pipe per mile, and an additional 10 percent of water sold is allowed for inflow. Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider I&I. Additionally, adjustments to operating expenses such as chemical and electrical costs are also considered necessary. The Utility's records indicated that there was no excessive I&I for the test year.

Used and Useful (U&U)

Pursuant to Rule 25-30.4325(4), F.A.C., a WTP is considered 100 percent used and useful if the system is served by a single well. Since the Utility's assets include only one potable well, staff recommends the WTP should be considered 100 percent U&U.

Pursuant to Rule 25-30.432, F.A.C., the U&U percentage of the wastewater treatment plant was calculated by taking the 3MADF plus the growth allowance minus the excessive inflow and infiltration, and dividing the sum by the permitted capacity of the plant. The rule also contains a provision for consideration of other factors, such as whether the service area is built out. CHC's service area consists of 873 lots (869 residential and 4 general service) with no vacant lots and no further phases to be built in the development. When the CHC WWTP began serving customers in 1986, the development had an additional 82 lots. In 1990, prior to CHC's certification as a water and wastewater utility in 1998, the city of Winter Haven annexed those 82 lots.

³ See Order No. PSC-93-0455-NOR-WS, p. 101 and 102, issued March 24, 1993, in Docket No. 911082-WS, In re: Proposed revisions to Rules 25-22.0406, 25-30.020, 25-30.025, 25-30.030, 25-30.032 through 25-30.037, 25-30.060, 25-30.110, 25-30.111, 25-30.135, 25-30.255, 25-30.320, 25-30.335, 25-30.360, 25-30.430, 25-30.436, 25-30.437, 25-30.443, 25-30.455, 25-30.515, 25-30.565; adoption of Rules 25-22.0407, 25-22.0408, 25-22.0371, 25-30.038, 25-30.039, 25-30.090, 25-30.117, 25-30.432 through 25-30.435, 25-30.4385, 25-30.4415, 25-30.456, 25-30.460, 25-30.465, 25-30.470, 25-30.475; and repeal of Rule 25-30.441, F.A.C., pertaining to water and wastewater regulation.

The Utility's test year 3MADF was 102,855 gallons per day (gpd). There has been no growth in the past five years; therefore, the growth allowance is 0 gpd. In addition, the excess I&I is calculated to be zero percent. The WWTP's permitted capacity is 0.176 MGD per 3MADF. The calculation reflected 58.4 percent U&U. There has been no prior rate case for this Utility; therefore, U&U has not been previously established by the Commission.

CHC began serving customers in 1986. The wastewater treatment plant-in-service is significantly, but not fully depreciated. Staff's adjusted test year plant-in-service for wastewater is \$532,269. Total accumulated depreciation is \$397,582 which is 74.7 percent. There has been no customer growth in the five years prior to the filing of this SARC. It appears there is no room for expansion; therefore, the wastewater treatment plant should be considered 100 percent U&U.

Staff reviewed the service territory and believes the current mains are providing service for the existing customers only. Because the service territory the system is designed to serve is deemed built out and there is no potential for expansion of the service territory, staff recommends the water distribution and wastewater collection system be considered 100 percent U&U.

Summary

Based on the analysis above, staff recommends CHC's WTP, water distribution, WWTP, and wastewater collection system should be considered 100 percent U&U. Staff recommends that a 6.1 percent adjustment to operation and maintenance expenses should be made for EUW. No adjustment is recommended for excessive I&I.

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

Recommendation: The appropriate average test year rate base for CHC is \$178,442 for water and \$159,299 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>WATER</u>	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</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 - master meter (AF12) and blower motor	565	253
6. To add back-up chlorinator	1,037	
7. To add rebuilt pump	2,649	
8. To capitalize meters	2,067	
9. To capitalize pumps		5,664
Total	<u>(\$137,138)</u>	<u>(\$991,659)</u>

In its letter dated March 3, 2014, OPC noted invoices in materials and supplies expense that should be capitalized. Staff reviewed these items and agrees with OPC. The adjustments above include capitalization of meters and pumps. The adjustments also include an increase in UPIS to reflect a rebuilt pump for water, which was done after the test year.

Staff's net adjustments to UPIS are decreases of \$137,138 and \$991,659 for water and wastewater, respectively. Staff's recommended UPIS balance is \$409,224 (\$546,362 - \$137,138) for water and \$532,269 (\$1,523,928 - \$991,659) 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 (CIAC): 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. 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 \$144,177 for water and by \$967,128 for wastewater. Staff recommends an accumulated depreciation balances of \$247,556 for water and \$397,582 for wastewater.

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

Working Capital Allowance: 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 \$13,609 for water (based on O&M expense of \$108,868/8), and \$19,530 for wastewater (based on O&M expense of \$156,238/8).

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate average test year rate base is \$178,442 for water and \$159,299 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, a golf course, 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.⁴ Using the Commission-approved leverage formula currently in effect, staff calculated the appropriate ROE to be 11.16 percent.⁵ 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 percent debt, the appropriate overall rate of return is 4.18 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁴ 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.

⁵ See Order Nos. PSC-13-0241-PAA-WS, issued June 3, 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 are the appropriate test year revenues for the Utility's water and wastewater systems?

Recommendation: The appropriate test year revenues for CHC's water and wastewater systems are \$100,066 and \$92,287, 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. Customer 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. The general service and irrigation customers were billed one BFC per quarter rather than a BFC for each month of the quarter. The Utility recorded service revenues for general service usage to water rather than allocating it equally between water and wastewater. Finally, the Utility did not bill 14 irrigation customers during the test year.

The Utility began reading the meters of the 14 irrigation customers in May of 2013 and has provided staff nine months of billed consumption. To determine the appropriate gallons to impute for test year billing determinants, staff annualized the consumption data. Staff determined that the water consumption should be increased by 8,370,228 gallons to reflect annualized usage. Staff corrected the billing errors, adjusted test year billing determinants, and applied the Utility's rates in effect during the test year to test year billing determinants. Based on staff's analysis, test year service revenues should be increased by \$6,519 for water and \$2,220 for wastewater. Based on the above, staff recommends the appropriate test year revenues for CHC's water and wastewater systems are \$100,066 and \$92,287, respectively.

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

Recommendation: The appropriate amount of operating expense for CHC is \$125,963 for water and \$175,914 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 \$27,125 and wastewater salaries by \$4,225 to cover management, administrative, and operations activities done for the utility by managing partner employees.

Since the managing partner manages other water and wastewater utilities, these salaries were allocated on the basis of lots. OPC expressed concern that employee time is not being allocated to other affiliated businesses. Staff believes that allocating the costs based on lots properly allocates salaries to all businesses and is reasonable.

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 \$32,937 for water and \$49,656 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. Staff further reduced the amount for water by \$1,003 due to excessive unaccounted-for water (6.1 percent), as recommended in Issue 2. For wastewater, staff removed \$302 for a purchased power bill associated with a different utility. Staff recommends purchased power expense of \$15,374 for water and \$18,656 for wastewater.

Chemicals (618/718) - CHC recorded \$10,175 for chemicals expense for water and \$9,390 in chemicals expense for wastewater. For water, staff reduced the expense by \$621 due to excessive unaccounted for water. Based on OPC's letter, staff removed \$314 for an invoice associated with an affiliated company and \$14 due to late fees. For wastewater, staff removed \$28 associated with late fees. The resulting balances are \$9,226 for water and \$9,362 for wastewater.

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, consisting of \$2,095 for flow measuring plant, \$1,044 as pumping equipment, and \$1,781 as other plant and equipment. Staff added \$94 for water use at the wastewater treatment plant.

In response to OPC's letter, staff capitalized \$2,067 for water meters booked as expense and \$5,664 for wastewater pumps booked as materials and supplies. The resulting amounts for water and wastewater are \$7,143 and \$5,275, respectively.

Contractual Services - Billing (630/730) - The total cost for the change to monthly billing provided by CHC was \$30,321. To reflect just the incremental billing expenses, staff reduced this amount to \$21,132 and divided it equally between water and wastewater. The resulting amounts for incremental monthly billing expense are \$10,566 for water and \$10,566 for wastewater.

Contractual Services - Professional (631/731) - For this account, CHC booked \$13,352 for water and \$5,599 for wastewater. For water and wastewater, staff allocated \$3,627 for administrative and accounting salaries (bookkeeping, receptionist, regulatory accounting). The resulting amounts for contractual services - professional are \$16,979 for water and \$9,226 for wastewater.

Contractual Services - Testing (635/735) - The Utility recorded \$2,757 for water and \$10,011 for wastewater for testing expense. For water, staff decreased the amount by \$363 to reflect the required copper and lead testing that occurs every three years. For wastewater, staff increased the amount by \$200 to reflect the annual cost of quarterly monitoring of groundwater at the wastewater treatment plant. Staff recommends contractual services - testing expense of \$2,394 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 each for water and for wastewater. Staff reduced this expense by \$315 for water and wastewater to reflect estimated savings based on use of the mini-excavator. In addition, staff allocated \$1,937 for water office rent and \$1,937 for wastewater office rent. For rent expense, staff recommends \$2,670 for water and \$2,670 for wastewater.

Transportation Expense (650/750) - In response to OPC's letter, staff removed \$99 from water and \$99 from wastewater due to out of period gasoline invoices. The resulting balances for water and wastewater transportation expense are \$4,862 and \$4,854, respectively.

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 postage, printing, and envelopes for these notices, staff has estimated \$904 for the customer meeting and \$643 for the final rates notice. 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. Staff allowed legal fees of \$10,541. This covers responding to data requests, reviewing staff's report and recommendation, and attending the customer meeting and agenda conference. Staff reviewed the billing rates and hours for this expense. Based on this review, this expense is appropriate. The total rate case expense including postage, notices, envelopes, consulting fee,

and filing fee is \$14,088. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period. Staff recommends regulatory commission expense of \$1,761 for water and \$1,761 for wastewater.

Operation and Maintenance Expenses (O&M) Summary - Total adjustments to O&M expense result in an increase of \$40,108 for water and \$11,983 for wastewater. Staff's recommended O&M expense is \$108,868 for water and \$156,238 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 \$10,146 for water and \$9,587 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 water by \$157 and wastewater by \$147 to reflect property taxes on plant additions. Staff also increased the amount for wastewater by \$85 to reflect the correct amount for regulatory assessment fees. With the increase in revenue, staff recommends TOTI of \$6,649 for water and \$10,089 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 \$125,963 for water and \$175,914 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 \$133,422 for water and \$182,573 for wastewater, resulting in an annual increase of \$33,356 for water (33.33 percent), and an annual increase of \$90,286 for wastewater (97.83 percent). (Lester)

Staff Analysis: CHC should be allowed an annual increase of \$33,356 for water (33.33 percent) and \$90,286 for wastewater (97.83 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 7-1 and Table 7-2 for water and wastewater, respectively:

Table 7-1

<u>Water Revenue Requirement</u>	
Adjusted Rate Base	\$178,442
Rate of Return	x .0418
Return on Rate Base	\$7,459
Adjusted O&M expense	108,868
Depreciation expense	10,146
Amortization	0
Taxes Other Than Income	6,949
Income Taxes	0
Revenue Requirement	\$133,422
Less Test Year Revenues	100,066
Annual Increase	\$33,356
Percent Increase/(Decrease)	33.33%

Table 7-2

<u>Wastewater Revenue Requirement</u>	
Adjusted Rate Base	\$159,299
Rate of Return	x .0418
Return on Rate Base	\$6,659
Adjusted O&M expense	156,238
Depreciation expense	9,587
Amortization	0
Taxes Other Than Income	10,089
Income Taxes	0
Revenue Requirement	\$182,573
Less Test Year Revenues	92,287
Annual Increase	\$90,286
Percent Increase/(Decrease)	97.83%

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

Recommendation: The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, 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. Along with the customer notice, the Utility should provide customers their most recent three months usage. 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 SWFWMD. The Utility provides service to 869 residential customers, 4 general service customers, and 21 irrigation customers. The Utility's customer base is seasonal; however, because customers irrigate year round, the billing data indicates that only 4 percent of the residential customer bills during the test year had zero gallons. According to the Utility, while seasonal customers are out of residence, these customers are required to have irrigation systems on timers. The average residential water demand was 5,635 gallons per month during the test period. The average water demand, excluding zero gallon bills, was 5,865 gallons per month.

Currently, the Utility's rate structure consists of a single monthly BFC of \$15.71 for water and wastewater service, which includes an allotment of 8,000 gallons per month. Water usage above the 8,000 gallon monthly allotment is billed at \$1.31 for 8,001 to 10,000 gallons and \$2.09 for usage above 10,000 gallons. As previously discussed, the BFC is billed monthly, but usage in excess of 8,000 gallons per month is billed quarterly. The approved rate for irrigation service is a monthly BFC of \$7.86, which includes an allotment of 8,000 gallons and a usage charge of \$.65 per 1,000 gallons. These rates and rate structure have been in effect since the utility was granted grandfather certificates in 1999, following Polk County turning over jurisdiction over privately owned water and wastewater utilities to the Commission.

The current 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. Many of the customers have expressed their concern that they were not aware of their past consumption history. The Utility did not provide the customers a quarterly bill if their consumption was within the allotment of 24,000 gallons per quarter. 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. This will provide sufficient revenues to design a gallonage charge that will send a pricing signal to customers using above non-discretionary usage. The average persons per household served by the Utility is two; therefore, based on the number of persons per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 3,000 gallons per month. 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 and resulting water rates are shown on Schedule No. 4-A.

Based on the customer billing data provided by the Utility, approximately 57 percent of total residential consumption is discretionary and therefore, subject to the effects of repression. 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 a recommended revenue increase of 33.33 percent, the residential discretionary consumption can be expected to decline by 10,701,000 gallons resulting in anticipated average residential demand of 4,609 gallons per month. Staff recommends an 18.2 percent reduction in total residential consumption and corresponding reductions of \$2,369 for purchased power, \$1,421 for chemicals, and \$179 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$129,453.

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. In addition, based on the expected reduction in water demand described above, staff recommends that a repression adjustment also be made for wastewater.⁶ Because wastewater rates are calculated based on customers' water demand, if those customers' water demand is expected to decline, then the billing determinants

⁶ See Order Nos. PSC-11-0345-PAA-WS, issued August 16, 2011, in Docket No. 100359-WS, In re: Application for staff-assisted rate case in Volusia County by Tymber Creek Utilities, Incorporated and Order No. PSC-09-0647-PAA-WS, issued September 24, 2009, in Docket No. 080714-WS, In re: Application for staff-assisted rate case in Lake County by Hidden Valley SPE LLC d/b/a Orange Lake Utilities.

used to calculate wastewater rates should also be adjusted. Therefore, staff recommends that a repression adjustment for the discretionary usage should also be made to calculate wastewater rates. Based on the billing analysis for the wastewater system, staff recommends that discretionary usage be reduced by 7,470,000 gallons to reflect the anticipated reduction in water demand used to calculate wastewater rates. Staff recommends a 15.4 percent reduction in total residential consumption and corresponding reductions of \$1,437 for chemicals, \$2,933 for purchased power, \$3,378 for sludge removal expense, and \$349 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$174,477. Currently, the Utility does not have a gallonage cap for residential wastewater customers. The cap 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 for residential wastewater customers 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

Based on the foregoing, staff recommends that 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 3,000 gallons should be approved for residential water customers. An 18.2 percent reduction in total residential consumption and corresponding reductions of \$2,369 for purchased power, \$1,421 for chemicals, and \$179 for RAFs should be made to reflect the anticipated repression. General service and irrigation customers should be billed a BFC based on meter size and uniform gallonage charge.

Staff recommends that 50 percent of the wastewater revenues be generated from the BFC. The residential wastewater customers' rate structure should consist of a BFC for all meter sizes, with a cap of 8,000 gallons. A 15.4 percent reduction in total residential consumption and corresponding reductions of \$1,437 for chemicals, \$2,933 for purchased power, \$3,378 for sludge removal expense, and \$349 for RAFs. General service wastewater customers should be billed a BFC and gallonage charge that is 1.2 times higher than the residential gallonage charge.

As discussed in the Quality of Service issue, many customers expressed concern about their previous consumption history. The Utility has indicated that the current billing system makes it difficult to provide the last twelve month's data on a mass basis in a timely manner. The Utility has offered to provide the past twelve month's billing history upon written request of a customer. In order to make customers aware of their usage patterns, staff recommends that the Utility provide the customers their most recent three months usage along with the customer notice for the Commission-approved rates.

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

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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. Along with the customer notice, the Utility should provide customers their most recent three months usage. 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 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 \$1,854 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 \$82,455. 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

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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.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 6/30/2013		DOCKET NO. 130210-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$546,362	(\$137,138)	\$409,224
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)	144,177	(247,556)
6. AMORTIZATION OF CIAC	0	0	0
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>13,609</u>	<u>13,609</u>
8. WATER RATE BASE	<u>\$165,942</u>	<u>\$12,500</u>	<u>\$178,442</u>

CHC VII, Ltd.		SCHEDULE NO. 1-B	
TEST YEAR ENDED 6/30/2013		DOCKET NO. 130210-WS	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$1,523,928	(\$991,659)	\$532,269
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)	967,128	(397,582)
6. AMORTIZATION OF CIAC	0	0	0
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>19,530</u>	<u>19,530</u>
8. WASTEWATER RATE BASE	<u>\$177,384</u>	<u>(\$18,085)</u>	<u>\$159,299</u>

CHC VII, Ltd.		SCHEDULE NO. 1-C	
TEST YEAR ENDED 6/30/2013		DOCKET NO. 130210-WS	
ADJUSTMENTS TO RATE BASE		PAGE 1 OF 2	
	<u>WATER</u>	<u>WASTEWATER</u>	
<u>UTILITY PLANT IN SERVICE</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	0	1,971	
5. To add pro forma plant - master meter (AF12) and blower motor	565	253	
6. To add back-up chlorinator	1,037	0	
7. To add rebuilt pump	2,649	0	
8. To capitalize meters	2,067	0	
9. To capitalize pumps	<u>0</u>	<u>5,664</u>	
Total	<u>(\$137,138)</u>	<u>(\$991,659)</u>	
<u>CWIP</u>	<u>\$0</u>	<u>\$0</u>	
<u>LAND</u>			
1. To reflect land at original cost per audit in Dkt. 070715-WS	<u>(\$8,148)</u>	<u>(\$13,084)</u>	
<u>NON-USED AND USEFUL PLANT</u>			
Not applicable	<u>\$0</u>	<u>\$0</u>	
<u>CIAC</u>	<u>\$0</u>	<u>\$0</u>	

CHC VII, Ltd.		SCHEDULE NO. 1-C	
TEST YEAR ENDED 6/30/2013		DOCKET NO. 130210-WS	
ADJUSTMENTS TO RATE BASE		PAGE 2 OF 2	
		<u>WATER</u>	<u>WASTEWATER</u>
<u>ACCUMULATED DEPRECIATION</u>			
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
3.	To reflect depreciation associated with the back-up chlorinator	(148)	0
4.	To reflect retirement associated with the rebuilt pump	7,241	0
5.	To reflect depreciation associated with meters	(61)	0
6.	To reflect depreciation associated with pumps	<u>0</u>	<u>(189)</u>
	Total	<u>\$144,177</u>	<u>\$967,128</u>
<u>AMORTIZATION OF CIAC</u>		<u>\$0</u>	<u>\$0</u>
<u>WORKING CAPITAL ALLOWANCE</u>			
1.	To reflect 1/8 of test year O&M expenses.	<u>\$13,609</u>	<u>\$19,530</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>	<u>0</u>	<u>46,423,502</u>	<u>-46,085,762</u>	<u>337,740</u>	<u>100.00%</u>	<u>4.18%</u>	<u>4.18%</u>	
7. TOTAL LONG TERM DEBT	\$46,423,502	\$0	\$46,423,502	-46,085,762	337,740	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>-\$46,085,762</u>	<u>\$337,740</u>	<u>100.00%</u>		<u>4.18%</u>	
RANGE OF REASONABLENESS						LOW	HIGH		
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.		SCHEDULE NO. 3-A			
TEST YEAR ENDED 6/30/2013		DOCKET NO. 130210-WS			
SCHEDULE OF WATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$93,547</u>	<u>\$6,519</u>	<u>\$100,066</u>	<u>\$33,356</u> 33.33%	<u>\$133,422</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$68,760	\$40,108	\$108,868	\$0	\$108,868
3. DEPRECIATION (NET)	12,347	(2,201)	10,146	0	10,146
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	5,291	157	5,448	1,501	6,949
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>\$38,064</u>	<u>\$124,462</u>	<u>\$1,501</u>	<u>\$125,963</u>
8. OPERATING INCOME/(LOSS)	<u>\$7,149</u>		<u>(\$24,396)</u>		<u>\$7,459</u>
9. WATER RATE BASE	<u>\$165,942</u>		<u>\$178,442</u>		<u>\$178,442</u>
10. RATE OF RETURN	<u>4.31%</u>		<u>-13.67%</u>		<u>4.18%</u>

CHC VII, Ltd.		SCHEDULE NO. 3-B				
TEST YEAR ENDED 6/30/2013		DOCKET NO. 130210-WS				
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>\$2,220</u>	<u>\$92,287</u>	<u>\$90,286</u> 97.83%	<u>\$182,573</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$144,255	\$11,983	\$156,238	\$0	\$156,238	
3. DEPRECIATION (NET)	15,755	(6,168)	9,587	0	9,587	
4. AMORTIZATION	0	0	0	0	0	
5. TAXES OTHER THAN INCOME	5,794	232	6,026	4,063	10,089	
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>\$6,047</u>	<u>\$171,851</u>	<u>\$4,063</u>	<u>\$175,914</u>	
8. OPERATING INCOME/(LOSS)	<u>(\$75,737)</u>		<u>(\$79,564)</u>		<u>\$6,659</u>	
9. WASTEWATER RATE BASE	<u>\$177,384</u>		<u>\$159,299</u>		<u>\$159,299</u>	
10. RATE OF RETURN	<u>-42.70%</u>		<u>-49.95%</u>		<u>4.18%</u>	

CHC VII, Ltd.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 6/30/2013		DOCKET NO. 130210-WS	
ADJUSTMENTS TO OPERATING INCOME		PAGE 1 OF 2	
	<u>WATER</u>	<u>WASTEWATER</u>	
OPERATING REVENUES			
1. To adjust utility revenues to audited test year amount.	<u>\$6,519</u>	<u>\$2,220</u>	
OPERATION AND MAINTENANCE EXPENSES			
1. Salaries and Wages - Employees (601/ 701)			
To allocate utility payroll and corporate overhead salaries	<u>\$27,125</u>	<u>\$4,225</u>	
2. Purchased Power (615/715)			
To reduce purchase power due to excess unaccounted-for water	(\$1,003)	0	
To remove late fees and expense for a different utility (AF8)	<u>(62)</u>	<u>(\$448)</u>	
	<u>(\$1,065)</u>	<u>(\$448)</u>	
3. Chemicals (618/718)			
To reduce chemicals due to excess unaccounted-for water	(\$621)	0	
To reduce chemicals associated with affiliated utilities	(314)	0	
To remove late fees	<u>(14)</u>	<u>(\$28)</u>	
	<u>(\$949)</u>	<u>(\$28)</u>	
4. Materials & Supplies (620/720)			
To add water expense for wastewater treatment plant		\$94	
To capitalize items booked as expenses (AF 2 & 8)	(\$1,098)	(4,921)	
To capitalize meters booked as expenses	(2,067)	0	
To capitalize pumps booked as expenses	<u>0</u>	<u>(5,664)</u>	
	<u>(\$3,165)</u>	<u>(\$10,491)</u>	
5. Contractual Services - Billing (630/730)			
To reflect incremental billing expenses due to monthly billing	<u>\$10,566</u>	<u>\$10,566</u>	
6. Contractual Services - Professional (631/731)			
To allocate salaries for accounting and administrative	<u>\$3,627</u>	<u>\$3,627</u>	
7. Contract Testing (635/735)			
To reflect 3 year lead and copper testing	<u>(\$363)</u>		
To reflect annual cost of groundwater monitoring for WWTP		<u>\$200</u>	

CHC VII, Ltd.	SCHEDULE NO. 3-C	
TEST YEAR ENDED 6/30/2013	DOCKET NO. 130210-WS	
ADJUSTMENTS TO OPERATING INCOME	PAGE 2 OF 2	
	<u>WATER</u>	<u>WASTEWATER</u>
8. Rents (640/740)		
To allocate office rent expense	\$1,937	\$1,937
To allocate mini-excavator lease expense	1,048	1,048
To reflect savings associated with mini-excavator	<u>(315)</u>	<u>(315)</u>
	<u>\$2,670</u>	<u>\$2,670</u>
9. Transportation (650/750)		
To remove out-of-test-year gasoline expense	<u>(\$99)</u>	<u>(\$99)</u>
10. Regulatory Commission Expense (665/765)		
To reflect 4-year amortization of rate case expense	<u>\$1,761</u>	<u>\$1,761</u>
TOTAL O & M EXPENSE ADJUSTMENTS	<u>\$40,108</u>	<u>\$11,983</u>
DEPRECIATION EXPENSE		
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	33	17
3. To add depreciation for chlorinator	148	0
4. To add depreciation for rebuilt pump	177	0
5. To add depreciation for meters	61	0
6. To add depreciation for pumps	<u>0</u>	<u>189</u>
	<u>(\$2,201)</u>	<u>(\$6,168)</u>
TAXES OTHER THAN INCOME		
1. To add property taxes for meters and pumps	\$157	\$147
2. To agree RAFs to test year revenue	<u>0</u>	<u>85</u>
	<u>\$157</u>	<u>\$232</u>

CHC VII, Ltd.	SCHEDULE NO. 3-D		
TEST YEAR ENDED 6/30/2013	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	\$27,125	\$32,937
(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	(1,065)	15,374
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	10,175	(949)	9,226
(620) MATERIALS AND SUPPLIES	10,308	(3,165)	7,143
(630) CONTRACTUAL SERVICES - BILLING	0	10,566	10,566
(631) CONTRACTUAL SERVICES - PROFESSIONAL	13,352	3,627	16,979
(635) CONTRACTUAL SERVICES - TESTING	2,757	(363)	2,394
(636) CONTRACTUAL SERVICES - OTHER	855	0	855
(640) RENTS	0	2,670	2,670
(650) TRANSPORTATION EXPENSE	4,961	(99)	4,862
(655) INSURANCE EXPENSE	0	0	0
(665) REGULATORY COMMISSION EXPENSE	0	1,761	1,761
(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>\$40,108</u>	<u>\$108,868</u>

CHC VII, Ltd.	SCHEDULE NO. 3-E		
TEST YEAR ENDED 6/30/2013	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	\$4,225	\$49,656
(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	(10,491)	5,275
(730) CONTRACTUAL SERVICES - BILLING	0	10,566	10,566
(731) CONTRACTUAL SERVICES - PROFESSIONAL	5,599	3,627	9,226
(735) CONTRACTUAL SERVICES - TESTING	10,011	200	10,211
(736) CONTRACTUAL SERVICES - OTHER	5,780	0	5,780
(740) RENTS	0	2,670	2,670
(750) TRANSPORTATION EXPENSE	4,953	(99)	4,854
(755) INSURANCE EXPENSE	4,707	0	4,707
(765) REGULATORY COMMISSION EXPENSES	0	1,761	1,761
(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>\$11,983</u>	<u>\$156,238</u>

CHC VII, LTD		SCHEDULE NO. 4-A	
TEST YEAR ENDED JUNE 30, 2013		DOCKET NO. 130210-WS	
MONTHLY WATER RATES			
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
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		
* Existing rates include 8,000 gallons in the base facility charge for both water and wastewater			
<u>Irrigation</u>			
Base Facility Charge for All Meters	\$7.86*		
Charge per 1,000 gallons - Irrigation	\$0.65		
<u>Residential, General Service, and Irrigation</u>			
Base Facility Charge by Meter Size:			
5/8" X 3/4"		\$4.56	\$0.06
3/4"		\$6.84	\$0.10
1"		\$11.40	\$0.16
1-1/4"		\$18.24	\$0.25
1-1/2"		\$22.80	\$0.32
2"		\$36.48	\$0.51
3"		\$72.96	\$1.01
4"		\$114.00	\$1.58
6"		\$228.00	\$3.17
8"		\$364.80	\$5.07
Charge per 1,000 gallons - Residential Water			
0 - 3,000 gallons		\$1.15	\$0.02
Over 3,000 gallons		\$1.51	\$0.02
Charge per 1,000 gallons - General Service and Irrigation			
		\$1.32	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$7.86	\$8.01	
6,000 Gallons	\$7.86	\$12.54	
10,000 Gallons	\$9.16	\$18.58	

CHC VII, LTD		SCHEDULE NO. 4-B	
TEST YEAR ENDED JUNE 30, 2013		DOCKET NO. 130210-WS	
MONTHLY WASTEWATER RATES			
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
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		
* Existing rates include 8,000 gallons in the base facility charge for both water and wastewater			
Base Facility Charge by Meter Size:			
5/8"X 3/4"		\$8.19	\$0.09
3/4"		\$12.29	\$0.13
1"		\$20.48	\$0.22
1-1/4"		\$32.76	\$0.35
1-1/2"		\$40.95	\$0.43
2"		\$65.52	\$0.69
3"		\$131.04	\$1.39
4"		\$204.75	\$2.17
6"		\$409.50	\$4.34
8"		\$655.20	\$6.95
Charge per 1,000 gallons - Residential 8,000 gallon cap		\$2.05	\$0.02
Charge per 1,000 gallons - General Service		\$2.46	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$7.86	\$14.34	
6,000 Gallons	\$7.86	\$20.49	
10,000 Gallons	\$9.17	\$24.59	