

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:** November 18, 2015

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Accounting and Finance (Mouring) *AM*  
Division of Economics (Thompson) *BSG*  
Division of Engineering (Lee) *CR*  
Office of the General Counsel (Corbari) *ALM TS*

**RE:** Docket No. 140177-WU – Application for staff-assisted rate case in Pasco County by Holiday Gardens Utilities, LLC. *KFC*

**AGENDA:** 12/03/15 – Regular Agenda – PAA except for Issues 10 and 12

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Brisé

**CRITICAL DATES:** 02/08/16 (15-month effective date (SARC))

**SPECIAL INSTRUCTIONS:** None

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**Table of Contents**

<u>Issue</u>	<u>Description</u>	<u>Page</u>
	Case Background.....	3
1	Quality of Service (Lee) .....	4
2	Used and Useful (Lee).....	6
3	Rate base (Mouring, Lee) .....	7
4	Rate of Return (Mouring).....	10
5	Test Year Revenues (Thompson) .....	11
6	Operating Expense (Mouring, Lee) .....	12
7	Revenue Requirement (Mouring).....	15
8	Rates (Thompson) .....	16
9	NSF Charge (Thompson) .....	18
10	Initial Customer Deposits(Thompson) .....	19
11	Four-Year Rate Reduction (Thompson, Mouring) .....	20
12	Phase II Increase for Pro Forma (Lee, Mouring) .....	21
13	Temporary Rates (Mouring).....	24
14	Proof of Adjustments (Mouring) .....	26
15	Close Docket (Corbari, Mouring).....	27
	Schedule No. 1-A Water Rate Base .....	28
	Schedule No. 1-B Adjustments to Rate Base .....	29
	Schedule No. 2 Capital Structure .....	30
	Schedule No. 3-A Water Operating Income.....	31
	Schedule No. 3-B Adjustments to NOI.....	32
	Schedule No. 3-B Adjustments to NOI.....	33
	Schedule No. 3-C Water O&M Expense.....	34
	Schedule No. 4 Water Rates .....	35
	Schedule No. 5-A Water Rate Base .....	36
	Schedule No. 5-B Adjustments to Rate Base .....	37
	Schedule No. 6 Capital Structure .....	38
	Schedule No. 7-A Water Operating Income.....	39
	Schedule No. 7-B Adjustments to NOI.....	40
	Schedule No. 8 Water Rates .....	41

### Case Background

Holiday Gardens Utilities, LLC. (Holiday Gardens or utility) is a Class C water utility serving approximately 456 customers in Pasco County. Holiday Gardens' service territory is located in the Southwest Florida Water Management District (SWFWMD) and is in a water use caution area. Holiday Gardens' application in the instant docket shows total gross revenue of \$77,847 with a net operating loss of \$182.

Holiday Gardens filed its application for a staff-assisted rate case (SARC) on September 10, 2014, and subsequently completed the Commission's filing requirements. November 7, 2014, was established as the official filing date in this case. Rates were last established for this utility in 1992, as a result of a staff-assisted rate case.<sup>1</sup> Rate base was last established for this utility when it was transferred in 2014.<sup>2</sup> Holiday Gardens filed an application for transfer concurrently with this SARC. The Commission has jurisdiction in this case pursuant to Section 367.0814, Florida Statutes (F.S.).

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<sup>1</sup> Order No. PSC-93-0013-FOF-WU, issued January 5, 1993, in Docket No. 920418-WU, *In re: Application for staff-assisted rate case by Holiday Gardens Utilities, Inc. in Pasco County.*

<sup>2</sup> Order No. PSC-15-0422-PAA-WU, issued October 6, 2015, in Docket No. 140176-WU, *In re: Application for approval of transfer of Certificate No. 116-W from Holiday Gardens Utilities, Inc. to Holiday Gardens Utilities, L.L.C., in Pasco County.*

## Discussion of Issues

**Issue 1:** Is the overall quality of service provided by Holiday Gardens satisfactory?

**Recommendation:** Yes, staff recommends that the quality of service provided by the Holiday Gardens be considered satisfactory. (Lee)

**Staff Analysis:** Pursuant to Rule 25-30.433(1), Florida Administrative Code (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 the Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered. In addition, input from DEP and health department officials and customer comments or complaints will be considered.

Holiday Gardens provides water service only. Holiday Gardens' operation is subject to various environmental requirements under the jurisdiction of the DEP. In addition, the consumptive use of its water supply is under the jurisdiction of Southwest Florida Water Management District. During the utility's last SARC in 1992, the Commission found the utility's quality of service to be satisfactory based on the actions that the utility was taking in order to comply with DEP's regulations.

DEP's most recent review included an on-site inspection that was conducted on January 27, 2015. The inspection included the review of tank inspection reports, flow meter tests, and any issues observed regarding the plant operation. Based on the Holiday Gardens' response to DEP dated February 24, 2015, all issues observed during the inspection were addressed. Holiday Gardens has indicated that it will perform any additional actions that may be required for its compliance with DEP regulations.

Section 367.0812(1)(c), F.S., requires the Commission to consider complaints filed by customers during the past five years regarding the secondary water quality standards as established by the DEP in determining whether a utility has satisfied its obligation to provide quality of water service. There has been no secondary water quality complaints based on staff's request of data from the utility and the DEP. Staff's review of customer complaints indicates Holiday Gardens has resolved all of the complaints tracked by the Commission. The Commission's Consumer Activity Tracking System recorded five complaints since January 2010. Of the five complaints, two were related to billing and three were related to service quality.

A customer meeting was held on September 11, 2015, at Crestridge Gardens Community Club in Holiday, Florida. Eight customers were present at the meeting. Three customers signed up to comment. Two customers voiced concern about not receiving proper boil water notices (BWN). There was also a customer who stated that the service has improved since the recent change in ownership. Staff spoke to the utility regarding provision of its BWNs and was told that it uses

door hangers with standard language approved by the DEP. This method of notification is different than that provided by the prior owner, who often put notices in mailboxes. The two customers that spoke at the meeting are now aware of where to look for future notices.

Customers at the meeting were informed about the ways to send their written comments to the Commission. Based on comments received in this docket, the main concern appears to be the financial impact to the customers by a rate increase.

In conclusion, staff believes Holiday Gardens has taken reasonable actions to comply with DEP's regulations and to address service quality concerns. Staff recommends that the quality of service provided by Holiday Gardens be considered satisfactory.

**Issue 2:** What are the used and useful (U&U) percentages of Holiday Gardens' water treatment plant (WTP) and water distribution system?

**Recommendation:** Staff recommends Holiday Gardens' water system be considered 100 percent U&U with no adjustment for Excessive Unaccounted For Water (EUW). (Lee)

**Staff Analysis:** The utility's water system, which includes its treatment plant and distribution system, was found to be built out and 100 percent U&U in its last SARC in Docket No. 920418-WU.<sup>3</sup> There has been no growth in the customer base, no change in capacity, or any plan for expansion since Holiday Gardens' last SARC. Accordingly, staff recommends that the utility's water system be considered 100 percent U&U.

Rule 25-30.4325, F.A.C., describes Excessive Unaccounted for Water (EUW) as unaccounted for water in excess of ten percent of the amount produced or purchased. When establishing the Rule, the Commission recognized that some uses of water are readily measurable and others are not. Unaccounted for water is all water that is produced or purchased that is not sold, metered or accounted for in the records of the utility. The Rule provides that in order to determine whether adjustments to plant and operating expenses, such as purchased water, purchased electrical power and chemicals are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible. The unaccounted for water is calculated by subtracting both the gallons used for other services, such as flushing, and the gallons sold to customers from the total gallons pumped or purchased for the test year.

During the test year, the utility produced 26.9 million gallons of water and sold 21.9 million gallons of water to customers. This results in 19 percent unaccounted for water, of which 9 percent could be considered excessive. The utility has acknowledged that many of its meters are old or not registering and in September 2014, the utility submitted a Water Loss Remedial Action Plan to the SWFWMD. In its plan, the utility has committed to, among other things, purchasing a portable hydrant meter to produce more accurate flushing records and seek the assistance of the Florida Rural Water Association in finding undetectable leaks. In addition, the utility recently replaced approximately 36 percent (164 total) of its meters and has requested an aggressive on-going meter replacement program which is discussed in Issue 3. Because the utility is implementing solutions to correct the problem, staff does not believe an adjustment for EUW should be made at this time.

In conclusion, staff recommends that the utility's water system be considered 100 percent U&U with no EUW adjustment.

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<sup>3</sup> Order No. PSC-93-0013-FOF-WU.

**Issue 3:** What is the appropriate average test year water rate base for Holiday Gardens?

**Recommendation:** The appropriate average test year rate base for Holiday Gardens is \$57,727. (Mouring, Lee)

**Staff Analysis:** The test year ended September 30, 2014, was used for the instant case. A summary of each rate base component, and recommended adjustments are discussed below.

**Utility Plant in Service (UPIS)**

The utility recorded UPIS of \$180,627. By Order No. PSC-15-0422-PAA-WU, the Commission established a UPIS balance of \$181,038 as of August 27, 2014. There were no subsequent plant additions and retirements since that point. Therefore, staff is recommending increasing UPIS by \$413 (\$181,038 - \$180,627). Staff increased UPIS by \$250, and increased Accumulated Depreciation by \$25 associated with the purchase of shop tools. Staff is also recommending increasing UPIS by \$9,314 in consideration of pro forma plant improvements requested by the utility, and decreasing UPIS by \$331 to include the appropriate averaging adjustment. As such, staff recommends that the appropriate UPIS balance is \$190,273 (\$180,627 + \$413 + \$250 + \$9,314 - \$331).

**Phase I Pro Forma Additions**

Staff has included the following items in its calculation of the Phase I revenue requirement because these projects have already been completed and documentation has been provided by the utility.

Table 3-1			
Phase I Pro Forma Adjustments			
Description	UPIS	Accum. Depr.	Depr. Exp.
New Truck	\$2,827	(\$471)	\$471
New Lawn Mower	1,250	(125)	125
Check Valve at Well #1	383	(23)	23
Retirement	(287)	287	(17)
Well Pump at Well #1	9,004	(600)	600
Retirement	(6,753)	6,753	(450)
Check Valve at Well #2	688	(40)	40
Retirement	(516)	516	(30)
New Meters	10,877	(640)	640
Retirement	<u>(8,158)</u>	<u>8,158</u>	<u>(480)</u>
Total	<u>\$9,314</u>	<u>\$13,815</u>	<u>\$922</u>

In staff's first data request dated December 5, 2014, staff asked the utility to provide cost estimates and documentation of its requested pro forma plant improvements. The utility requested a portable hydrant meter and a lawn mower to be shared with Crestridge Utilities, LLC and a list of equipment to be shared with other utilities under common ownership. The list of equipment includes a computer, a printer, and a truck. Subsequent to its pro forma request, the

utility submitted invoices for several items including the flow meter, truck, lawn mower, new well pump, valves, materials needed for repiping, and other minor repair and replacement parts needed to resolve operating issues. Consistent with Commission practice, staff believes items not completed should be included in a Phase II revenue requirement discussed in Issue 11.

As discussed in Issue 2, the utility submitted a remedial plan to the Southwest Florida Water Management District to reduce unaccounted for water. The remedial plan includes a meter replacement program to replace old and unregistering meters immediately, followed by an on-going meter replacement program. On September 29, 2015, the utility submitted invoices documenting the costs for the installation of 164 meters in accordance with the meter replacement program. Staff is recommending that the cost of these meters be capitalized. As a result, staff has increased UPIS by a net amount of \$2,719 (\$10,877 - \$8,158) and decreased Accumulated Depreciation by a net amount of \$7,518 (\$8,158 - \$640). In addition, staff has adjusted depreciation expense to reflect meter replacements and retirements, resulting in an increase of \$160 (\$640 - \$480).

Staff's net adjustment to the Phase I UPIS balance is an increase of \$9,314 and a decrease to Accumulated Depreciation of \$13,815. In addition, staff has adjusted depreciation expense to reflect the pro forma additions and retirements, resulting in an increase of \$922.

Further, the utility requested an on-going meter replacement program to replace the remaining meters over four years. However, staff believes a 10-year period is more appropriate and therefore staff recommends an amount of \$3,043 as part of the operating expense (to be addressed in Issue 6) for the meter replacement program. Based on the unit cost of meters and parts provided by the utility, and an allowance for the number of parts needed for installation, staff estimates this amount provides replacement of 29 meters per year on average and the replacement of the remaining meters over 10 years.

### **Land & Land Rights**

The utility recorded a test year land value of \$3,059. In Order No. 21920, the Commission established the value of the land to be \$2,414.<sup>4</sup> There have been no additions to purchased land since Order No. 21920 was issued. Therefore, staff recommends that the balance be reduced by \$645 and that the appropriate land balance is \$2,414.

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

As discussed in Issue 2, staff is recommending that both the water treatment plant and distribution system be considered 100 percent U&U. Therefore, no adjustment is necessary.

### **Contributions In Aid of Construction (CIAC)**

The utility recorded a CIAC balance of \$85,630. Based on staff's review, no adjustments are necessary. Therefore, staff's recommended CIAC is \$85,630.

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<sup>4</sup> Order No. 21920, issued September 19, 1989, in Docket No. 890169-WU, *In re: Application of Holiday Gardens, Inc. for staff-assisted rate case in Pasco County.*



### **Accumulated Depreciation**

Holiday Gardens recorded a test year accumulated depreciation balance of \$162,118. Staff recalculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and depreciation associated with plant additions and retirements since the utility's last rate case. Staff has increased accumulated depreciation by \$1,954 to reflect the appropriate year end balance. Staff increased Accumulated Depreciation by \$25 to include the purchase of shop tools. Staff is also recommending reducing accumulated depreciation by \$13,815 related to retirements associated with the pro forma items requested by the utility, and an additional \$978 reduction to include the appropriate averaging adjustment. Staff's adjustment to this account results in an accumulated depreciation balance of \$149,305 ( $\$162,118 + \$1,954 + \$25 - \$13,815 - \$978$ ).

### **Accumulated Amortization of CIAC**

The utility recorded an accumulated amortization of CIAC balance of \$85,630. There were no additions to CIAC since the last rate case, and CIAC was fully amortized in 2009 in the amount of \$85,630. Therefore, staff's recommended accumulated amortization of CIAC balance is \$85,630.

### **Working Capital Allowance**

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$14,345 (based on O&M expense of \$114,763/8).

### **Rate Base Summary**

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$57,727. Water rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

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

**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 8.01 percent. (Mouring)

**Staff Analysis:** According to the staff audit, Holiday Gardens' test year capital structure reflected common equity of \$7,500, long-term debt of \$211,586, short-term debt of \$2,827, and customer deposits of \$720. Staff has made an adjustment to the long-term debt to set it equal to the purchase price of the regulated assets of \$24,544, established in the recent transfer order.<sup>5</sup>

The utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE for the utility is 11.16 percent based upon the Commission-approved leverage formula currently in effect. Staff recommends an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 8.01 percent. The ROE and overall rate of return are shown on Schedule No. 2.

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<sup>5</sup> Order No. PSC-15-0422-PAA-WU, issued October 6, 2015, in Docket No. 140176-WU, *In re: Application for approval of transfer of Certificate No. 116-W from Holiday Gardens Utilities, Inc. to Holiday Gardens Utilities, L.L.C., in Pasco County.*

**Issue 5:** What are the appropriate test year revenues for Holiday Gardens?

**Recommendation:** The appropriate test year revenues for the Holiday Gardens' water system are \$79,674. (Thompson)

**Staff Analysis:** Holiday Gardens recorded total test year revenues of \$77,847, which included service revenues of \$72,113 and miscellaneous revenues of \$5,734. Based on staff's review of the utility's billing determinants and the rates that were in effect during the test year, staff determined service revenues should be increased by \$1,675 to reflect annualized test year service revenues of \$73,788.<sup>6</sup> Staff also increased miscellaneous revenues by \$152 to reflect the appropriate amount of \$5,886 during the test year. Therefore, staff recommends that the appropriate test year revenues for Holiday Gardens' water system are \$79,674 (\$73,788 + \$5,886). Test year revenues are shown on Schedule No. 3-A.

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<sup>6</sup> The utility filed a 2014 Index that become effective on September 2, 2014.

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

**Recommendation:** The appropriate amount of operating expense for the utility is \$130,686. (Mouring, Lee)

**Staff Analysis:** Holiday Gardens recorded operating expense of \$78,029 for the test year ended September 30, 2014. 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.

### **Operation and Maintenance Expenses**

#### **Salaries & Wages - Employees (601)**

The utility recorded Salaries & Wages - Employee expense of \$20,091. Staff has increased this amount by \$32,113 to reflect the current allocation of employee salaries from Florida Utility Services 1, LLC. Therefore, staff recommends Salaries & Wages - Employee expense of \$52,204.

#### **Salaries & Wages - Officers (603)**

The utility recorded Salaries & Wages - Officer expense of \$1,455. Staff has increased this amount by \$10,308 to reflect the current allocation of the utility's Officer's salary. Therefore, staff recommends Salaries & Wages - Officers expense of \$11,763.

#### **Employee Pensions and Benefits (604)**

The utility recorded Pensions and Benefits expense of \$777. Staff has increased this amount by \$5,171 to reflect the current allocation of employees' medical and Workman's Compensation insurance. Therefore, staff recommends Pensions and Benefits expense of \$5,948.

#### **Materials and Supplies (620)**

Holiday Gardens recorded Materials and Supplies expense of \$1,902. This amount reflects meters and a lawnmower, which staff recommends be removed from Account 620, and capitalized to plant. The resulting amount for Materials and Supplies expense is \$0.

#### **Contractual Services - Other (636)**

The utility recorded Contractual Services – Other expense of \$23,445. Staff has decreased this amount by \$2,015 to remove out-of-period and duplicate expenses. Staff also decreased this amount by \$540 to remove lawn maintenance expense that will now be provided by the utility. The resulting amount for Contractual Services – Other expense is \$20,890 (\$23,445 - \$2,015 - \$540).

#### **Rents (640)**

Holiday Gardens recorded Rent expense of \$6,398. Staff has reduced Rent expense by \$1,940 to reflect the appropriate allocation of the lease expense for the utility's office space. Therefore, staff recommends Rent expense of \$4,458.

***Insurance Expense (655)***

Holiday Gardens recorded Insurance expense of \$4,784. Staff has decreased Insurance expense by \$1,716 ( $\$890 + \$2,178 - \$4,784$ ) to reflect the appropriate allocation of the auto insurance expense of \$890, and to include the current amount of general liability insurance of \$2,178. Therefore, staff recommends Insurance expense of \$3,068.

***Regulatory Commission Expense (665)***

The utility recorded no Regulatory Commission expense for the test year. By Rule 25-30.0407, F.A.C., the utility is required to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, staff has estimated \$447 for postage expense, \$319 for printing expense, and \$46 for envelopes. These amounts result in \$812 for postage, printing notices, and envelopes. The utility also requested recovery of legal fees associated with this SARC in the amount of \$5,336. Staff has reviewed the support documentation and believes that \$5,336 is a reasonable amount. Additionally, the utility paid a \$1,000 rate case filing fee. Based on the above, staff recommends that total rate case expense is \$7,148, which amortized over four years is \$1,787 annually. Staff recommends a Regulatory Commission expense of \$1,787.

***Bad Debt Expense (670)***

The utility recorded no Bad Debt expense for the test year. By letter dated August 31, 2015, Holiday Gardens requested an amount of Bad Debt expense equal to the current three-year average for bad debt expense of \$300. Staff believes that a Bad Debt expense of \$300 for this utility is reasonable. Staff recommends Bad Debt expense on \$300

***Miscellaneous Expense (675/775)***

The utility recorded miscellaneous expense of \$6,814. Staff has increased this amount by \$3,043 to reflect an expedited meter replacement program. In response to a staff data request, the utility stated that it was requesting a meter change out program to be expensed, stating that it is part of its remedial action plan with the water management district. Staff increased this account by \$1,316 to include the appropriate licensing and corporation's fees, and the normalized costs for its DEP permit renewal. Staff also decreased this account by \$3,129 to remove duplicative expenses already recorded in rents expense. Staff recommends Miscellaneous expense of \$8,043 ( $\$6,814 + \$3,043 + \$1,316 - \$3,129$ ).

**Operation and Maintenance Expenses Summary**

Based on the above adjustments, staff recommends that the O&M expenses are \$114,763. Staff's recommended adjustments to O&M expense are shown on Schedule No. 3-A.

**Depreciation Expense (Net of Amortization of CIAC)**

Holiday Gardens did not record any Depreciation expense during the test year. Staff recalculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, staff increased depreciation expense by \$1,954 to reflect the appropriate depreciation expense. Also, staff increased Depreciation expense by \$922 to reflect the pro forma plant items. Therefore, staff recommends depreciation expense of \$2,876 ( $\$1,954 + \$922$ ).

**Taxes Other Than Income (TOTI)**

The utility recorded a TOTI balance of \$6,061. Staff has increased TOTI by \$37 to reflect the appropriate test year property taxes. Staff has also increased TOTI by \$4,447 to reflect the appropriate allocation of payroll taxes.

In addition, as discussed in Issue 7, revenues have been increased by \$55,636 to reflect the change in revenue required to cover expenses and allow the recommended return on investment. As a result, TOTI should be increased by \$2,504 to reflect RAFs of 4.5 percent on the change in revenues. Therefore, staff recommends TOTI of \$13,048 ( $\$6,061 + \$37 + \$4,447 + \$2,504$ ).

**Operating Expenses Summary**

The application of staff's recommended adjustments to Holiday Gardens' test year Operating expenses results in operating expenses of \$130,686. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule Nos. 3-B and 3-C.

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

**Recommendation:** The appropriate revenue requirement is \$135,310, resulting in an annual increase of \$55,636 (69.83 percent). (Mouring)

**Staff Analysis:** Holiday Gardens should be allowed an annual increase of \$55,636 (69.83 percent). This will allow the utility the opportunity to recover its expenses and earn an 8.01 percent return on its water system. The calculation is shown in Table 7-1 below.

**Table 7-1  
Water Revenue Requirement**

Adjusted Rate Base	\$57,727
Rate of Return	<u>x 8.01%</u>
Return on Rate Base	\$4,624
Adjusted O&M Expense	114,763
Depreciation Expense (Net)	2,876
Taxes Other Than Income	10,544
Incremental RAFs	<u>2,504</u>
Revenue Requirement	\$135,310
Less Adjusted Test Year Revenues	<u>79,674</u>
Annual Increase	<u>\$55,636</u>
Percent Increase	<u>69.83%</u>

**Issue 8:** What is the appropriate rate structure and rates for Holiday Gardens?

**Recommendation:** The recommended rate structure and monthly water rates are shown on Schedule No. 4. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice. (Thompson)

**Staff Analysis:** The Holiday Gardens water system is located in Pasco County within the Southwest Florida Water Management District. The utility provides water service to approximately 442 residential customers and 14 general service customers. Approximately 20 percent of the residential customer bills during the test year had zero gallons indicating a customer base that reflects some seasonality. The average residential water demand is 3,588 gallons per month. The average residential water demand excluding zero gallon bills is 4,486 gallons per month. The utility's current water system rates structure for residential and general service customers consists of a base facility charge (BFC) and a uniform gallon charge.

Staff performed an analysis of the utility's billing data in order to evaluate the appropriate rate structure for the residential water customers. The goal of the evaluation was to select the rate design parameters that: 1) produce the recommended revenue requirement; 2) equitably distribute cost recovery among the utility's customers; 3) establish the appropriate non-discretionary usage threshold for restricting repression; and 4) implement, where appropriate, water conserving rate structures consistent with Commission practice. By letter dated October 20, 2014, the utility requested an inclining block rate structure pursuant to its existing consumptive use permit (CUP) at the time. Subsequently, the utility's CUP was renewed in October of 2015 and an inclining block rate structure was no longer a condition of the permit.

Typically, the Commission allocates no greater than 40 percent of the water revenue to the BFC. However, when the utility's customer base is seasonal, it has been the Commission's practice to allocate greater than 40 percent of the revenue requirement to the BFC to address revenue stability. Due to the seasonality of the customer base and the amount of the recommended revenue increase, staff believes it is appropriate to allocate 45 percent of the water revenue to the BFC for revenue stability purposes.

The average people per household served by the water system is two; therefore, based on the number of people per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 3,000 gallons per month. Approximately 56 percent of the customer bills included 3,000 gallons per month or less. Staff recommends a traditional BFC and gallonage charge rate structure with separate gallonage charges for discretionary and non-discretionary usage for residential water rates. General service customers should be billed a BFC and uniform gallonage charge. Staff's recommended rate structure and rates are shown on Schedule No. 4. Staff also presents two alternate rate structures to illustrate other BFC allocations in Table 8-1 below.



**Table 8-1  
 Staff's Recommended and Alternative Water Rate Structures and Rates**

	<b>STAFF RECOMMENDED</b>			
	<b>RATES AT TIME OF FILING</b>	<b>PHASE I RATES (45% BFC)</b>	<b>ALTERNATIVE I (50% BFC)</b>	<b>ALTERNATIVE II (40% BFC)</b>
<b><u>Residential and General Service</u></b>				
Base Facility Charge	\$7.64	\$9.97	\$11.09	\$8.86
Charge per 1,000 gallons - Residential	\$1.35	N/A	N/A	N/A
0-3,000 gallons	N/A	\$3.26	\$2.96	\$3.55
Over 3,000 gallons	N/A	\$5.16	\$4.50	\$5.88
Charge per 1,000 gallons - General Service	\$1.35	\$3.91	\$3.50	\$4.32
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>				
3,000 Gallons	\$11.69	\$19.75	\$19.97	\$19.51
5,000 Gallons	\$14.39	\$30.07	\$28.97	\$31.27
10,000 Gallons	\$21.14	\$55.87	\$51.47	\$60.67

Based on a recommended revenue increase of approximately 75 percent, excluding miscellaneous revenues, residential consumption can be expected to decline by 3,774,000 gallons resulting in anticipated average residential demand of 2,876 gallons per month. The post-repression average residential water demand excluding zero gallon bills is anticipated to be 3,596 gallons per month. Staff recommends a 19.8 percent reduction in total residential consumption and corresponding reductions of \$563 for purchased power, \$376 for chemicals, and \$44 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$128,441. Staff recommends a traditional BFC and gallonage charge rate structure with separate gallonage charges for discretionary and non-discretionary usage for residential water customers and a BFC based on 45 percent of the water revenue requirement. General service customers should be billed a BFC and uniform gallonage charge.

The recommended rate structure and monthly water rates are shown on Schedule No. 4. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice.

**Issue 9:** Should Holiday Gardens be authorized collect Non-Sufficient Funds (NSF) charges?

**Recommendation:** Yes. Holiday Gardens should be authorized to collect NSF charges. Staff recommends that Holiday Gardens revise its tariffs to reflect the NSF charges currently set forth in Sections 68.065 and 832.08(5), F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. Furthermore, the charges should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given within 10 days of the date of the notice. (Thompson)

**Staff Analysis:** Section 367.091, F.S., requires that rates, charges, and customer service policies be approved by the Commission. The Commission has authority to establish, increase, or change a rate or charge. Staff believes that Holiday Gardens should be authorized to collect NSF charges consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Sections 832.08(5) and 68.065(2), F.S., the following NSF charges may be assessed:

1. \$25, if the face value does not exceed \$50,
2. \$30, if the face value exceeds \$50 but does not exceed \$300,
3. \$40, if the face value exceeds \$300,
4. or five percent of the face amount of the check, whichever is greater.

Approval of NSF charges is consistent with prior Commission decisions.<sup>7</sup> Furthermore, NSF charges place the cost on the cost-causer, rather than requiring that the costs associated with the return of the NSF checks be spread across the general body of ratepayers. Therefore, staff recommends that Holiday Gardens revise its tariffs to reflect the NSF charges currently set forth in Sections 68.065 and 832.08(5), F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the NSF charges should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given within 10 days of the date of the notice.

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<sup>7</sup> Order Nos. PSC-10-0364-TRF-WS, issued June 7, 2010, in Docket No. 100170-WS, *In re: Application for authority to collect non-sufficient funds charges, pursuant to Sections 68.065 and 832.08(5), F.S., by Pluris Wedgefield Inc., and PSC-10-0168-PAA-SU, issued March 23, 2010, in Docket No. 090182-SU, In re: Application for increase in wastewater rates in Pasco County by Ni Florida, LLC.*

**Issue 10:** What are the utility's appropriate initial customer deposits for Holiday Gardens' water service?

**Recommendation:** The appropriate initial customer deposit for water customers should be \$46 for the residential 5/8" x 3/4" meter size. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for wastewater service. The approved customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C. The utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding. (Thompson)

**Staff Analysis:** Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the utility and, ultimately, the general body of ratepayers. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.<sup>8</sup> Currently, the utility's wastewater initial customer deposit is \$24 for 5/8" x 3/4" meter size and two times the average estimated bill for all other meters sizes. Based on the staff recommended wastewater rates, the appropriate initial customer deposit should be \$46 for water to reflect an average residential customer bill for two months.

During the course of staff's audit, it was determined that additional deposits in the amount of \$15 were assessed to 51 customers, which totals \$765. The utility required an additional deposit from those customers who had frequent shut offs due to delinquent bills. The utility confirmed that interest is paid on these accounts as required by Rule 25-30.311(4), F.A.C. Pursuant to Rule 25-30.311(7), F.A.C., a utility may require an additional deposit in order to secure payment of current bills as long as the total amount of the required deposit does not exceed an amount equal to the average actual charge for water and/or wastewater service for two billing periods for the 12-month period immediately prior to the date of notice. Further, Rule 25-30.311(7), F.A.C. requires that request for an additional deposit be by written notice of not less than 30 days and the notice be separate and apart from any bill for service. However, the utility's request for the additional deposit was included on the bill for service. The utility has affirmed that in the future it will collect additional deposits in the manner required by Rule. Therefore, staff believes no enforcement action should be taken at this time.

Staff recommends the appropriate initial customer deposit should be \$46 for the residential 5/8" x 3/4" meter size for wastewater. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for wastewater. The approved customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C. The utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding.

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<sup>8</sup> Order Nos. PSC-13-0611-PAA-WS, issued November 19, 2013, in Docket No. 130010-WS, *In re: Application for increase in water rates in Lee County and wastewater rates in Pasco County by Ni Florida, LLC.* and PSC-14-0016-TRF-WU, issued January 6, 2014, in Docket No. 130251-WU, *In re: Application for approval of miscellaneous service charges in Pasco County, by Crestridge Utility Corporation.*

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

**Recommendation:** The water rates should be reduced as shown on Schedule No. 4, 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. Holiday Gardens 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. (Thompson, Mouring)

**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 reduction is \$1,890 for water.

Using Holiday Gardens' current revenue, expenses, capital structure and customer base, the reduction in revenue will result in the rate decreases as shown on Schedule No. 4. 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. Holiday Gardens should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

**Issue 12:** Should the Commission approve a Phase II increase for pro forma items for Holiday Gardens?

**Recommendation:** Yes. The Commission should approve a Phase II revenue requirement associated with pro forma items. The utility's Phase II revenue requirement is \$136,913, which equates to a 1.18 percent increase over the Phase I revenue requirement. Staff recommends that the increase be applied as an across-the-board increase to the Phase I rates.

Implementation of the Phase II rates is conditioned upon Holiday Gardens completing the pro forma items within 12 months of the issuance of a consummating order in this docket. The utility should be required to submit a copy of the final invoices and cancelled checks or other payment confirmation documentation for all pro forma plant items. The utility should be allowed to implement the above rates once all pro forma items have been completed and documentation provided showing that the improvements have been made. Once verified, the 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. The rates should not be implemented until notice has been received by the customers. Holiday Gardens should provide proof of the date notice was given within 10 days of the date of the notice. If the utility encounters any unforeseen events that will impede the completion of the pro forma items, the utility should immediately notify the Commission in writing. (Lee, Mouring)

**Staff Analysis:** As discussed in Issue 3, the utility has requested recognition of several pro forma plant items in the instant case. Several of the pro forma items either have been or will be completed before implementation of the Phase I rates and, therefore, have been included in the Phase I revenue requirement as reflected in previous issues. The following table summarizes the Phase II pro forma plant items and estimated cost.

Staff is recommending a Phase II revenue requirement associated with the pro forma items for a number of reasons. First, it assures that the pro forma items are completed prior to the utility's recovery of the investment in rates. In addition, addressing the pro forma items in a single case saves additional rate case expense to the customers because the utility would not need to file another rate case or limited proceeding to seek recovery for these items. The Commission has approved a Phase-In approach in Docket Nos. 130265-WU, 110238-WU, and 110165-SU.

Staff's net adjustment to the Phase II UPIS balance is an increase of \$4,749 and a decrease to Accumulated Depreciation of \$11,208. In addition, staff has adjusted depreciation expense to reflect the pro forma additions and retirements resulting in an increase of \$238. Also, staff has increased TOTI by \$72 to reflect RAFs of 4.5 percent on the change in revenues. Staff's total adjustment to operating expenses, including additional RAFs, is \$310 resulting in total operating expenses of \$130,997.

Table 11-1			
Phase II Pro Forma Adjustments			
Description	UPIS	Accum. Depr.	Depr. Exp.
New Computer	\$137	(\$23)	\$23
New Printer	59	(10)	10
New Portable Meter	565	(33)	33
Replumb at Well #1	1,800	(67)	67
Retirement	(1,350)	1,350	(50)
Air Relief Valve at Well #1	200	(12)	12
Retirement	(150)	150	(9)
Repaint at Well #1	200	(7)	7
Retirement	(150)	150	(6)
Roof at Well #1	4,000	(148)	148
Retirement	(3,000)	3,000	(111)
Flow Meter at Well #1	1,500	(100)	100
Retirement	(1,125)	1,125	(75)
Replumb at Well #2	1,800	(67)	67
Retirement	(1,350)	1,350	(50)
Repaint at Well #2	200	(7)	7
Retirement	(150)	150	(6)
Roof at Well #2	4,000	(148)	148
Retirement	(3,000)	3,000	(111)
Gate Valve at Well #2	750	(44)	44
Retirement	(563)	563	(33)
Air Compressor at Well #2	1,500	(88)	88
Retirement	<u>(1,125)</u>	<u>1,125</u>	<u>(66)</u>
Total	<u>\$4,749</u>	<u>\$11,208</u>	<u>\$238</u>

The utility's Phase II revenue requirement should be \$136,913, representing a 1.18 percent increase over the recommended Phase I revenue requirement. Phase II rate base is shown on Schedule No. 5-A. The capital structure for Phase II is shown on Schedule No. 6. The revenue requirement is shown on Schedule No. 7-A. The resulting rates are shown on Schedule No. 8.

Implementation of the Phase II rates is conditioned upon Holiday Gardens completing the pro forma items within 12 months of the issuance of a consummating order in this docket. The utility should be required to submit a copy of the final invoices and cancelled checks for all pro forma plant items. The utility should be allowed to implement the above rates once all pro forma items have been completed and documentation provided showing that the improvements have been made. Once verified, the 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. The rates should not be

implemented until notice has been received by the customers. Holiday Gardens should provide proof of the date notice was given within 10 days of the date of the notice. If the utility encounters any unforeseen events that will impede the completion of the pro forma items, the utility should immediately notify the Commission in writing.

**Issue 13:** 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 for Phase I should be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. Holiday Gardens 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 Clerk's office 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. (Mouring)

**Staff Analysis:** This recommendation proposes an increase in rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. Holiday Gardens 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.

The utility 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 \$37,117. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

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

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

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



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

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

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

The utility should maintain a record of the amount of the bond, 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 Clerk's office no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

**Issue 14:** Should the utility be required to notify the Commission within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) associated with the Commission approved adjustments?

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

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

**Issue 15:** 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 outstanding Phase I pro forma items have been completed, the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and the utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Also, the docket should remain open to allow staff to verify that the Phase II pro forma items have been completed, and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively. (Corbari, Mouring)

**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 outstanding Phase I pro forma items have been completed, the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and the utility has provided staff with proof that the adjustments for all applicable NARUC USOA primary accounts have been made. Also, the docket should remain open to allow staff to verify that the Phase II pro forma items have been completed and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively.

<b>HOLIDAY GARDENS UTILITIES, LLC</b>		<b>SCHEDULE NO. 1-A</b>	
<b>TEST YEAR ENDED 09/30/14</b>		<b>DOCKET NO. 140177-WU</b>	
<b>SCHEDULE OF WATER RATE BASE (PHASE I)</b>			
<b>DESCRIPTION</b>	<b>BALANCE PER UTILITY</b>	<b>STAFF ADJUSTMENTS TO UTIL. BAL.</b>	<b>BALANCE PER STAFF</b>
UTILITY PLANT IN SERVICE	\$180,627	\$9,646	\$190,273
LAND & LAND RIGHTS	3,059	(645)	2,414
NON-USED AND USEFUL COMPONENTS	0	0	0
CIAC	(85,630)	0	(85,630)
ACCUMULATED DEPRECIATION	(162,118)	12,813	(149,305)
AMORTIZATION OF CIAC	85,630	0	85,630
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>14,345</u>	<u>14,345</u>
WATER RATE BASE	<u>\$21,568</u>	<u>\$36,159</u>	<u>\$57,727</u>

<b>HOLIDAY GARDENS UTILITIES, LLC</b>		<b>SCHEDULE NO. 1-B</b>
<b>TEST YEAR ENDED 09/30/14</b>		<b>DOCKET NO. 140177-WU</b>
<b>ADJUSTMENTS TO RATE BASE (PHASE I)</b>		
		<b><u>WATER</u></b>
	<b><u>UTILITY PLANT IN SERVICE</u></b>	
1.	To reflect the appropriate UPIS.	\$413
2.	To include the purchase of shop tools.	250
3.	To reflect pro forma plant additions and retirements.	9,314
4.	To reflect the appropriate averaging adjustment.	<u>(331)</u>
	Total	<u>\$9,646</u>
	<b><u>LAND</u></b>	
	To reflect the appropriate land balance.	<u>(\$645)</u>
	<b><u>ACCUMULATED DEPRECIATION</u></b>	
1.	To reflect the appropriate Accumulated Depreciation.	(\$1,954)
2.	To include the purchase of shop tools.	(25)
3.	To reflect pro forma plant additions and retirements.	13,815
4.	To reflect the appropriate averaging adjustment.	<u>978</u>
	Total	<u>\$12,813</u>
	<b><u>WORKING CAPITAL ALLOWANCE</u></b>	
	To reflect 1/8 of test year O&M expenses.	<u>\$14,345</u>

<b>HOLIDAY GARDENS UTILITIES, LLC</b>							<b>SCHEDULE NO. 2</b>		
<b>TEST YEAR ENDED 09/30/14</b>							<b>DOCKET NO. 140177-WU</b>		
<b>SCHEDULE OF CAPITAL STRUCTURE (PHASE I)</b>									
<b>CAPITAL COMPONENT</b>	<b>PER UTILITY</b>	<b>STAFF SPECIFIC ADJUSTMENTS</b>	<b>BALANCE BEFORE PRO RATA ADJUSTMENTS</b>	<b>PRO RATA ADJUSTMENTS</b>	<b>BALANCE PER STAFF</b>	<b>PERCENT OF TOTAL</b>	<b>COST</b>	<b>WEIGHTED COST</b>	
1. COMMON EQUITY	\$7,500	\$0	\$7,500	\$4,761	\$12,261	21.24%	11.16%	2.37%	
2. LONG-TERM DEBT	423,172	(398,628)	24,544	15,581	40,125	69.51%	7.50%	5.21%	
3. SHORT-TERM DEBT (Truck)	0	2,827	2,827	1,794	4,621	8.00%	5.00%	0.40%	
4. PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%	
5. CUSTOMER DEPOSITS	576	144	720	0	720	1.25%	2.00%	0.02%	
6. DEFERRED INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
7. TOTAL	<u>\$431,248</u>	<u>(\$395,657)</u>	<u>\$35,591</u>	<u>\$22,137</u>	<u>\$57,727</u>	<u>100.00%</u>		<u>8.01%</u>	
<b>RANGE OF REASONABLENESS</b>						<b><u>LOW</u></b>	<b><u>HIGH</u></b>		
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>		
OVERALL RATE OF RETURN						<u>7.80%</u>	<u>8.22%</u>		

HOLIDAY GARDENS UTILITIES, LLC			SCHEDULE NO. 3-A		
TEST YEAR ENDED 09/30/14			DOCKET NO. 140177-WU		
SCHEDULE OF WATER OPERATING INCOME (PHASE I)					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$77,847</u>	<u>\$1,827</u>	<u>\$79,674</u>	<u>\$55,636</u> 69.83%	<u>\$135,310</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	\$71,968	\$42,795	\$114,763	\$0	\$114,763
3. DEPRECIATION (NET)	0	2,876	2,876	0	2,876
4. TAXES OTHER THAN INCOME	6,061	4,483	10,544	2,504	13,048
5. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
6. TOTAL OPERATING EXPENSES	<u>\$78,029</u>	<u>\$50,154</u>	<u>\$128,183</u>	<u>\$2,504</u>	<u>\$130,686</u>
7. OPERATING INCOME/(LOSS)	<u>(\$182)</u>		<u>(\$48,509)</u>		<u>\$4,624</u>
8. WATER RATE BASE	<u>\$21,568</u>		<u>\$57,727</u>		<u>\$57,727</u>
9. RATE OF RETURN	<u>(0.84%)</u>		<u>(84.03%)</u>		<u>8.01%</u>

**HOLIDAY GARDENS UTILITIES, LLC  
 TEST YEAR ENDED 09/30/14  
 ADJUSTMENTS TO OPERATING INCOME (PHASE I)**

**SCHEDULE NO. 3-B  
 DOCKET NO. 140177-WU  
 Page 1 of 2**

**WATER**

**OPERATING REVENUES**

a. To reflect the appropriate test year service revenues.	\$1,657
b. To reflect the test year miscellaneous service revenues.	<u>152</u>
Subtotal	<u>\$1,827</u>

**OPERATION AND MAINTENANCE EXPENSES**

1. Salaries and Wages – Employees (601) To reflect the appropriate amount of salary expense for the test year.	<u>\$32,113</u>
2. Salaries and Wages – Officers (603) To reflect the appropriate amount of officer’s salary expense for the test year.	<u>\$10,308</u>
3. Employee Pensions and Benefits (604) To reflect the appropriate medical and workman’s comp. benefits.	<u>\$5,171</u>
4. Material and Supplies (620) To reflect capitalized items.	<u>(\$1,902)</u>
5. Contractual Services - Other (636) a. To remove out-of-period expenses.	(\$2,015)
b. To reflect the reduction in lawn maintenance expense.	<u>(540)</u>
Subtotal	<u>(\$2,555)</u>
6. Rents (640) To reflect the appropriate rent expense.	<u>(\$1,940)</u>
7. Insurance Expense (655) To reflect the appropriate insurance expense.	<u>(\$1,716)</u>
8. Regulatory Commission Expense (665) To reflect 4-year amortization of rate case expense.	<u>\$1,787</u>
9. Bad Debt Expense (670) To reflect the 3-year average bad debt expense	<u>\$300</u>
10. Miscellaneous Expense (675) a. To reflect the meter replacement program expense.	\$3,043
b. To reflect the licensing and corporations fees, and DEP Permit.	1,316
c. To remove duplicate telephone and utilities expense.	<u>(3,129)</u>
Subtotal	<u>\$1,229</u>

**TOTAL OPERATION & MAINTENANCE ADJUSTMENTS** \$42,795

(O&M EXPENSES CONTINUED ON NEXT PAGE)



**HOLIDAY GARDENS UTILITIES, LLC**  
**TEST YEAR ENDED 09/30/14**  
**ADJUSTMENTS TO OPERATING INCOME (PHASE I)**

**SCHEDULE NO. 3-B**  
**DOCKET NO. 140177-WU**  
**Page 2 of 2**

**DEPRECIATION EXPENSE**

To reflect appropriate depreciation expense per Rule 25-30.140 F.A.C.. \$2,876

**TAXES OTHER THAN INCOME**

a. To reflect the appropriate test year property taxes. \$37

b. To reflect the appropriate allocation of payroll taxes. 4,447

Total \$4,483

<b>HOLIDAY GARDENS UTILITIES, LLC</b>		<b>SCHEDULE NO. 3-C</b>	
<b>TEST YEAR ENDED 09/30/14</b>		<b>DOCKET NO. 140177-WU</b>	
<b>ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE (PHASE I)</b>			
	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUST- MENTS</b>	<b>TOTAL PER STAFF</b>
(601) SALARIES AND WAGES - EMPLOYEES	\$20,091	\$32,113	\$52,204
(603) SALARIES AND WAGES - OFFICERS	1,455	10,308	11,763
(604) EMPLOYEE PENSIONS AND BENEFITS	777	5,171	5,948
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	3,260	0	3,260
(616) FUEL FOR POWER PRODUCTION	100	0	100
(618) CHEMICALS	2,179	0	2,179
(620) MATERIALS AND SUPPLIES	1,902	(1,902)	0
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	0	0	0
(633) CONTRACTUAL SERVICES - LEGAL	0	0	0
(636) CONTRACTUAL SERVICES - OTHER	23,445	(2,555)	20,890
(640) RENTS	6,398	(1,940)	4,458
(650) TRANSPORTATION EXPENSE	763	0	763
(655) INSURANCE EXPENSE	4,784	(1,716)	3,068
(665) REGULATORY COMMISSION EXPENSE	0	1,787	1,787
(670) BAD DEBT EXPENSE	0	300	300
(675) MISCELLANEOUS EXPENSE	<u>6,814</u>	<u>1,229</u>	<u>8,043</u>
<b>TOTAL WATER O&amp;M EXPENSES</b>	<u>\$71,968</u>	<u>\$42,795</u>	<u>\$114,763</u>

<b>HOLIDAY GARDENS UTILITIES, LLC.</b>		<b>SCHEDULE NO. 4</b>	
<b>TEST YEAR ENDED SEPTEMBER 30, 2014</b>		<b>DOCKET NO. 140177-WU</b>	
<b>MONTHLY WATER RATES (PHASE I)</b>			
	<b>RATES AT TIME OF FILING</b>	<b>STAFF RECOMMENDED RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential and General Service</u></b>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$7.64	\$9.97	\$0.15
3/4"	\$11.45	\$14.96	\$0.22
1"	\$19.14	\$24.93	\$0.37
1-1/2"	\$38.23	\$49.85	\$0.73
2"	\$61.22	\$79.76	\$1.17
3"	\$122.45	\$159.52	\$2.35
4"	\$191.29	\$249.25	\$3.67
6"	\$382.59	\$498.50	\$7.34
Charge per 1,000 gallons - Residential			
0 - 3,000 gallons	\$1.35	N/A	N/A
Over 3,000 gallons	N/A	\$3.26	\$0.05
	N/A	\$5.16	\$0.08
Charge per 1,000 gallons - General Service			
	\$1.35	\$3.91	\$0.06
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
3,000 Gallons	\$13.04	\$24.91	
6,000 Gallons	\$15.74	\$35.23	
10,000 Gallons	\$21.14	\$55.87	

<b>HOLIDAY GARDENS UTILITIES, LLC</b>		<b>SCHEDULE NO. 5-A</b>	
<b>TEST YEAR ENDED 09/30/14</b>		<b>DOCKET NO. 140177-WU</b>	
<b>SCHEDULE OF WATER RATE BASE (PHASE II)</b>			
<b>DESCRIPTION</b>	<b>PHASE I BALANCE</b>	<b>STAFF ADJUSTMENTS TO UTIL. BAL.</b>	<b>BALANCE PER STAFF</b>
UTILITY PLANT IN SERVICE	\$190,273	\$4,749	\$195,021
LAND & LAND RIGHTS	2,414	0	2,414
NON-USED AND USEFUL COMPONENTS	0	0	0
CIAC	(85,630)	0	(85,630)
ACCUMULATED DEPRECIATION	(149,305)	11,208	(138,097)
AMORTIZATION OF CIAC	85,630	0	85,630
WORKING CAPITAL ALLOWANCE	<u>14,345</u>	<u>0</u>	<u>14,345</u>
WATER RATE BASE	<u>\$57,727</u>	<u>\$15,957</u>	<u>\$73,684</u>

<b>HOLIDAY GARDENS UTILITIES, LLC</b>		<b>SCHEDULE NO. 5-B</b>
<b>TEST YEAR ENDED 09/30/14</b>		<b>DOCKET NO. 140177-WU</b>
<b>ADJUSTMENTS TO RATE BASE (PHASE II)</b>		
		<b><u>WATER</u></b>
<b><u>UTILITY PLANT IN SERVICE</u></b>		
To reflect pro forma plant additions and retirements.		<u>\$4,749</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>		
To reflect pro forma plant additions and retirements.		<u>\$11,208</u>

<b>HOLIDAY GARDENS UTILITIES, LLC</b>							<b>SCHEDULE NO. 6</b>		
<b>TEST YEAR ENDED 09/30/14</b>							<b>DOCKET NO. 140177-WU</b>		
<b>SCHEDULE OF CAPITAL STRUCTURE (PHASE II)</b>									
<b>CAPITAL COMPONENT</b>	<b>PHASE I BALANCE</b>	<b>STAFF SPECIFIC ADJUST- MENTS</b>	<b>BALANCE BEFORE PRO RATA ADJUSTMENTS</b>	<b>PRO RATA ADJUST- MENTS</b>	<b>BALANCE PER STAFF</b>	<b>PERCENT OF TOTAL</b>	<b>COST</b>	<b>WEIGHTED COST</b>	
1. COMMON EQUITY	\$7,500	\$0	\$7,500	\$8,193	\$15,693	21.30%	11.16%	2.38%	
2. LONG-TERM DEBT	24,544	0	24,544	26,812	51,356	69.70%	7.50%	5.23%	
3. SHORT-TERM DEBT (Truck)	2,827	0	2,827	3,088	5,914	8.03%	5.00%	0.40%	
4. PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%	
5. CUSTOMER DEPOSITS	720	0	720	0	720	0.98%	2.00%	0.02%	
6. DEFERRED INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
7. TOTAL	<u>\$35,591</u>	<u>\$0</u>	<u>\$35,591</u>	<u>\$38,093</u>	<u>\$73,684</u>	<u>100.00%</u>		<u>8.03%</u>	
<b>RANGE OF REASONABLENESS</b>						<b><u>LOW</u></b>	<b><u>HIGH</u></b>		
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>		
OVERALL RATE OF RETURN						<u>7.81%</u>	<u>8.24%</u>		

HOLIDAY GARDENS UTILITIES, LLC			SCHEDULE NO. 7-A		
TEST YEAR ENDED 09/30/14			DOCKET NO. 140177-WU		
SCHEDULE OF WATER OPERATING INCOME (PHASE II)					
	PHASE I	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$135,310</u>	<u>\$0</u>	<u>\$135,310</u>	<u>\$1,603</u> 1.18%	<u>\$136,913</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	\$114,763	\$0	\$114,763	\$0	\$114,763
3. DEPRECIATION (NET)	2,876	238	3,114	0	3,114
4. TAXES OTHER THAN INCOME	13,048	0	13,048	72	13,120
5. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
6. TOTAL OPERATING EXPENSES	<u>\$130,686</u>	<u>\$238</u>	<u>\$130,925</u>	<u>\$72</u>	<u>\$130,997</u>
7. OPERATING INCOME/(LOSS)	<u>\$4,624</u>		<u>\$4,386</u>		<u>\$5,917</u>
8. WATER RATE BASE	<u>\$57,727</u>		<u>\$73,684</u>		<u>\$73,684</u>
9. RATE OF RETURN	<u>8.01%</u>		<u>5.95%</u>		<u>8.03%</u>

**HOLIDAY GARDENS UTILITIES, LLC  
TEST YEAR ENDED 09/30/14  
ADJUSTMENTS TO OPERATING INCOME (PHASE II)**

**SCHEDULE NO. 7-B  
DOCKET NO. 140177-WU**

**DEPRECIATION EXPENSE**

To reflect appropriate depreciation expense per Rule 25-30.140 F.A.C..

**WATER**

**\$238**



<b>HOLIDAY GARDENS UTILITIES, LLC</b>		<b>SCHEDULE NO. 8</b>	
<b>TEST YEAR ENDED SEPTEMBER 30, 2014</b>		<b>DOCKET NO. 140177-WU</b>	
<b>MONTHLY WATER RATES (PHASE II)</b>			
		<b>RATES AT TIME OF FILING</b>	<b>STAFF RECOMMENDED RATES</b>
<b><u>Residential and General Service</u></b>			
Base Facility Charge by Meter Size			
5/8" x 3/4"		\$9.97	\$10.09
3/4"		\$14.96	\$15.14
1"		\$24.93	\$25.23
1-1/2"		\$49.85	\$50.45
2"		\$79.76	\$80.72
3"		\$159.52	\$161.44
4"		\$249.25	\$252.25
6"		\$498.50	\$504.50
Charge per 1,000 gallons - Residential		N/A	N/A
	0 - 3,000 gallons	\$3.26	\$3.30
	Over 3,000 gallons	\$5.16	\$5.22
Charge per 1,000 gallons - General Service		\$3.91	\$3.96
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
	3,000 Gallons	\$24.91	\$25.21
	5,000 Gallons	\$35.23	\$35.65
	10,000 Gallons	\$55.87	\$56.53