

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: January 21, 2016
TO: Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk
FROM: Adam Hill, Engineering Specialist, Division of Engineering *AH*
RE: Docket No. 150149-WS-Application for staff-assisted rate case in Glades and Highlands Counties by Silver Lake Utilities, Inc. *PEG*

Please file the attached "Staff Report" in the above mentioned Docket File.

Thank you.

State of Florida



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

DATE: January 21, 2016

TO: Laura King, Chief of Reliability & Resource Planning, Division of Engineering

FROM: Division of Engineering (Hill) *EFH*
Office of Auditing & Performance Analysis (Small) *me*
Division of Accounting and Finance (T. Brown, Cicchetti, Vogel) *m*
Division of Economics (Bruce, Hudson) *BSH*
Office of the General Counsel (Corbari) *KC*

RE: Docket No. 150149-WS-Application for staff-assisted rate case in Glades and Highlands Counties by Silver Lake Utilities, Inc.

--STAFF REPORT--

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting on February 11, 2016.

Table of Contents

Case Background	1
Issue 1 Quality of Service	2
Issue 2 Used and Useful.....	3
Issue 3 Average Test Year Rate Base	6
Issue 4 Rate of Return.....	8
Issue 5 Test Year Revenues	9
Issue 6 Operating Expenses	10
Issue 7 Phase I Revenue Requirement.....	12
Issue 8 Appropriate Rate Structure	13
Issue 9 Service Charges	15
Issue 10 Customer Deposits.....	16
Issue 11 Four-Year Rate Reduction	17
Issue 12 Temporary Basis.....	18
Issue 13 Proof of Adjustments.....	20
Issue 14 Close Docket.....	21
Schedule No. 1-A Water Rate Base.....	22
Schedule No. 1-B Adjustments to Rate Base.....	23
Schedule No. 2 Capital Structure.....	24
Schedule No. 3-A Water Operating Income	25
Schedule No. 3-B Adjustments to NOI.....	26
Schedule No. 3-C Water O&M Expense	27

Case Background

Silver Lake Utilities, Inc. (Silver Lake or utility) is a Class C utility providing water service to approximately 39 residential and 23 general service customers. The majority of the property in the utility's service territory is owned by Lykes Bros, and thus the utility serves primarily related parties. Silver Lake is located in the South Florida Water Management District (SFWMD). Water rates were last established for this utility in 2007.¹ On May 26, 2015, Silver Lake filed an application for a Staff Assisted Rate Case (SARC). Staff selected the test year ended March 31, 2015, for the instant case. According to Silver Lake's 2014 annual report, its total operating revenues for water was \$43,080. The utility reported a net loss of \$176,636.²

This Staff Report is a **preliminary** analysis of the utility prepared by the Commission staff to give utility customers and the utility a preview of what staff may be proposing. The final recommendation to the Commission is currently scheduled to be filed on March 24, 2016, for consideration at the April 5, 2016 Commission Conference. The recommendation will be revised as necessary using any updated information and results of customer quality of service concerns or other relevant information received during the customer meeting. The Commission has jurisdiction in this case pursuant to Section 367.0814, Florida Statutes, (F.S.).

¹Order No., PSC-07-0983-PAA-WS, issued December 10, 2007, in Docket No. 060726-WU, *In re: Application for certificates to provide water and wastewater service in Glades County and water service in Highlands County by Silver Lake Utilities, Inc.*

²Silver Lake Utilities, Inc. 2014 Annual Report filed April 28, 2015, with FPSC, <http://www.floridapsc.com/library/financials/WS907-DOCS/ANNUAL-REPORTS/WS907-14-AR.PDF>

Discussion of Issues

Issue 1: Is the quality of service provided by Silver Lake Utilities, Inc. satisfactory?

Preliminary Recommendation: Staff's recommendation regarding quality of service will not be finalized until after the February 11, 2016 Customer Meeting. (Hill)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water rate cases, the Commission shall determine the overall quality of service provided by the 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 Florida 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 and customer comments or complaints over the preceding five-year period shall be considered pursuant to Section 367.0812(1)(c), F.S.

Silver Lake's service area is located near Okeechobee, Florida, in Highlands and Glades Counties, and is within the SFWMD. The utility's water system provides finished water that is obtained from 26 systems with 28 wells.

Quality of Utility's Product and Operating Condition of the Utility's Plant and Facilities

Staff reviewed the Commission's complaint records from April 1, 2011, through March 31, 2015, and found no complaints. Staff requested copies of complaints filed with the utility during the test year and four years prior to the test year. The utility responded that no complaints had been filed during the test year and four years prior to the test year.³ Staff also requested complaints against the utility filed with the DEP for the test year and four years prior. DEP indicated that it had not received any complaints against the utility during the time frame. All quality of service complaints will be investigated and will be taken into consideration during the preparation of staff's final recommendation.

Conclusion

Quality of service will be determined at a later date, pending review of comments made at the February 11, 2016 Customer Meeting.

³Document No. 05185-15, filed on August 20, 2015.

Issue 2: What are the used and useful percentages (U&U) of Silver Lake Utilities, Inc. water treatment plant and distribution system and storage?

Preliminary Recommendation: Silver Lake's water treatment plant (WTP) should be considered 90.99 percent U&U and its distribution systems should be considered 100 percent U&U. There appears to be no excessive unaccounted for water (EUW), therefore, at this time, staff is not recommending an adjustment be made to operating expenses for chemicals and purchased power. The storage systems should be considered 78.3 percent U&U. (Hill)

Staff Analysis: Silver Lake's water system is served by 28 total wells rated at a combined 856 gallons per minute (gpm). Water treatment varies by system based on quality of the groundwater. Water is treated by chlorination in 16 of the systems, by aeration in 5 of the systems, with a water softener in 3 of the systems, with a carbon filter in 3 of the systems, with ozone in 2 of the systems, and via reverse osmosis provided on the customer side for one system.⁴ Eight of these systems are required to be permitted either by the DEP or the SFWMD, and have a combined permitted capacity of 0.17 million gallons per day (MGD). There are no fire hydrants served by the systems. Analysis of the provided data indicates there has been no growth to the system in the past five years.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., describes excessive EUW as unaccounted for water in excess of 10 percent of the amount produced. When establishing the rule, the Commission recognized that some uses of water are readily measurable and others are not. Unaccounted for water is all water that is produced that is not sold, metered or accounted for in the records of the utility. The rule provides that to determine whether adjustments to plant and operating expenses, such as purchased electrical power and 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 other purposes, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year. The Monthly Operating Reports that the utility files with DEP, and operational records the utility provided for non-DEP systems, indicated it treated a total of approximately 6,594,500 gallons, sold approximately 6,262,000 gallons of water for the test year, and accounted for approximately 303,000 gallons due to flushing and other uses. This accounts for approximately 5 percent unaccounted for water, which is not in excess of the 10 percent allowed, and thus there appears to be no EUW to be considered. At this time, staff is recommending that no adjustment be made to operating expenses for chemicals and purchase power due to the EUW.

⁴Several of Silver Lake's water systems are treated using multiple methods.

Water Treatment Plant and Distribution System Used & Useful

The capacity of each WTP is separately rated. Pursuant to Rule 25-30.4325(4), F.A.C., a water treatment system with one well is 100 percent used and useful. Twenty-four of the 26 systems have one well each, and therefore, should be considered 100 percent used and useful. In calculating the Firm Reliable Capacity (FRC) of a water system served by wells, the pumping capacity of the wells, excluding the largest well for those systems with more than one well, is considered the FRC. The two systems with more than one well each are Brighton Ranch Office WTP and Brighton Grove Office WTP.

The U&U calculation for a WTP is $(\text{Max Day} - \text{EUW} + \text{Fire Flow} + \text{Growth}) / \text{FRC}$. Brighton Ranch Office WTP has a FRC of 25 gpm based on the smallest well.⁵ The maximum daily usage for the test year was 4,300 gallons on April 28, 2014.⁶ It does not appear that there was a line break or unusual occurrence on that day. This results in a peak demand of $(4,300 / 1,440) * 2$, or 5.97 gpm.⁷ There is no EUW and there is no fire flow. The growth in connections appears to be zero. The resulting U&U calculation for Brighton Ranch Office is $(5.97 - 0 + 0 + 0) / 25$, or 23.9 percent. Brighton Grove Office WTP has a FRC of 22 gpm based on the smallest well. The peak hour demand is calculated as 7.7 gpm.⁸ There is no EUW and there is no fire flow. The growth in connections appears to be zero. The resulting U&U calculation for Brighton Grove Office is $(7.7 - 0 + 0 + 0) / 22$, or 35 percent. The 24 single-well systems which are considered 100 percent U&U combined with Brighton Ranch Office and Brighton Grove Office amounts produce an overall value of 90.99 percent U&U for the water treatment plant.⁹

There has been no growth in the service area in the past five years and there is no apparent potential for additional development; therefore, pursuant to Rule 25-30.4325(4), F.A.C., the transmission and distribution lines should be considered 100 percent U&U.

Water Treatment Plant – Ground Storage Tank – Used & Useful

Pursuant to Rule 25-30.4325(8), F.A.C., usable storage capacity less than or equal to the peak day demand shall be considered 100 percent U&U. Because the usable storage capacity for each system is less than the peak day demands, all storage tanks except Brighton Ranch shall be considered 100 percent U&U. Brighton Ranch has 7,500 gallons of storage and a peak day demand of 4,300 gallons. The Brighton Ranch storage system should be considered $4,300 / 7,500$ or 53.7 percent U&U. Based on a weighted average which accounts for the relative size of each

⁵Staff will re-calculate U&U using gallons per day after the plant inspection to account for the storage tanks on these systems. Preliminary calculations show this should change the overall U&U by less than one percent.

⁶Document No. 05185-15, filed August 20, 2015.

⁷ Per Rule 25-30.4325(7)(a)(1), F.A.C., Water Treatment and Storage Used and Useful Calculations.

⁸Per Rule 25-30.4325(7)(a)(2), F.A.C., Water Treatment and Storage Used and Useful Calculations, peak hour demand, expressed in gallons per minute, shall be calculated as 1.1 gallons per minute per equivalent residential connection if the actual maximum day flow data is not available. This system is not regulated by DEP and thus daily flow data is not required to be kept and is unavailable.

⁹Overall WTP U&U is calculated based on a weighted average which accounts for the relative size of each system and the U&U percentage for each system.

storage system and the U&U percentage for each storage system, staff recommends the overall storage U&U is 78.3 percent.¹⁰

¹⁰ Total system storage is 14,750 gallons. 7,250 gallons should be considered 100 percent U&U, and 7,500 should be considered 53.7 percent U&U.

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

Preliminary Recommendation: The appropriate average test year rate base for Silver Lake is \$716,332. (Vogel)

Staff Analysis: The test year ended March 31, 2015, 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 \$1,246,881. The staff audit noted exceptions to the utility's UPIS balances. Commission audit staff compiled all subsequent plant additions and retirements. Staff is recommending decreasing UPIS by \$57,525 to remove a plant that is being held for future use. Staff is recommending increasing UPIS by \$4,400 to capitalize two plant additions (\$1,805 + \$2,595) that were originally placed in Operating & Maintenance (O&M) expenses. Staff has increased UPIS by \$2,694 to include pro forma plant additions made after the test year along with the appropriate retirements. Staff has also decreased UPIS by \$3,547 to include an averaging adjustment. Staff's adjustments to UPIS result in a net decrease of \$53,978. Therefore, staff recommends that the appropriate UPIS balance is \$1,192,903.

Land & Land Rights

The utility did not record a test year land value. Based on staff's review, no adjustments are necessary. Therefore, staff recommends that the appropriate land balance is \$0.

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

As discussed in Issue 2, staff is recommending a U&U adjustment. As a result of this adjustment, staff recommends an increase to non-U&U plant of \$37,061. Staff is also recommending a decrease to non-U&U plant of \$13,643. Therefore, staff recommends a net increase of \$23,418 to non-U&U plant.

Contributions In Aid of Construction (CIAC)

The utility did not record a CIAC balance for the test year. Based on staff's review, no adjustments are necessary. Therefore, staff's recommended CIAC balance is \$0.

Accumulated Depreciation

Silver Lake recorded a test year accumulated depreciation balance of \$484,818. The utility used depreciation rates for a Class B utility as they expected to grow beyond that of a Class C, but this growth has not yet occurred. Staff recommends accepting the utility's depreciation rates for the instant case. 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. Staff has increased accumulated depreciation by \$6,724 to reflect the appropriate accumulated depreciation. Staff is also recommending increasing accumulated depreciation by \$639 to include pro forma plant and retirements associated with the pro forma items requested by the utility. Staff has included a decrease to accumulated depreciation of \$19,938 for an averaging adjustment. Staff's adjustments to accumulated depreciation result in a net decrease of \$12,575. Therefore, staff recommends an accumulated depreciation balance of \$472,244.

Accumulated Amortization of CIAC

The utility did not record accumulated amortization of CIAC. Based on staff's review, no adjustments are necessary. Therefore, staff's recommended accumulated amortization of CIAC balance is \$0.

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 O&M expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$19,090 (based on O&M expense of \$152,723/8).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$716,332. 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 Silver Lake?

Preliminary Recommendation: The appropriate return on equity (ROE) is 10.58 percent with a range of 9.58 percent to 11.58 percent. The appropriate overall rate of return is 6.54 percent. (Vogel)

Staff Analysis: According to the staff audit, Silver Lake's test year capital structure reflected common equity of \$370,892 and long-term debt of \$424,000.

The utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE for the utility is 10.58 percent based upon the Commission-approved leverage formula currently in effect.¹¹ Staff recommends an ROE of 10.58 percent, with a range of 9.58 percent to 11.58 percent, and an overall rate of return of 6.54 percent. The ROE and overall rate of return are shown on Schedule No. 2.

¹¹Order No.PSC-15-0259-PAA-WS, issued July 2, 2015, in Docket No. 150006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

Issue 5: What are the appropriate test year revenues for Silver Lake's water system?

Preliminary Recommendation: The appropriate test year revenues for Silver Lake's water system are \$47,162. (Bruce).

Staff Analysis: Silver Lake recorded total revenues of \$43,397, which consists of only service revenues. During the test year, the utility applied the bulk service raw water tariff charge of \$0.91 per thousand gallons to a general service irrigation customer. The utility does not currently have an approved tariff for non bulk, raw water. This issue will be addressed in staff's final recommendation. Also, for the general service customer class, there was a discrepancy in the amount of gallons billed and the amount of gallons provided for the billing analysis. Staff corrected the utility's billing determinants, applied the rates that were in effect during the test year, and determined that the service revenues should be increased by \$3,765. Based on the above, staff recommends that the appropriate amount of test year revenues for Silver Lake's water system is \$47,162.

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

Preliminary Recommendation: The appropriate amount of operating expense for Silver Lake is \$152,723. (Vogel)

Staff Analysis: Silver Lake recorded operating expense of \$157,406 for the test year ended March 31, 2015. 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

Purchased Water (610)

The utility recorded Purchased Water expense of \$1,256. Staff has increased this amount by \$108 to include an invoice from December of the test year. Therefore, staff recommends Purchased Water expense of \$1,364.

Purchased Power (615)

The utility recorded Purchased Power expense of \$6,364. Staff has increased this amount by \$47 to include an invoice not previously included. Staff also increased this account by \$96 to reclassify invoices from Account 618. Staff total adjustments result in an increase of \$143. Therefore, staff recommends Purchased Power expense of \$6,507.

Chemicals (618)

The utility recorded Chemicals expense of \$2,326. Staff has decreased this account by \$96 to remove invoices reclassified to Account 615. Staff also increased this account by \$6 to include an invoice not previously included (\$113) and to remove an invoice not supported (\$107). Staff's adjustments result in a net decrease of \$90 to Chemicals expense. Therefore, staff recommends Chemicals expense of \$2,236.

Materials and Supplies (620)

Silver Lake recorded Materials and Supplies expense of \$14,757. Staff recommends decreasing this account by \$4,400 to capitalize two plant additions that were originally include in Materials and Supplies expense. The resulting amount for Materials and Supplies expense is \$10,357.

Contractual Services - Other (636)

The utility recorded Contractual Services – Other expense of \$37,177. Staff has decreased a non-recurring expense in this account by \$720 to \$180, to amortize the non-recurring expense of \$900 over a five year period. The resulting amount for Contractual Services – Other expense is \$36,457.

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 \$57 for postage expense, \$41 for printing expense, and \$6 for envelopes. These amounts result in \$104 for postage, printing notices, and envelopes. Additionally, the utility paid a \$1,000 rate case filing fee. Based on the

above, staff recommends that total rate case expense is \$1,104, which amortized over four years is \$276 annually. Staff recommends regulatory commission expense of \$276.

Operation and Maintenance Expenses Summary

Based on the above adjustments, staff recommends that the O&M expenses are \$152,723. Staff's recommended adjustments to O&M expense are shown on Schedule No. 3-A.

Depreciation Expense (Net of Amortization of CIAC)

Silver Lake recorded depreciation expense during the test year of \$40,778. Staff recalculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, staff decreased depreciation expense by \$264 to reflect the appropriate depreciation expense. Also, staff decreased depreciation expense by \$1,640 to reflect the non-U&U portion of depreciation expense. Staff's total adjustments to depreciation expense result in a decrease of \$1,904. Therefore, staff recommends depreciation expense of \$38,874.

Taxes Other Than Income (TOTI)

The utility recorded a TOTI balance of \$3,159. Staff has increased TOTI by \$1,109 to reflect the appropriate test year property taxes. Staff has also increased TOTI by \$143 to reflect the appropriate Regulatory Assessment Fees. Lastly, staff decreased TOTI by \$30 to reflect the non-U&U portion of TOTI. These adjustments result in an increase of \$1,222.

In addition, as discussed in Issue 7, revenues have been increased by \$204,884 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 \$9,220 to reflect RAFs of 4.5 percent on the change in revenues. Therefore, staff recommends TOTI of \$13,601 ($\$3,159 + \$1,222 + \$9,220$).

Operating Expenses Summary

The application of staff's recommended adjustments to Silver Lake's test year operating expenses results in operating expenses of \$205,198. 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?

Preliminary Recommendation: The appropriate revenue requirement is \$252,046, resulting in an annual increase of \$204,884 (434.43 percent). (Vogel)

Staff Analysis: Silver Lake should be allowed an annual increase of \$204,884 (434.43 percent). This will allow the utility the opportunity to recover its expenses and earn a 6.54 percent return on its water system. The calculation is shown in Table 7-1 below.

**Table 7-1
Water Revenue Requirement**

Adjusted Rate Base	\$716,332
Rate of Return	<u>x 6.54%</u>
Return on Rate Base	\$46,848
Adjusted O&M Expense	152,723
Depreciation Expense (Net)	38,874
Taxes Other Than Income	4,381
Test Year RAFs	<u>9,220</u>
Revenue Requirement	\$252,046
Less Adjusted Test Year Revenues	<u>47,162</u>
Annual Increase	<u>\$204,884</u>
Percent Increase	<u>434.43%</u>

Issue 8: What is the appropriate rate structure and rates for Silver Lake's water system?

Preliminary 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 sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice. (Bruce)

Staff Analysis:

Water Rates

Silver Lake's service territory is located in the SFWMD. The majority of the property in the utility's service territory is owned by Lykes Bros. The property is used primarily for cattle ranching, citrus, timber, sugar cane production, and employee housing. The utility provides water-only service to 39 residential and 23 general service customers. The utility has tariffed rates for bulk raw water and bulk treated water; however, it does not have any current customers for these services to date. Staff's analysis of the billing data indicates approximately one percent of the residential customer bills during the test year had zero gallons, indicating a non-seasonal customer base. The average residential water demand is 5,378 gallons per month. Currently, the water system rate structure for residential customers consists of a base facility charge (BFC) and a two-tier inclining block rate structure. The rate blocks are: (1) 0-5,000 gallons and (2) all usage in excess of 5,000 gallons per month. General service customers are billed based on a BFC and uniform gallonage charge. The utility also provides non-potable irrigation service, which as previously discussed will be addressed in staff's final recommendation.

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.

Staff recommends that the recommended revenue requirement increase of 434 percent be applied across-the-board to the utility's existing service rates. Due to the level of the revenue increase, staff does anticipate that there will be some repression of usage. However, at this time, staff reserves its recommendation on the repression until the final recommendation. It should be noted that a repression adjustment would result in a higher gallonage charge.

Summary:

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 sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 9: Should Silver Lake's existing service availability charges be revised, and if so, what are the appropriate charges?

Preliminary Recommendation: Staff's recommendation regarding the utility's service availability charges will not be finalized until after the February 11, 2016 Customer Meeting. (Bruce)

Staff Analysis: The utility's existing service availability charges were last established in Docket No. 060726-WS,¹² which consists of a main extension charge and plant capacity charges. The main extension charge is \$4,406 per equivalent residential connection (ERC). The utility has separate plant capacity charges for its water, bulk raw water, and treated raw water systems. The plant capacity charge for water is \$2,200 per ERC. The bulk raw water and bulk treated water plant capacity charges are \$875 and \$3,750 per ERC, respectively. Staff will evaluate the utility's current contribution level and rate base in order to determine the appropriate service availability charges. This recommendation is scheduled to be heard by the Commission at the April 5, 2016 Commission Conference. Staff will reserve its recommendation on revising the utility's existing service availability charges in its final recommendation.

¹² Order No. PSC-07-0983-PAA-WS, issued December 10, 2007, in Docket No. 060726-WS, *In re: Application for certificates to provide water and wastewater service in Glades County and water service in Highlands County by Silver Lake Utilities, Inc.*

Issue 10: What are the utility's appropriate initial customer deposits for Silver Lake's water service?

Preliminary Recommendation: The appropriate water initial customer deposit should be \$421 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 water service. The wastewater initial customer deposit should remain unchanged. The approved customer deposits should be effective for connections made on the stamped approval date on the tariff sheets 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. (Bruce)

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.¹³ Currently, the water initial customer deposit is \$76 for 5/8" x 3/4" meter size and two times the average estimated bill for all other meters sizes. Based on staff's recommended water rates, the appropriate initial customer deposit should be \$421 for water to reflect an average residential customer bill for two months.

Staff recommends the appropriate water initial customer deposit should be \$421 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 water service. The approved customer deposits should be effective for connections made on the stamped approval date on the tariff sheets, 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.

¹³ 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?

Preliminary 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. Silver Lake 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. (Bruce, Vogel)

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 Regulatory Assessment Fees (RAFs). The total reduction is \$291.

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. Silver Lake should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction, no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 12: Should the recommended rates be approved for 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?

Preliminary 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. Silver Lake 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 twentieth of each month, indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Vogel)

Staff Analysis: This recommendation proposes an increase in water 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. Silver Lake 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 \$136,726. 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.
- 2) No monies in the escrow account may be withdrawn by the utility without the express approval 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 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 twentieth of each month, indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 13: Should 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?

Preliminary 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. The Utility 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. (Vogel)

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. The utility 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 14: Should this docket be closed

Preliminary 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. (Corbari)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating 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.

SILVER LAKE UTILITIES, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 03/31/15		DOCKET NO. 150149-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$1,246,881	(\$53,978)	\$1,192,903
LAND & LAND RIGHTS	0	0	0
NON-USED AND USEFUL COMPONENTS	0	(23,418)	(23,418)
CIAC	0	0	0
ACCUMULATED DEPRECIATION	(484,818)	12,575	(472,244)
AMORTIZATION OF CIAC	0	0	0
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>19,090</u>	<u>19,090</u>
WATER RATE BASE	<u>\$762,063</u>	<u>(\$45,731)</u>	<u>\$716,332</u>

SILVER LAKE UTILITIES, INC.		SCHEDULE NO. 1-B
TEST YEAR ENDED 03/31/15		DOCKET NO. 150149-WS
ADJUSTMENTS TO RATE BASE		
		<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>		
1.	To remove plant being held for future use.	(\$57,525)
2.	To capitalize pumping equipment from Acct. 620.	1,805
3.	To capitalize backflow preventers from Acct. 620.	2,595
4.	To include pro forma plant additions and retirements.	2,694
5.	To reflect an averaging adjustment.	<u>(3,547)</u>
	Total	<u>(\$53,978)</u>
<u>NON-USED AND USEFUL PLANT</u>		
1.	To reflect non-used and useful plant.	(\$37,061)
2.	To reflect non-used and useful accumulated depreciation.	<u>13,643</u>
	Total	<u>(\$23,418)</u>
<u>ACCUMULATED DEPRECIATION</u>		
1.	To reflect the appropriate Accumulated Depreciation.	(\$6,724)
2.	To reflect pro forma plant additions and retirements.	(639)
3.	To reflect an averaging adjustment.	<u>19,938</u>
	Total	<u>\$12,575</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
	To reflect 1/8 of test year O&M expenses.	<u>\$19,090</u>

SILVER LAKE UTILITIES, INC. TEST YEAR ENDED 03/31/15 SCHEDULE OF CAPITAL STRUCTURE							SCHEDULE NO. 2 DOCKET NO. 150149-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 EQUITY	\$370,892	\$0	\$370,892	(\$36,656)	\$334,236	46.66%	10.58%	4.94%	
2. LONG-TERM DEBT	424,000	0	424,000	(41,904)	382,096	53.34%	3.00%	1.60%	
3. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.08%	
4. PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%	
5. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	2.00%	0.00%	
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>\$794,892</u>	<u>\$0</u>	<u>\$794,892</u>	<u>(\$78,560)</u>	<u>\$716,332</u>	<u>100.00%</u>		<u>6.54%</u>	
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>		
RETURN ON EQUITY						<u>9.58%</u>	<u>11.58%</u>		
OVERALL RATE OF RETURN						<u>6.07%</u>	<u>7.00%</u>		

SILVER LAKE UTILITIES, INC. TEST YEAR ENDED 03/31/15 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 150149-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$43,397</u>	<u>\$3,765</u>	<u>\$47,162</u>	<u>\$204,884</u> 434.43%	<u>\$252,046</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$157,406	(\$4,683)	\$152,723	\$0	\$152,723
3. DEPRECIATION (NET)	40,778	(1,904)	38,874	0	38,874
4. TAXES OTHER THAN INCOME	3,159	1,222	4,381	9,220	13,601
5. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
6. TOTAL OPERATING EXPENSES	<u>\$201,343</u>	<u>(\$5,365)</u>	<u>\$195,978</u>	<u>\$9,220</u>	<u>\$205,198</u>
7. OPERATING INCOME/(LOSS)	<u>(\$157,946)</u>		<u>(\$148,816)</u>		<u>\$46,848</u>
8. WATER RATE BASE	<u>\$762,063</u>		<u>\$716,332</u>		<u>\$716,332</u>
9. RATE OF RETURN	<u>(20.73%)</u>		<u>(20.77%)</u>		<u>6.54%</u>

SILVER LAKE UTILITIES, INC. TEST YEAR ENDED 03/31/15 ADJUSTMENTS TO OPERATING INCOME		SCHEDULE NO. 3-B DOCKET NO. 150149-WS
		<u>WATER</u>
	OPERATING REVENUES	
	a. To reflect the appropriate test year service revenues.	\$3,765
	b. To reflect the test year miscellaneous service revenues.	<u>0</u>
	Subtotal	<u>\$3,765</u>
	OPERATION AND MAINTENANCE EXPENSES	
1.	Purchased Water (610) To include an invoice from December of test year.	<u>\$108</u>
2.	Purchased Power (615) a. To include an invoice not previously included. b. To reclassify invoices from Acct. 618.	\$47 <u>96</u>
	Subtotal	<u>\$143</u>
3.	Chemicals (618) a. To reclassify invoices from Acct. 615. b. To include invoices not previously included. c. To remove unsupported invoices.	(\$96) 113 <u>(107)</u>
	Subtotal	<u>(\$90)</u>
4.	Material and Supplies (620) a. To reclassify invoices from Acct. 331. b. To reclassify invoices from Acct. 336.	(\$1,805) <u>(2,595)</u>
	Subtotal	<u>(\$4,400)</u>
5.	Contractual Services - Other (636) To remove out-of-period expenses.	<u>(\$720)</u>
6.	Regulatory Commission Expense (665) To reflect 4-year amortization of rate case expense.	<u>\$276</u>
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$4,683)</u>
	DEPRECIATION EXPENSE	
	a. To reflect appropriate depreciation expense per Rule 25-30.140 F.A.C.	(\$264)
	b. To reflect non-used and useful depreciation expense.	<u>(1,640)</u>
	Subtotal	<u>(\$1,904)</u>
	TAXES OTHER THAN INCOME	
	a. To reflect the appropriate test year property taxes.	\$1,109
	b. To reflect the appropriate RAFs.	143
	c. To reflect non-used and useful property taxes.	(30)
	d. To reflect change in revenues with recommendation.	<u>9,220</u>
	Total	<u>\$10,442</u>

SILVER LAKE UTILITIES, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 03/31/15		DOCKET NO. 150149-WS	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENTS	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	1,256	108	1,364
(615) PURCHASED POWER	6,364	143	6,507
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	2,326	(90)	2,236
(620) MATERIALS AND SUPPLIES	14,757	(4,400)	10,357
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	42,177	0	42,177
(633) CONTRACTUAL SERVICES - TESTING	6,346	0	6,346
(636) CONTRACTUAL SERVICES - OTHER	37,177	(720)	36,457
(640) RENTS	44,095	0	44,095
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	0	0	0
(665) REGULATORY COMMISSION EXPENSE	0	276	276
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSE	<u>2,908</u>	<u>0</u>	<u>2,908</u>
TOTAL WATER O&M EXPENSES	<u>\$157,406</u>	<u>(\$4,683)</u>	<u>\$152,723</u>

SILVER LAKE UTILITIES, INC.
TEST YEAR ENDED MARCH 31, 2015
MONTHLY WATER RATES

SCHEDULE NO. 4-A
DOCKET NO. 150149-WS

	RATES AT TIME OF FILING	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$19.05	\$101.81	\$0.11
1"	\$47.63	\$254.53	\$0.28
1-1/2"	\$95.25	\$509.05	\$0.56
2"	\$152.40	\$814.48	\$0.90
3"	\$304.80	\$1,628.96	\$1.80
4"	\$476.25	\$2,545.25	\$2.81
6"	\$952.50	\$5,090.50	\$5.62
Charge per 1,000 Gallons - Residential			
0-5,000 gallons	\$3.79	\$20.25	\$0.02
Over 5,000 gallons	\$6.46	\$34.52	\$0.04
Charge per 1,000 gallons - General Service			
	\$3.79	\$20.25	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$30.42	\$162.56	
5,000 Gallons	\$38.00	\$203.06	
10,000 Gallons	\$70.30	\$375.66	