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State of Florida



Public Service Commission

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

DATE: May 26, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (M. Watts, King)
Division of Accounting and Finance (Golden)
Division of Economics (Bruce)
Office of the General Counsel (Tan, Lherisson)

Handwritten notes and signatures:
MFT, CRB, REG, ALM, M, D, J, meet for KY

RE: Docket No. 150199-WU – Application for staff-assisted rate case in Lake County by Raintree Waterworks, Inc.

AGENDA: 06/09/16 – Proposed Agency Action – Except for Issue Nos. 9, 11, and 12 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: 02/02/2017 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

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Case Background

Raintree Waterworks, Inc., (Raintree or Utility) is a Class C utility providing water service to approximately 109 residential customers and one general service customer in Lake County. The Utility was initially granted a small system exemption from Florida Public Service Commission (Commission) regulation in 1987 to serve 29 lots in the first phase of the development.¹ The Utility began providing water service in January 1988. In 1991, the Utility began working on the second phase of the development to expand service to 119 lots, and subsequently filed an application for a water certificate since it would no longer be eligible for the small system exemption. The Utility was granted Certificate No. 539-W in 1992.² Rates were last established for this Utility in 2008, when it was known as Raintree Utilities, Inc.³ The Utility was transferred to Raintree Harbor Utilities, LLC in 2012,⁴ and to Raintree in 2014.⁵

On September 11, 2015, Raintree filed an application for a staff assisted rate case (SARC). Staff selected the test year ending July 31, 2015, for the instant case. According to Raintree's 2015 annual report, its total operating revenues were \$42,210. The Utility reported a net income of \$1,547.⁶

A customer meeting was held on March 9, 2016, at the Tavares Community Center to receive customer questions and comments concerning the Utility's rate case and quality of service. The Commission has jurisdiction in this case pursuant to Section 367.0814, Florida Statutes, (F.S.).

¹Order No. 18131, issued September 8, 1987, in Docket No. 870796-WU, *In re: Petition of Raintree Harbor Phase 1 for determination of exempt status of a water facility in Lake County.*

²Order No. PSC-92-0019-FOF-WU, issued March 10, 1992, in Docket No. 911039-WU, *In re: Application of Raintree Utilities, Inc. for a water certificate in Lake County, Florida.*

³Order No. PSC-08-0483-PAA-WU, issued July 25, 2008, in Docket No. 070627-WU, *In re: Application for staff-assisted rate case in Lake County by Raintree Utilities, Inc.*

⁴Order No. PSC-12-0260-PAA-WU, issued May 29, 2012, in Docket No. 110302-WU, *In re: Application by Raintree Utilities, Inc. in Lake County for the transfer of the Bentwood water facilities to the Bentwood Homeowners Association, Inc., and the transfer of the Raintree Harbor water facilities and Certificate No. 539-W to Raintree Harbor Utilities, LLC.*

⁵Order No. PSC-14-0692-PAA-WU, issued December 15, 2014, in Docket No. 140121-WU, *In re: Application for approval of transfer of Certificate No. 539-W from Raintree Harbor Utilities, LLC to Raintree Waterworks, Inc. in Lake County.*

⁶Raintree Waterworks, Inc. 2015 Annual Report filed March 8, 2016, with the Commission.

<http://www.floridapsc.com/library/financials/WU969-DOCS/ANNUAL-REPORTS/WU969-15-AR.PDF>

Discussion of Issues

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

Recommendation: Yes. The overall quality of service provided by Raintree should be considered satisfactory. (M. Watts)

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 the Utility. This is derived from an evaluation of three separate components of the Utility's operations. These components are: (1) the quality of the utility's product; (2) the operating conditions of the utility's plant and facilities; and (3) 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. Additionally, Section 367.0812(1)(c), F.S., requires the Commission to consider the extent to which the utility provides water service that meets secondary water quality standards as established by the DEP.

Quality of Utility's Product

Staff's evaluation of Raintree's water quality consisted of a review of the Utility's compliance with the DEP primary and secondary drinking water standards and customer complaints. Primary standards protect public health while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water.

Based on staff's review of DEP records, the Utility was in compliance with all primary and secondary standards during the three-year period (2012-2014) that preceded the test year. On April 27, 2015, water testing for primary and secondary water standards was conducted by Advanced Environmental Laboratories, Inc., and all results remained in compliance with the DEP primary and secondary water quality standards.

Staff's review of complaints filed with the Commission (none were filed with DEP), did not reveal any issues or concerns regarding the quality of Raintree's product. Based on staff's review, giving consideration to the Utility's current compliance with DEP standards, as well as the lack of customer complaints, the quality of Raintree's product should be considered satisfactory.

Operating Condition of the Utility's Plant and Facilities

Raintree provides finished potable water obtained from three wells, which draw ground water from the aquifer. The raw water is treated by reverse osmosis chlorination filtration and pumped into a 3,000 gallon hydropneumatic tank and then into the distribution system. The distribution system is composed of PVC pipe. Staff's evaluation of Raintree's facilities included a review of the Utility's compliance standards of operation as well as a site visit.

On October 11, 2013, DEP conducted a sanitary survey, and found one deficiency, stating that the Well #1 check valve was not holding. The survey report, issued on January 16, 2014, stated that the Utility advised that the check valve was replaced on October 14, 2013, and deemed the

water treatment plant in compliance. Staff did not identify any issues or concerns during its March 9, 2016, site visit. Therefore, the operating condition of Raintree's water treatment plant and facilities should be considered satisfactory.

The Utility's Attempt to Address Customer Satisfaction

The final component of the overall quality of service that must be assessed is customer satisfaction. As part of staff's evaluation of customer satisfaction, staff held a customer meeting (March 9, 2016) to receive customer comments concerning Raintree's quality of service. The Utility mailed the customer meeting notice to its customers on February 17, 2016, advising them of the time, place, and purpose of the meeting, as well as the procedures for filing comments with the Commission. No customers attended the meeting, and, as of the filing date of this recommendation, no customer correspondence has been received.

Staff also requested copies of complaints filed with the Utility during the test year and four years prior to the test year. The Utility responded on February 8, 2016, with the complaints that it had received since it acquired the Utility in 2014. The response shows 34 customer contacts, 21 of which were related to two general power outage events that occurred on May 22 and September 1, 2015, that affected the water treatment plant. Seven complaints were for leaks. The Utility investigated and either fixed the leak or advised that it was on the customer's side of the meter, as appropriate. One of the leaks was found to be a wastewater leak which did not involve Raintree's system. Three customer contacts were regarding water service that had been shut off due to nonpayment, and were resolved when payment was made. The last three customer contacts regarded a quality of service issue that Raintree tried to follow up on to obtain additional information, but the customers in each case failed to pursue the matter.

On April 26, 2016, staff requested complaints against the system filed with the DEP for the test year and four years prior. DEP responded on May 9, 2016, stating that it had received no complaints against the system in the last five years.

Finally, staff reviewed the Commission's complaint records from January 1, 2010, through May 9, 2016. There were no complaints filed against any of the three utilities that had ownership of the water system during this period. Therefore, staff recommends the Utility's attempt to address customer satisfaction should be considered satisfactory.

Conclusion

Based on the summation of staff's analysis and review described above, the overall quality of service provided by Raintree should be considered satisfactory.

Issue 2: What are the used and useful percentages (U&U) of Raintree's water treatment plant and distribution system?

Recommendation: Raintree's water treatment plant (WTP) and distribution system should be considered 100 percent U&U. Staff recommends that WTP purchased power and chemical expenses should be reduced by 8.5 percent for excessive unaccounted for water (EUW). (M. Watts)

Staff Analysis: Raintree's water system is served by two 4-inch wells and one 8-inch diameter well rated at 88, 88, and 90 gallons per minute, respectively. The raw water is treated by reverse osmosis chlorination filtration prior to entering the 3,000-gallon hydropneumatic tank for pressurization, and then pumped into the water distribution system. The Utility is permitted to withdraw an average of 0.062 million gallons per day for the years 2014 through 2028. Analysis of the system indicates there has been no growth of the system in the past five years. Staff notes that Raintree's water treatment plant and distribution system were deemed 100 percent U&U in the Utility's previous SARC.

Water Treatment Plant and Distribution System Used & Useful

As noted above, the Commission found both the water treatment plant and distribution system to be 100 percent U&U in the prior SARC. There have been no major plant additions or growth in the last five years. Therefore, consistent with the prior Commission decision, the water treatment plant and distribution system should be considered 100 percent U&U.

Excessive Unaccounted for Water

Pursuant to Rule 25-30.4325, F.A.C., the calculation of U&U for a water treatment plant must consider EUW. Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. When establishing the Rule, the Commission recognized that some uses of water are readily measurable and others are not.⁷ Unaccounted for water is all water that is produced that is not sold, metered or accounted for in the records of the Utility. 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 Rule additionally 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.

While reviewing the Utility's filing, staff noted that Raintree reported that it sold more water in June and July of 2015 than it produced. Staff requested clarification of this data, and the Utility reported that Well #3's flow meter had been inoperable for several months, and during that time the flows from that well were estimated. The Utility attached an invoice showing that the flow

⁷Order No. PSC-93-0455-NOR-WS, issued on March 24, 1993, in Docket No. 911082-WS, *In re: Proposed revisions to Rules 25-22.0406, 25-30.020, 25-30.025, 25-30.030, 25-30.032 through 25-30.037, 25-30.060, 25-30.110, 25-30.111, 25-30.135, 25-30.255, 25-30.320, 25-30.335, 25-30.360, 25-30.430, 25-30.436, 25-30.437, 25-30.443, 25-30.455, 25-30.515, 25-30.565; adoption of Rules 25-22.0407, 25-22.0408, 25-22.0371, 25-30.038, 25-30.039, 25-30.090, 25-30.117, 25-30.432 through 25-30.435, 25-30.4385, 25-30.4415, 25-30.456, 25-30.460, 25-30.465, 25-30.470, 25-30.475; and repeal of Rule 25-30.441, F.A.C., pertaining to water and wastewater regulation*, at p. 102.

meter was replaced on November 18, 2015, and requested it be included as pro forma in the instant docket. Staff agrees that the flow meter repair is necessary and should be included as pro forma as requested.

Since the actual amount of water produced by Well #3 during June and July of 2015 cannot be determined, staff excluded those months from its EUW calculations. Therefore, based on the ten-month period during the test year of August 1, 2014, to May 31, 2015, the Utility's Monthly Operating Reports filed with DEP indicate that it treated 13,035,970 gallons. The Utility sold 10,140,000 gallons of water for the stated ten-month period. The Utility reported that it used 488,349 gallons for other uses. Adding the water sold to the water used for other uses, and subtracting the sum from the amount produced yields an unaccounted for water total of 2,407,621 gallons, or 18.5 percent, yielding an EUW of 8.5 percent. Therefore, staff recommends that an 8.5 percent adjustment be made to operating expenses for chemicals and purchased power due to EUW.

Conclusion

Raintree's WTP and distribution system should be considered 100 percent U&U. Staff recommends that WTP purchased power and chemical expenses should be reduced by 8.5 percent for EUW.

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

Recommendation: The appropriate average test year rate base for Raintree is \$51,282. (Golden)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service, land, contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. Raintree's net book value was last determined by Order No. PSC-14-0692-PAA-WU in a 2014 certificate transfer docket.⁸ Rate base was last established in the Utility's last SARC in 2008.⁹ Staff selected the test year ending July 31, 2015, for the instant case. Commission audit staff determined that the Utility's books and records are in compliance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). A summary of each component of rate base and the recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

The Utility recorded \$252,519 in UPIS. Staff decreased UPIS by \$750 to reclassify Raintree's 2014 certificate transfer application filing fee from plant Account No. 302 – Franchises to expense Account No. 665 – Regulatory Commission Expense. Although the NARUC USOA allows the filing fee to be recorded as either a plant or expense item, current Commission practice is to record this type of filing fee as a non-recurring expense. This enables the Utility to recover the filing fee over 5 years, rather than 40 years associated with plant Account No. 302. This approach is particularly helpful to Class C utilities which often operate with limited cash resources. The exception is that the filing fee for an original certificate application for a utility that has not been built yet will typically be recorded to plant Account No. 301 – Organization as part of the cost to establish a new utility.

As discussed in Issue 2, the Utility replaced an inoperable flow meter subsequent to the test year. In its response to Staff's First Data Request, the Utility requested recovery of the repair as a pro forma plant item and provided supporting documentation.¹⁰ Based on engineering staff's review, staff increased UPIS by \$929 to reflect the pro forma replacement of the new flow meter. It is Commission practice to use 75 percent of the cost of the replacement as the retirement value when the original cost or original in-service date is not known. Accordingly, staff decreased this account by \$697 ($\$929 \times .75 = \697) to reflect the plant retirement associated with the flow meter replacement. According to Raintree's 2015 Annual Report, the Utility also recorded this replacement using a 75 percent retirement value. No plant additions were made during the test year, therefore, no averaging adjustment is necessary for ratemaking purposes. Staff's net adjustment to UPIS is a decrease of \$518. Therefore, staff recommends a UPIS balance of \$252,001.

⁸Order No. PSC-14-0692-PAA-WU, issued December 15, 2014, in Docket No. 140121-WU, *In re: Application for approval of transfer of Certificate No. 539-W from Raintree Harbor Utilities, LLC to Raintree Waterworks, Inc. in Lake County.*

⁹Order No. PSC-08-0483-PAA-WU, issued July 25, 2008, in Docket No. 070627-WU, *In re: Application for staff-assisted rate case in Lake County by Raintree Utilities, Inc.*

¹⁰Document No. 00750-16, filed on February 8, 2016, in Docket No. 150199-WU.

Land and Land Rights

The Commission approved a land balance of \$5,740 in the Utility's 2014 transfer docket. Audit staff determined that there has been no subsequent activity related to land, therefore, no adjustments are necessary. Staff recommends a land and land rights balance of \$5,740.

Non-Used and Useful Plant

As discussed in Issue 2, Raintree's water treatment plant and distribution system are considered 100 percent U&U. Therefore, a U&U adjustment is not necessary.

Contribution in Aid of Construction

The Commission approved a CIAC balance of \$29,750 in the Utility's 2014 transfer docket. Audit staff determined there has been no subsequent activity related to CIAC, therefore, no adjustments are necessary. Staff recommends a CIAC balance of \$29,750.

Accumulated Depreciation

The Utility recorded \$201,496 in accumulated depreciation. Staff calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff's calculation includes a \$22 decrease to remove the accumulated depreciation associated with the \$750 filing fee reclassification discussed above. However, that decrease is offset by a total of \$22 in minor increases to four other accounts, resulting in no change to total accumulated depreciation for the test year. Consequently, no adjustments are needed to correct the test year balance for rate setting purposes. As will be discussed further in Issue 12, staff's adjusted account balances for the test year are reflected on Schedule No. 5 to assist the Utility with adjusting its books and records.

In addition, staff recommends two pro forma adjustments associated with the flow meter replacement discussed above. Staff decreased this account by \$697 to remove the accumulated depreciation associated with the retired flow meter. Staff also increased this account by \$7 to reflect the minor incremental increase in accumulated depreciation associated with the new flow meter. Finally, staff decreased the test year total accumulated depreciation by \$5,419 to reflect an averaging adjustment. Staff's net adjustment to this account is a decrease of \$6,109. Therefore, staff recommends an accumulated depreciation balance of \$195,387.

Accumulated Amortization of CIAC

Raintree recorded an amortization of CIAC balance of \$15,143. Staff calculated amortization of CIAC using composite depreciation rates, and determined that no adjustments are necessary. Staff decreased this account by \$640 to reflect an averaging adjustment. Staff recommends an accumulated amortization of CIAC balance of \$14,503.

Working Capital Allowance

Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses of the utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$4,175 (based on O&M expense of \$33,402/8).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$51,282. 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 rate of return on equity and overall rate of return for Raintree?

Recommendation: The appropriate return on equity (ROE) is 8.74 percent with a range of 7.74 percent to 9.74 percent. The appropriate overall rate of return is 8.74 percent. (Golden)

Staff Analysis: Raintree's capital structure consists of \$49,929 in common equity. Audit staff verified that the Utility has no debt. In addition, audit staff verified that the Utility does not collect customer deposits and does not have a tariff in effect for customer deposits. Therefore, no adjustments are necessary.

The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE is 8.74 percent based upon the Commission-approved leverage formula currently in effect.¹¹ Staff recommends an ROE of 8.74 percent, with a range of 7.74 percent to 9.74 percent, and an overall rate of return of 8.74 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 is the appropriate test year revenue for Raintree's water system?

Recommendation: The appropriate test year revenue for Raintree's water system is \$42,540. (Bruce)

Staff Analysis: Raintree recorded a total revenue of \$40,670. The water revenue included \$40,660 of service revenues and \$10 of miscellaneous revenues. In order to determine the appropriate service revenues, staff corrected billing determinants to reflect credits issued to customers. During the test year, the Utility had a rate increase as a result of a price index. Therefore, staff annualized test year revenue by applying the rates in effect as of June 26, 2015, to staff's adjusted billing determinants. Based on the corrected billing determinants, staff determined that service revenues should be \$42,322, which is an increase of \$1,652.

On July 15, 2015, the Utility began charging a \$2.60 convenience charge to customers who opted to pay their water bill online or by way of telephone.¹² During the test year, there were only four occurrences. However, since the implementation of the convenience charge through March of 2016, there were approximately 66 occurrences. In order to recognize the revenues associated with this charge on a going forward basis, staff annualized the number of occurrences. As a result, the approximate annual average of occurrences is 84, which calculates to be \$218 of miscellaneous revenues. Therefore, staff increased miscellaneous revenues by \$208 (\$218-\$10). The appropriate test year revenue for Raintree's water system, including miscellaneous revenues, is \$42,540 (\$42,322+\$218).

¹²Order No. PSC-15-0190-TRF-WU, issued May 6, 2015, in Docket No. 150062-WU, *In re: Request for approval of amendment to tariff for miscellaneous service charges in Lake County by Raintree Waterworks, Inc.*

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

Recommendation: The appropriate amount of operating expense for the Utility is \$42,568. (Golden)

Staff Analysis: Raintree recorded operating expense of \$46,531 for the test year ended July 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 Power (615)

Raintree recorded \$4,689 for test year purchased power expense. As discussed in Issue 2, staff is recommending an EUW adjustment of 8.5 percent. Therefore, staff decreased this account by \$399 ($\$4,689 \times .085 = \399) to reflect an 8.5 percent EUW adjustment. Therefore, staff recommends purchased power expense of \$4,290.

Chemicals (618)

The Utility recorded \$345 for test year chemicals expense. As discussed in Issue 2, staff is recommending an EUW adjustment of 8.5 percent. Therefore, staff decreased this account by \$29 ($\$345 \times .085 = \29) to reflect an 8.5 percent EUW adjustment. Therefore, staff recommends purchased power expense of \$316.

Contractual Services - Professional (631)

Raintree recorded \$2,107 for test year contractual services – professional expense, comprised of \$1,667 in accrued accounting expense and \$440 in legal expense. The Utility's actual test year accounting services expense was \$1,000, therefore, staff decreased this account by \$667 to remove the excess accrued accounting expense. Staff recommends contractual services – professional expense for the test year of \$1,440.

Contractual Services - Other (636)

The Utility recorded \$21,744 in this account. Raintree receives all of its operational and administrative services under a contract with an affiliated company, U.S. Water Services Corporation (USWSC). The Commission previously reviewed and approved expenses related to the USWSC management services contracts for five of Raintree's sister utilities.¹³ In the three most recent related dockets, the Commission found USWSC's costing and allocation model to be

¹³Order No. PSC-14-0413-PAA-WS, issued August 14, 2014, in Docket No. 130153-WS, *In re: Application for staff-assisted rate case in Highlands County, by L.P. Utilities Corporation c/o LP Waterworks, Inc.*; Order No. PSC-15-0013-PAA-WS, issued January 2, 2015, in Docket No. 130194-WS, *In re: Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.*; Order No. PSC-15-0282-PAA-WS, issued July 8, 2015, in Docket No. 140158-WS, *In re: Application for increase in water/wastewater rates in Highlands County by HC Waterworks, Inc.*; Order No. PSC-15-0329-PAA-WU, issued August 14, 2015, in Docket No. 140186-WU, *In re: Application for staff-assisted rate case in Brevard County by Brevard Waterworks, Inc.*; Order No. PSC-15-0335-PAA-WS, issued August 20, 2015, in Docket No. 140147-WS, *In re: Application for staff-assisted rate case in Sumter County by Jumper Creek Utility Company.*

reasonable with the exception of some allocated expenses related to salary overtime, fuel, and vehicle maintenance which were adjusted in those dockets.¹⁴

Subsequent to the test year, USWSC increased Raintree's annual contract by \$348 to reflect an increase in the Consumer Price Index (CPI).¹⁵ USWSC previously adjusted Raintree's contract to remove the salary overtime allowance, but did not adjust the fuel and vehicle maintenance expenses at that time. USWSC subsequently determined that Raintree's actual test year fuel and vehicle maintenance expenses were \$642 less than the amount allocated in the test year contract, or \$652 less than the amount allocated in the current contract following the CPI adjustment. Consistent with the Commission's decisions related to Raintree's sister utilities, staff increased this account by \$348 to annualize the increase in the monthly contract price. Staff also decreased this account by \$652 to reflect Raintree's actual test year fuel and vehicle maintenance expenses including the CPI adjustment. Staff's net adjustment to this account is a decrease of \$304 ($\$348 - \$652 = -\304). The adjusted annual contract fee of \$21,440 equals an average of \$195 per equivalent residential connection (ERC), which is comparable to the amounts approved by the Commission for Raintree's sister utilities which ranged from \$170 to \$247 per water ERC.

The Utility confirmed that USWSC's current cost model continues to include 1,000 additional projected ERCs.¹⁶ Inclusion of 1,000 potential future ERCs that are expected to be added through growth or acquisitions serves to spread the costs over a larger base and lowers the cost per ERC. Also, USWSC did not include any salary for the Manager of Regulated Utilities in the administrative services cost, which also serves to lower costs to customers.¹⁷ In addition, USWSC's contract with Raintree uses a 14 percent margin for overhead and profit rather than the 18 percent markup previously used. As a result of including the additional ERCs and reducing the margin by 4 percent, Raintree receives an annual subsidy of \$1,821 from USWSC. Staff also notes that Raintree's O&M expenses have decreased by more than \$6,000 when compared to the Utility's last SARC in 2008. In addition to the \$1,821 cost subsidy resulting from USWSC's cost model, Raintree is experiencing additional cost savings related to expenses such as chemicals, testing, and miscellaneous expenses that are attributable to economies of scale achieved through operations provided under the USWSC contract.

USWSC and its managers bring considerable management and operator experience and expertise at a comparably reasonable cost. By spreading costs over multiple systems, and adding ERCs to recognize potential future growth, Raintree's customers are realizing operational and cost benefits that would not be available if the Utility operated on a stand-alone basis. Staff believes the adjusted cost of the USWSC management services contract is reasonable. Therefore, staff recommends contractual services – other expense for the test year of \$21,440.

¹⁴Order No. PSC-15-0282-PAA-WS; Order No. PSC-15-0329-PAA-WU; and Order No. PSC-15-0335-PAA-WS.

¹⁵Document No. 02483-16, filed on April 26, 2016, in Docket No. 150199-WU.

¹⁶Document No. 02483-16.

¹⁷Order No. PSC-15-0282-PAA-WS.

Insurance Expense (655)

The Utility recorded \$835 in this account. During the test year, the Utility's general liability insurance policy was renewed at a higher premium. Staff increased this account by \$479 to reflect the Utility's current annual general liability insurance expense of \$1,314. Therefore, staff recommends insurance expense for the test year of \$1,314.

Regulatory Commission Expense (665)

The Utility did not record any regulatory commission expense in this account. As discussed in Issue 3, staff reclassified the Utility's \$750 certificate transfer application filing fee from plant to this expense account. Rule 25-30.433(8), F.A.C., requires that non-recurring expenses be amortized over a five-year period unless a shorter or longer period of time can be justified. Accordingly, staff increased this account by \$150 to reflect the five-year amortization of the certificate transfer application filing fee ($\$750/5 = \150). The remaining unamortized portion of the filing fee should be recorded in Account No. 186 – Miscellaneous Deferred Debits.

Regarding the instant case, the Utility is required by Rule 25-22.0407, F.A.C., to provide notices of the customer meeting and notices of final rates in this case to its customers. For noticing, staff estimated \$106 for postage expense, \$77 for printing expense, and \$11 for envelopes. This results in \$194 for the noticing requirement. The Utility paid a \$500 rate case filing fee. The Utility also requested additional rate case expense of \$500 to cover travel expenses to attend both the customer meeting and Commission Agenda Conference. The Commission previously approved rate case related travel expenses ranging from \$450 to \$1,570 in the three most recent dockets for Raintree's sister utilities. Based on staff's review, the requested travel expense appears reasonable. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period.¹⁸ Based on the above, staff recommends total rate case expense of \$1,194 ($\$194 + \$500 + \500), which amortized over four years is \$298. Based on the above, staff's total adjustment to this account is an increase of \$448 ($\$150 + \$298 = \448). Therefore, staff recommends regulatory commission expense of \$448.

Bad Debt Expense (670)

Raintree recorded \$568 in this account for test year bad debt expense. Commission practice is to calculate bad debt expense using a three-year average, however, three years of records are not yet available for the current owners who purchased Raintree on May 23, 2014. The Utility reported \$234 in bad debt expense for June through December 2014.¹⁹ Subsequent to the test year, Raintree reported \$479 in bad debt expense for 2015, which equals 1.02 percent of staff's recommended revenue requirement.²⁰ Raintree indicated it is amenable to using \$479 for the test year.²¹ Staff believes the 2015 expense is more representative of Raintree's expected bad debt expense going forward, and provides a reasonable alternative to a traditional three-year average in this case. Therefore, staff has decreased this account by \$89 ($\$479 - \$568 = -\89), and recommends a test year bad debt expense of \$479.

¹⁸Section 367.0816, F.S., is still in effect at this time, but will be repealed effective July 1, 2016, pursuant to HB 491.

¹⁹Raintree Waterworks, Inc. 2014 Annual Report.

²⁰Raintree Waterworks, Inc. 2015 Annual Report.

²¹Document No. 02483-16.

Miscellaneous Expense (675)

The Utility recorded \$698 for miscellaneous expense. This account includes the Department of State's Division of Corporation's annual filing fee of \$150, the DEP's drinking water annual operating license fee of \$500, and several Sunshine State Florida One Call fees totaling \$48. Staff decreased this account by \$24 to remove the Sunshine State Florida One Call fees that occurred outside the test year. Staff recommends miscellaneous expense of \$674 for the test year.

Operation and Maintenance Expense (O&M Summary)

Based on the above adjustments, O&M expense should be decreased by \$584, resulting in total O&M expense of \$33,402. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A, 3-B, and 3-C.

Depreciation Expense (Net of Amortization of CIAC)

The Utility's records reflect test year depreciation of \$10,875 and CIAC amortization of \$1,280, for a net depreciation expense of \$9,595 ($\$10,875 - \$1,280 = \$9,595$). Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined depreciation expense to be \$7,752. Also, staff determined that the pro forma flow meter replacement results in a minor incremental increase of \$7 in depreciation expense. Accordingly, staff decreased this account by a net adjustment of \$3,116 ($\$7,752 + 7 - \$10,875 = -\$3,116$). Staff's decrease to depreciation expense is primarily due to the elimination of \$3,123 in depreciation expense going forward for plant Account No. 320 – Water Treatment Equipment that became fully depreciated during the test year. In addition, staff calculated CIAC amortization based on composite rates, and determined that no adjustments are necessary. This results in a net depreciation expense of \$6,479 ($\$7,752 + \$7 - \$1,280 = \$6,479$). Therefore, staff recommends net depreciation expense of \$6,479.

Taxes Other Than Income (TOTI)

Raintree recorded TOTI of \$2,951 for the test year. The Utility recorded \$1,997 for regulatory assessment fees (RAFs). Based on staff's recommended test year revenues of \$42,540, the Utility's RAFs should be \$1,914. Therefore, staff decreased this account by \$83 to reflect the appropriate RAFs. Also, the Utility recorded property tax accruals of \$954 during the test year. Audit staff determined that the Utility's actual property taxes for the 2014 tax year were \$671. However, subsequent to the audit, the 2015 property tax records became available, indicating that Raintree paid lower property taxes of \$567 for the 2015 tax year. In addition, the pro forma flow meter replacement discussed in Issue 3 results in a minor \$3 increase in the Utility's property taxes. Based on the 2015 property taxes plus the minor pro forma adjustment, staff decreased this account by \$384 to reflect the appropriate property taxes going forward ($\$567 + \$3 - \$954 = -\384). Staff's total adjustment to test year TOTI is a decrease of \$467 ($-\$83 - \$384 = -\467).

In addition, as discussed in Issue 7, revenues have been increased by \$4,510 to reflect the change in revenue required to cover expenses and allow the recommended rate of return. As a result, TOTI should be increased by \$203 to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$2,687.

Operating Expenses Summary

The application of staff's recommended adjustments to Raintree's test year operating expenses result in operating expenses of \$42,568. Operating expenses are shown on Schedule No. 3-A. The adjustments are shown on Schedule No. 3-B.

Issue 7: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$47,050, resulting in an annual increase of \$4,510 (10.60 percent). (Golden)

Staff Analysis: Raintree should be allowed an annual increase of \$4,510 (10.60 percent). This will allow the Utility the opportunity to recover its expenses and earn an 8.74 percent return on its investment. The calculations are as follows in Table 7-1 below:

**Table 7-1
Water Revenue Requirement**

Adjusted Rate Base	\$51,282
Rate of Return	x 8.74%
Return on Rate Base	\$4,482
Adjusted O&M Expense	33,402
Depreciation Expense (Net)	6,479
Taxes Other Than Income	2,687
Income Taxes	0
Revenue Requirement	\$47,050
Less Adjusted Test Year Revenues	42,540
Annual Increase	\$4,510
Percent Increase	10.60%

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

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. (Bruce)

Staff Analysis:

Water Rates

Raintree's service territory is located in the St. Johns River Water Management District (SJRWMD), which has water restrictions in place. The Utility provides water only service to 109 residential customers and one general service customer. The general service customer is the home owners' association and water is provided to irrigate the common areas. The billing data indicates that approximately 11 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 10,029 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) 0-8,000 gallons per month, and (2) all usage in excess of 8,000 gallons per month. General service customers are billed based on a BFC and uniform gallonage 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.

In this case, staff recommends that 40 percent of the water revenues should be generated from the BFC, which will provide sufficient revenues to design gallonage charges that send pricing signals to customers using above the non-discretionary level. 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. Staff recommends a BFC and a three-tier inclining block rate structure, which includes separate gallonage charges for discretionary and non-discretionary usage for residential water customers. The rate blocks are: (1) 0-3,000 gallons; (2) 3,001-8,000 gallons; and (3) all usage in excess of 8,000 gallons per month. This rate structure sends the appropriate pricing signals because it targets customers with high consumption levels and minimizes price increases for customers at non-discretionary levels. In addition, the third tier provides an additional pricing signal to customers using in excess of 8,000 gallons of water per month, which includes approximately 52 percent of the demand. General service customers should be billed a BFC and uniform gallonage charge.

Based on a recommended revenue increase of 10.7 percent, which excludes \$218 of miscellaneous revenues, the residential consumption can be expected to decline by 572,000 gallons resulting in anticipated average residential demand of 9,602 gallons per month. Staff recommends a 4.3 percent reduction in test year residential gallons for rate setting purposes and corresponding reductions of \$182 for purchased power, \$13 for chemicals, and \$9 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$46,627. Table 8-1 below, contains staff's recommended rate structure and two alternative rate structures at another BFC allocation and tiers.

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

	RATES AT TIME OF FILING	STAFF RECOMMENDED RATES (40% BFC)	ALTERNATIVE I (40% BFC)	ALTERNATIVE II (40% BFC)
Residential				
5/8" x 3/4" Meter Size	\$13.60	\$13.79	\$13.80	\$13.79
Charge per 1,000 gallons				
0-8,000 gallons	\$1.58			
Over 8,000 gallons	\$1.96			
0-3,000 gallons		\$1.66		
3,001-8,000 gallons		\$1.76		
Over 8,000 gallons		\$2.64		
0-3,000 gallons			\$1.70	
3,001-10,000 gallons			\$1.79	
Over 10,000 gallons			\$2.69	
0-3,000 gallons				\$2.09
Over 3,000 gallons				\$2.22
Typical Residential 5/8" x 3/4" Meter Bill Comparison				
3,000 Gallons	\$18.34	\$18.77	\$18.90	\$20.06
8,000 Gallons	\$26.24	\$27.57	\$27.85	\$31.16
10,000 Gallons	\$30.16	\$32.85	\$31.43	\$35.60

Source: Current tariff and staff's calculations

Summary

The recommended rate structure and 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: What is the appropriate amount by which rates should be reduced 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 RAFs 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. The Utility 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 Raintree 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, Golden)

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 the rates.²² The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return on working capital, and the gross-up for RAFs which is \$316. Using the Utility's current revenues, expenses, and customer base, the reduction in revenues will result in the rate decrease shown on Schedule No. 4.

Raintree should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction. If Raintree 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.

²²Section 367.0816, F.S., is still in effect at this time, but will be repealed effective July 1, 2016, pursuant to HB 491.

Issue 10: What are the appropriate initial customer deposits for Raintree?

Recommendation: The appropriate water initial customer deposit should be \$64 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 initial 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. (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.²³ Currently, the Utility does not have initial customer deposits. Based on the staff recommended water rates and the post repression average residential demand, the appropriate initial customer deposit should be \$64 for water to reflect an average residential customer bill for two months.

Staff recommends that the appropriate water initial customer deposit should be \$64 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 initial 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.

²³Order 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: Should the recommended rates be approved for Raintree on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility?

Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility. 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 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 every 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. (Golden)

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. 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 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 \$3,014. 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 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 every 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.

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Issue 12: Should Raintree be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision?

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. Raintree should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts as shown on Schedule No. 5 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 the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Golden)

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. Schedule No. 5 reflects the accumulated plant, depreciation, CIAC, and amortization of CIAC balances as of July 31, 2015. Raintree should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts, as shown on Schedule No. 5, 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 the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Issue 13: Should this docket be closed?

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

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.

RAINTREE WATERWORKS, INC. TEST YEAR ENDED 7/31/15 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 150199-WU		
DESCRIPTION	BALANCE	STAFF	BALANCE	
	PER UTILITY	ADJUSTMENTS TO UTILITY BALANCE	PER STAFF	
1. UTILITY PLANT IN SERVICE	\$252,519	(\$518)	\$252,001	
2. LAND & LAND RIGHTS	5,740	0	5,740	
3. NON-USED AND USEFUL COMPONENTS	0	0	0	
4. CIAC	(29,750)	0	(29,750)	
5. ACCUMULATED DEPRECIATION	(201,496)	6,109	(195,387)	
6. AMORTIZATION OF CIAC	15,143	(640)	14,503	
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>4,175</u>	<u>4,175</u>	
8. WATER RATE BASE	<u>\$42,156</u>	<u>\$9,126</u>	<u>\$51,282</u>	

RAINTREE WATERWORKS, INC. TEST YEAR ENDED 7/31/15 ADJUSTMENTS TO RATE BASE	SCHEDULE NO. 1-B DOCKET NO. 150199-WU
	<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
1. To reclassify certificate transfer application filing fee from plant Acct. 302 to expense Acct. 665 - Regulatory Commission Expense.	(\$750)
2. To reflect pro forma flow meter replacement for well #3 to Acct. 309.	\$929
3. To reflect retirement of replaced flow meter for well #3 to Acct. 309.	<u>(\$697)</u>
Total	<u>(\$518)</u>
<u>ACCUMULATED DEPRECIATION</u>	
1. To reflect pro forma retirement of replaced flow meter on well #3.	\$697
2. To reflect pro forma accumulated depreciation per Rule 25-30.140, F.A.C.	(\$7)
3. To reflect an averaging adjustment.	<u>\$5,419</u>
Total	<u>\$6,109</u>
<u>AMORTIZATION OF CIAC</u>	
To reflect an averaging adjustment.	<u>(\$640)</u>
<u>WORKING CAPITAL ALLOWANCE</u>	
To reflect 1/8 of test year O&M expenses.	<u>\$4,175</u>

RAINTREE WATERWORKS, INC. TEST YEAR ENDED 7/31/15 SCHEDULE OF CAPITAL STRUCTURE							SCHEDULE NO. 2 DOCKET NO. 150199-WU		
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE RECONCILE TO RATE BASE	ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON STOCK	\$0	\$0	\$0						
2. RETAINED EARNINGS	0	0	0						
3. PAID IN CAPITAL	0	0	0						
4. OTHER COMMON EQUITY	<u>49,929</u>	<u>0</u>	<u>49,929</u>						
TOTAL COMMON EQUITY	\$49,929	\$0	\$49,929	\$1,353	\$51,282	100.00%	8.74%	8.74%	
5. LONG TERM DEBT	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
6. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%	
7. PREFERRED STOCK	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%	
TOTAL DEBT	\$0	\$0	\$0	\$0	\$0	0.00%			
8. CUSTOMER DEPOSITS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	2.00%	<u>0.00%</u>	
9. TOTAL	<u>\$49,929</u>	<u>\$0</u>	<u>\$49,929</u>	<u>\$1,353</u>	<u>\$51,282</u>	<u>100.00%</u>		<u>8.74%</u>	
RANGE OF REASONABLENESS						LOW	HIGH		
RETURN ON EQUITY						<u>7.74%</u>	<u>9.74%</u>		
OVERALL RATE OF RETURN						<u>7.74%</u>	<u>9.74%</u>		

RAINTREE WATERWORKS, INC. TEST YEAR ENDED 7/31/15 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 150199-WU			
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$40,670</u>	<u>\$1,870</u>	<u>\$42,540</u>	<u>\$4,510</u> 10.60%	<u>\$47,050</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	<u>\$33,985</u>	<u>(\$584)</u>	<u>\$33,402</u>	<u>\$0</u>	<u>\$33,402</u>	
3. DEPRECIATION (NET)	<u>9,595</u>	<u>(3,116)</u>	<u>6,479</u>	<u>0</u>	<u>6,479</u>	
4. TAXES OTHER THAN INCOME	<u>2,951</u>	<u>(467)</u>	<u>2,484</u>	<u>203</u>	<u>2,687</u>	
5. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
6. TOTAL OPERATING EXPENSES	<u>\$46,531</u>	<u>(\$4,166)</u>	<u>\$42,365</u>	<u>\$203</u>	<u>\$42,568</u>	
7. OPERATING INCOME/(LOSS)	<u>(\$5,861)</u>		<u>\$175</u>		<u>\$4,482</u>	
8. WATER RATE BASE	<u>\$42,156</u>		<u>\$51,282</u>		<u>\$51,282</u>	
9. RATE OF RETURN	<u>(13.90%)</u>		<u>0.34%</u>		<u>8.74%</u>	

RAINTREE WATERWORKS, INC.		SCHEDULE NO. 3-B
TEST YEAR ENDED 7/31/15		DOCKET NO. 150199-WU
ADJUSTMENTS TO OPERATING INCOME		
		<u>WATER</u>
OPERATING REVENUES		
1.	To reflect test year revenues.	\$1,662
2.	To reflect miscellaneous revenues.	208
	Subtotal	<u>\$1,870</u>
OPERATION AND MAINTENANCE EXPENSES		
1.	Purchased Power (615) To reflect 8.5% excessive unaccounted for water adjustment.	<u>(\$399)</u>
2.	Chemicals (618) To reflect 8.5% excessive unaccounted for water adjustment.	<u>(\$29)</u>
3.	Contractual Services - Professional (631) To reflect appropriate accounting services expense.	<u>(\$667)</u>
4.	Contractual Services - Other (636)	
	a. To reflect appropriate contractual services – other expense.	\$348
	b. To reflect appropriate fuel and vehicle maintenance expense.	<u>(652)</u>
	Subtotal	<u>(\$304)</u>
5.	Insurance Expense (655) To reflect appropriate general liability insurance expense.	<u>\$479</u>
6.	Regulatory Commission Expense (665)	
	a. To reflect 5-year amortization of transfer filing fee reclassified from plant Acct. 302.	\$150
	b. To reflect 4-year amortization of rate case expense (\$1,194/4).	298
	Subtotal	<u>\$448</u>
7.	Bad Debt Expense (670) To reflect appropriate bad debt expense.	<u>(\$89)</u>
8.	Miscellaneous Expense (675) To remove Sunshine State One Call of Florida fees outside the test year.	<u>(\$24)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS		<u>(\$584)</u>
DEPRECIATION EXPENSE		
To reflect appropriate depreciation calculated per Rule 25-30.140, F.A.C.		<u>(\$3,116)</u>
TAXES OTHER THAN INCOME		
1.	To reflect appropriate test year RAFs.	(\$83)
2.	To reflect appropriate Utility property taxes.	(384)
	Total	<u>(\$467)</u>

RAINTREE WATERWORKS, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 7/31/15		DOCKET NO. 150199-WU	
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	3,000	0	3,000
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	4,689	(399)	4,290
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	345	(29)	316
(620) MATERIALS AND SUPPLIES	0	0	0
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	2,107	(667)	1,440
(635) CONTRACTUAL SERVICES - TESTING	0	0	0
(636) CONTRACTUAL SERVICES - OTHER	21,744	(304)	21,440
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	835	479	1,314
(665) REGULATORY COMMISSION EXPENSE	0	448	448
(670) BAD DEBT EXPENSE	568	(89)	479
(675) MISCELLANEOUS EXPENSE	<u>698</u>	<u>(24)</u>	<u>674</u>
	<u>\$33,985</u>	<u>(\$584)</u>	<u>\$33,402</u>

RAINTREE WATERWORKS, INC.		SCHEDULE NO. 4	
TEST YEAR ENDED 7/31/2015		DOCKET NO. 150199-WU	
MONTHLY WATER RATES			
	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"	\$13.60	\$13.79	\$0.09
3/4"	\$20.41	\$20.69	\$0.14
1"	\$34.02	\$34.48	\$0.23
1-1/2"	\$68.03	\$68.95	\$0.47
2"	\$108.85	\$110.32	\$0.75
3"	\$217.69	\$220.64	\$1.49
4"	\$340.14	\$344.75	\$2.33
6"	\$680.30	\$689.50	\$4.66
Charge per 1,000 Gallons- Residential			
0-8,000 gallons	\$1.58		
Over 8,000 gallons	\$1.96		
0-3,000 gallons		\$1.66	\$0.01
3,001-8,000 gallons		\$1.76	\$0.01
Over 8,000 gallons		\$2.64	\$0.02
Charge per 1,000 gallons - General Service	\$1.79	\$2.17	\$0.01
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$18.34	\$18.77	
8,000 Gallons	\$26.24	\$27.57	
10,000 Gallons	\$30.16	\$32.85	

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RAINTREE WATERWORKS, INC.			SCHEDULE NO. 5	
TEST YEAR ENDED 7/31/2015			DOCKET NO. 150199-WU	
SCHEDULE OF WATER PLANT, DEPRECIATION, CIAC, & CIAC AMORTIZATION BALANCES				
ACCT NO.	DEPR. RATE PER RULE 25-30.140, F.A.C.	DESCRIPTION	UPIS 7/31/2015 (DEBIT)	ACCUM. DEPR. 7/31/2015 (CREDIT)*
301	2.50%	ORGANIZATION	\$2,587	\$199
302	2.50%	FRANCHISES	0	0
303	0.00%	LAND AND LAND RIGHTS (NON-DEPRECIABLE)	5,740	0
304	3.70%	STRUCTURES AND IMPROVEMENTS	13,979	7,908
307	3.70%	WELLS AND SPRINGS	24,733	18,663
309	3.13%	SUPPLY MAINS	4,179	2,957
311	5.88%	PUMPING EQUIPMENT	40,241	35,908
320	5.88%	WATER TREATMENT EQUIPMENT	53,968	53,968
330	3.03%	DISTRIBUTION RESERVOIRS AND STANDPIPES	11,448	9,741
331	2.63%	TRANSMISSION AND DISTRIBUTION MAINS	62,668	46,309
333	2.86%	SERVICES	11,580	9,291
334	5.88%	METERS AND METER INSTALLATIONS	1,268	155
335	2.50%	HYDRANTS	12,879	9,041
336	10.00%	BACKFLOW PREVENTION DEVICES	6,500	2,899
340	6.67%	OFFICE FURNITURE AND EQUIPMENT	<u>5,739</u>	<u>4,458</u>
		TOTAL INCLUDING LAND	<u>\$257,509</u>	<u>\$201,496</u>
			CIAC AMORT. 7/31/2015 (DEBIT)*	CIAC 7/31/2015 (CREDIT)
			<u>\$15,143</u>	<u>\$29,750</u>

* The plant and accumulated depreciation balances exclude the pro forma flow meter replacement. Also, the accumulated depreciation and accumulated amortization of CIAC balances exclude the staff-recommended averaging adjustments that are used only for rate setting purposes and should not be reflected on the Utility's books.