

State of Florida



Public Service Commission

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

DATE: June 27, 2018

TO: Mark A. Cicchetti, Chief of Finance, Tax & Cost Recovery, Division of Accounting & Finance

FROM: Division of Accounting & Finance (L. Smith, Hightower)
Division of Economics (Sibley)
Division of Engineering (Wright)

RE: Docket No. 20180021-WU – Application for staff-assisted rate case in Highlands County by Country Walk Utilities, Inc.

- STAFF REPORT -

This Staff Report is preliminary in nature. The Commission staff's PAA recommendation will not be filed until after the customer meeting scheduled for July 25, 2018.

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Case Background

Country Walk Utilities, Inc. (Country Walk or Utility) is a Class C utility providing service to approximately 70 residential and one general service water customers in Highlands County. The service area is located in the Southwest Florida Water Management District. Country Walk was granted Certificate No. 579-W in a transfer from Holmes Utilities, Inc. and its net book value was established in Docket No. 20130294-WS.¹

On January 22, 2018, Country Walk filed its application for a staff assisted rate case. Staff selected a test year ending December 31, 2017, for the instant docket. According to Country Walk's 2017 annual report, its total gross revenues were \$28,552 and total operating expenses were \$25,022.

This staff report is a preliminary analysis of Country Walk prepared by Commission staff to give customers and the Utility an advance look at what staff is proposing. Staff's recommendation to the Commission is currently scheduled to be filed September 27, 2018, for consideration at the October 9, 2018, Commission Conference. The recommendation will be revised as necessary using updated information and customer quality of service concerns or other relevant information received during the customer meeting. The Commission has jurisdiction in this case pursuant to Sections 367.081, 367.0812, 367.0814 and 367.091 Florida Statutes (F.S.)

¹Order No. PSC-14-0495-PAA-WU, issued September 17, 2014, in Docket No. 20130294-WU, *In re: Application for transfer of water systems and Certificate No.579-W in Highlands County from Holmes Utilities, Inc. to Country Walk Utilities, Inc.*

Discussion of Issues

Issue 1: Is the quality of service provided by Country Walk satisfactory?

Preliminary Recommendation: Staff's recommendation regarding quality of service will not be finalized until after the July 25, 2018, Customer Meeting. (Wright)

Staff Analysis: Pursuant to Section 367.081(2)(a)1 F.S., in water and wastewater rate cases, the Commission shall consider the overall quality of service provided by a utility. Rule 25-30.433(1), Florida Administrative Code (F.A.C.), provides for the evaluation of three separate components of the Utility's operations. The components evaluated 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), 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

In the evaluation of Country Walk's product quality, staff reviewed the Utility's compliance with DEP's primary and secondary drinking water standards. Primary standards protect public health, while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water. A review of DEP's compliance records from January 1, 2015, through December 31, 2017, indicates two related areas of concern: (1) disinfection by-product levels of Total Trihalomethanes (TTHM) and Haloacetic Acids (HAA5) have been detected above their maximum contaminant levels (MCL) on multiple occasions and (2) water color standards were not met when last evaluated.

Prior to recent plant modifications, Country Walk was utilizing high levels of free chlorine to oxidize the naturally occurring sulfides in its well water. An August 16, 2014, sampling of Country Walk's system, however, found that this methodology was causing TTHM and HAA5 to exceed their MCL, per the DEP standards. This triggered a quarterly sampling requirement per the DEP's rules. In a follow-up letter to the DEP, dated September 16, 2014, Country Walk explained that through U.S. Water Services Corporation, a treatment system to remove the sulfides in the raw water was designed in line with recommendations from Rule 62-555.315, F.A.C., but that its estimated \$100,000 cost would be, pending Commission approval, passed on to Country Walk's customers whom, at the time, were not willing to take on the financial burden.² Country Walk requested the DEP's aid in explaining to Country Walk's customers why the plant modifications were required. Eventually, all parties came to an understanding and work to refine the design and installation process began on May 2, 2016. Meanwhile, however, Country Walk's water continued to fail TTHM and HAA5 sampling requirements. Additionally,

² Rule 62-555.315, F.A.C., recommends the use of a packed tower aeration treatment system with pH adjustment. While Country Walk has referred to its recent plant modification as a "forced draft aeration treatment system", it in fact uses packed tower technology and pH adjustment as recommended by Rule 62-555.315, F.A.C.

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secondary standards sampling performed on May 12, 2015, revealed that water color standards were also not being met, another consequence of the high sulfur levels in Country Walk's water. In September 2017, Country Walk placed into service its new forced draft aeration treatment system, discussed in greater detail below, to begin removing the hydrogen sulfides from its raw water prior to chlorination. Subsequent sampling results revealed TTHM and HAA5 levels below their MCL, bringing Country Walk into compliance with DEP standards. As such, it appears the new system is operating as intended. Because Country Walk was in repeated violation of Rule 62-550.310(3), F.A.C., DEP has issued a Consent Order. Country Walk currently intends to request an administrative hearing with the DEP to resolve this matter.

Sampling results for all other primary and secondary quality standards were reviewed by staff and were found to be in compliance. Additionally, staff's review did not reveal any citations from the Highlands County Health Department.

Operating Condition of the Utility's Plant and Facilities

Country Walk's water treatment plant is served by a single well, where raw water is pumped up from a well rated at 80 gallons per minute (gpm). The raw water pumped from the well contains high levels of naturally formed hydrogen sulfides. Prior to recent plant modifications, Country Walk treated the water with high levels of chlorine and pumped the treated water into its distribution system with a 5,000 gallon hydropneumatic tank. However, this treatment methodology caused Country Walk to exceed the DEP's mandated MCL for both TTHM and HAA5, as discussed above. To solve this issue, Country Walk has installed a forced draft aeration treatment system to remove the hydrogen sulfides from the raw water prior to chlorination.

Staff has reviewed the most recent available DEP Sanitary Survey for Country Walk's water treatment plant, dated April 17, 2013. This report identifies two deficiencies: (1) the previously used well had not been capped correctly following its retirement and (2) the new well's air release valve had not been installed correctly. Staff notes that this Sanitary Survey predates Country Walk's purchase of the water treatment system on October 23, 2013. In a letter dated May 28, 2013, former owner Holmes Utilities, Inc. reported to the DEP that all deficiencies had been corrected. Staff also reviewed a subsequent DEP Compliance Inspection Report, dated June 27, 2014, that identified two areas of concern: (1) the new well for the system had total sulfide levels that required specialized treatment and (2) that Country Walk's hydropneumatic tank was due for its five-year inspection and cleaning. Country Walk responded to the DEP in a letter dated July 9, 2014, reporting that a preliminary conceptual design with an associated cost estimate was being prepared for the system required to treat the new well's water (that system being the newly installed forced draft aeration treatment system discussed above), and that the hydropneumatic tank was scheduled to be inspected and cleaned within the next 60 days. Staff received confirmation from Country Walk that the hydropneumatic tank was inspected and cleaned on October 2, 2014.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the complaint records of this Commission, DEP, and Country Walk for the period starting October 23, 2013, and ending March 1, 2018. Table 1-1 below shows a count of all complaints reviewed by source and subject.

**Table 1-1
Number of Complaints by Source and Subject**

Subject of Complaint	PSC Records (CATS)	DEP Records	Utility Records
Dark/Foul Smelling Water	-	-	48
Decreased Water Pressure	1	-	21
High Water Pressure	-	-	3
Excessive Gallonage/ Billing Errors	2	1	25
Total*	3	1	97

*A single customer complaint may be counted multiple times if it meets multiple categories.

As discussed above, Country Walk's water system has had issues controlling the level of hydrogen sulfides in its finished water, leading to color and odor complaints. Prior to the installation of the forced draft aeration treatment system, Country Walk addressed immediate complaints by flushing customer's water pipes until the water quality improved. An assessment of customer satisfaction in regards to this complaint will be made at the July 25, 2018, Customer Meeting.

Several complaints concerned a decrease or complete loss of pressure at customer's homes, the cause of which varied by instance. If the cause of the pressure loss was known, such as a planned outage or a main break, Country Walk would inform the customer of the issue and the estimated duration of the service interruption. If the cause was not immediately known, Country Walk would respond to these complaints by issuing a service order for a technician to visit the property to inspect the water meter and perform a leak test. Leaks found on the Utility's side of the meter were repaired. If a leak was believed to be on the customer's side of the meter, Country Walk would advise the customer to seek a plumber's expertise. At a February 11, 2016, customer meeting, Country Walk was made aware of multiple pressure loss complaints. Following the meeting, Country Walk representatives investigated the complaints and discovered that, due to both the age of the system and the high levels of chlorine required to treat the source water, calcium buildup had clogged the service lines where they tap into the water mains. A select few homes had their service lines dug up, the calcium buildup removed, and their water pressure tested, revealing satisfactory pressure levels. As discussed in Issue 3, Country Walk is now undergoing a project to clear the calcium buildup from the service lines of every property served.

A high pressure event occurred in September 2017 due to an electrical failure associated with the newly installed forced draft aeration treatment system that caused Country Walk's distribution lines to be over-pressurized. This led to damages to some customer's plumbing and may have

contributed to a main line break that occurred around this time. Country Walk has since repaired the electrical components at the water treatment plant and has begun working with affected customers to resolve their complaints.

Lastly, customer complaints relating to billing included excessive gallonage charges and other errors in billing. Country Walk's initial response was typically to review a customer's historical usage rates to determine if the usage in question differs by a large margin. If it did, or if a customer was still not satisfied by the usage review, Country Walk would schedule a visit by a technician to inspect and reread customer's meters and test for leaks. If the meter was found to have been read incorrectly, the customer's account would be credited for the excessive gallonage charges. However, if the meter was found to have been read accurately and no leaks were found, Country Walk would offer to perform a bucket test on the customer's meter to determine if it was registering water flow appropriately. In those cases where the meter was found to be operating correctly, Country Walk would notify the customer and, if the customer was still not satisfied, would typically offer a credit to the customer's account as a courtesy. Those meters found to be incorrectly registering water flow would be replaced and, in some cases, the old meter would be sent to an independent testing facility to confirm its erroneous measurements. In those cases, Country Walk's customers would also be offered a credit to their accounts, calculated according to Rule 25-30.340, F.A.C.

Conclusion

Staff's recommendation regarding quality of service will not be finalized until after the July 25, 2018, Customer Meeting.

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Issue 2: What is the used and useful percentage (U&U) of Country Walk's water treatment plant, storage, and distribution system?

Preliminary Recommendation: Country Walk's water treatment plant and storage should be considered 100 percent U&U. Country Walk's water distribution system should be considered 90 percent U&U. There appears to be no excessive unaccounted for water (EUW), therefore, no adjustment should be made to operating expenses for chemicals and purchased power. (Wright)

Staff Analysis: Country Walk's water treatment plant is served by a single well rated at 80 gpm. The Utility's water system has two 5,000 gallon storage tanks, one underground tank and one hydropneumatic tank. Country Walk's distribution system is composed of 3,815 linear feet of 2 inch polyvinyl chloride (PVC) pipe and 1,802 linear feet of 4 inch PVC pipe.

Rule 25-30.4325, F.A.C., addresses the method by which the U&U of a water system is determined. The U&U for Country Walk's water treatment plant and distribution system were last determined in Order No. PSC-01-2385-PAA-WU.³ In that Order, the Commission found Country Walk's water treatment plant and distribution system to be 100 percent and 90 percent U&U, respectively. Country Walk's water storage is a recent addition to its system and, thus, a storage U&U determination has not previously been made.

Water Treatment Plant Used and Useful

As noted above, the Commission found the water treatment plant to be 100 percent U&U in the prior rate case. The Utility has not increased the capacity of its water treatment facilities since the last rate case. Therefore, consistent with the Commission's previous decisions, staff recommends the Utility's water treatment plant to be considered 100 percent U&U.

Water Storage Used and Useful

Pursuant to Rule 25-30.4325(8), F.A.C., for water systems with storage, if the storage capacity is less than the peak demand, the storage system should be considered 100 percent U&U. Country Walk stores its water in a 5,000 gallon underground concrete tank. Per Rule 25-30.4325(9)(b), F.A.C., Country Walk's water storage tank has a usable storage capacity of 4,500 gallons (90 percent of 5,000 gallons). Country Walk's peak day demand is estimated at approximately 118,200 gallons, which exceeds the usable water storage amount. As such, staff recommends that the water storage is 100 percent U&U.

Water Distribution System Used and Useful

Commission policy on water distribution U&U determinations employs a lot count methodology that determines a distribution system's near-future connectivity, allowing for growth of the customer base, and compares it to its built-out capacity in equivalent residential connections (ERCs). Per a map of Country Walk's service territory, provided to staff in response to staff's first data request, Country Walk's built out capacity is 89.5 ERCs. A review of the service territory reveals 17 vacant lots. From this, Country Walk's water distribution system can be calculated to currently serve 72.5 ERCs (89.5 – 17). Staff estimates Country Walk's annual growth rate to be 0.9 ERCs per year based on a linear regression and, with the statutory post test

³Order No. PSC-01-2385-PAA-WU, issued December 10, 2001, in Docket No. 20010403-WU, *In re: Application for staff-assisted rate case in Highlands County by Holmes Utilities, Inc.*

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year period of five years, Country Walk's connectivity is projected to grow by 4.5 ERCs (0.9 ERCs/year * 5 years). Country Walk's water distribution system U&U can thus be calculated as follows: $([72.5+4.5]/89.5)$, which equals 86 percent. When considering the Commission's previous U&U determination of 90 percent, staff recommends that the Commission continue to consider Country Walk's water distribution system to be 90 percent U&U.

Excessive Unaccounted for Water

Rule 25-30.4325(e), F.A.C., defines EUW as "unaccounted for water in excess of 10 percent of the amount produced." EUW is all water produced that is not sold, metered, or accounted for in the records of the Utility. EUW is used in the U&U determinations pursuant to Rule 25-30.4325, F.A.C. Additionally, Rule 25-30.4325(10), F.A.C., provides factors to be considered in determining whether adjustments to plant operating expenses are necessary for EUW.

EUW is calculated by subtracting test year totals of both the gallons sold to customers and the gallons used for other services, such as flushing, from the total gallons produced at the water treatment plant. Based on the monthly operating reports (MORs) Country Walk has submitted to the DEP, Country Walk produced 3,771,300 gallons of water from January 1, 2017, to December 31, 2017. From the audit completed by staff, the Utility sold 2,533,000 gallons of water to customers. Country Walk, in response to staff's third data request, reported that 1,410,025 gallons of water were used for flushing and maintenance purposes during the test year, including estimations of leakage from main line breaks. However, a number of inconsistencies were found in the reported data. Staff has contacted Country Walk and is pursuing clarification. Presently, in the absence of reliable data and in an effort to evaluate Country Walk's EUW, staff has used the flushing and maintenance values as reported for the unaccounted for water calculation $(([3,771,300-2,533,000-1,410,025]/3,771,300)*100)$, which equals negative five percent. This value for unaccounted for water indicates that a greater amount of water has been accounted for than was actually produced. Being that the amount of water produced at the water treatment plant and the amount of water consumed by customers are accurately known, this negative value has likely resulted from either Country Walk's overestimation of water lost to main line breaks or its flushing activities. Nevertheless, for EUW determination purposes, this calculated unaccounted for water percentage indicates that Country Walk has no EUW. As such, staff recommends no adjustments be made to purchased power and chemicals at this time. Staff will continue to evaluate the Utility's water usage to determine if any adjustments need to be made.

Conclusion

Staff recommends that Country Walk's water treatment plant and storage be considered 100 percent U&U. Also, Country Walk's water distribution system should be considered 90 percent U&U. There appears to be no EUW, therefore, no adjustment should be made to operating expenses for chemicals and purchased power.

Issue 3: Should the Commission approve a year-end rate base for Country Walk, and if so, what is the appropriate water rate base for the year-end test year?

Preliminary Recommendation: Yes, the Commission should approve a year-end rate base. The appropriate water rate base is \$164,655 for the test year ending December 31, 2017. (L. Smith, Wright)

Staff Analysis: Country Walk's net book value was established as of September 4, 2013, in its 2013 transfer docket by Order No. PSC-14-0495-PAA-WU. The test year ending December 31, 2017, is being used for the instant case. A summary of each rate base component and recommended adjustments are discussed below.

Year-End Rate Base

In its application, the Utility requested a year-end rate base for its water system in order to have an opportunity to recover its allowed rate of return on the capital improvement that was made during the test year. This improvement consisted of a force draft aeration treatment system which was installed to address the high hydrogen sulfide levels in the water. Based on staff's review, Country Walk's water system improvement represents an increase of \$136,344 or 147.07 percent over the Utility's 2016 year-end Utility Plant in Service (UPIS) balance. If an average rate base was used, the Utility would not be afforded the opportunity to recover its allowed rate of return on the new investment and would be put in the position of requesting a subsequent SARC at a later date.

The Commission has the authority to apply a year-end rate base, but should only apply a year-end rate base in extraordinary circumstances.⁴ Staff believes extraordinary circumstances exist in the instant case. The Utility has made a significant improvement to its water system to address water quality concerns. The year-end rate base will provide Country Walk with an opportunity to recover its investment to improve water quality and will ensure compensatory rates for this Utility. The Commission has previously authorized the use of a year-end rate base in other cases involving significant test year improvements.⁵ Therefore, staff recommends that the Commission approve a year-end water rate base for Country Walk.

Utility Plant in Service (UPIS)

Country Walk has modified its water treatment plant by installing a forced draft aeration treatment system. This system was recently cleared by the DEP and was placed into operation in September 2017 in an effort to resolve water quality complaints and to conform to the DEP's maximum disinfection by-product contamination levels as discussed in Issue 1. Per Country Walk's response to staff's second data request, the cost of purchasing and installing the treatment

⁴See, *Citizens of Florida v. Hawkins*, (FLA.1978), 356 So. 2d 254.

⁵Order No. PSC-98-0763-FOF-SU, issued June 3, 1998, in Docket No. 19971182-SU, *In re: Application for staff-assisted rate case in Marion County by BFF Corp.*; Order No. PSC-00-1774-PAA-WU, issued September 27, 2000, in Docket No. 19991627-WU, *In re: Application for rate increase in Polk County by Park Water Company Inc.*; Order No. PSC-01-0323-PAA-WU, issued February 5, 2001, in Docket No. 20000580-WU, *In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Alturas Water Works)*; and Order No. PSC-02-1449-PAA-WS, issued October 21, 2002, in Docket No. 20011451-WS, *In re: Investigation of water and wastewater rates for possible overearnings by Plantation Bay Utility Co. in Volusia County*.

system through U.S. Water Services Corporation (USWSC) was \$114,485.⁶ Country Walk explains that the actual cost of providing and installing the system from USWSC was \$122,369 but that USWSC lowered the labor rate and the project margin below contracted amounts, and absorbed some of the travel expenses of the workers, resulting in an invoiced amount that is \$7,884 lower. USWSC also provided design and permitting services for the forced draft aeration treatment system at an additional cost of \$21,859, for a total cost of \$136,344. Supporting documentation was provided in the staff audit. For comparative purposes, Country Walk provided a bid by Marolf Environmental Inc. for providing and installing a similar treatment system, not including design and permitting costs, which totaled \$161,283. Therefore, staff recommends that Country Walk was acting prudently in its contracting with USWSC for the forced draft aeration treatment system and recommends that UPIS be adjusted accordingly.

Country Walk recorded UPIS of \$230,541. Staff has reviewed the audit workpapers and the Utility's annual reports and recommends no adjustments to this amount apart from the pro forma increase discussed below.

Pro Forma Plant

As discussed in Issue 1, Country Walk's customers have been experiencing low water pressure issues. Country Walk representatives investigated the complaints and discovered that, due to both the age of the system and the high levels of chlorine required to treat the source water; calcium buildup had clogged the service lines where they tap into the water mains. A select few homes had their service lines dug up and the calcium buildup removed, resulting in satisfactory pressure levels. Country Walk believes it is necessary to conduct a system-wide project to address the remaining service connections and has provided staff with two bids for the project: one from USWSC for \$16,085 and one from Oxford Pipeline Inc. for \$21,000. Country Walk requested additional bids from other contractors but no other proposals have been received at this time. Country Walk has selected the bid from USWSC who is currently executing the contract.

Staff believes this project is reasonable, prudent, and necessary to increase water pressure to acceptable levels. As a result, staff increased UPIS by \$16,085 to reflect the service connection refurbishment project. Therefore, staff is recommending a year-end UPIS balance of \$246,626 (\$230,541 + \$16,085).

Land & Land Rights

The Utility recorded a test year land value of \$1,495. Staff believes the amount is correct and did not make any adjustments to this account.

Non-Used & Useful (U&U) Plant

As discussed in Issue 2, the water distribution system is 90.0 percent U&U. Based on that percentage, staff has reduced UPIS by \$2,941 and accumulated depreciation by \$631. Based on the above, the net non-U&U adjustment is \$2,310 (\$2,941 - \$631).

⁶See Document No. 03734-2018, filed on May 17, 2018.

Contributions In Aid of Construction (CIAC)

Country Walk recorded a CIAC balance of \$23,950 as of December 31, 2017. This balance consists of \$6,701 for the Distribution Reservoirs & Standpipes, \$2,896 for Transmission & Distribution (T&D) Mains, and \$14,353 for Cash. Staff did not make any adjustments to this account.

Accumulated Depreciation

Country Walk recorded a test year accumulated depreciation balance of \$64,064. Staff recalculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. to be \$66,511 as of December 31, 2017. This results in an increase of \$2,451. Additionally, staff increased accumulated depreciation by \$460 to reflect the pro forma service connection project, resulting in a total increase of \$2,911 (\$460 + \$2,451). Staff's adjustments result in an accumulated depreciation balance of \$66,975 (\$64,064 + \$2,451 + \$460).

Accumulated Amortization of CIAC

The Utility recorded accumulated amortization of CIAC of \$17,421 in its 2017 Annual Report. Based on staff's calculations, the appropriate components of accumulated amortization of CIAC are \$4,739 for the Distribution Reservoirs & Standpipes, \$1,788 for T&D Mains, and \$11,402 for Cash. Therefore, staff recommends an accumulated amortization of CIAC balance of \$17,929 (\$4,739 + \$1,788 + \$11,402). The result is a net increase of \$508 (\$17,929 - \$17,421).

Acquisition Adjustment

The Utility recorded a negative acquisition adjustment of \$20,064. Staff did not make any adjustments to this account.

Accumulated Amortization of Acquisition Adjustment

The Utility recorded an accumulated amortization of acquisition adjustment of \$10,127. Staff recalculated this amount based on the method set forth in Rule 25-30.0371, F.A.C. Staff's calculation results in a decrease of \$2,337. Therefore, staff recommends an accumulated amortization of acquisition adjustment balance of \$7,790 (\$10,127 - \$2,337)

Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$4,115.

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate year-end rate base is \$164,655 as shown on Schedule No. 1-A. The associated adjustments are shown on Schedule No. 1-B.

Issue 4: What is the appropriate return on equity and overall rate of return for Country Walk?

Preliminary 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 8.71 percent. (L. Smith)

Staff Analysis: Country Walk's test year capital structure reflected a total common equity balance of \$35,848 and customer deposits of \$744. The common equity balance consists of \$250 in common stock, \$21,704 of retained earnings, and \$13,894 of paid-in capital. Staff did not make any adjustments to these amounts.

Country Walk's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE for the Utility is 8.74 percent based upon the Commission-approved leverage formula currently in effect.⁷ 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 8.71 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁷Order No. PSC-2017-0249-PAA-WS, issued June 26, 2017, in Docket No. 20170006-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 Country Walk Utilities, Inc.’s water system?

Preliminary Recommendation: The appropriate test year revenues are \$30,420 for the water system. (Sibley)

Staff Analysis: Country Walk recorded \$28,552 in test year revenues for its water system, which consists of \$28,263 in service revenues and \$289 in miscellaneous revenues. During the test year, the utility made several adjustments to customer bills relating to leaks, excessive usage, faulty meters, customer complaints, and missed meter readings. Staff will examine these adjustments to billing determinants for its final recommendation. Therefore, based on the test year billing determinants and the service rates, staff determined service revenues should be \$30,126, which is an \$1,863 increase (\$30,126 - \$28,263) to test year service revenues. For miscellaneous revenues, staff applied the appropriate miscellaneous service charges to the test year occurrences and determined miscellaneous revenues should be \$294, which is an increase of \$5. Staff recommends that the appropriate test year revenues are \$30,420 (\$30,126 + \$294) as shown in Table 5-1.

**Table 5-1
 Test Year Revenues**

	Water
Service Revenues	
Utility Recorded Service Revenues	\$ 28,263
Staff Adjustment	\$ 1,863
Total Service Revenues	\$ 30,126
Miscellaneous Revenues	
Utility Recorded Miscellaneous Revenues	\$ 289
Staff Adjustment	\$ 5
Total Miscellaneous Revenues	\$ 294
Total Test Year Revenues	\$ 30,420

Source: Staff’s calculation.

Issue 6: What are the appropriate test year operating expenses for Country Walk?

Preliminary Recommendation: The appropriate amount of test year total operating expenses for the Utility is \$48,688. (Hightower, L. Smith)

Staff Analysis: Country Walk recorded operating expense of \$32,478. Staff reviewed the Utility's test year operating expenses, including invoices, canceled checks, and other supporting documentation. Staff made several adjustments to the Utility's operating expenses as summarized below.

Salaries and Wages - Officers (603)

Country Walk recorded salaries and wages - officers expense of \$3,000. In the Utility's last rate case, the Commission approved an expense of \$3,000 for this account. Staff compared this amount with Country Walk's sister utilities and found it below the average. Staff believes this amount is reasonable. Therefore, staff recommends salaries and wages - officers expense of \$3,000.

Chemicals (618)

The Utility recorded chemicals expense of \$2,969. Staff decreased this account by \$34 to remove a transaction without a matching invoice and to correct a scrivener's error in the general ledger. Therefore, staff recommends chemicals expense of \$2,935 (\$2,969 - \$34).

Contractual Services - Accounting (632)

The Utility recorded contractual services - accounting expense of \$350. Supporting documentation confirming the expense was used for tax preparation was provided. Staff made no adjustments to contractual services - accounting expense and recommends contractual services - accounting expense of \$350.

Contractual Services - Legal (633)

Country Walk recorded contractual services - legal expense of \$530. Staff was able to trace the expenses without exception and supporting documentation confirmed the expense was used for legal fees related to annual corporate maintenance, including a Department of State filing fee. Staff did not make any adjustments to contractual services - legal as recorded. Staff recommends contractual services - legal expense of \$530.

Contractual Services - Other (636)

Country Walk recorded contractual services - other expense of \$15,432 related to the U.S. Water service contract for the adjusted test year. Staff made adjustments and annualized the updated billed amount of the revised U.S. Water contract that includes a significant change in water treatment processes due to the new force draft aeration treatment process. In its initial filing, the Utility advised staff that the revised U.S. Water contract removes subsidies previously given to the Utility, which increases the cost charged to the customer. The revised U.S. Water contract takes into consideration prior commission practices and Country Walk's "sister" utilities' agreements. The staff recommended amount of \$20,282 is an increase of \$5,396 or 24 percent,

over the test year amount of \$15,432. This amount includes the expense related to U.S. Water for operating the system, meter reading, and turn-offs, testing and various repairs.

In order to analyze the reasonableness of the U.S. Water Service contract, staff compared the total O&M costs recommended in the instant case with the Commission approved amounts for the similarly sized utilities of Lake Idlewild and Charlie Creek.⁸ Staff indexed the amounts from those cases using the Commission approved index factors.⁹ This analysis resulted in per ERC amounts of \$424 for Lake Idlewild and \$523 for Charlie Creek. Staff's recommended amounts in the instant case result in a per ERC amount of \$450. Based on this analysis, staff believes the revised U.S. Water service contract amount is reasonable.

Country Walk is also requesting \$5,000 for the sandblasting and recoating of a tank, a project required by FDEP to occur every five-years. The estimated cost is based on a 2016 proposal from Crystal Coating, Inc. for \$5,000; an additional bid of \$14,150 was received from PCI, Inc. The proposal includes tank sandblasting and recoating. Country Walk is working with the Crystal Coating, Inc. to schedule the project with other utilities in Highlands County in order to minimize the costs. Pursuant to Rule 25-30.433(8), F.A.C., non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified. Staff recommends the \$5,000 tank sandblasting and recoating expense be amortized over the required 5-year period and recommends increasing this account by \$1,000 ($\$5,000 \div 5$). Therefore, staff recommends contractual services - other expense of \$21,828 ($\$15,432 + 5,396 + \$1,000$).

Insurance Expense - General Liability (657)

The Utility recorded insurance expense of \$1,300. The Utility provided invoices totaling \$1,300 related insurance expense. Staff recommends no adjustments to insurance expense.

Regulatory Commission Expense (665)

By Rule 25-22.0407, F.A.C., Country Walk is required to mail notices of the customer meeting, notices of final rates, and notices of the four-year rate reduction in this case to its customers. The Utility requested travel and lodging expense of \$250 to attend the customer meeting and \$250 to attend the Agenda conference. Staff reduced the travel expense for the Agenda conference in order to split those costs with its sister utility that has an item schedule for the same Agenda. Staff increased this account by \$75 for printing and mailing notices for the customer meeting, \$53 for printing and mailing notices of the final hearing and \$53 for the Four Year rate reduction. Additionally, the Utility paid a \$1,000 rate case filing fee. Based on the above, staff recommends total rate case expense of \$1,556, which amortized over four years, results in regulatory commission expense of \$389 ($\$1,556 \div 4$)

⁸Order Nos. PSC-16-0305-PAA-WU, p. 13, issued July 28, 2016, in Docket No. 20150236-WU, *In re: Application for staff-assisted rate case in Lake Idlewild Utility Company in Lake County.*; PSC-17-0144-PAA-WA, p. 6, issued April 27, 2017, in Docket No. 20160143-WU, *In re: Application for staff-assisted rate case in Charlie Creek Utilities, LLC.*

⁹Order No. PSC-2017-0480-PAA-WS, issued December 21, 2017, in Docket No. 20170005-WS, *In re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.*

Bad Debt (670)

Country Walk recorded bad debt expense of \$117 for the test year. The Utility's 3-year bad debt average of \$285 (not including the negative balance in 2016) is approximately 1 percent of the current test year revenue. Staff recommends bad debt expense of 2 percent of the test year revenue based on the assumption that the customers rate of default will increase due to the substantial increase in revenue requirement. This represents an increase of \$1,143. Therefore, staff recommends a bad debt expense of \$1,260 ($\$117 + \$1,143$). Staff will continue to evaluate the appropriate level of bad debt expense in this case.

Miscellaneous Expense (675)

The Utility recorded miscellaneous expenses of \$100 for Department of Environmental Protection fees. Staff believes this expense to be reasonable and recommends no adjustment.

Operation and Maintenance Expenses Summary

Based on the above, staff recommends that the O&M expenses are \$32,916. Staff's recommended adjustments to O&M expenses are shown on Schedule No. 3-B.

Depreciation Expense (Net of Amortization of CIAC)

The Utility recorded depreciation expense of \$4,328 and CIAC expense of \$779, resulting in a net depreciation expense of \$3,549 ($\$4,328 - \779) for the test year. The Utility used a half-year convention when calculating depreciation expense during the test year. Staff increased this expense to reflect the going-forward depreciation expense that is needed for the Utility to recover its investment in the force draft aeration system discussed previously. Staff recalculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. and found that depreciation expense was understated by \$7,084. Further, staff decreased depreciation expense by \$35 to remove the non-U&U component. Staff also increased depreciation expense by \$460 to reflect the increase in depreciation expense for the pro forma plant addition. Therefore, staff recommends depreciation expense of \$11,837 ($\$4,328 + \$7,084 - \$35 + \460)

Staff recalculated CIAC amortization expense using the methodology prescribed in the Utility's last SARC. Staff reduced this expense by \$78. Therefore, staff is recommending CIAC amortization expense of \$701 ($\$779 - \78). Based on the above, staff recommends a test year net depreciation expense of \$11,136 ($\$11,837 - \701)

Taxes Other Than Income (TOTI)

Country Walk recorded TOTI of \$1,570. Staff increased this amount by \$238 to reflect the increase in property taxes related to the pro forma plant project. Staff increased TOTI by \$1,513 to reflect RAFs associated with the revenue increase. Staff is therefore recommending TOTI of \$3,321 ($\$1,570 + \$238 + \$1,513$).

Total Operating Expenses Summary

The application of staff's recommended adjustments to Country Walk's test year operating expenses result in total operating expenses of \$49,710. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

Issue 7: What is the appropriate revenue requirement?

Preliminary Recommendation: The appropriate revenue requirement is \$64,051, resulting in an annual increase of \$33,631 or 110.56 percent. (L. Smith)

Staff Analysis: Country Walk should be allowed an annual increase of \$33,631 or 110.56 percent. This will allow the Utility the opportunity to recover its expenses and earn an 8.71 percent return on its water system. The calculations are shown in Table 7-1.

**Table 7-1
Revenue Requirement**

Revenue Requirement	
Adjusted Rate Base	\$164,655
Rate of Return	<u>8.71%</u>
Return on Rate Base	\$14,341
Adjusted O&M Expense	32,916
Depreciation Expense (Net)	11,136
Amortization Expense	2,337
Taxes Other Than Income	<u>3,321</u>
Revenue Requirement	\$64,051
Less Adjusted Test Year Revenues	<u>(30,420)</u>
Annual Increase	<u>\$33,631</u>
Percent Increase	<u>110.56%</u>

Issue 8: What are the appropriate rate structure and rates for Country Walk Utilities' water system?

Preliminary Recommendation: The recommended rate structures 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 this notice. (Sibley)

Staff Analysis: Country Walk is located in Highlands County within the SWFWMD. The utility provides water service to approximately 70 residential customers and a single general service customer. Approximately 21.5 percent of the residential customer bills during the test year had zero gallons, indicating some seasonality in the customer base. The average residential water demand is 2,969 gallons per customer. The average residential water demand excluding zero gallons bills is 3,783 gallons per customer. The utility's current water system rate structure for residential customers consists of a base facility charge (BFC) and two-tier inclining block rate structure. The rate blocks are: (1) 0-10,000 gallons and (2) all usage in excess of 10,000 gallons per month. The general service rate structure consists of 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.

Due to the customers' low average monthly consumption and somewhat seasonal customer base, staff recommends 55 percent of the revenue requirement should be recovered through the BFC in an effort to provide revenue stability. In addition, the average number of people per household served by the water system is two; therefore, based on the number of persons per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 3,000 gallons per month. Staff recommends a traditional BFC and gallonage charge rate structure with an additional gallonage charge for non-discretionary usage for residential water customers. General service customers should be billed a BFC based on meter size and a uniform gallonage charge.

Based on the customer billing data provided by the utility, approximately 6.9 percent of total residential consumption is discretionary and subject to the effects of repression. Customers will typically reduce their discretionary consumption in response to price changes, while non-discretionary consumption remains relatively unresponsive. Based on the recommended revenue increase of 110.6 percent, the residential discretionary consumption can be expected to decline by 87,000 gallons resulting in anticipated average residential demand of 2,866 gallons per

month. Staff recommends a 3.5 percent reduction in test year gallons for rate setting purposes and corresponding reductions of \$42 for purchased power, \$101 for chemicals, and \$7 for RAFs to reflect the anticipated repression. This results in a post repression revenue requirement of \$63,607. Staff's recommended rate structure and resulting water rates are shown on Schedule No. 4.

Conclusion

Based on the above, the recommended rate structures and monthly water rates are shown on Schedule No. 4-A. 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 this notice.

Issue 9: What are the appropriate initial customer deposits for Country Walk's water system?

Preliminary Recommendation: The appropriate initial customer deposits should be \$146 for water for the residential 5/8 inch x 3/4 inch 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 monthly bill. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding. (Sibley)

Staff Analysis: Rule 25-30.311, F.A.C., provides 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. An initial customer deposit ensures that the cost of providing service is recovered from the cost causer. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.¹⁰ Currently, the utility does have initial deposits. Based on the staff recommended water rates, the appropriate initial customer deposit for water should be \$146 to reflect an average residential customer bill for two months.

Staff recommends the appropriate initial customer deposits should be \$146 for the residential 5/8 inch x 3/4 inch 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 monthly bill. The approved initial customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding.

¹⁰See e.g., Order No. PSC-15-0142-PAA-SU, issued March 26, 2015, in Docket No. 20130178-SU, *In re: Application for staff-assisted rate case in Polk County by Crooked Lake Park Sewerage Company*.

Issue 10: Should Country Walk's request to implement a \$6.50 late payment charge be approved?

Preliminary Recommendation: Yes. The utility's request to implement a \$6.50 late payment charge should be approved. Country Walk should be required to file a proposed customer notice to reflect the Commission-approved charge. The approved charge should be effective 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 charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Sibley)

Staff Analysis: The utility is requesting a \$6.50 late payment charge to recover the cost of labor, supplies, and RAFs associated with processing late payment notices. Country Walk's current late payment charge is \$5.00. However, the utility is requesting a fixed charge for its late payment charge consistent with Commission practice and its sister utilities managed by U.S. Water. The purpose of this charge is not only to provide an incentive for customers to make timely payment, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing delinquent accounts solely upon those who are cost causers. Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges.

Country Walk calculated the actual costs for its late payment charges to be \$8.07. The utility indicated that it will take approximately 15 minutes per account to research, compile, and produce late notices. The delinquent customer accounts will be processed by the administrative contract employee, which results in labor cost of \$7.00 (\$28.00 x 0.25hr). This is consistent with prior Commission decisions where the Commission has allowed 10-15 minutes per account per month for the administrative labor associated with processing delinquent customer accounts.¹¹ However, \$8.07 would be the highest late payment charge amongst all other water and wastewater utilities regulated by the Commission.¹² Therefore, the utility is requesting a charge of \$6.50, consistent with recent Commission decisions. The utility's calculation for its requested late payment charge is shown in Table #-1.

¹¹ Order Nos. PSC-16-0041-TRF-WU, issued January 25, 2016, in Docket No. 20150215-WU, *In re: Request for approval of tariff amendment to include miscellaneous service charges for the Earlene and Ray Keen Subdivisions, the Ellison Park Subdivision and the Lake Region Paradise Island Subdivision in Polk County, by Keen Sales, Rentals and Utilities, Inc.* and PSC-15-0569-PAA-WS, issued December 16, 2015, in Docket No. 20140239-WS, *In re: Application for staff-assisted rate case in Polk County by Orchid Springs Development Corporation.*

¹² Order Nos. PSC-14-0105-TRF-WS, issued February 20, 2014, in Docket No. 20130288-WS, *In re: Request for approval of late payment charge in Brevard County by Aquarina Utilities, Inc.*; PSC-15-0535-PAA-WU, issued November 19, 2015, in Docket No. 20140217-WU, *In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.*; and PSC-15-0569-PAA-WS, issued December 16, 2015, in Docket No. 20140239-WS, *In re: Application for staff-assisted rate case in Polk County by Orchid Springs Development Corporation.*

**Table 10-1
Late Payment Charge Cost Justification**

Activity	Cost
Labor	\$7.00
Supplies	\$0.22
Postage	<u>\$0.49</u>
Markup for RAFs	<u>\$0.36</u>
Total Cost	<u>\$8.07</u>

Source: Utility's cost justification documentation

Based on the above, Country Walk's request to implement a \$6.50 late payment charge should be approved. The Utility should be required to file a proposed customer notice to reflect the Commission-approved charge. The approved charge should be effective 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 charge should not be implemented until after staff has approved the proposed customer notice and the notice has been received by customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

Issue 11: Should Country Walk's miscellaneous service charges be revised?

Preliminary Recommendation: Staff's recommendation regarding the Utility's miscellaneous service charges will not be finalized until after the July 25, 2018 Customer Meeting. (Sibley)

Staff Analysis: Section 367.091, F. S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. The Utility's existing miscellaneous service charges were established in Docket No. 960244-WU13, 150067-WU14, and 150260-WS15. The utility provided cost justification to staff on June 13, 2018, requesting initial connection and premises visit charges of \$31.05 for normal hours and \$36.12 for after hours. In addition, the utility requested normal reconnection and violation reconnection charges of \$57.03 during normal hours and \$64.64 after hours. Staff believes that additional information is needed in order to determine the appropriate miscellaneous service charges. Therefore, staff's recommendation regarding Country Walk's miscellaneous service charges will not be finalized until after the July 25, 2018 Customer Meeting.

¹³ Order No. PSC-97-0568-FOF-WU, issued May 20, 1997, in Docket No. 960244-WS, *In re: Request for approval of amendment to tariff for miscellaneous service charges in Highlands County by Country Walk Utilities, Inc.*

¹⁴ Order No. PSC-15-0187-TRF-WU, issued May 06, 2015, in Docket No. 150067-WS, *In re: Request for approval of amendment to tariff for miscellaneous service charges in Highlands County by Country Walk Utilities, Inc.*

¹⁵ Order No. PSC-16-0084-TRF-WS, issued February 22, 2016, in Docket No. 150260-WS, *In re: Request for approval of late payment charges and return check (NSF) charge and request for approval of amendment to tariff sheets for miscellaneous service charges in Lake County by Brendenwood Waterworks, Inc., Harbor Waterworks, Inc., Lake Idlewild Waterworks, Inc., and Raintree Waterworks, Inc., and in Highlands County by Country Walk Utilities, Inc.*

Issue 12: 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-A, to remove rate case expense grossed-up for RAFs and amortized over a 4-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 367.081, F.S. Country Walk 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. (Sibley, L. Smith)

Staff Analysis: Section 367.081, F.S., requires that the rates be reduced immediately following the expiration of the 4-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. This results in a reduction of \$407.

The water rates should be reduced, as shown on Schedule No. 4-A, to remove rate case expense grossed-up for RAFs and amortized over a 4-year period. The decrease in rates should become effective immediately following the expiration of the 4-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Country Walk 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 13: Should the recommended rates be approved for the Utility on a temporary basis subject to refund with interest, in the event of a protest filed by a party other than the Utility?

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. Country Walk should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (L. Smith)

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. Country Walk 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 \$29,966. 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,

Date: June 27, 2018

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

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

- 1) The Commission Clerk, or his or her designee, must be a signatory to the escrow agreement; and,
- 2) No monies in the escrow account may be withdrawn by the Utility without the prior written authorization of the Commission Clerk, or his or her designee;
- 3) The escrow account shall be an interest bearing account;
- 4) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 5) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility;
- 6) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 7) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 8) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to *Consenting 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 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 14: Should the Utility be required to notify the Commission within 90 days of an effective order finalizing this docket, that it has adjusted its books consistent with the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) for all 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. Country Walk 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. (L. Smith)

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. Country Walk 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.

COUNTRY WALK UTILITIES, INC		SCHEDULE NO. 1-A	
TEST YEAR ENDED 12/31/17		DOCKET NO. 20180021-WU	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$230,541	\$16,085	\$246,626
LAND & LAND RIGHTS	1,495	0	1,495
NON-USED AND USEFUL COMPONENT	0	(2,310)	(2,310)
CIAC	(23,950)	0	(23,950)
ACCUMULATED DEPRECIATION	(64,064)	(2,911)	(66,975)
ACCUMULATED AMORTIZATION OF CIAC	17,421	508	17,929
ACQUISITION ADJUSTMENT	(20,064)	0	(20,064)
ACCUMULATED AMORTIZATION OF ACQ ADJ	10,127	(2,337)	7,790
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>4,115</u>	<u>4,115</u>
WATER RATE BASE	<u>\$151,506</u>	<u>\$13,149</u>	<u>\$164,655</u>

COUNTRY WALK UTILITIES, INC	SCHEDULE NO. 1-B
TEST YEAR ENDED 12/31/17	DOCKET NO. 20180021-WU
ADJUSTMENTS TO RATE BASE	
	<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
To reflect pro forma plant additions.	<u>\$16,085</u>
<u>NON-USED & USEFUL COMPONENT</u>	
1. To reflect the appropriate Non-U&U UPIS.	(2,941)
2. To reflect the appropriate Non-U&U Accumulated Depreciation.	<u>631</u>
Total	<u>(2,310)</u>
<u>ACCUMULATED DEPRECIATION</u>	
1. To reflect the appropriate balance.	(\$2,451)
2. To reflect pro forma plant additions.	<u>(460)</u>
Total	<u>(\$2,911)</u>
<u>ACCUMULATED AMORTIZATION OF CIAC (AA of CIAC)</u>	
To reflect the appropriate balance.	<u>\$508</u>
<u>ACCUMULATED AMORTIZATION OF ACQ ADJ (AA of AA)</u>	
To reflect the appropriate balance. AF3	<u>(\$2,337)</u>
<u>WORKING CAPITAL ALLOWANCE</u>	
To reflect 1/8 of test year O & M expenses.	<u>\$4,115</u>

COUNTRY WALK UTILITIES, INC				SCHEDULE NO. 2				
TEST YEAR ENDED 12/31/17				DOCKET NO. 20180021-WU				
SCHEDULE OF CAPITAL STRUCTURE								
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$250	\$0	\$250					
2. RETAINED EARNINGS	21,704	0	21,704					
3. PAID IN CAPITAL	13,894	0	13,894					
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>					
TOTAL COMMON EQUITY	\$35,848	\$0	\$35,848	\$128,063	\$163,911	99.55%	8.74%	8.70%
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>	0	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%
TOTAL LONG TERM DEBT	\$0	\$0	\$0	\$0	\$0	0.00%		
8. CUSTOMER DEPOSITS	<u>\$744</u>	<u>\$0</u>	<u>\$744</u>	<u>\$0</u>	<u>\$744</u>	<u>0.45%</u>	2.00%	<u>0.01%</u>
9. TOTAL	<u>\$36,592</u>	<u>\$0</u>	<u>\$36,592</u>	<u>\$128,063</u>	<u>\$164,655</u>	<u>100.00%</u>		<u>8.71%</u>
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						<u>7.74%</u>	<u>9.74%</u>	
OVERALL RATE OF RETURN						<u>7.71%</u>	<u>9.71%</u>	

COUNTRY WALK UTILITIES, INC			SCHEDULE NO. 3-A		
TEST YEAR ENDED 12/31/17			DOCKET NO. 20180021-WU		
SCHEDULE OF WATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$28,552</u>	<u>\$1,868</u>	<u>\$30,420</u>	<u>\$33,631</u> 110.56%	<u>\$64,051</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$25,022	\$7,894	\$32,916	\$0	\$32,916
3. DEPRECIATION (NET)	3,549	7,587	11,136	0	11,136
5. AMORTIZATION OF ACQ ADJ	2,337	0	2,337	0	2,337
6. TAXES OTHER THAN INCOME	<u>1,570</u>	<u>238</u>	<u>1,808</u>	<u>1,513</u>	<u>3,321</u>
7. TOTAL OPERATING EXPENSES	<u>\$32,478</u>	<u>\$15,718</u>	<u>\$48,196</u>	<u>\$1,513</u>	<u>\$49,710</u>
8. OPERATING INCOME/(LOSS)	<u>(\$3,926)</u>		<u>(\$17,776)</u>		<u>\$14,341</u>
9. WATER RATE BASE	<u>\$151,506</u>		<u>\$164,655</u>		<u>\$164,655</u>
10. RATE OF RETURN	<u>-2.59%</u>		<u>-10.80%</u>		<u>8.71%</u>

COUNTRY WALK UTILITIES, INC	Schedule No. 3-B
TEST YEAR ENDED 12/31/17	DOCKET NO. 20180021-WU
ADJUSTMENTS TO OPERATING INCOME	Page 1 of 2
	<u>WATER</u>
OPERATING REVENUES	
1. To reflect the appropriate test year services revenues.	\$1,863
2. To reflect the appropriate test year miscellaneous service revenues.	<u>5</u>
Subtotal	<u>\$1,868</u>
OPERATION AND MAINTENANCE EXPENSES	
1. Chemicals (618)	
To reflect actual chemicals expense .	<u>(\$34)</u>
2. Contractual Services - Other (636)	
b. To reflect the new US Water contract amount.	\$5,396
a. To reflect amortization of water tank sandblasting and coating.	<u>\$1,000</u>
Subtotal	<u>\$6,396</u>
3. Regulatory Commission Expense	
Allowance for rate case expense amortized over 4 years.	<u>\$389</u>
4. Bad Debt Expense (670)	
To reflect increase in bad debt expense.	<u>\$1,143</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$7,894</u>
1. DEPRECIATION EXPENSE	
2. To reflect the appropriate going-forward depreciation expense.	\$7,084
3. To reflect the non-used & useful component.	(\$35)
4. To reflect pro forma additions.	460
To reflect the appropriate CIAC expense.	<u>\$78</u>
Total	<u>\$7,587</u>
TAXES OTHER THAN INCOME	
To reflect the appropriate property taxes.	<u>\$238</u>

COUNTRY WALK UTILITIES, INC		SCHEDULE NO. 3-C	
TEST YEAR ENDED 12/31/17		DOCKET NO. 20180021-WU	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(603) SALARIES AND WAGES - OFFICERS	3,000	0	3,000
(615) PURCHASED POWER	1,224	0	1,224
(618) CHEMICALS	2,969	(34)	2,935
(632) CONTRACTUAL SERVICES - ACCOUNTING	350	0	350
(633) CONTRACTUAL SERVICES - LEGAL	530	0	530
(636) CONTRACTUAL SERVICES - OTHER	15,432	6,396	21,828
(657) INSURANCE EXPENSE - GENERAL LIABILITY	1,300	0	1,300
(665) REGULATORY COMMISSION EXPENSE	0	389	389
(670) BAD DEBT EXPENSE	117	1,143	1,260
(675) MISCELLANEOUS EXPENSE	<u>100</u>	<u>0</u>	<u>100</u>
	<u>\$25,022</u>	<u>\$7,894</u>	<u>\$32,916</u>

COUNTRY WALK UTILITIES, LLC		SCHEDULE NO. 4	
TEST YEAR ENDED DECEMBER 31, 2017		DOCKET NO. 20180021-WS	
MONTHLY WATER RATES			
	CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8"X3/4"	\$16.45	\$40.44	\$0.26
3/4"	\$24.67	\$60.66	\$0.39
1"	\$41.10	\$101.10	\$0.65
1-1/2"	\$82.19	\$202.20	\$1.29
2"	\$131.48	\$323.52	\$2.07
3"	\$262.99	\$647.04	\$4.14
4"	\$410.93	\$1,011.00	\$6.47
6"	\$821.88	\$2,022.00	\$12.94
Charge per 1,000 gallons - Residential			
0-10,000 gallons	\$6.17	N/A	N/A
Over 10,000 gallons	\$7.72	N/A	N/A
0-3000 gallons	N/A	\$11.33	\$0.07
Over 3000 gallons	N/A	\$21.93	\$0.14
Charge per 1,000 gallons - General Service	\$6.17	\$11.70	\$0.07
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$34.96	\$74.43	
6,000 Gallons	\$53.47	\$140.22	
10,000 Gallons	\$78.15	\$227.94	