

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
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-M-E-M-O-R-A-N-D-U-M-

DATE: September 28, 2018

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Smith II, Buys, Cicchetti, Hightower) *LCJ* *MS* *SH* *PS* *MC* *J* *ALM*
Division of Economics (Sibley) *MS* *SH* *PS*
Division of Engineering (Lewis, Salvador, Wright) *PSH*
Office of the General Counsel (Murphy) *CA* *CA* *for* *TLT*

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

AGENDA: 10/11/18 – Proposed Agency Action – Except for Issue Nos. 12, 13, and 14 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brown

CRITICAL DATES: 5/16/2019 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

Table of Contents

<i>Issue</i>	<i>Description</i>	<i>Page</i>
	Case Background.....	3
1	Quality of Service (Wright).....	4
2	Used and Useful (Wright).....	10
3	Rate Base (L. Smith, Wright).....	12
4	Rate of Return (L. Smith).....	16
5	Test Year Revenues (Sibley).....	17
6	Operating Expenses (Hightower, L. Smith).....	18
7	Revenue Requirement (L. Smith).....	23
8	Appropriate Rates and Rate Structure (Sibley).....	24
9	Customer Deposits (Sibley).....	26
10	Late Payment Charge (Sibley).....	27
11	Miscellaneous Service Charges (Sibley).....	29
12	Four Year Rate Reduction (Sibley, L. Smith).....	33
13	Temporary Rates (L. Smith).....	34
14	Proof of Adjustment (L. Smith).....	36
15	Close Docket (Murphy).....	37
	Schedule No. 1-A Water Rate Base.....	38
	Schedule No. 1-B Adjustments to Rate Base.....	39
	Schedule No. 2 Capital Structure.....	40
	Schedule No. 3-A Water Operating Income.....	41
	Schedule No. 3-B Adjustments to Operating Income.....	42
	Schedule No. 3-C Water O&M Expense.....	43
	Schedule No. 4 Monthly Water Rates.....	44
	Attachment A.....	45

Case Background

Country Walk Utilities, Inc. (Country Walk or Utility) is a Class C utility providing water service to approximately 70 residential water customers and one general service water customer in Highlands County. The service area is located in the Southwest Florida Water Management District (SWFWMD). Wastewater treatment is provided by septic tank. 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-WU.¹

On January 22, 2018, Country Walk filed its application for a staff-assisted rate case (SARC). Staff selected the test year ended 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. The Utility's rates were last established in Docket No. 20010403-WU.² A customer meeting was held in Lake Placid, Florida on July 25, 2018.

The Florida Public Service Commission (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.*

²Order No. PSC-01-2385-PAA-WU, issued December 10, 2001, in Docket No. 010403-WU, *In re: Application for staff-assisted rate case in Highlands County by Holmes Utilities, Inc.*

Discussion of Issues

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

Recommendation: Country Walk is currently working to incorporate Department of Environmental Protection (DEP) guidance into its operating methodology and is expected to return to compliance with disinfection byproduct standards following third quarter sampling results. Country Walk has worked, and continues to work closely with its customers to address complaints in a timely manner and to discuss potential operational solutions to its customers' needs. Finally, Country Walk's water treatment plant was found to be in sound operating condition during the recent site visit. However, because Country Walk is not currently in compliance with DEP standards, staff recommends that the overall quality of service should be considered marginal. (Wright)

Staff Analysis: Pursuant to Section 367.081(2)(a)1, F.S., in water and wastewater rate cases, the Commission considers the overall quality of service provided by a utility. Rule 25-30.433(1), Florida Administrative Code (F.A.C.), provides for the consideration of three separate components of the utility's operations.³ The components are: (1) the quality of the utility's product; (2) the utility's attempt to address customer satisfaction; and (3) the operating conditions of the utility's plant and facilities. The Rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with 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 DEP.

Quality of Utility's Product

In evaluating 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. Pursuant to Rule 25-30.433, F.A.C., staff reviewed DEP's compliance records from January 1, 2015, through December 31, 2017,⁴ and has identified two related areas of concern: (1) disinfection byproduct levels of Total Trihalomethanes (TTHM) and Haloacetic Acids (HAA5), both primary contaminants had exceeded their maximum contaminant levels (MCL) on multiple occasions; and (2) the water color standard, measuring a secondary contaminant, was not met when last evaluated.

Country Walk draws its water from a source containing high concentrations of hydrogen sulfides. Prior to recent plant modifications, Country Walk's system employed a pump-and-chlorinate methodology. High doses of chlorine were required to maintain DEP mandated residual chlorine levels in the water distribution system because chlorine was being readily consumed through an oxidation reaction with the hydrogen sulfides. An August 16, 2014, sampling of Country Walk's system, however, found that this methodology was resulting in TTHM and HAA5 MCL exceedances, per DEP standards. At the same time, due to the residual

³Rule 25-30.433(1), F.A.C., was amended on July 11, 2018. Staff's analysis is based on the Rule at the time of the Utility's filing.

⁴Staff has also reviewed DEP records outside of this three-year period.

hydrogen sulfides in the distribution system and the high levels of treatment required, Country Walk was receiving customer complaints regarding dark/foul smelling water and loss of pressure, the former being reflected in a May 12, 2015, secondary standards sampling that revealed water color standards were not being met.

DEP responded to Country Walk's sampling results by placing them on a quarterly TTHM and HAA5 sampling requirement. In a follow-up letter to 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 DEP rules.⁵ Country Walk also explained that the treatment system's estimated \$100,000 cost would be, pending Commission approval, passed on to Country Walk's customers who, at the time, were not willing to take on the financial burden.

On February 11, 2016, Country Walk held a meeting with the Homeowners Association and DEP during which Country Walk's customers were made aware of the regulatory motivations for the proposed plant modifications and were provided an opportunity to participate in the funding of the project as a means to mitigate a rate increase. In a follow-up letter dated April 25, 2016, Country Walk's Homeowners Association declined the option to participate in project funding but expressed their approval of the planned plant modifications. With approval from its customers, Country Walk began to implement its plans on May 2, 2016. In September 2017, Country Walk completed the plant modifications and placed into service its new forced draft aeration treatment system to begin removing the hydrogen sulfides from its raw water prior to chlorination. Sulfide analysis performed on samples taken downstream of the forced draft aeration treatment system on September 6, 2017, revealed undetectable levels of sulfides, indicating the system is effectively volatilizing and removing the hydrogen sulfides present in the raw water. Cost recovery for the forced draft aeration treatment system is discussed in Issue 3.

While the design and construction of the forced draft aeration treatment system was underway, Country Walk was still operating on a DEP-imposed quarterly TTHM and HAA5 sampling schedule, under which Country Walk repeatedly reported disinfection byproduct MCL exceedances. By a February 6, 2018 letter, DEP issued Country Walk a draft consent order, finding Country Walk in repeated violation of primary drinking water standards. In a responsive letter to DEP dated February 16, 2018, Country Walk explained that the new system had recently gone into service and that, according to the sampling schedule, it would take some months for Country Walk to return to official compliance. Staff has contacted DEP in regards to this consent order and has been informed that Country Walk is on a monitoring plan to determine if the consent order is required. Staff has reviewed recent TTHM and HAA5 sampling results which show that Country Walk's rolling annual average falls under MCL, indicating the new system is operating as intended. However, DEP has not released Country Walk from its quarterly sampling requirement, instead opting to reevaluate after third quarter sampling results. Staff has reviewed a June 12, 2018 correspondence between Country Walk and DEP that exhibits Country Walk's continued efforts to incorporate DEP guidance into its treatment methodology.

⁵Rule 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.

Staff has also reviewed two sets of lead and copper analyses of Country Walk’s system performed, in part, to address customer complaints regarding green/blue staining of surfaces in contact with finished water and a dark coloration to the finished water. Both analyses, the first performed on samples dating from April 27 to May 4, 2018, and the second performed on samples dated July 19, 2018, reported lead and copper concentrations under actionable levels. Country Walk was recently required by DEP to perform quarterly lead and copper sampling due to the change in the water treatment process discussed above. Sampling results for all other primary and secondary quality standards, performed on samples taken August 6, 2018, were reviewed by staff and indicated that the Utility was in compliance with the exception of the pH of the finished water. Country Walk’s finished water, sampled at the entry point to distribution, was found to be slightly more acidic, with a pH of 6.38, than the normal finished water pH range of 6.5 – 8.5. Country Walk is still working with DEP to make modifications to its treatment methodology to achieve its finished water target pH of 7.3. Additionally, staff’s review did not reveal any citations from the Highlands County Health Department.

Country Walk is currently working to incorporate DEP guidance into its operating methodology, is cooperating with sampling requirements, and is expected to return to compliance with disinfection byproduct standards following third quarter sampling results.

The Utility’s Attempt to Address Customer Satisfaction

Staff reviewed the complaint records filed with this Commission, DEP, and Country Walk for the period starting October 23, 2013, and ending March 1, 2018. Staff has also performed a supplemental review of the complaints filed with this Commission following the July 25, 2018, customer meeting. 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	DEP Records	Utility Records
Dark/Foul Smelling Water	3	-	48
Decreased Water Pressure	1	-	21
High Water Pressure	3	-	3
Excessive Gallonage/ Billing Errors	5	1	25
No Generator at Plant	2	-	-
Suspended Solids	1	-	-
Rate Concerns	2	-	-
Other	1	-	-
Total*	18	1	97

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

Prior to recent plant modifications, Country Walk’s customers had complained of dark/foul smelling water. This water quality issue originated from Country Walk’s prior treatment methodology, discussed above in detail, and was exacerbated by the seasonality of Country Walk’s customers. Country Walk addressed these complaints by flushing customer’s water pipes

until the water quality improved. Following installation of the new forced draft aeration treatment system, customers have reported a notable improvement in water quality. At the same time, staff was made aware of new water quality complaints during the July 25, 2018 customer meeting. It appears that some customers have experienced green/blue staining of surfaces in contact with finished water. As discussed above, Country Walk has performed lead and copper analyses of its finished water to determine if this staining was related to potential mineral leaching from residents' internal plumbing. These analyses resulted in lead and copper concentrations under actionable levels. Country Walk explained that due to the seasonality of many of its customers and the volume of water contained in its distribution system, these issues will take some time to resolve and has urged customers to cycle the water in their hot water heaters and, when faced with acute water quality issues, to run faucets until the water quality improves. Country Walk has indicated that if further changes to its treatment methodology are required to address these complaints, it will consider adding a sequestrant or may convert to using chloramines as a disinfectant.

Several other customer complaints concerned a decrease or complete loss of pressure at customers' 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 of some customers' 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. As of August 10, 2018, Country Walk reports that it has not received any documentation detailing damage to customer plumbing. Country Walk has installed a pressure relief valve, designed to open at 80 psi, downstream of the high-service pumps which feed into the hydropneumatic tank to prevent future high-pressure events.

Customer complaints related 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 customers' 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. Country Walk has recently analyzed consumption in 2018 and reports that it found no anomalous values.

During the July 25, 2018 customer meeting, Country Walk customers informed staff of their troubles experienced during a five to seven day period in September 2017 after Hurricane Irma during which Country Walk had lost power, and therefore its capability to provide potable water to its customers. Customers questioned whether Country Walk was required to have a standby generator at its water treatment plant. Per DEP rules, a community water system serving, or designed to serve, 350 or more persons or 150 or more service connections is required to provide standby power for operation. Because Country Walk does not meet this criteria, it is not required to provide standby power. However, in an effort to address customer complaints, Country Walk communicated with the Homeowners Association in regards to equipping Country Walk's water treatment plant with a generator. On August 31, 2018, the Homeowners Association responded that it does not want Country Walk to install and maintain a generator at the plant at this time.

Following the July 25, 2018 customer meeting, this Commission received additional customer complaints. One such complaint concerned clogging of a customer's filtration equipment. Country Walk has responded to the customer informing them that filtration of its finished water is neither needed nor required. Country Walk also explained that its water treatment plant is neither equipped nor permitted to provide for filtration of its finished water. Staff has been informed that DEP is currently investigating the complaint. Customers have also expressed concerns over the proposed rate increase.

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). 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. As discussed above, Country Walk has recently 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. Staff notes that this Sanitary Survey predates Country Walk's purchase of the water treatment system on October 23, 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. In a letter dated May 28,

2013, former owner Holmes Utilities, Inc. reported to DEP that all deficiencies had been corrected. On July 26, 2018, staff confirmed, through a site visit to Country Walk's water treatment plant, that both 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) Country Walk's hydropneumatic tank was due for its five-year inspection and cleaning. Country Walk responded to 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. Per DEP, Country Walk is scheduled for a Sanitary Survey to occur during the next federal fiscal year, October 2018 through September 2019.

Conclusion

Country Walk is currently working to incorporate DEP guidance into its operating methodology and is expected to return to compliance with disinfection byproduct standards following third quarter sampling results. Country Walk has worked, and continues to work closely with its customers to address complaints in a timely manner and to discuss potential operational solutions to its customers' needs. Finally, Country Walk's water treatment plant was found to be in sound operating condition during the recent site visit. However, since Country Walk is not currently in compliance with DEP standards, staff recommends that the overall quality of service should be considered marginal.

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

Recommendation: Country Walk's water treatment plant, storage, and distribution system should be considered 100 percent U&U. There appears to be no excessive unaccounted for water; 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.⁶ 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 118,191 gallons which exceeds the usable water storage amount. Staff recommends that the water storage is 100 percent U&U.

Water Distribution System Used and Useful

There are no large undeveloped parcels in Country Walk's territory. While there are undeveloped lots interspersed throughout the distribution system, all lines are required to serve existing customers, and no portions of the distribution system could be isolated as not U&U. Therefore, staff recommends that Country Walk's water distribution system be considered 100 percent U&U.

⁶Order 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.*

Excessive Unaccounted for Water (EUW)

Unaccounted for water (UW) is all water produced that is not sold, metered, or accounted for in the records of the Utility. Rule 25-30.4325(1)(e), F.A.C., defines EUW as “unaccounted for water in excess of 10 percent of the amount produced.” 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.

UW 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 Country Walk has submitted to DEP, Country Walk produced 3,771,300 gallons of water from January 1, 2017, to December 31, 2017. The audit completed by staff indicated that the Utility sold 2,533,000 gallons of water to customers. Country Walk reported that an estimated 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. Staff notes that, based on the data provided, several months were determined to exhibit negative UW, indicating that a greater amount of water had been accounted for than was actually produced. This likely resulted from either Country Walk’s overestimation of water lost to main line breaks or its flushing activities; the latter having been discussed in Issue 1 as it relates to Country Walk’s water quality issues and its solutions thereof. For the purposes of EUW determination, staff has adjusted any negative UW calculations to be zero. After adjustment, Country Walk’s UW was calculated to be 1 percent, indicating that Country Walk has no EUW. As such, staff recommends no adjustment should be made to operating expenses for chemicals and purchased power.

Conclusion

Staff recommends that Country Walk’s water treatment plant, storage, and distribution system be considered 100 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?

Recommendation: Yes, the Commission should approve a year-end rate base. The appropriate water rate base is \$167,783 for the test year ended 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.⁷ The test year end 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 forced draft aeration treatment system which was installed to remove the majority of the hydrogen sulfides from Country Walk's well water, thereby addressing both the primary and secondary standards compliance issues discussed in Issue 1. 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 were 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.⁸ 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.⁹ 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

⁷Order 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.*

⁸*See, Citizens of Florida v. Hawkins*, (FLA.1978), 356 So. 2d 254.

⁹Order 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.*

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 system through U.S. Water Services Corporation (USWSC) was \$114,485.¹⁰ 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 found that a second well was placed into service in 2012. In response to staff's data request dated August 8, 2018, the Utility stated that only one well has been in service since 2012.¹¹ Staff could not find the retirement associated with the original well. Therefore, staff recommends reducing Account 307 Wells and Springs by \$16,306 to retire the original well that is no longer in service.

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 by the Utility 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.

Country Walk also is requesting a pro forma plant item to install a bypass around its hydropneumatic tank that will allow Country Walk to continue to provide water to its customers during times when its hydropneumatic tank is taken out of service, as will be the case for its upcoming sandblasting and coating as discussed in Issue 6. Without this bypass system, Country Walk would be forced to take its water system offline, and subsequently issue boil water notices, any time its hydropneumatic tank was serviced. Country Walk has provided one invoice from USWSC for \$1,029. Staff has requested additional bids from Country Walk but was informed

¹⁰See Document No. 03734-2018, filed on May 17, 2018.

¹¹See Document No. 05262-2018, filed on August 13, 2018.

that Country Walk did not seek additional bids from other contractors due to the nature of the work and the location of the Utility in a rural area of Florida. Due to the cost and scope of the project, the competitiveness of the other USWSC bids reviewed during this rate case, and the lasting benefits to customers, staff believes that this project is reasonable and prudent.

Based on the above, staff increased UPIS by \$17,114 ($\$16,085 + \$1,029$) to reflect the service connection refurbishment project and the hydropneumatic tank bypass installation. Staff's adjustments result in a net increase to UPIS of \$808 ($-\$16,306 + \$17,114$). Therefore, staff is recommending a year-end UPIS balance of \$231,349 ($\$230,541 + \808).

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.

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 \$66,515 as of December 31, 2017. This results in an increase of \$2,451. Additionally, staff reduced accumulated depreciation by \$16,306 to reflect the retirement of the original well discussed above. Further, staff increased accumulated depreciation by \$520 to reflect the two pro forma projects, resulting in a total decrease of \$13,335 ($\$2,451 - \$16,306 + \520). Staff's adjustments result in an accumulated depreciation balance of \$50,729 ($\$64,064 - \$13,335$).

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 believes this amount is correct and 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 \$3,963.

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate year-end rate base is \$167,783 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?

Recommendation: The appropriate return on equity (ROE) is 8.11 percent with a range of 7.11 percent to 9.11 percent. The appropriate overall rate of return is 8.08 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 8.11 percent based upon the Commission-approved leverage formula currently in effect.¹² Staff recommends an ROE of 8.11 percent, with a range of 7.11 percent to 9.11 percent, and an overall rate of return of 8.08 percent. The ROE and overall rate of return are shown on Schedule No. 2.

¹²Order No. PSC-2018-0327-PAA-WS, issued June 26, 2018, in Docket No. 20180006-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.?

Recommendation: The appropriate test year revenues are \$29,364. (Sibley)

Staff Analysis: Country Walk recorded \$28,552 in test year revenues, which consists of \$28,263 in service revenues and \$289 in miscellaneous revenues. Based on the test year billing determinants and the service rates, staff determined service revenues should be \$29,070, which is an \$807 (\$29,070-\$28,263) increase to test year service revenues. This adjustment to service revenues is due to a timing difference between the billing register and the general ledger and annualizing prorated bills. 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 \$29,364 (\$29,070+\$294).

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

Recommendation: The appropriate amount of test year total operating expenses for the Utility is \$48,358. (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.

Purchased Power (615)

The Staff Audit Report recorded \$1,224 for purchased power expense in Account 615 for the test year. The Utility subsequently provided invoices for the most recent twelve-month period, August 2017 through July 2018, which averaged a monthly expense of \$96 or \$1,152 annually for purchased power. Staff made an adjustment of \$72 to decrease purchased power expense to reflect the actual expense of \$1,152. Therefore, staff recommends purchased power expense of \$1,152 (\$1,224 - \$72).

Chemicals (618)

Country Walk recorded chemical expense of \$2,969 in its General Ledger for the test year. Due to the installation of a new forced draft aeration water treatment system, the Utility was required to purchase two new chemicals to treat the water: sodium hydroxide and sulfuric acid. Country Walk provided its calculation of the annualized chemical expense of \$3,749, and the actual chemical purchase expense of \$3,673 in Document No. 04218-2018. The Utility determined the new water treatment system used approximately 5.8 gallons of sodium hydroxide during a 50-day period. However, the Utility purchased 280 gallons of sodium hydroxide at a cost of \$4 per gallon, or \$1,120. At a use rate of 5.8 gallons per 50 days, the utility would use only 42.3 gallons of sodium hydroxide per year at an annual cost of \$169. Therefore, staff believes the appropriate annual cost for sodium hydroxide is \$169. Country Walk calculated its expenses for sulfuric acid and chlorine of \$2,324 and \$326, respectively, which appears to reflect the actual use rates for those chemicals. Therefore, staff believes the appropriate annual chemical expense is \$2,819 (\$2,324 + \$326 + \$169). Accordingly, staff recommends a reduction to chemical expense of \$150 (\$2,969 - \$2,819).

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 USWSC service contract, which includes the expense for operating the new forced draft aeration water treatment system, meter reading, testing, and various repairs. In its filing, the Utility advised staff of changes to the USWSC contract effective October 1, 2017, that increased the costs charged to the Utility. The revised USWSC contract takes into consideration similar USWSC agreements previously approved in prior cases involving seven of Country Walk’s “sister” utilities during nine rate case proceedings.¹³ Staff made adjustments to annualize the updated amount of the revised USWSC contract and staff recommends an amount of \$20,828, which equates to an increase of \$5,396 or 24 percent.

There are significant changes between the current USWSC contract (2017 contract) and the contract which was last revised on October 1, 2013 (2013 contract). The 2017 contract removes the addition of 1,000 potential ERCs that were included in the 2013 contract for a growth allowance that is no longer expected to occur. Actual costs for fuel and maintenance utilized in 2016 are included in the management and administrative portion of the 2017 contract. Also included in the 2017 contract are the allocated costs for in-house customer service and billing as well as necessary operator and maintenance technician positions previously excluded from the 2013 contract. According to USWSC, the 2013 contract did not reflect the full actual cost for other services incurred such as inspections required by DEP or calibrating the water well meter. The 2017 contract adjusted these costs to reflect the actual costs incurred by the Utility.

In order to analyze the reasonableness of the 2017 USWSC Service contract, staff compared the total O&M costs recommended in the instant case with the Commission approved amounts for

¹³Order No. PSC-14-0413-PAA-WS, issued August 14, 2014, in Docket No. 20130153-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. 20130194-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. 20140158-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. 20140186-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. 20140147-WS, *In re: Application for staff-assisted rate case in Sumter County by Jumper Creek Utility Company.*; Order No. PSC-16-0256-PAA-WU, issued June 30, 2016, in Docket No. 20150199-WU, *In re: Application for staff-assisted rate case in Lake County by Raintree Waterworks, Inc.*; Order No. PSC-16-0305-PAA-WU, issued July 28, 2016, in Docket No. 20150236-WU, *In re: Application for staff-assisted rate case in Lake County, by Lake Idlewild Utility Company.*; Order No. PSC-2017-0334-PAA-WS, issued August 23, 2017, in Docket No. 20160222-WS, *In re: Application for staff-assisted rate case in Highlands County by LP Waterworks, Inc.*; Order No. PSC-2017-0428-PAA-WS, issued November 7, 2017, in Docket No. 20160195-WS, *In re: Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.*

the similarly sized utilities of Lake Idlewild and Charlie Creek.¹⁴ Staff indexed the amounts from those cases using the Commission approved index factors.¹⁵ This analysis resulted in per ERC amounts of \$418 for Lake Idlewild and \$454 for Charlie Creek. Staff's recommended amount of \$20,828, in the instant case equates to \$446 per ERC. Based on this analysis, staff believes the revised USWSC service contract amount is reasonable.

Country Walk is also requesting \$5,000 for the sandblasting and recoating of a tank, which is a maintenance project required by DEP to be completed every five years. The estimated cost is based on a 2016 proposal from Crystal Coating, Inc. for \$5,000. A second bid of \$14,150 was received from PCI, Inc. for the same project. Country Walk is working with 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(9), 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. 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.

The Utility requested travel and lodging expense of \$250 to attend the customer meeting and \$250 to attend the Agenda conference. Staff adjusted those amounts based on actual mileage and hotel receipts. Staff further adjusted these amounts in order to share them with Pine Harbour Waterworks, Inc. Pine Harbour is a sister utility of Country Walk that had its customer meeting the day after Country Walk's, and is scheduled to be on the same Agenda Conference. Based on these adjustments, staff is decreasing this expense by \$78 and recommends travel expense of \$422.

Additionally, the Utility paid a \$1,000 rate case filing fee. Based on the above, staff recommends total rate case expense of \$1,603 ($\$75 + \$53 + \$53 + \$422 + \$1,000$), which amortized over four years, results in regulatory commission expense of \$401 ($\$1,603 \div 4$)

¹⁴Order 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 Hardee County by Charlie Creek Utilities, LLC.*

¹⁵Order 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 a bad debt expense of \$117 for the test year. It is Commission practice to calculate bad debt expense using a three-year average. Staff did not use a three-year average due to a negative balance recorded in 2016. The negative balance is not indicative of the actual bad debt expense incurred and is due to an accounting entry reflecting a write-off. Therefore, staff recommends using a percentage of the revenue requirement. In a prior SARC for sister utility, LP Waterworks, Inc., the Commission determined 1 percent of the revenue requirement was a reasonable percentage for bad debt.¹⁶ Staff believes 1 percent is also reasonable in the instant case as bad debt expense is expected to increase due to the substantial increase in the Utility's revenue requirement. Staff believes the appropriate bad debt expense for the test year is 1 percent of staff's recommended revenue requirement, or \$626. This represents an increase of \$509. Therefore, staff recommends a bad debt expense of \$626 (\$117 + \$509).

Miscellaneous Expense (675)

The Utility recorded miscellaneous expenses of \$100 for DEP fees. Staff believes this expense is reasonable and recommends no adjustment.

Operation and Maintenance Expenses Summary

Based on the above, staff recommends that the O&M expenses are \$32,106. 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 forced 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. Additionally, staff reduced depreciation expense by \$604 to reflect the well retirement discussed in Issue 3. Staff also increased depreciation expense by \$520 to reflect the increase in depreciation expense for the pro forma plant additions. Therefore, staff recommends depreciation expense of \$11,328 (\$4,328 + \$7,084 - \$604 + \$520).

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 \$10,627 (\$11,328 - \$701).

Amortization Expense for Acquisition Adjustment

Country Walk recorded amortization expense for acquisition adjustment of \$2,337. Staff has reviewed this amount and finds it to be appropriate. Staff is therefore recommending amortization expense for acquisition adjustment of \$2,337.

¹⁶Order No. PSC-2017-0334-PAA-WS, issued August 23, 2017, in Docket No. 20160222-WS, *In re: Application for staff-assisted rate case in Highlands County, by L.P. Utilities Corporation c/o LP Waterworks, Inc.*

Taxes Other Than Income (TOTI)

Country Walk recorded TOTI of \$1,570. Staff increased this amount by \$253 to reflect the increase in property taxes related to the pro forma plant project. Staff increased TOTI by \$1,465 to reflect RAFs associated with the revenue increase. Staff is therefore recommending TOTI of \$3,288 ($\$1,570 + \$253 + \$1,465$).

Total Operating Expenses Summary

The application of staff's recommended adjustments to Country Walk's test year operating expenses results in total operating expenses of \$48,358. 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?

Recommendation: The appropriate revenue requirement is \$61,914, resulting in an annual increase of \$32,550 or 110.85 percent. (L. Smith)

Staff Analysis: Country Walk should be allowed an annual increase of \$32,550 or 110.85 percent. This will allow the Utility the opportunity to recover its expenses and earn an 8.08 percent return on its water system. The calculations are shown in Table 7-1.

**Table 7-1
Revenue Requirement**

Revenue Requirement	
Adjusted Rate Base	\$167,783
Rate of Return	<u>8.08%</u>
Return on Rate Base	\$13,556
Adjusted O&M Expense	32,106
Depreciation Expense (Net)	10,627
Amortization Expense	2,337
Taxes Other Than Income	<u>3,288</u>
Revenue Requirement	\$61,914
Less Adjusted Test Year Revenues	<u>(29,364)</u>
Annual Increase	<u>\$32,550</u>
Percent Increase	<u>110.85%</u>

Source: Staff's Calculation

Issue 8: What are the appropriate rate structure and rates for Country Walk?

Recommendation: The recommended rate structure and monthly water rates are shown on Schedule No. 4. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of 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 22.9 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 2,794 gallons per customer. The average residential water demand excluding zero gallons bills is 3,625 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 45 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 30.5 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 110.85 percent, the residential discretionary consumption (over 3,000 gallons per bill) can be expected to decline by 419,000 gallons resulting in anticipated average residential demand of 2,299 gallons per month. Staff recommends a 17.7 percent reduction in test year gallons for rate setting purposes and corresponding reductions of \$202 for purchased power, \$495 for chemicals, and \$33 for RAFs to reflect the anticipated repression. This results in a post

repression revenue requirement of \$60,891. As shown on Table 8-1, in comparison to staff's recommended rate structure and rates, although Alternatives I and II, result in lower bills for non-discretionary usage, they send less of a pricing signal for targeting discretionary usage. 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. 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.

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

	RATES AT TIME OF FILING	STAFF RECOMMENDED RATES (45% BFC)	ALTERNATIVE I (50% BFC)	ALTERNATIVE II (55% BFC)
<u>Residential and General Service</u>				
Base Facility Charge by Meter Size				
5/8"X3/4"	\$16.45	\$31.68	\$35.23	\$38.79
Charge per 1,000 gallons - Residential				
0-10,000 gallons	\$6.17			
Over 10,000 gallons	\$7.72			
0-3,000 gallons		\$14.21	\$12.92	\$11.63
Over 3,000 gallons		\$30.56	\$25.49	\$21.24
Charge per 1,000 gallons - General Service	\$6.17	\$17.03	\$15.26	\$13.53
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
3,000 Gallons	\$34.96	\$74.31	\$73.99	\$73.68
6,000 Gallons	\$53.47	\$165.99	\$150.46	\$137.40
10,000 Gallons	\$78.15	\$288.23	\$252.42	\$222.36

Source: Current tariff and staff's calculations

Issue 9: What are the appropriate initial customer deposits for Country Walk?

Recommendation: The appropriate initial customer deposits should be \$129 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.¹⁷ Currently, the Utility has an initial customer deposit of \$62. However, this amount does not cover two months' average bills based on staff's recommended rates. The post-repression average monthly residential usage is approximately 2,794 gallons per customer. Therefore, the average residential monthly bill based on staff's recommended rates is approximately \$129.

Staff recommends the appropriate initial customer deposits should be \$129 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.

¹⁷Order No. PSC-2018-0446-FOF-SU, issued September 4, 2018, in Docket No. 20170141-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

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

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 \$6.50 for its late payment charge, which is consistent with Commission practice and its sister utilities managed by U.S. Water.¹⁸ 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.¹⁹ However, \$8.07 would be the highest late payment charge amongst all other water and wastewater utilities regulated by the Commission.²⁰ 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 10-1.

¹⁸Order No. PSC-2018-0334-PAA-WU, issued June 28, 2018, in Docket No. 20170155-WU, *In re: Application for grandfather water certificate in Leon County and application for pass through increase of regulatory assessment fees, by Seminole Waterworks, Inc.*

¹⁹Order 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.*

²⁰Order 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: What are the appropriate miscellaneous service charges for Country Walk?

Recommendation: The miscellaneous service charges identified in Table 11-5 are appropriate and should be approved. The charges should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges 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. (Sibley)

Staff Analysis: Country Walk's current miscellaneous service charges were established in Docket Nos. 960244-WU²¹, 150067-WU²², and 150260-WS.²³ Section 367.091, F.S., authorizes the Commission to change miscellaneous service charges. The Utility's request to revise its miscellaneous charges was accompanied by its reason for requesting the charges, as well as the cost justification required by Section 367.091(6), F.S. The requested charges are consistent with those recently approved for its sister company, LP Waterworks, which is located in the same county.²⁴ The calculation for staff's recommended charges for miscellaneous services are shown in Tables 11-1 through 11-4 and are rounded up to the nearest tenth. The Utility's current and staff's recommended miscellaneous service charges are shown in Table 11-5.

Initial Connection Charge

The initial connection charge is levied for service initiation at a location where service did not exist previously. A Utility representative makes one trip when performing the service of an initial connection. Based on labor and transportation to and from the service territory, staff recommends initial connection charges for Country Walk's water system of \$31.10 for normal hours and \$36.20 for after hours. Staff's calculations are shown in Table 11-1.

²¹Order No. PSC-97-0568-FOF-WU, issued May 20, 1997, in Docket No. 960244-WU, *In re: Application for certificate to provide water service in Highlands County by Country Walk Utilities, Inc.*

²²Order No. PSC-15-0187-TRF-WU, issued May 06, 2015, in Docket No. 150067-WU, *In re: Request for approval of amendment to tariff for miscellaneous service charges in Highlands County by Country Walk Utilities, Inc.*

²³Order 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.*

²⁴Order No. PSC-17-0334-PAA-WS, issued in August 23, 2017, in Docket No. 160222-WS, *In re: Application for staff-assisted rate case in Highlands County by LP Waterworks, Inc.*

**Table 11-1
 Initial Connection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Administrative Labor (\$28/hr x 1/4 hr)	\$7.00	Administrative Labor (\$28/hr x 1/4 hr)	\$7.00
Field Labor (\$30.42/hr x 1/3 hr)	\$10.14	Field Labor (45.63/hr x 1/3 hr)	\$15.21
Transportation (\$0.535/mile x 26 miles-to/from)	\$13.91	Transportation (\$0.535/mile x 26 miles-to/from)	\$13.91
Total	\$31.05	Total	\$36.12

Source: Staff Analysis

Normal Reconnection Charge

A normal reconnection charge is levied for the reconnection of service subsequent to a customer requested disconnection. A normal reconnection requires two trips, which includes one to turn service off and the other to turn service on. Based on labor and transportation to and from the service territory, staff recommends normal reconnection charges for Country Walk’s water system of \$57.10 for normal hours and \$64.70 for after hours. Staff’s calculations are shown in Table 11-2.

**Table 11-2
 Normal Reconnection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Administrative Labor (\$28/hr x 1/4hr x 2)	\$14.00	Administrative Labor (\$28/hr x 1/4hr)	\$14.00
Field Labor (\$30.42/hr x 1/4 hr x 2)	\$15.21	Field Labor (\$45.63/hr x 1/4hr x 2)	\$22.82
Transportation (\$0.535/mile x 26 miles-to/from x 2)	\$27.82	Transportation (\$0.535/mile x 26 miles-to/from x 2)	\$27.82
Total	\$57.03	Total	\$64.64

Source: Staff Analysis

Violation Reconnection Charge

The violation reconnection charge is levied prior to reconnection of an existing customer after discontinuance of service for cause. The service performed for violation reconnection requires two trips, which includes one trip to turn off service and a subsequent trip to turn on service once the violation has been remedied. Based on labor and transportation to and from the service territory, staff recommends violation reconnection charges for Country Walk’s water system of \$57.10 for normal hours and \$64.70 for after hours. Staff’s calculations are shown in Table 11-3.

**Table 11-3
 Violation Reconnection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Administrative Labor (\$28/hr x 1/4hr x 2)	\$14.00	Administrative Labor (\$28/hr x 1/4hr x 2)	\$14.00
Field Labor (\$30.42/hr x 1/4 hr x 2)	\$15.21	Field Labor (\$45.63hr x 1/4 hr x 2)	\$22.82
Transportation (\$0.535/mile x 26 miles-to/from) x 2	\$27.82	Transportation (\$0.535/mile x 26 miles-to/from) x 2	\$27.82
Total	\$57.03	Total	\$64.64

Source: Staff Analysis

Premises Visit Charge

The premises visit charge is levied when a service representative visits a premises at the customer’s request for complaint resolution and the problem is found to be the customer’s responsibility. In addition, the premises visit charge can be levied when a service representative visits premises for the purpose of discontinuing service for nonpayment of a due and collectible bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. A premises visit requires one trip. Based on labor and transportation to and from the service territory, staff recommends a premises visit charge of \$31.10 for normal hours and \$36.20 for after hours. Staff’s calculations are shown in Table 11-4.

**Table 11-4
 Premises Visit Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Administrative Labor (\$28.00/hr x 1/4hr)	\$7.00	Administrative Labor (\$28.00/hr x 1/4hr)	\$7.00
Field Labor (\$30.42/hr x 1/3 hr)	\$10.14	Field Labor (\$45.63/hr x 1/3 hr)	\$15.21
Transportation (\$0.535/mile x 26 miles-to/from)	\$13.91	Transportation (\$0.535/mile x 26 miles-to/from)	\$13.91
Total	\$31.05	Total	\$36.12

Source: Staff Analysis

Conclusion

Based on the aforementioned, the miscellaneous service charges identified in Table 11-5 are appropriate and should be approved. The charges should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges 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.

**Table 11-5
Miscellaneous Service Charges**

	Current	Staff Recommended	
	Normal and After Hours	Normal Hours	After Hours
Initial Connection Charge	\$15.00	\$31.05	\$36.12
Normal Reconnection Charge	\$15.00	\$57.03	\$64.64
Violation Reconnection Charge	\$15.00	\$57.03	\$64.64
Premises Visit Charge	\$10.00	\$31.05	\$36.12

Source: Staff Analysis

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.?

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) (Final Agency Action)

Staff Analysis: Section 367.081(8), 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 \$420.

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(8), 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?

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) (Final Agency Action)

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. The security should be in the form of a bond or letter of credit in the amount of \$21,986. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

- 1) The Commission Clerk, or his or her designee, must be a signatory to the escrow agreement; and,
- 2) No monies in the escrow account may be withdrawn by the Utility without the prior written authorization of the Commission Clerk, or his or her designee;
- 3) The escrow account shall be an interest bearing account;
- 4) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 5) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility;
- 6) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 7) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 8) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to *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?

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) (Final Agency Action)

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.

Issue 15: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and the Utility has submitted a letter to staff confirming that the adjustments to all the applicable NARUC USOA primary accounts as shown on Attachment A have been made to the Utility's books and records. Once these actions are complete, this docket should be closed administratively. (Murphy)

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, and the Utility has submitted a letter to staff confirming that the adjustments to all the applicable NARUC USOA primary accounts as shown on Attachment A have been made to the Utility's books and records. Once these actions are complete, this docket should be closed administratively.

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	\$808	\$231,349
LAND & LAND RIGHTS	1,495	0	1,495
CIAC	(23,950)	0	(23,950)
ACCUMULATED DEPRECIATION	(64,064)	13,335	(50,729)
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>3,963</u>	<u>3,963</u>
WATER RATE BASE	<u>\$151,506</u>	<u>\$16,277</u>	<u>\$167,783</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>	
1. To reflect well retirement	(\$16,306)
2. To reflect pro forma plant additions.	<u>17,114</u>
Total	<u>\$808</u>
<u>ACCUMULATED DEPRECIATION</u>	
1. To reflect the appropriate balance.	(\$2,451)
2. To reflect well retirement	16,306
3. To reflect pro forma plant additions.	<u>(520)</u>
Total	<u>\$13,335</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>\$3,963</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	\$131,191	\$167,039	99.56%	8.11%	8.07%
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>0.44%</u>	2.00%	<u>0.01%</u>
9. TOTAL	<u>\$36,592</u>	<u>\$0</u>	<u>\$36,592</u>	<u>\$131,191</u>	<u>\$167,783</u>	<u>100.00%</u>		<u>8.08%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>7.11%</u>	<u>9.11%</u>	
OVERALL RATE OF RETURN						<u>7.08%</u>	<u>9.08%</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>\$812</u>	<u>\$29,364</u>	<u>\$32,550</u> 110.85%	<u>\$61,914</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$25,022	\$7,084	\$32,106	\$0	\$32,106
3. DEPRECIATION (NET)	3,549	7,078	10,627	0	10,627
5. AMORTIZATION OF ACQ ADJ	2,337	0	2,337	0	2,337
6. TAXES OTHER THAN INCOME	<u>1,570</u>	<u>253</u>	<u>1,823</u>	<u>1,465</u>	<u>3,288</u>
7. TOTAL OPERATING EXPENSES	<u>\$32,478</u>	<u>\$14,415</u>	<u>\$46,893</u>	<u>\$1,465</u>	<u>\$48,358</u>
8. OPERATING INCOME/(LOSS)	<u>(\$3,926)</u>		<u>(\$17,529)</u>		<u>\$13,556</u>
9. WATER RATE BASE	<u>\$151,506</u>		<u>\$167,783</u>		<u>\$167,783</u>
10. RATE OF RETURN	<u>-2.59%</u>		<u>-10.45%</u>		<u>8.08%</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 1
	<u>WATER</u>
OPERATING REVENUES	
1. To reflect the appropriate test year services revenues.	\$807
2. To reflect the appropriate test year miscellaneous service revenues.	<u>5</u>
Subtotal	<u>\$812</u>
OPERATION AND MAINTENANCE EXPENSES	
1. Purchased Power (615)	
To reflect actual chemicals expense .	<u>(\$72)</u>
2. Chemicals (618)	
To reflect actual chemicals expense .	<u>(\$150)</u>
3. 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>
4. Regulatory Commission Expense	
Allowance for rate case expense amortized over 4 years.	<u>\$401</u>
5. Bad Debt Expense (670)	
To reflect increase in bad debt expense.	<u>\$509</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$7,084</u>
DEPRECIATION EXPENSE	
1. To reflect the appropriate going-forward depreciation expense.	\$7,084
2. To reflect well retirement	(\$604)
4. To reflect pro forma additions.	520
5. To reflect the appropriate CIAC expense.	<u>78</u>
Total	<u>\$7,078</u>
TAXES OTHER THAN INCOME	
To reflect the appropriate property taxes.	<u>\$253</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	(72)	1,152
(618) CHEMICALS	2,969	(150)	2,819
(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	401	401
(670) BAD DEBT EXPENSE	117	509	626
(675) MISCELLANEOUS EXPENSE	<u>100</u>	<u>0</u>	<u>100</u>
	<u>\$25,022</u>	<u>\$7,084</u>	<u>\$32,106</u>

COUNTRY WALK UTILITIES, INC		SCHEDULE NO. 4	
TEST YEAR ENDED DECEMBER 30, 2017		DOCKET NO. 180021-WU	
MONTHLY WATER RATES			
	UTILITY 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	\$31.68	\$0.24
3/4"	\$24.67	\$47.52	\$0.37
1"	\$41.10	\$79.20	\$0.61
1-1/2"	\$82.19	\$158.40	\$1.22
2"	\$131.48	\$253.44	\$1.95
3"	\$262.99	\$506.88	\$3.90
4"	\$410.93	\$792.00	\$6.10
6"	\$821.88	\$1,584.00	\$12.20
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 - 3,000 gallons	N/A	\$14.21	\$0.11
Over 3,000 gallons	N/A	\$30.56	\$0.24
Charge per 1,000 gallons - General Service	\$6.17	\$17.03	\$0.13
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$34.96	\$74.31	
6,000 Gallons	\$53.47	\$165.99	
10,000 Gallons	\$78.15	\$288.23	

Country Walk Utilities, Inc.			Attachment A
Plant & Accumulated Depreciation Balances			
Docket No. 20180021-WU			
Water			
Test Year Ended 12/31/17			
Account			Accumulated
No.	Description	UPIS	Depreciation
301	Organization	\$2,389	\$239
302	Franchises	750	65
303	Land and Land Rights	1,495	0
304	Structures & Improvements	11,980	9,902
307	Wells & Springs	22,107	5,400
311	Pumping Equip.	4,736	3,351
320	Water Treatment Equip.	144,882	11,580
330	Dist. Reservoirs & Standpipes	6,701	5,653
331	T&D Mains	11,863	5,830
333	Services	17,542	481
334	Meters & Meter Installations	<u>8,399</u>	<u>8,229</u>
		<u>\$232,844</u>	<u>\$50,729</u>